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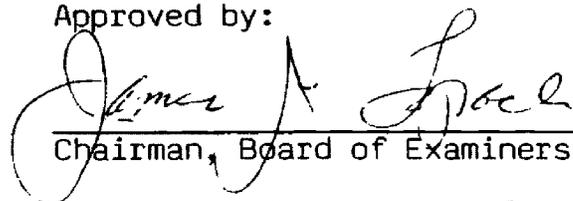
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MONTANA'S PARTICIPATION IN
REGIONAL ELECTRICAL ENERGY PLANNING
1977 to 1983

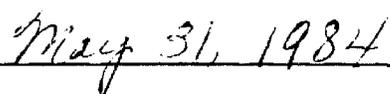
By
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B.A., University of Montana, 1978

Presented in partial fulfillment of the requirements for the degree of
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CHAPTER I

INTRODUCTION

The Columbia River is the major feature uniting the Pacific Northwest. Montana's mountain streams located west of the Continental Divide (the Kootenai, Clark Fork, and Flathead Rivers) provide the headwaters of the Columbia and are its major eastern tributaries. For these reasons the western portion of Montana was included in the geographical area to be served by Bonneville Power Administration (BPA) under the 1937 Bonneville Project Act.

Bonneville's original congressional mandate was to build and operate transmission lines to deliver power from federal dams on the Columbia, and to charge rates only high enough to repay the federal investment over time. For almost forty years, Bonneville kept pace with the region's electrical demand, distributing power from the hydroelectric system in the Columbia River Basin to the states of Washington, Oregon, Idaho and Montana. As more dams were built, power became more abundant and less expensive for all of Bonneville's customers.

By the 1960s, however, virtually all sites for large hydropower dams were in use. The regional population and economy were growing, and BPA's electrical demand forecasts anticipated even more power would be needed if the region were to sustain a projected six percent annual growth in electrical demand.

Bonneville was essentially a marketing agency for the region's electrical power resources, and lacked the statutory authority to acquire

additional generating resources to avoid the impending shortage. Thus, in the mid-1970s, BPA began issuing "notices of insufficiency" to its customers, warning them that, after 1983, it could not guarantee to supply all their electrical power needs. Rural electric cooperatives in western Montana were one of the groups to receive this news, as did other public and private utilities and industrial customers in the four Northwest states. Some utilities had already begun construction of coal-fired and nuclear power plants, but the costs of electricity generated by these plants would be substantially higher than the hydroelectric power supplied by Bonneville.

The prospect of electrical deficits loomed as diverse regional interests worked through Congressional representatives to develop a cooperative solution to the energy supply problem. After three years of debate, Congress enacted the Northwest Power Act, expanding the responsibilities of the Bonneville Power Administration. The purpose of this paper is to study Montana's participation in the process established by Congress to resolve the regional energy crisis.

Montana's Interests in Regional Electrical Energy Decisions

Montana has multiple interests in the regional electrical power system operated by the Bonneville Power Administration. One obvious facet of the state's involvement in the power supply system is the number of hydroelectric dams located west of the Continental Divide. Dams at Hungry Horse, Libby, Noxon, Thompson Falls, and Cabinet Gorge are all operated in conjunction with the Columbia River hydroelectric system. Water levels and spill rates at these dam sites are affected by BPA operations guidelines.

Montana Power Company, the state's major private utility, has historically purchased and sold electric power to Bonneville. Rural electric cooperatives in the western portion of the state are almost wholly dependent upon Bonneville to supply their customers' electrical needs. Large industrial customers, including the Columbia Falls aluminum plant, purchase power directly from BPA. Thus, any changes in policy under which Bonneville operates could directly affect these BPA customers in the state.

State and local governments in Montana also have an interest in regional electric planning and policymaking. The state, with its sparse population, has been the chief energy exporter among the four states of the Pacific Northwest. Electricity generated by hydroelectric sites and coal-fired generators serves BPA loads outside of Montana. Power lines necessary to transport this electricity to other locations in the region are disruptive to state and local governments in both environmental and political terms.

The possibility of the state hosting new generating facilities needed to serve the BPA regional load is of significant concern to Montana. Many Montanans are reluctant to see the state become an "energy farm" for the urban areas located to the west. Public interest groups challenge the concept that Montana should endure environmental impacts and social costs associated with the construction and operation of new large-scale generating resources for regional need. The state has a critical interest in protecting the integrity of its Major Facility Siting Act to control such an occurrence.

Montana, therefore, chose to become actively involved in the formulation of the Northwest Power Act and its implementation through

the Northwest Power Planning Council. The research question to be addressed in this paper is whether or not Montana's participation in regional electrical energy planning inaugurated by the passage of the Northwest Power Act has been beneficial for the state, or if it has simply been a political exercise with no significant results.

Research Method

The research method used is a case study of Montana's participation in the formulation and implementation of the Northwest Power Act. The case study explores the influence exercised by Montana during the drafting of the legislation in Congress between 1977 and 1980; Montana's active participation on the Northwest Power Planning Council and in the process of devising the Regional Energy Plan; effects of the Regional Energy Plan on Montana; and a number of unresolved issues relating to the implementation of the Plan in the state. The case study findings support the conclusion that the state has benefited by this involvement. In addition, the writer has briefly viewed the Northwest Power Planning Council as a model for possible use in other regional policymaking areas.

CHAPTER II

BACKGROUND

This chapter is intended to provide a broad overview of the regional energy planning process as it developed between 1977 and 1983. It is divided into four sections: 1) The Northwest Power Act; 2) The Northwest Power Planning Council; 3) The Columbia River Fish and Wildlife Program; and 4) The Regional Energy Plan.

The Northwest Power Act: A Historical Overview

The following discussion addresses the scope of the political conflict that led to the regional power legislation enacted by Congress in 1980. It also outlines the major provisions of the Northwest Power Act.

The Issues

Energy politics in the Northwest reflects the complexity of our pluralist society. Many of the latent issues inherent in the regional power arena became transformed into full-blown conflicts once the search for a new legislative framework for regional power management began. Achieving a pragmatic compromise among the spectrum of interests was the challenge that Congress first took on in 1977.

The main issues at the center of the regional power debate were technological, economic, and institutional in character.¹ Six issues dominated the debate: (1) when (or whether) new additions would be needed for the regional electric power system; (2) how such facilities

would be financed; (3) how costs of new power generation would be distributed among BPA's various wholesale electric customers; (4) how firm power could be allocated to BPA's direct service industrial customers (mostly large aluminum companies); (5) how energy conservation could be implemented region-wide; and (6) what administrative or institutional arrangement should be devised to manage the foregoing issues.

Scheduling additions to the regional electrical power system was essentially a technological issue, reflecting a variety of options available to supplement the region's hydroelectric resources. By 1977, conventional thermal power plants using coal and nuclear fuel were in preliminary stages of planning and construction by both public and private utilities. These projects, however, had begun to encounter serious problems, including expensive cost overruns and delays. Several plants were involved in environmental litigation as well. At the same time regional enthusiasm for renewable resources and other unconventional sources of power was growing. Solar, windpower, and small scale hydroelectric production began to be considered as desirable alternatives to the massive thermal power options.

A secondary factor in planning for new resources concerned the accuracy and credibility of forecasting regional electric demand. Official forecasts by BPA and utility executives traditionally projected increases approaching seven percent annually, based on the spiraling economic growth of the 1960s. As successive recessions, warm winters, and rising energy prices hit the region, inflated demand forecasts produced by BPA and the utilities came under intense scrutiny and attack by a variety of groups.

Economic issues in the regional power debate included how new

generating resources would be financed and how the costs of new power would be distributed among BPA's customers. Given the magnitude of financing new thermal projects, Congress in 1969 had given BPA the authority to purchase the electrical output of certain thermal plants, and to average the costs of this more expensive power with the costs of the existing hydroelectric system. This arrangement, known as the Hydro-Thermal Power Program (HTPP), initially called for twenty-six coal and nuclear plants to be built over a twenty year period and operated in conjunction with the hydroelectric system.² BPA was to agree in advance to purchase power from these projects under an arrangement known as "net billing". With BPA backing, both the project's risk and the interest rate on bonds sold to finance construction was lowered considerably. Three nuclear power plants sponsored by the Washington Public Power Supply System (WPPSS) were begun under this program. However, in 1972 a U.S. Treasury ruling essentially precluded the use of net billing for future private utility power projects. Thus the primary mechanism for regional financing and risk sharing was eliminated. The region's utilities then began to press Congress for an alternative means of securing federal support for proposed power resources.

An additional economic issue was the problem of equitable distribution of the costs of generating power among BPA's customers. According to the 1937 Bonneville Project Act, BPA was required to give publicly-owned utilities and rural electric cooperatives priority rights to available federal power resources. This "preference policy" resulted in significant retail rate disparities between public utilities, who had direct access to cheap federal hydroelectric power, and private utilities, whose power resources included the more expensive coal and nuclear

generating plants. In setting the agenda for new regional power legislation, the private utilities sought a reinterpretation of the preference policy to include residential and farm customers of independently owned utilities. This would provide significant rate relief for this group of consumers.

BPA's direct service industrial customers were also involved in the power distribution and cost allocation issue. Regional industries had traditionally purchased surplus power from BPA at cut-rate prices. Since the preference policy gave public utilities first priority to firm supplies of federal power, any impending shortages would force BPA to reduce the volume of electrical power available for industrial use in order to maintain service to the preference customers. The higher costs of purchasing power from private utilities (if power was available) would seriously affect the profit margins of these industries.

Institutional issues in the regional power debate were two-fold. In light of the forecasted deficit of electricity, a consensus was developing that conservation should be implemented on a region-wide scale. Coordination of conservation efforts throughout the region, however, implied a regulatory policy whereby some type of governmental authority would be necessary. This issue involved determining the appropriate administrative apparatus to implement a region-wide conservation program. Bonneville seemed the logical choice.

The second administrative issue entailed the choice of institutional arrangements to manage a newly designed regional electric power supply system--one that would recognize and resolve inevitable conflicts that would arise in the future. Whereas Bonneville had operated for decades outside of the public eye, the future expansion of the regional power

supply and management of the foregoing issues had become highly controversial and politicized. Governance of the regional supply system would now require more than simply efficient administration. It would have to incorporate and be responsive to the interests of divergent groups who each had a significant stake in regional energy policy.

The Actors and Their Interests

There were seven groups of actors involved in the regional power debate: BPA, public utilities and rural electric cooperatives, investor-owned utilities (IOUs), direct service industries (DSIs), citizen groups, state and local governments, and congressional representatives. The following discussion reflects the significant interests of each group of actors.

The fundamental problem affecting BPA was that it lacked the legal authority to finance new generating facilities so as to satisfy a growing regional demand for electricity. This authority, coupled with the agency's existing role as administrator and marketing agent for the regional system, would give Bonneville a strengthened leadership role in the region and would provide the mechanism to implement the "one utility" concept for all electric power generation in the Pacific Northwest. Under the one-utility concept proposed by BPA, the region's many utilities would plan and act as if they were one with respect to regional electric energy issues.³ BPA would coordinate electrical energy planning and development among the more than 100 utilities, as well as the day-to-day operations, in order to achieve the region's goals and objectives in the most cost-effective manner. The one-utility concept offered environmental, economic, and technical advantages in the development and operation of the regional power supply system.

The public utilities and rural electric cooperatives' stake in any new legislation affecting the regional supply system was directly related to their special position as BPA "preference" customers. As BPA power demand and supply forecasts indicated that federal power supplies were running short, public power advocates lobbied to preserve the preference policy so that they would continue to receive inexpensive federal hydropower before other BPA customers.

Investor-owned utilities (IOUs) were primarily interested in securing federal financing for their new generating resources, specifically coal-fired and nuclear power plants. High initial costs of building such plants required heavy borrowing, and declining bond ratings accompanied by higher interest rates developed into a severe financing problem for the IOUs. It appeared that federally assisted financing through BPA was essential to the corporate well-being of the Northwest's private utilities. The IOUs were joined in this battle by a consortium of eighty-eight public utilities, the Washington Public Power Supply System (WPPSS), which also sought federal financing for their large generating projects.

A secondary interest of the privately-owned utilities involved a demand for a reinterpretation of the preference policy as stated in the 1937 Bonneville Project Act, whereby Bonneville gave priority to public bodies and rural electric cooperatives. Sixty percent of the residential and farm customers in the region were served by IOUs. These customers were paying approximately twice as much for electricity as customers of publicly-owned utilities receiving wholesale power from BPA.⁴ Stimulated by this large rate disparity, the IOUs sought a legislative reinterpretation of the preference policy, which would expand BPA's priority customer list to include residential and farm customers of investor-owned utilities.

The direct service industries, made up of a consortium of seventeen industrial customers of BPA, became involved in the regional power debate in an attempt to secure renewal for their power contracts with BPA, which were due to expire in 1983. Anticipating that a shortage of electricity in the region would cause BPA to cut back on their power allocation, the direct service industries sought a commitment from BPA for firm power and long-term contracts. In return, they expressed a willingness to submit to higher electric rates.

The citizen groups that became involved in the regional power controversy represented two perspectives -- that of the ratepayer and the environmentalist. Citizen interest in the environmental consequences of energy resource development in the region had grown steadily over the past several years. Ever-increasing electric rates stimulated public discussion about a variety of energy issues. During the legislative debate, citizen groups acted both independently and through their elected representatives to demand access to the utility and BPA decision-making process, seeking to establish public participation in regional energy investment decisions. Activists argued that greater public participation would result in more careful planning of generating facilities, which would be sensitive to both environmental and social costs of energy development.

The growing importance of energy issues aroused the aspirations of the northwestern states to exert more control over their own energy futures. The shift from hydroelectric to thermal power production in the region resulted in new responsibilities for the states, including the creation of siting councils, state energy offices, and the establishment of various staff positions for energy and conservation analysts. The economic and environmental impacts of large energy developments on

rural areas increased state and local government attention on utility affairs. Governmental voices became involved in the broader public debate over issues that were historically the sole domain of the utilities. The governors of the four states within the BPA service area wanted to establish a legitimate channel for participation in regional energy decisions that would eventually affect their constituents. Congressional representatives relayed this sentiment in the drafting of the new regional power legislation.

Although each major group of actors in the regional power controversy recognized the need for change within the system, their motives, as demonstrated above, were quite distinct. Utilities and the direct service industries wanted to stay within the traditional utility institutional framework, wherein BPA and utility executives made the critical decisions outside of the public eye. Citizen advocates and state and local government representatives, however, focused on increased access to the decisionmaking process. Considering the conflicting objectives among the actors in the regional power debate, it is not surprising that the resulting legislative compromise was a complicated balancing act.

Alternative Solutions

The struggle for new regional energy legislation in Congress coincided with the controversy over the National Energy Act, which was passed in 1978 after two years of deliberation. The public attention and dialogue focused on this legislation established a new level of energy awareness among the nation's congressional leaders.

In the early stages of the debate over new regional power legislation, the Pacific Northwest congressional delegation demonstrated considerable disunity. Although there was a consensus that some kind

of legislation was needed in order to prevent a regional power crisis (due to BPA's projection of impending power shortages in the 1980s), there were disagreements about allocation of federal hydropower, the proper scope of BPA authority, and appropriate institutional arrangements for governing the new regional power supply system.

Senator Henry Jackson, D-Washington, took the lead in introducing regional energy legislation in the Senate. Senator Jackson occupied a strategic position as Chairman of the powerful Committee on Energy and Natural Resources, and used his political clout to steer legislation through that body. Representative Jim Weaver, D-Oregon, was a senior member of the House Subcommittee on Water and Power, and played a significant adversarial role by introducing alternative legislation in the House of Representatives. Additionally, Representative John Dingell, D-Michigan, who co-chaired the Subcommittee on Energy and Power of the House Commerce Committee (which had to clear any Pacific Northwest power legislation), zealously advocated the protection of fish and wildlife in the Columbia River Basin. These three congressmen had a considerable effect on the legislation that was finally approved by both houses.

Between September, 1977, and August, 1979, three comprehensive regional power bills were introduced in Congress. The first was a bill sponsored by the Pacific Northwest Utilities Conference Committee (PNUCC), a group representing 130 public and private utilities and direct service industries (the majority of BPA's wholesale customers). Senator Jackson introduced the PNUCC bill as S.2080. The PNUCC bill reflected the major concerns of the utilities and direct service industries. It proposed BPA financing of all new regional generating resources, and contained language to modernize the preference policy under which BPA operated.⁵

In response to the PNUCC proposal, Representative Jim Weaver introduced legislation in the House that incorporated the consumer-environmental perspective. Weaver's proposals, known as H.R. 5862, proposed alternative energy resources and an aggressive regional conservation campaign to supplement BPA's existing hydroelectric generating facilities. It also provided for public control of regional energy planning.⁶ Weaver's proposal did not succeed in the House and was not given serious consideration outside of the environmental community.⁷

As a result of the PNUCC initiative, hearings were held in Washington, D.C., and in the Northwest, beginning in December, 1977. The field hearings that took place in the region revealed a clear lack of agreement regarding proposed changes in Bonneville's operating authority. The utilities represented by PNUCC had not anticipated the broad public awareness that had developed in response to their proposal. Despite heavy representation and support by utility and industry witnesses, the majority of testimony was strongly opposed to the PNUCC bill. Thus, S.2080, albeit doomed to failure, served as an educational tool for the region and its congressional representatives and provided a point of departure for the process of bargaining and compromise necessary in the political arena.

In August, 1978, Senator Henry Jackson once again took the lead in drafting new regional power legislation. Senator Jackson and key northwestern members on his Energy and Natural Resources Committee drafted legislation that deliberately sought to integrate policy concerns from all constituencies involved in the regional power debate, including non-utility actors. Provisions of the new Jackson bill, S. 3418, suggested compromise solutions to major problems. It included federal financing

through BPA for new resources necessary to serve the regional load, although it tied BPA purchase authority to cost-effective conservation and renewable resources by giving them priority over all other available resources. Additionally, the bill provided for a public planning process to enable the states, localities, consumers, and the public at large to participate in the region's electric power decisionmaking; a program to enhance and protect the fish and wildlife in the Columbia River Basin; and preservation of the preference clause for public bodies and cooperatives. The bill placed heavy reliance on the BPA administrator to organize and implement these new regional energy priorities.⁸

Although S. 3418 died with the Ninety-fifth Congress, it was resurrected by Senator Jackson in 1979 as S. 885. This reborn bill was amended at the request of the governors of the Northwest to provide an advisory council for Bonneville. The advisory council was designed to represent state and regional interests and would have statutory responsibility to advise the BPA administrator on regional power policy.

The essential components of Jackson's S. 885 were enacted as PL 96-501, the Pacific Northwest Electric Power Planning and Conservation Act, which was signed into law on December 5, 1980, after more than three years of deliberation.

The Final Compromise: Major Provisions of the Act

The Northwest Power Act epitomized the politics of bargaining and compromise in policymaking. Each of the interest groups in the lengthy legislative debate received a portion of the prize. The following is a summary of the new legislation as it applies to each of the participants.

Bonneville's leadership role as regional power marketing agent

was augmented due to the new financing authority conferred by the Act: BPA is now responsible to meet the electrical demands of all customers with whom it has firm power contracts and is authorized to purchase generating capabilities to meet such demand. The Act constrains Bonneville's purchase authority, however, by prioritizing the types of resources that BPA may purchase, i.e., when demand goes up, BPA is to acquire only cost-effective resources in the following order: (1) conservation, (2) renewable resources, (3) cogeneration, and (4) all other resources including coal and nuclear power. The Act contains incentives which Bonneville must provide in order to encourage conservation and development of renewable resources.

The Act also provides that the cost of electricity sold by BPA is to reflect the blended cost of federal hydropower and the more expensive thermal resources. This is seen as a drawback by ratepayers, because it guarantees that rates will rise.

The Act specifies that all power sales by BPA must continue to comply with the preference clause of the Bonneville Project Act of 1937, thus preserving the advantage of public utilities and rural electric cooperatives. BPA now has full responsibility to meet the future requirements of these preference customers -- something which it was not previously authorized to do. Public utilities thereby preserved their historical preference to receive federal power before other BPA customers.

Investor-owned utilities were successful in establishing within the Act provisions for indirect federal financing through BPA for their generating projects. BPA may purchase the generating capabilities of new thermal plants, once all cost-effective conservation and renewable resources have been exhausted and if such projects are reliable and

compatible with the regional electric system. Additionally, privately-owned utilities achieved rate relief for their residential and farm customers. The IOUs may now sell to BPA, at the average cost of their power, an amount of electricity equal to their residential and farm loads. In return, BPA will sell them enough energy at BPA standard rates (normally substantially lower than IOU rates) to cover these residential and farm loads. The rate advantages are required to be passed on directly to the customers.

The Act provides that BPA may enter into new twenty-year contracts with direct service industrial customers, although at a higher price than they were paying under existing contracts. The DSIs agreed to pay higher costs in return for firm power contracts, in order to maintain their continued operation in the Northwest. The higher costs paid by the DSIs are intended to provide rate relief to the residential and farm customers of the IOUs through 1985.

The primary victory of citizen group involvement in this legislation was the establishment of a public planning process for regional electrical supply. The Act established the Northwest Power Planning Council to guide and review the new financing authority given to BPA. The Council is an eight member body consisting of two representatives each appointed by the governors of Washington, Oregon, Idaho, and Montana. It is charged with drawing up a plan for meeting the electrical needs of the region for the next twenty years. The planning process must take into account the social and economic effects of alternative courses of action. The energy plan is intended to act as a blueprint for future resource acquisition by Bonneville. The Council's energy plan must also include a program to protect and enhance fish and wildlife in the

Columbia River Basin, which have suffered extensively from the effects of large-scale hydroelectric development.

Environmental groups involved in the regional power debate achieved a clear victory because the Act specifies that the Council's energy plan must give highest priority to cost-effective conservation. For the first time in federal legislation conservation is treated as a power resource, whereby BPA may acquire kilowatt hours of energy savings on the same basis that it would acquire kilowatt hours produced by a generating plant. Because conservation is relatively inexpensive compared to new generating resources, the Act directs BPA to institute a regional conservation effort as part of its long-term strategy for meeting electrical power needs. The Act also states that the Council's plan is subject to the requirements of the National Environmental Policy Act, and that it must balance environmental protection with the energy needs of the region.

State and local governments' participation in regional energy planning and development is also addressed in the Act. Congress established the Northwest Power Planning Council as a multi-state body that would be publicly accountable to and representative of the diverse values of BPA customers in the Northwest. State representation on the Council should insure that the political concerns of the region's citizens will be represented in future energy planning and decisionmaking. State and local control of land use and water rights is protected under the Act. The decision to allow construction of new energy resources is left with the individual utilities and the state siting authorities. In addition, the Act directs state and local governments to work with BPA to implement the Council's energy plan. The continued political support of the Act and the Council's planning process by regional congressional representatives

should provide further impetus for BPA to abide by state interests as reflected in the Council's energy plan.

Summary

The Northwest Power Act has provided the region with an opportunity to determine its energy future. This is a monumental political decision, which will have economic, social, and environmental effects for future generations.

The Act is a renegotiated treaty that defines new relationships between BPA, utilities, industry, state and local governments, and the ratepayers of the region. It is also a pragmatic compromise, which promises something for everyone, the cost of which is to be spread among the ratepayers. The question remains, however, if this legislation is a comprehensive solution to the problems of regional energy planning and development in the Pacific Northwest or if it is simply a record of the claims of various interest groups that have now been ratified by Congress. With the adoption of the Council's Regional Energy Plan on April 27, 1983, the test of the effectiveness of the Northwest Power Act began.

The Northwest Power Planning Council

The authors of the Northwest Power Act recognized that legislation alone would not solve the problems that led to the Northwest's energy crisis. What was needed was a new institutional framework capable of addressing and resolving future conflicts.

In the case of the Pacific Northwest, an institutional structure was needed to meet the legislatively mandated goals of planning electrical supply, conservation, and environmental protection, while at the same

time maintaining the vested interests of regional energy producers. Such an organization would publicly articulate competing views and achieve a politically acceptable balance among the various interests. This, then, was the challenge of the institutional alternative set up by Congress.

The Northwest Power Act authorized the establishment of the Pacific Northwest Electric Power and Conservation Planning Council (known as the Northwest Power Planning Council). Its authority is derived from both federal and state sanction. Although it was authorized on the national level by the Northwest Power Act, each state had to pass enabling legislation in order to participate on the Council. Thus the Council is a state-appointed regional planning body, whose role is to provide guidance to BPA on major energy policy decisions. The Council, however, is only a planning body--it does not manage the power system nor implement any programs. There is no statutory requirement that BPA implement Council recommendations; it may only "request the Administrator to take an action . . . under the Plan" (Sec. 4(j)(1) of the Northwest Power Act, emphasis added). BPA will decide which major projects to sponsor and will seek approval from the Council. If the Council decides that the project is inconsistent with the Regional Energy Plan, BPA must get Congressional approval before proceeding with that project.

The political nature of the Council stems from the fact that its members are appointed by the governors of the four states of the region. For the first time, the states of the Pacific Northwest are participating directly in decisions made by Bonneville that will affect them. Prior to passage of the Northwest Power Act, Bonneville was essentially an autonomous federal agency, whose planning process was undaunted by state

influence. The Council was designed to insure that state interests will be taken into consideration in future BPA electric power decisions.

Institutional Structure

The Council is an eight member body, consisting of two representatives each appointed by the governors of the states of Washington, Oregon, Idaho, and Montana. Funding for the Council is provided by BPA, a self-financing federal agency. (No federal treasury monies nor funds from state governments within the region can be used to fund the Council.) The principal office is located in Portland, Oregon, although Council members reside and maintain local offices within their respective states. The Council's Portland office is staffed by an executive director and approximately thirty professional employees, who perform a variety of administrative and research and planning functions.

The Council also relies on the sixty-six member Scientific and Statistical Advisory Committee, which it was directed to establish under Section 4(c)(11) of the Northwest Power Act. This committee is a central mechanism for public involvement by persons who can supply technical information and advice. Membership on this committee includes representation from utilities, direct service industries, state and local governments, public interest groups, Indian tribes, academia, and others. The committee functions primarily through five subcommittees, each covering a major study area of the Council: conservation, fish and wildlife, forecasting, reserves and reliability, and resource assessments and programs.⁹

Roles and Responsibilities

The Council's principal duties as indicated in the Act are two-fold: (1) to draw up a plan for electrical energy development and conservation

in the region, including a program to restore fisheries in the Columbia River Basin, and (2) to review BPA's acquisitions to determine whether they are consistent with that plan.¹⁰ The Act also required the Council to establish and maintain a comprehensive public information and involvement program to encourage broad participation throughout the planning process.

In addition to the aforementioned specific duties set forth under the Northwest Power Act, the Council has evolved to fulfill several additional roles, which were anticipated by the four governors of the northwestern states when they proposed that the Council be included in the new regional energy legislation.¹¹ The Council has provided a focal point for a greater regional consensus on energy issues. Its presence has facilitated discussion between opposing interests and has provided an unique opportunity for the average citizen to participate in policymaking. Greater public accountability for energy decisions should result from this process.

The governors also hoped that the Council would be able to place reasonable limits on the new authority given to Bonneville under the Northwest Power Act. BPA's authority to purchase new generating resources will be limited by the Council's Regional Energy Plan.

Finally, the governors were aware that implementation of the Northwest Power Act would require action by state and local governments. Each state's representation on the Council will facilitate early state involvement in the planning and implementation of the Act in a timely manner.

The roles and responsibilities of the Northwest Power Planning Council may be reduced to one simple concept: serving the public interest in regional energy policymaking.

The primary mandate of the Council under the Northwest Power Act was to develop and adopt a regional energy plan that would assure adequate energy supplies at the lowest possible cost. A second mandate, however, directed that prior to developing the regional energy plan, the Council must develop a program to "protect, mitigate, and enhance fish and wildlife" in the Columbia River Basin (Section 4(h) of the Act). The fish and wildlife program was to be incorporated into the Council's conservation and electric power plan.

Fish and Wildlife Program

The Columbia River Basin Fish and Wildlife Program was adopted by the Council on November 15, 1982. In accordance with the process outlined in the Act, state and federal fish and wildlife agencies, Indian tribes, BPA, utilities, federal power project operators, and members of the public participated in formal and informal consultations with the Council during the drafting of the Program. Completion of the Fish and Wildlife Program prior to the Regional Energy Plan was designed to ensure that fish and wildlife resources would be given co-equal status with power resources in the management and operation of the regional hydroelectric system.

The Fish and Wildlife Program addresses the problems of both anadromous and resident fish populations and wildlife that have been affected by hydroelectric development in the Columbia River Basin.¹² It sets out specific program measures to protect, mitigate, and enhance fish and wildlife populations and habitat. Major program sections focus on downstream migration, ocean survival, and upstream migration of anadromous fish; special fishery problems of the Yakima River Basin; natural and artificial fish propagation; resident fish population and habitat; and protection of wildlife. The Program also sets fish and

wildlife protection criteria for new hydroelectric developments.

The most prominent feature of the Council's Fish and Wildlife Program is the "water budget", which provides for an increased volume of water in the spring to improve juvenile salmon downstream migration. Water used for the water budget would be diverted from energy production, essentially reducing the energy generating capability of certain hydroelectric facilities. This provision illustrates the overriding principle established in the Act that, for the first time, fish interests are to be equal to power interests in the operation of the Columbia River hydroelectric system.

The Act directed BPA to use its legal and financial authority to carry out the program designed by the Council. It also recommended that other federal operating and regulating agencies "exercise their responsibilities consistent with the purpose. . . of the Fish and Wildlife Program."¹³

Regional Energy Plan

On April 27, 1983, the Northwest Power Planning Council unanimously adopted the first Northwest Conservation and Electric Power Plan (known as the Regional Energy Plan). The Plan was the result of two years of extensive research, analysis, and discussion with the public, utilities, industry, and the Bonneville Power Administration. Simply put, the goal of the Plan is to provide direction to Bonneville in acquiring the power that the region will need over the next twenty years at the lowest possible cost.

Philosophy

The logic of the Northwest Power Act was based on a deficit of electric power. In the short time between the enactment of this legisla-

tion and the Council's initial efforts to formulate an energy plan, the power supply picture had radically shifted from potential deficit to long-term surplus. Although this change had been anticipated by a few regional energy seers, BPA and the utility community only began to officially recognize the power surplus in early 1982.¹⁴

Accordingly, the Council encountered an enormous challenge in the planning arena. Traditionally, utilities had produced optimistic forecasts of energy demand which generally proved to be self-fulfilling. e.g., During the 1950s and 1960s the electrical consumption in the Pacific Northwest had grown steadily at approximately 6 percent annually, which resulted in a near doubling of demand every ten years. Due to technological improvements and economies of scale, the cost of power production during this time was declining. The major power generating facilities were hydroelectric dams that had been built decades earlier, and the fuel for these facilities - falling water - was free. Thus power planning was a relatively simple matter of projecting historical patterns into the future with virtually no uncertainty.

By the 1970s, however, the region had begun to suffer from two significant occurrences: (1) the addition of new and expensive thermal generating facilities (coal and nuclear power plants), and (2) an unstable economy that resulted in high inflation and significant unemployment. These factors coupled with rapidly rising power costs resulted in individual conservation efforts by millions of consumers. By 1981 growth in regional electrical consumption had slowed to less than 1 percent annually, and utilities were suddenly awash in surplus power. BPA and the regional utilities had not anticipated this occurrence. Ratepayers began paying for the mistakes of previous forecasting which had called

for huge power plants to meet growing demand. The sudden advent of surplus power negated forecasts of the 1970s, and ended an era of stability in power planning in the Pacific Northwest.

When the Council began its planning process, it recognized that the conditions underlying power planning had changed and that a new approach was required.¹⁵ The Council adopted a philosophy of planning for an uncertain future, which is best outlined in a discussion paper written by Professor Kai N. Lee of the University of Washington, entitled "The Path Along the Ridge: Regional Planning in the Face of Uncertainty."¹⁶ Therein, Dr. Lee describes the principles for guiding power planning in an unstable environment. Risk management, a basic tenet of finance, emerged as a primary issue in the new power planning concept. Risks in power planning include the potentially severe effects of both overbuilding power generating resources (e.g., the costs of idle surplus capacity currently experienced as a result of numerous coal and nuclear power plants constructed in the region), and underbuilding (e.g., the economic effects caused by shortages of power). The costs of "being wrong" -- that is, having too much or too little power -- could run into the billions of dollars for the region's ratepayers. The Council's planning approach, therefore, came to emphasize flexible resources and conservation programs that could be modified and/or scheduled in accordance with changing demands for electricity. This strategy is intended to mitigate the significant consequences of planning for an uncertain future.¹⁷

Regional Energy Plan: Main Components

The Regional Energy Plan consists of three main components: the demand forecast, the mix of recommended resources to meet that demand, and a two-year action plan to begin laying the groundwork to accommodate

future energy needs.

Demand Forecast

As the Act states, "the plan shall include. . . a demand forecast of at least twenty years."¹⁸ The forecast is a fundamental part of the energy plan, and plays an important role in determining both the availability of future resources and future prices of electricity.

The most significant aspect of the Council's forecast embodies the flexible planning approach: it recognizes a wide range of economic possibilities for the Pacific Northwest. Whereas traditional utility forecasters planned for one most likely scenario, generally a medium to high growth forecast, the Council chose instead to develop a range of four alternative forecasts, based on four plausible growth scenarios. The Council's growth forecasts vary from a low of 0.7 percent to a high of 2.5 percent. Two intermediate growth forecasts, medium-high and medium-low, predict annual demand growth rates of 1.5 percent and 2.1 percent respectively.¹⁹

Resource Mix

The Act also directed the Council to prepare a forecast of power resources estimated to be required to meet the regional demand. The Act put two constraints on the Council in the development of this resource mix: (1) it required the Council to give priority to resources determined to be "cost-effective", and (2) it required that the Council schedule the acquisition of resources in the following order: conservation, renewable resources, cogeneration, and all other resources, including coal and nuclear.²⁰

Based on the concept of flexible planning and minimizing risk, the

Council developed a resource portfolio that has the diversity and flexibility to adapt to a wide range of potential demand outlined in their demand forecast. The resource portfolio is intended to provide the region with the lowest cost resources for any demand forecast scenario.

The key element in the Council's resource mix for meeting future energy needs is conservation. The Act granted conservation a 10 percent cost advantage over other resources in addition to giving it first priority for acquisition.²¹ Thus, a conservation measure can cost 10 percent more than the next lowest cost resource and still be considered cost-effective. The Council assessed the potential conservation savings available from the region's residential, commercial, industrial, and irrigated agriculture sectors in the process of determining the overall conservation potential of the region. In the four demand growth scenarios, conservation is the major resource that will supply additional electrical demand.²²

Additional electric power resources in the Regional Energy Plan include new hydropower generation, cogeneration, combustion turbines, and conventional coal-fired power plants. New nuclear plants did not meet the cost-effectiveness and risk management criteria and subsequently were not included in the array of possible resources for the region over the next twenty years.²³

As part of the flexible resource planning approach, the Council carefully examined the problem of the long lead times necessary to build certain kinds of generating facilities. Experience with coal and nuclear plants had demonstrated that these types of facilities required a minimum of ten years before electricity could come on line to serve consumers.²⁴ In an era of unpredictable demand growth, it was impossible to anticipate

correctly the need for such large generating plants over a long period of time. e.g., Coal and nuclear power plants begun in the early 1970's were not completed until the 1980s, at which time the power was not needed. In order to address this issue, the Council introduced the concept of acquiring "options" on resources. This would involve developing a resource such as a coal plant in stages, with the understanding that at certain key decision points construction might be accelerated, delayed, or cancelled, depending on the region's growth and near-term electrical power demands. BPA would acquire an option on a resource through a contract with the resource sponsor. BPA would then supply financial assistance for the design, siting, and licensing of that facility in exchange for the right to decide when construction would actually begin. This would move the final decision to construct a resource nearer to the time the power is actually needed.

As an example, the typical lead time for a new coal plant is approximately ten years, which includes five to six years of design, siting, and licensing activities. Under an options contract, the resource sponsor would complete these relatively low-cost actions with financial support from BPA. Once these necessary pre-construction activities had been accomplished, BPA would conduct a redetermination of need for the facility before construction could begin. Through this process the region could avoid bringing on line expensive new generating facilities for which demand had disappeared due to changing economic conditions. It would also allow the region's power planners to respond to changing conditions with greater speed and accuracy, reducing the chance of overbuilding or underbuilding.²⁵

The options concept is somewhat revolutionary in the area of power

planning but promises to provide the region with greater flexibility in meeting its resource needs at the lowest risk and cost. A serious effort will be undertaken by the Council, Bonneville, utilities, and resource developers to identify and resolve the various legal, institutional, and regulatory barriers to its successful implementation.

Two-Year Action Plan

The third component of the Regional Energy Plan is a two-year action plan designed to direct Bonneville, the Council, and others in implementing the Plan in the near-term. Because of the current regional surplus of electricity, the two-year action plan does not concentrate on resource acquisition, but instead is designed to monitor closely any changes in demand and to build the region's capability to produce more electricity when it is needed in the future.

The two-year action plan focuses on five principal areas: (1) conservation programs in all sectors, including residential, commercial, industrial, and agricultural; (2) options for new generating facilities; (3) renewable resources; (4) potential power sales to the Southwest; and (5) marketing surplus power within the region. It places the most emphasis on developing and testing conservation programs so that they can be available when the power is needed. The action plan calls for studies, research, demonstration programs, and other measures to improve information on potential resources. These actions will put Bonneville, the region's utilities, and state and local governments in a position to respond quickly with conservation programs and other resources if power demands increase.

Conservation in new construction is a significant feature of the two-year action plan. As directed by the Act, the Council developed

model conservation standards to ensure that new residential and commercial structures are built to produce all the savings of electricity that are economically feasible to the consumer. The model conservation standards specify the maximum energy use permitted for space heating in a new building. Designers and contractors may select any means to achieve the specified energy-use budget. State and/or local governments or utilities throughout the region are directed to adopt and enforce the model conservation standards by January 1, 1986. Entities who chose not to adopt the standards may develop an alternate plan to achieve comparable electric savings as would be produced by the standards. The Act provided that failure to implement the model conservation standards or comparable savings through an alternate plan will subject utilities to a surcharge on their wholesale power rates from BPA.

The two-year action plan is designed to be revised by the Council every two years, in order to take into account new information received and changes in regional demand. This process will allow the Council to provide significant detail in its conservation and resource acquisition plans in the early stages of the twenty year Regional Energy Plan.

Conclusion

With the adoption of the Fish and Wildlife Program and the first Regional Energy Plan behind them, the Council's activities have shifted from a planning focus to monitoring the implementation of the Plan throughout the region. The Council will review the various actions and programs instituted by BPA, utilities, and state and local governments and will assess their cost-effectiveness and consistency with the Plan. In addition, the Council will monitor a number of indicators of regional economic and demographic conditions. The objective of monitoring will

be to compare the Plan's forecasts and assumptions with the actual demand so that the resource portfolio can be adjusted accordingly. The goal of these activities is straight-forward, as quoted from the Act: "The purposes. . . are to assure the Pacific Northwest of an adequate, efficient, economical, and reliable power supply."²⁶

CHAPTER II FOOTNOTES

¹This account follows Kai N. Lee and Donna Lee Klemka, with Marion Marts, Electric Power and the Future of the Pacific Northwest, (Seattle, Washington: University of Washington Press, 1980), Ch. 5, p. 132 - 181, cited below as Electric Power.

²Ibid., p. 83-85.

³Bonneville Power Administration, Environmental Impact Statement: The Role of the Bonneville Power Administration in the Pacific Northwest Power Supply System, (U.S. Department of Energy, 1980), p. I-10.

⁴Bonneville Power Administration, A Summary: The Pacific Northwest Electric Power Planning and Conservation Act, (U.S. Department of Energy April 1982), p. 5.

⁵Kai N. Lee et al., Electric Power, pp. 162-66.

⁶Douglas Scott and James Blomquist, "A Crossroads for Northwest Energy", Sierra, Vol. 63, No. 4, (May 1978), p. 39.

⁷Kai N. Lee et al., Electric Power, p. 161.

⁸Ibid., p. 176.

⁹Pacific Northwest Electric Power and Conservation Planning Council, First Annual Report, (Portland, Oregon, October 1981), p. 13, cited below as "Council".

¹⁰Ibid., p. 6.

¹¹Council, First Annual Report, (Portland, Oregon, October 1981), pp. 6-7.

¹²Anadromous fish and sea-run salmon and steelhead trout that migrate to freshwater for spawning. Resident fish are freshwater fish that live and migrate within the rivers and lakes but do not travel to the ocean.

¹³Pacific Northwest Electric Power Planning and Conservation Act, PL 96-501, Sec. 4.(h)(11)(A),(1980), cited below as "Northwest Power Act".

¹⁴Bonneville Power Administration, Division of Power Requirements, BPA Forecasts of Electricity Consumption in the Pacific Northwest, (Portland, Oregon, July 1982).

Chapter II Footnotes - continued

¹⁵Council, Second Annual Report, (Portland, Oregon, October 1982), pp. 5-9.

¹⁶Kai N. Lee, "Path Along the Ridge: Regional Planning in the Face of Uncertainty", (University of Washington, Seattle, March 1982).

¹⁷Council, Northwest Conservation and Electric Power Plan, (Portland, Oregon, April 1983), Chapter 3, pp. 3-1 to 3-5, cited below as Power Plan.

¹⁸Northwest Power Act, Sec. 4.(e)(3)(D).

¹⁹Council, Power Plan, Chapter 4.

²⁰Northwest Power Act, Sec. 4(e)(1).

²¹Ibid., Sec. 3(4)(D).

²²Council, Power Plan, Chapter 5, pp. 5-2 & 5-3.

²³Ibid., pp. 5-13.

²⁴Ibid., Chapter 3, p. 3-1.

²⁵Ibid.

²⁶Northwest Power Act, Sec. 2.(2).

CHAPTER III

MONTANA'S PARTICIPATION IN THE REGIONAL ENERGY PLANNING PROCESS

The purpose of this chapter is to document Montana's participation in the regional energy planning process. The chapter is organized into two major sections: (1) Montana's involvement in the drafting of the Northwest Power Act; and (2) Montana's participation in the development of the first Regional Energy Plan.

Montana's Role in the Evolving Legislation: The Northwest Power Act

Montana took an active role in the regional debate that culminated in the Northwest Power Act. The following discussion outlines the interests and participation of various state entities that became involved: state government, utilities, direct service industries, and citizen groups.

Montana State Government

In order to depict accurately the position of state government in the evolving regional energy legislation, the activities and interests of three separate entities must be considered: the administrative branch, including the Governor's Office and the Department of Natural Resources and Conservation; the legislative branch; and the Public Service Commission, an independent regulatory agency. Each of these groups had a particular interest in the substance of the proposed

legislation and participated in its development. In addition, Montana's congressional delegation in Washington, D.C., played a significant role in submitting testimony representing Montana's perspective on the various bills as they came before Congressional committees and in scheduling regional hearings on the proposed legislation.

Administrative Branch

In 1977 the administrative branch of Montana state government began an extensive analysis of the Draft BPA Role Environmental Impact Statement (Role EIS), a ponderous document prepared by Bonneville to satisfy its responsibilities in connection with litigation brought by the Natural Resources Defense Council against BPA (NRDC v. Hodel, Oregon 1977).¹ The Role EIS evaluated the environmental impacts associated with the development and operation of the regional power system and proposed alternative roles for BPA in managing the future regional power supply.

The Montana Department of Natural Resources and Conservation (DNRC) was responsible for developing Montana's comments on the Role EIS. The extensive comments prepared by DNRC on both the Draft and Revised Draft EIS reflected Montana's uneasiness with an expanded BPA role in the region. The Draft EIS admitted that coal to supply future generating plants in the Pacific Northwest would have to be obtained outside of the region, specifically in eastern Montana and Wyoming. However the environmental consequences of coal mining and/or minemouth generating plants were not considered under the scope of the EIS, which was limited to the BPA region ending in western Montana. DNRC concluded that almost all potential activities of BPA could have negative impacts on Montana, including increased mining of coal, pressure to build more minemouth coal-fired generating plants, and expansion of transmission lines and coal-slurry

pipelines. The review of the Role EIS thus made the state acutely aware of the implication for Montana of an expanded BPA role in the region: specifically, the spectre of the state becoming a "boiler" for the rest of the region as a result of BPA exercising its federal authority became the paramount concern of Montana.

The BPA Role EIS was prepared during the time that regional energy legislation was being introduced in Congress. Because DNRC took the lead in researching the issues and developing Montana's position in response to the EIS document, they also took the lead in monitoring the proposed legislation. When the Pacific Northwest Utilities Conference Committee (PNUCC) bill, S. 2080, was introduced in the fall of 1977, the Governor's Office directed DNRC to analyze the legislation and clarify potential impacts on Montana. The Governor's Office and DNRC concurred that Montana could lose substantially with the passage of the PNUCC bill. Primarily, it was feared that the purchase authority granted to BPA in this bill could result in the proliferation of new thermal generating facilities in Montana, financed through BPA. Federal pre-emption of the Montana Major Facility Siting Act was thought to be possible.

In his testimony on the PNUCC bill before the Subcommittee on Water and Power Resources of the House Committee on Interior and Insular Affairs in Spokane, Washington, on December 5, 1977, the Montana Governor criticized the urgency of the Congress to adopt this legislation without a thorough review by the citizens of the Northwest. The Governor acknowledged that widespread public discussion of the energy future of the Pacific Northwest was necessary before a consensus on any legislation could be reached, and urged the Committee to set a one year moratorium on any new regional energy legislation in order to give the states time

to consider the problems before them.² The Committee did not issue a formal moratorium, however the subsequent demise of the PNUCC bill and emergence of substitute legislation did give the states some time to generate an effective response.

On April 11, 1978, the governors of Montana, Idaho, Washington, and Oregon met in Boise to discuss the regional energy situation. The purpose of the meeting was to identify and define the key issues, to become informed about the concerns of each of the other states, and to find common areas of agreement.³ At the conclusion of this meeting, the governors agreed to work together in developing amendments to any proposed regional energy legislation that would reflect the interests of the states. Subsequently, an Energy Advisor position was established in the Office of the Lieutenant Governor to coordinate with the other states in developing consensus on issues relating to the proposed legislation. The Energy Advisor represented the state in lobbying efforts on the various bills that were presented to Congress between 1978 and 1980.⁴

According to the Montana Governor, the conditions for Montana's support of any regional energy legislation were as follows:⁵

- 1) Equal representation in regional decision and policymaking;
- 2) Preservation of Montana's state siting authority, including the right to say "no";
- 3) Preservation of Montana's electric retail ratemaking authority;
- 4) Establishment of conservation and renewable resources as the first priority resources in meeting the region's energy demands;
- 5) Limitation of BPA resource acquisitions to those consistent with a plan to be adopted by a regional council;
- 6) Continuation of Montana's preference rights for power from Hungry Horse and Libby dams; and
- 7) Establishment of a regional council politically accountable to the people of the region.

These criteria were successfully incorporated into a package of amendments submitted by the four Northwest governors to the Senate in April, 1979.⁶ The amendments addressed issues of vital concern to the four states and became the focal point for continued state support for federal legislation in this area.

Montana's Governor submitted official testimony on various pieces of regional energy legislation several times between 1977 and 1980. In addition, DNRC staff and the Lieutenant Governor's Energy Advisor continued to coordinate with other northwestern states to maintain a unified approach in the development of acceptable legislation. The solidarity of the four affected states was particularly successful in the finally enacted bill, S. 885. Over several years of debate, legislation first proposed by utilities to secure federal support for their new generating facilities became transformed into a bill to support conservation as the primary future resource for the region. The four states were to play the most significant role as participants in the Northwest Power Planning Council, the new policymaking body for BPA. Montana's critical interests were incorporated into this bill, and the state emerged as a full partner in regional energy planning.

Legislative Branch

Since the early 1970s the Montana Legislature exhibited a growing interest in the state's energy resources and potential adverse impacts associated with the construction and operation of large generating facilities. The recognition that energy generating activities, including extraction, conversion, and distribution efforts may adversely affect the state's economic, social and/or environmental climate was a common theme in Montana's energy-related laws passed between 1969 and 1981 (e.g.,

Major Facility Siting Act, coal development impact legislation, conservation and renewable resources legislation). Experience with energy issues and subsequent legislation stimulated the interest of the Montana Legislature in any federal legislation that would affect the state.

The Montana Legislature is represented in the Western Conference of the Council of State Governments (CSG), which is an organization whose purpose is to improve communication between legislatures of state governments. Between 1977 and 1980, an ad hoc committee on Northwest power was established by the CSG to address the proposed regional energy legislation. This committee was comprised of two key legislators from the states of Washington, Oregon, Idaho, Wyoming, and Montana. The Montana Legislature appointed one Senator and one Representative to serve on this committee.

In its oral and written comments on the various pieces of proposed energy legislation, the major concern of this group was to ensure that the states would play a significant role in the framework established to administer the Northwest Power Act. The committee also emphasized that any legislation should include language to maintain state prerogatives with respect to facility siting, ratemaking, and forecasting.⁷ These issues were paramount to the Montana representatives on the committee and became the consensus position of the Western Conference of the Council of State Governments. The Montana Legislature used this avenue of participation to exert its influence during the various stages of drafting the Northwest Power Act.

Montana Public Service Commission

The role of the Public Service Commission (PSC) in the state is to protect the consumer by regulating privately owned utilities in the

public interest. The most significant aspect of this charge lies in the PSC's ratemaking authority. The PSC's primary concern regarding potential federal energy legislation was that it not allow pre-emption of the state's authority to set rates.

The Montana Public Service Commission was alerted to the possibility of new regional energy legislation in early 1978 through the efforts of the Governor's Office and the Department of Natural Resources and Conservation. Although time constraints did not permit an organized response to the PNUCC bill by the Commission, succeeding legislation was closely reviewed by the PSC staff and detailed comments were presented to legislative committees considering these bills.⁸

The Commission's testimony on the Jackson Bill, S. 3418, in a Washington, D.C., hearing in September, 1978, echoed sentiments of the Montana Governor: i.e., BPA circumvention of state ratemaking and facility siting authority was patently unacceptable. The Commission noted in this testimony that federal facilities (which a facility under a purchase contract to BPA would be considered) are exempt from state siting authority and that federal statutes confer the power of condemnation on a federal agency.⁹ This would allow a BPA-financed facility in Montana to exercise the power of eminent domain, essentially bypassing all related state laws and regulations. This also would effectively eliminate the state's ability to maintain control over new energy developments within the state, precluding the implementation of recent state energy legislation. As the Public Service Commission Chairman stated in testimony on H.R. 13931,¹⁰

...the state has taken an enlightened approach to energy issues...It has enacted legislation on strip mine reclamation, facility siting laws...established a cost-based coal tax, funded alternative energy research and development from coal tax revenues, passed a nuclear initiative authorizing voter approval of nuclear plant siting, and has adopted utility rate design reform.

In PSC testimony on H.R. 13931 and succeeding legislation, retention of state ratemaking and siting authority continued to be of primary concern. In addition, the PSC testified in support of increased public accountability for BPA, competent state and/or regional energy demand forecasting in the public sector, a stronger commitment to conservation and renewable resources, and reduced decisionmaking authority for the BPA Administrator.¹¹

Montana Congressional Delegation

Montana's congressional representatives are responsible for carrying the state's concerns to the federal arena. When the PNUCC bill was introduced, the Montana Governor initiated the support of the state's congressional representatives to protect Montana's interests in proposed regional energy legislation as it was debated on Congress. Regular communication between the Governor's Office and the delegation clarified Montana's fundamental concerns and solidified the support of Montana's representatives.

Members of the Montana delegation were responsible for scheduling regional hearings on various pieces of proposed legislation between 1977 and 1980. These regional hearings brought the issues to the citizens of the Pacific Northwest and provided an opportunity to influence congressional decisionmakers. Two of these regional hearings were scheduled for Montana, although one had to be cancelled due to inclement weather. Others took place in the large urban areas of BPA's service territory.

Montana Utilities

Montana utilities consist of two distinct groups: the investor-owned utilities (IOUs), including the Montana Power Company, Pacific Power and Light, and Montana-Dakota Utilities; and rural electric

cooperatives, which are publicly owned. The investor-owned utilities' perspective on proposed energy legislation differed considerably from that of the cooperatives.

Investor-owned Utilities

Montana Power Company (MPC) is the state's major investor-owned utility and serves customers in the BPA service territory in western Montana. Montana Power did not undertake an active public role in either promoting or opposing the legislation. Unlike some other privately-held utilities in the Northwest, MPC owns the major portion of generating facilities needed to serve its customers and is not dependent upon Bonneville for electricity supplies (although MPC did exercise firm power contracts with BPA prior to passage of the Act). The Company's strong financial posture allowed it to secure capital at low interest rates, thus discounting the attractiveness of future BPA financing for energy resources which was a critical issue for many other utilities. In addition, rate disparities between MPC and the public cooperatives were much less significant than in other Pacific Northwest states, although MPC was interested in the possibility of providing rate relief to their residential and farm customers in the BPA service area.

Because of its involvement with other regional IOUs to whom this legislation was important, MPC monitored the progress of the bills and submitted testimony which supported the overall IOU perspective. In testimony on the Jackson bill, S. 3418, Montana Power joined other investor-owned utilities in opposition to granting Bonneville the authority to construct and operate generating facilities. The Company endorsed parts of the legislation, including the development of a new mechanism for BPA financing of generating facilities and the prospect of

a BPA exchange of energy with the IOUs which would provide rate relief for residential and farm customers in IOU service areas.¹²

Montana Power also addressed two specific Montana issues. The Company expressed opposition to BPA financed conservation programs that would only apply to electricity. This attitude reflected the fact that MPC is a bi-fuel utility whose customers primarily use natural gas for space heating. Montana Power was also concerned with the eastern regional boundary of the BPA service territory, located at the Continental Divide. Since the proposed legislation would only affect MPC customers west of this demarcation, the practical effect would be to divide MPC customers into two classes with benefits of the Act only accruing to those west of the Divide. Montana Power was uncomfortable with this provision, and argued that as a matter of equity all MPC customers should be included under the Act.¹³

Pacific Power and Light (PP&L), which serves an area in the northwestern corner of the state, joined other investor-owned utilities in opposition to BPA's authority to construct and operate electricity-producing facilities. In addition, PP&L adopted a similar position as MPC in supporting the residential and farm exchange and a new financing mechanism for construction of generating facilities. Because PP&L's Montana load represents but a small portion of its regional service area, the utility's concerns and actions did not expressly involve Montana and are, therefore, not presented in this paper as significant to Montana's participation in the energy planning process.

The Montana-Dakota Utilities (MDU) serves the eastern portion of the state and is not associated with the Bonneville Power Administration. For this reason MDU did not participate in the process which led to the Northwest Power Act.

Rural Electric Cooperatives

There are seven rural electric cooperatives in Montana that are dependent upon BPA for their power needs: Vigilante Electric, Ravalli Electric, Missoula Electric, Flathead Electric, Lincoln Electric, Glacier Electric, and the Flathead Irrigation Project. When shortages of electricity were forecast in the 1970s, BPA began issuing "notices of insufficiency" to its customers, informing them that power deliveries could not be guaranteed after 1983. Montana cooperatives, therefore, felt the urgency to get new regional energy legislation in place before BPA curtailed their electrical supply. The cooperatives supported provisions in proposed energy legislation that would give BPA the authority to purchase and/or generate power for the present and future needs of its customers. Securing a firm power supply from BPA on a long-term basis was a primary consideration of Montana cooperatives and other public utilities across the region. Of equal importance, however, was the issue of maintaining the cooperatives' "preference" right to the lowest cost power marketed by Bonneville. If the threats of shortage were to materialize, the cooperatives wanted to be assured that they had first claim on what power was available; and if Bonneville was given the authority to acquire new resources to meet that load, the cooperatives demanded to have access to the cheapest resources available -- electricity generated by federal hydropower facilities.

The Montana rural electric cooperatives served by BPA monitored the developments of proposed regional energy legislation through their state and regional associations, Montana Associated Utilities and the Northwest Public Power Association. Each group submitted testimony and comments on various bills. In addition, the National Rural Electric Cooperative

Association actively lobbied Congress to include in the legislation those provisions thought to be vital to publicly-owned utilities. A few western Montana cooperatives, including Vigilante Electric and the Flathead Irrigation Project, submitted further testimony representing their individual cooperatives.

Montana Direct-Service Industries

Bonneville had contracts with two Montana direct-service industries: Stauffer Chemical and the Anaconda Aluminum Company. Both Stauffer and Anaconda shared similar concerns with BPA industrial customers throughout the region, who all faced curtailment of their electrical supply contracts with Bonneville in 1983 unless legislative changes were forthcoming. These Montana direct-service industries adopted the regional industrial perspective in favor of prompt legislative action that would provide them with new power contracts guaranteed for approximately twenty years. The planning capability of these industries would be severely affected by the prospect of terminating their energy supplies. This was particularly critical to the Anaconda Aluminum Company operating in Columbia Falls, where future availability and cost of power was the primary factor in the plant's profitability.

Both Stauffer Chemical and the Anaconda Aluminum were represented by the regional Direct-Service Industries Association which heavily lobbied proposed energy legislation.¹⁴ In addition, both companies testified individually during the regional hearings on the legislation.

Montana Citizen Groups

Regional energy planning was not an issue about which the general public in Montana was well informed. Certain public interest and special

interest groups, however, did pay attention to emerging energy issues, primarily because of their experience regarding the proposed coal-fired generating facilities in eastern Montana in the early 1970s. In addition, some Montana interest groups had commented on the BPA Role EIS and had participated in the controversy surrounding the transmission lines that BPA was constructing to export the electricity from Colstrip to western load centers. The PNUCC bill captured the attention of several of these Montana organizations, who became involved in the political process that culminated in the Northwest Power Act.

Public Interest Groups

Montana Common Cause is an organization which represents citizens concerned with open, accountable, and effective government. This organization took an active role in establishing a Northwest Energy Task Force, which included Common Cause members from the four Pacific Northwest states, to monitor proposed regional energy legislation. Their primary concern was that an informed public should be able to participate in the energy planning process -- from the drafting of the legislation through its implementation.

Montana Common Cause had previously been involved in reviewing and commenting on BPA's Role EIS and was therefore well-informed regarding the controversial aspects of potential regional energy legislation. Accountable and representative decisionmaking in regional energy matters was fundamentally important to this group, and they insisted that Montana be represented on an equal basis as the other states in any council that might be established to advise Bonneville in policymaking.

The Montana League of Women Voters also took an active role in the regional energy planning process, beginning with the BPA Role EIS.

The League's role is to educate voters on issues and candidates and to take action on positions that the membership adopts. Energy issues are included under the League's Natural Resources Policy, which states, in part: "To promote a balanced approach to energy problems, stressing conservation as the cornerstone of state energy policy."¹⁵ The Montana League presented testimony on the PNUCC bill and succeeding legislation. Their primary concerns included establishing public participation in BPA's decisionmaking process, supporting conservation as a resource, achieving equal representation for Montana on the Council, and land use issues involving the protection of eastern Montana coal fields.¹⁶

Special Interest Groups

The Northern Plains Resource Council (NPRC), an organization of ranchers, farmers, and other Montana residents, became involved in the Northwest energy debate prior to the enactment of the Northwest Power Act. This organization was primarily concerned with the effects of mining and energy conversion projects on agriculture and rural communities in Montana. They actively opposed any regional energy legislation that would give the BPA Administrator the authority to build or finance thermal generating facilities, which might effectively pre-empt the regulations in Montana's Major Facility Siting Act and the Montana Environmental Protection Act.

In response to the Draft BPA Role EIS in 1978, Northern Plains staff and membership had submitted comments relating to the preservation of rural Montana interests in regional energy decisions. Northern Plains continued to monitor the regional energy situation, commenting on various pieces of proposed legislation. The organization's representatives testified in opposition to S. 885 (which was finally enacted)

on the grounds that it would make Montana the region's "energy farm".

Several other special interest groups in the state maintained an interest in the evolving legislation, including the Alternative Energy Resources Organization (AERO) and Headwaters Alliance. Representatives from these groups spoke out about the detrimental environmental aspects of large energy generating facilities and encouraged the development of conservation projects and decentralized energy sources, including renewable resources. They also called for citizen access to regional power planning.

Summary: Montana's Involvement in
Drafting the Act

As the preceding discussion indicates, Montana took an active role in reviewing and commenting on proposed legislation leading to the passage of the Northwest Power Act. Although the initial legislation was proposed to alleviate specific problems encountered by BPA and certain generating utilities, Montana recognized that any solutions to those problems would have substantial region-wide effects and would affect the future of the most promising energy supply in the region -- namely, the coal fields of eastern Montana.

The variety of groups that participated in the drafting of the Act represented a spectrum of Montanan's interests in regional energy planning, and each had an agenda to accomplish. However the common theme was that Montana must have an equal voice in regional energy decisionmaking. Although BPA's western Montana service territory is a very small political base compared to the other states in the region, Montanans vigorously participated in the process which resulted in a new energy constitution for the region. Their determination kept the

state in the forefront of the energy arena and helped to establish Montana's position as a primary player in regional energy politics.

Probably the most significant contribution to the planning process was the direct involvement of the Montana Governor with the governors of the other Pacific Northwest states. This interaction and the consensus amendments offered by the four Northwest governors to the final legislative package assured that Montana would have an equal voice in the future energy planning process. All of the Montana Governor's conditions for support of regional energy legislation were met in the Northwest Power Act, enacted by Congress in December, 1980. Montana, with only one-third of its geographical area within the BPA service territory, emerged as a full partner in regional energy policymaking.

Montana's Role in Developing The Regional Energy Plan

With the Northwest Power Act officially in place, the states turned their attention to establishing the Northwest Power Planning Council, which would carry out the mandates of the Act. The Council's primary planning responsibilities, as directed by the Act, were two-fold: (1) to develop a twenty-year electrical energy plan for the region; and (2) to develop a program to improve the population and habitat of fish and wildlife in the Columbia River Basin. The purpose of this section is to describe the participation of various Montana entities in this planning process.

Montana Office of the Northwest Power Planning Council

The Montana Legislature, in House Bill 641 (Ch. 5 L 1981), enabled Montana to participate in the Northwest Power Planning Council and provided

for the appointment of two Montana members by the Governor, effective March 12, 1981.¹⁷ With this action Montana became an official participant in the new regional compact authorized by Congress three months earlier. A Montana office of the Northwest Power Planning Council was subsequently established at the state capitol as an adjunct to the Governor's Office. The Montana Council office became the focal point in providing access for Montanans to the ensuing regional energy planning process.

In order to provide a broad base of political support for Montana's efforts on the Council, the Governor created the Montana Northwest Power Planning Council Advisory Council in December, 1981 (Executive Order 31-81). This advisory body consisted of a diverse cross-section of Montanans concerned about the state's energy policymaking (see Appendix A). Its primary purpose was to advise the Montana Council members regarding the various interests of the people in the state. The establishment of this advisory council allowed the Montana Council members to utilize the ideas and experience of individuals within the state familiar with energy issues. The advisory council met periodically with the Montana Council members during the planning process to discuss substantive issues before the Council. Advisory council members also assisted in planning and organizing a number of Council meetings and activities within the state.

Seven Montanans were selected to serve on the Council's Scientific and Statistical Advisory Committee (see Chapter II, p. 21).¹⁸ These appointments were recommended by the Montana Council members and helped assure that Montana's interests were represented in technical issues discussed at the regional planning level.

It should be noted that, although the individual Council members represented their own states, the consensus was that the Council should

put the regional perspective first and avoid intra-state squabbling. The Council was successful in maintaining this approach throughout the planning phase and was able to fulfill the credo that what's best for the region is also best for the states. For this reason the Montana Council members did not aggressively advocate Montana-specific issues, but instead worked to integrate Montana's concerns with those of the other states.

Public involvement in the planning process, as mandated by the Northwest Power Act, was taken seriously by the Council from the outset. Beginning with its first meeting in Portland on April 28, 1981, a comprehensive and continuing program of public information was established by the Council and its staff to ensure widespread public involvement in the planning process. An extensive effort was undertaken both at the regional and state level to inform the public of the Council's work, to solicit public views, and to initiate consultations with those entities most directly affected by the Council's deliberations, i.e., utilities, governmental agencies, and Indian tribes. The Council meetings, held approximately twice a month, were conducted in open session in locations throughout the Northwest, and public comment time was scheduled into each agenda. Montanans were first afforded the opportunity to see the Council at work and to present their views at the Council's second meeting, which took place in Helena on May 13, 1981. Over the period of time that the Fish and Wildlife Program and the Regional Energy Plan were developed, the Council met in Montana on five different occasions for their regular business meetings, and on each occasion received public comment and testimony from interested parties in the state.

As required by the Northwest Power Act, the Council was to complete

and adopt the Fish and Wildlife Program first, and thereafter incorporate it into the Regional Energy Plan. In establishing the Council, the Act provided the means for interested parties to cooperatively work out a plan for enhancing fish and wildlife populations and habitat in the Columbia River Basin. The Act directed the Council to seek recommendations from Federal and state fish and wildlife agencies and Indian tribes. The process of seeking recommendations was formally initiated by the Council on June 10, 1981; written recommendations were to be made to the Council by November 15, 1981.

The Montana Council members worked closely with the Montana governmental agencies affected, namely, the Department of Fish, Wildlife, and Parks (FW&P). They also solicited the cooperation of the Confederated Salish and Kootenai Tribes in the development of Montana's fish and wildlife recommendations to the full Council. Montana Council members assisted in securing funding for FW&P to collect information from numerous sources throughout the state on fish and wildlife issues, and to prepare a detailed list of goals and objectives relating to the mitigation of Montana's fish and wildlife resources that have been adversely affected by the operation of the regional hydroelectric system.¹⁹

Montana's fish and wildlife recommendations that resulted from this effort were conveyed to the public through a series of four public meetings around the state where the recommendations were explained. Written and oral comments were solicited and accepted both during and subsequent to the state meetings. Montana was unique among the states in using this meeting process to inform the people of the state about Montana's Fish and Wildlife Program recommendations to the Regional Council.

The primary Montana interest in the fisheries area was resident fish, e.g., cutthroat and bull trout and kokanee salmon, whose habitat and populations had been severely affected by the operations of the Columbia River Basin hydroelectric facilities. Montana wildlife concerns focused on wildlife habitat that had been destroyed due to the inundation of land at Hungry Horse and Libby dams, both part of the regional power operation. In addition, wildlife habitat in certain lakes and streams had been lost due to fluctuation in water levels caused by dam operations.

By November 15, 1981, the Council had received more than 2,200 pages of recommendations and documents relating to fish and wildlife. These recommendations were provided to the Council by state, local, and Federal agencies and a coalition of Indian tribes and government fish and wildlife agencies. Additional information and recommendations were submitted by the Pacific Northwest Utilities Conference Committee (PNUCC), BPA, Environmental Protection Agency (EPA), U.S. Army Corps of Engineers, and the U.S. Bureau of Reclamation.²⁰

Recommendations were compiled into sets of four "blue books" and were distributed throughout the region. On January 11, 1982, the Council announced a period of public review and comment on the recommendations, and initiated five public hearings around the region, including one in Missoula on March 26, 1982. At the close of the comment period on the fish and wildlife recommendations (April 1, 1982), the Council began formal and informal consultations with affected groups, based on the recommendations received. These recommendations and subsequent consultations with interested parties provided the framework for the Council's Fish and Wildlife Program.

In a regular business meeting in Helena on September 16, 1982,

the Council approved the release of the Draft Columbia River Basin Fish and Wildlife Program, for the purposes of public review and comment. The Council held formal hearings on the Draft Program in each state, including one in Missoula on October 18, 1982. A number of Montana groups were scheduled to comment on the fish and wildlife proposals, including the Department of Fish, Wildlife, and Parks, the Montana Power Company, Bitterroot Conservation District, Confederated Salish and Kootenai Tribes, and the Montana Wildlife Federation. (See Appendix B for complete list of Montana commentors.) The hearings took place during normal business hours, with an additional evening session to provide Montana citizens the opportunity to participate directly in the planning process.

The Council continued to accept comments on the proposed Program through October 25, 1982. The expedited comment process was necessary because Congress had required that the Council adopt this program on or before November 15, 1982. The multitude of comments and suggestions, including those from Montana, were taken into account by the Council in subsequent revisions of the Draft Program after the close of the comment period. Adhering strictly to their schedule, the Council formally adopted the Columbia River Fish and Wildlife Program on the date set by Congress.

The planning process undertaken by the Council in the development of the Regional Energy Plan was concurrent with the process which resulted in the adoption of the Fish and Wildlife Program, although the statutory deadline for the Energy Plan was April 28, 1983. The Council's major emphases in the development of the Energy Plan were the completion of

essential technical studies and the on-going public involvement effort to develop broad-based political support for the Council's efforts.

In the fall of 1981 the Council initiated six major studies that would lay the necessary technical groundwork for its strategy in regional energy planning: electricity demand modeling, conservation and resource assessment, policy options and programs, rate design and analysis, reserves and reliability analysis, and quantification of environmental costs and benefits. The Council chose to retain the services of contractors for these studies in order to expedite the development of models and data bases necessary for the Energy Plan.²¹ The contractors selected represented reputable national organizations with extensive background in the subject areas. Several additional special studies of more modest scope were commissioned by the Council to augment the information base and analytic tools necessary to support the planning process.

A comprehensive program of public information and involvement continued at the regional and state level. The Council's central staff developed several publications, including a widely distributed brochure describing the Council, and a monthly newsletter, "Northwest Energy News". The newsletter is circulated to individuals and organizations region-wide, including over 2500 recipients in Montana. It serves the purpose of keeping interested parties informed on the various issues before the Council, notifying the public of Council meetings, subcommittee meetings, public involvement activities in the states, and the availability of Council publications. The Council's central office installed a toll-free telephone number in order to provide interested parties in the region direct access to the Council members and staff.

In order to encourage accurate press coverage, the Council's state

staffs held five media workshops for members of the press and television news media during March and April, 1982, including one which took place in Missoula. In addition to this workshop, the Public Information Director of the Montana Council office worked with state journalists and television news reporters on a continuing basis to provide background understanding of the complex regional power issues in order to stimulate informed reporting. This effort proved fruitful when Montana newspaper articles provided clarification of certain technical, economic, or institutional issues before the Council.

In an effort to introduce themselves to their state constituents, Council members sponsored Town Hall meetings in their respective states between March and June, 1982. These meetings provided an opportunity for the public to become familiar with the Council members and their specific mandate as a regional planning organization. Meeting agendas included a slide show introducing and explaining the role of the Council and their decisionmaking process. In Montana the Town Hall meetings were organized by the Council's Montana state staff and were held in Kalispell, Missoula, Billings, Helena, and Butte during March and April, 1982.

Final contractor's reports from the six major studies commissioned by the Council were submitted in the summer of 1982. These studies produced the most comprehensive, up-to-date information available in the region on the cost and availability of new resources, including conservation. These studies resulted in state-of-the-art computer models to forecast the region's energy needs and to determine the cheapest mix of resources to meet those needs. In keeping with their public involvement mandate, the Council required the contractors to make public presentations

to the Council and to the Scientific and Statistical Advisory Sub-committees. Contractor reports were made available to the public, and the Council staff began using these tools to develop elements of the Draft Regional Energy Plan.

As a result of these reports, a number of key issues facing the Council were identified, and papers were prepared on each for review by the Scientific and Statistical Advisory Committee and other interested parties. In an effort to bring these issues to the public, energy workshops were subsequently held in each state during the fall of 1982 to provide the public with an opportunity to discuss with individual Council members the specific issues relating to the development of the Regional Energy Plan. The Montana Council members conducted energy workshops in Butte, Dillon, Missoula, Libby, and Kalispell during October and November of 1982.

The Council announced the availability of the Draft Energy Plan on January 26, 1983. In addition to circulating copies of the Draft Plan throughout the region, an extensive direct mailing effort was undertaken to notify various groups of the availability of the document and background issue papers explaining key elements. During February, 1983, each state Council office conducted a series of energy briefings to inform the public about the elements of the Draft Plan and to encourage informed participation at the official public hearings, scheduled for March, 1983. The Montana Council members and staff held energy briefings in three locations in the western part of the state: Missoula, Kalispell, and Butte.

Formal public hearings on the Draft Regional Energy Plan were held in each state in the region during March, 1983. All Council members attended these regional hearings and an official record of testimony was established. Missoula was selected as the site for the Montana public

hearing, which took place on March 9, 1983. At this hearing a wide range of individuals and Montana groups submitted testimony on the Draft Regional Energy Plan. (See Appendix C for Montana Commentors.) Subsequent to the public hearings in the four states and some revisions to the Draft Plan, the Northwest Power Planning Council unanimously adopted the first Northwest Electric Power and Conservation Plan on April 27, 1983.

Montana Utilities Participation

Once the Northwest Power Act was passed, Montana utilities recognized that the state would be a full partner in the development of energy policy that would affect the entire region. In order to participate in the energy planning process as informed entities, both the investor-owned utilities and the rural electric cooperatives affected by the Act closely monitored the activities and progress of the Council. Each group took advantage of the numerous opportunities to submit comments and recommendations to both the Montana Council members and the Council as a whole. The Montana Council members met with representatives of both groups of utilities at various times to bring them up to date on the issues and to receive their comments and concerns.

Montana Power Company was particularly concerned about the regional boundary and the practical effect of dividing its customers into two classes -- one served by MPC and receiving the benefits of the Act and the Plan and the other served by MPC without any benefits. This matter of equity dated back to the early proposed regional energy legislation, which in final form did not include the entire state in the BPA service territory. Montana Power also took issue with the proposed expenditures on conservation as outlined in the Draft Regional Energy Plan, and

cautioned the Council that the potential for conservation did not exist to the degree anticipated in the Draft Plan.

Rural electric cooperatives in western Montana reiterated Montana Power's concern regarding expenditures on conservation, particularly in light of the regional surplus of electricity. Increased BPA funding for conservation could result in higher rates for these utilities and their customers. Several of the cooperatives had invested in the Washington Public Power Supply System (WPPSS) nuclear plants, and this financial obligation significantly raised their retail rates. The prospect of additional rate hikes resulting from conservation programs and activities was not popular.

Because of their investment in the WPPSS nuclear plants, several western Montana cooperatives requested that the Council include WPPSS #4 & #5 in the resource portfolio as a possible option for future power generation. At the time the Council was developing the Regional Energy Plan, these nuclear facilities were in jeopardy of being terminated due to the huge financial costs of construction.

Another issue of importance to the cooperatives was the cost of the Columbia River Fish and Wildlife Program, which would be borne in their wholesale rates from BPA and would be passed on to customers at the retail rate level. Cooperatives stressed that these expenditures were inappropriate, and they urged the Council to spread the costs of the Program to other industries that would benefit from improvement of fisheries, e.g., recreational and commercial fishermen.

In addition to their individually prepared testimony submitted to the Council at the Missoula public hearing on the Draft Plan, the rural electric cooperatives worked through their state and regional associations

(Montana Associated Utilities, Northwest Public Power Association) to influence the Council's energy planning process.

Participation by Montana
Direct-Service Industries

Arco Aluminum, formerly the Anaconda Aluminum Company, owns and operates a primary aluminum reduction plant in Columbia Falls and uses electricity supplied directly from Bonneville. Representatives from Arco participated with other direct-service industries in the region in developing a unified position on the proposed Regional Energy Plan. Their main concern with the Draft Plan was that it ignored the unique role that the DSIs play in providing reserves for the power system. A large portion of the power they receive from BPA is delivered on an "interruptible" basis, which allows BPA to call it back when necessary for other firm loads and reduces the amount of generating capacity that would otherwise be necessary to serve the region. Arco and other aluminum processors feared that, because the Draft Plan essentially ignored this DSI "contribution", the resource portfolio developed by the Council (which included the potential use of expensive combustion turbines) might result in a reduction of the DSI interruptible load. This action would deprive the DSIs of a large amount of power that they had been purchasing from BPA at an extremely low price.

Another issue of importance to Arco and the other DSIs was the Council's proposals for conservation efforts throughout the region. Arco advocated a "go-slow" approach for conservation activities, in order that the cost-effectiveness and delivery systems of this relatively untried resource be tested prior to the time it might be needed.

Involvement by Montana Citizens

The process of drafting the Regional Energy Plan was designed to generate a high level of interest and participation throughout the region. As previously outlined, the Montana Council members and state staff conducted a variety of outreach activities to bring the issues to the general public. In addition to the numerous workshops and meetings sponsored by the Council within the state, the print media and television news correspondents frequently issued reviews and commentary about issues facing the Council. Montana Council members were invited to speak to numerous civic clubs, service groups, and at certain public meetings and conferences. Television interviews were conducted (e.g., Face the State) to spread information to the broad-based television audience. These efforts were designed to provide the general public with enough information to participate knowledgeably in the regional energy planning process.

Several of the Montana public and private interest groups which became involved in the BPA Role EIS and the drafting of the Northwest Power Act continued to contribute to the planning process leading to the adoption of the Energy Plan. Representatives from Montana Common Cause and the League of Women Voters actively participated in Montana Council activities. Both organization's offered detailed comments on the numerous issues facing the Council. The Northern Plains Resource Council was also an active participant in Council meetings held in Montana and in other meetings set up by the Montana Council staff.

In an effort to influence the energy planning process undertaken by the Council pursuant to the Northwest Power Act, a number of consumer and environmental organizations in Montana, Idaho, Oregon and Washington formed the Northwest Conservation Act Coalition. Montana groups represented

in the Coalition included the Alternative Energy Resources Organization (AERO), Environmental Information Center (EIC), Human Resources Council, League of Women Voters, Northern Plains Resource Council, and Montana Common Cause. In addition, Montana members of national organizations such as the Sierra Club and Friends of the Earth were also represented in the Coalition, which included a total of thirty-eight citizen, labor, environmental, and ratepayer organizations from the four Northwest states. The Coalition's singular purpose was to insure that the Council incorporated the least expensive and most environmentally benign resources into the Regional Energy Plan, i.e., conservation and renewable resources. Coalition literature challenged a "small but powerful group of special interests who profit from the construction of power plants. . . [who are] working to deny the region the economic benefits of conservation."²²

The Northwest Conservation Act Coalition presented a specific proposal to the Council: a comprehensive program for meeting all the region's electric power needs through conservation and renewable resources, with no additional coal or nuclear power plants. This proposal was the Model Electric Power and Conservation Plan, developed by the Natural Resources Defense Fund. The Model Plan was well received by the Council members and staff. Coalition representatives in Montana frequently lauded the Model Plan in their comments to the Council and used it to demonstrate how effective an aggressive conservation program in the region could be.

An issue of importance to Montana environmentalists was the inclusion of Colstrip Units #3 & #4 in the Council's resource portfolio. Opponents argued that these resources were not the least expensive available and that they were scheduled to begin producing power while the

region continued to experience a surplus. These individuals challenged the Council to consider the Colstrip plants in the same category as new nuclear plants, which had been excluded from the future resource mix.

Many Montana interest groups submitted comments on the Draft Energy Plan individually as well as under the Conservation Coalition umbrella. In addition, a number of interested Montana citizens spoke out on various issues before the full Council at the Missoula public hearing. (See Appendix C for full list of Montana commentators.)

Summary

The innovative public planning process established by the Northwest Power Act was successfully implemented in Montana. Representatives from the state's utilities, industry, and ratepayers actively took part in the development of the Regional Energy Plan. The activities of the Montana Council office provided the public with direct access to the policymakers and encouraged thoughtful and informed commentary on the issues. Montana's interests were well-represented by this broad spectrum of individuals and organizations.

CHAPTER III FOOTNOTES

¹Bonneville Power Administration, Environmental Impact Statement: The Role of the Bonneville Power Administration in the Pacific Northwest Power Supply System, (U.S. Department of Energy, 1980), Foreward.

²Thomas L. Judge, Governor of the State of Montana, Testimony before the Subcommittee on Water and Power Resources of the Committee on Interior and Insular Affairs, United States House of Representatives, Spokane, Washington, December 5, 1977.

³Thomas L. Judge, Governor of the State of Montana, News Release: Meeting of the Pacific Northwest Governors, Boise, Idaho, April 11, 1978.

⁴Gerald Mueller, Montana Council Member, Interview held 17 January 1984, Helena, Montana.

⁵Thomas L. Judge, Governor of the State of Montana, Letter to W.R. Mackay, Jr., Chairman, Northern Plains Resource Council, 12 December 1979.

⁶Thomas L. Judge, Governor of the State of Montana, John V. Evans, Governor of the State of Idaho, Victor Atiyeh, Governor of the State of Oregon, and Dixie Lee Ray, Governor of the State of Washington, Letter to Senator Henry M. Jackson, Chairman, Senate Committee on Energy and Natural Resources, Washington, D.C., 11 April 1979.

⁷Hearings before the House Subcommittee on Energy and Power of the Committee on Interstate and Foreign Commerce on H.R. 13931, 95th Congress, 2nd session, Serial 95-193, pp. 662-63, 13 December 1978.

⁸Thomas J. Schneider, Chairman, Montana Public Service Commission, Interview held 8 December 1983, Helena, Montana.

⁹Hearings before the House Subcommittee on Energy and Power, 27 September 1978, p. 300.

¹⁰Ibid., 14 December 1978, p. 996.

¹¹Ibid., pp. 990-997.

¹²Ibid., p. 981.

¹³Ibid.

¹⁴Ibid., pp. 876-77.

Chapter III Footnotes - continued

¹⁵Montana League of Women Voters, "Energy Concurrence Statement to Natural Resources Policy Statement", National League of Women Voters, Montana State Convention, April, 1979.

¹⁶Ellen Knight, Montana League of Women Voters, Interview held 22 February 1984, Missoula, Montana.

¹⁷Keith L. Colbo and Gerald Mueller were appointed by the Governor as Montana's representatives to the Northwest Power Planning Council.

¹⁸Montana Office, Northwest Power Planning Council, "First Annual Report", submitted to Governor Ted Schwinden and Members of the Montana State Legislature, Helena, Montana, 1982. Montana appointees included Pat Graham, Montana Department of Fish, Wildlife & Parks; Dr. John Duffield, University of Montana; Roger Hofacker, Whitefish; Lawrence Nordell, Montana Department of Natural Resources and Conservation; Dr. Arnold Bolle, University of Montana; Jan Konigsberg, Montana Department of Natural Resources and Conservation; and Dr. Lauren S. McKinsey, Montana State University.

¹⁹Ibid.

²⁰Northwest Power Planning Council, Columbia River Basin Fish and Wildlife Program, (Portland, Oregon, 15 November 1982), Section 100, p. 1-2.

²¹Idem, Second Annual Report, (Portland, Oregon, 1 October 1982), p. 15.

²²Northwest Conservation Act Coalition, Brochure, (Seattle, Washington, 1982).

CHAPTER IV
EFFECTS OF THE NORTHWEST POWER ACT AND
THE REGIONAL ENERGY PLAN ON MONTANA

Since 1977 Montana has been intimately involved in the regional debate to mold a rational electrical energy future. A wide cross-section of individuals and organizations in the state have taken this issue to heart. They have carefully followed the labyrinth of technical, economic, and social issues that make up electrical power planning in the Northwest. They have reviewed and analyzed massive documents of technical data; researched and prepared testimony on a variety of complex topics for a multitude of public meetings; and they have been called upon to exercise social judgment on the fundamental "fairness" of numerous issues affecting consumers of electricity. Through these activities they have become knowledgeable about esoteric tenets of power planning that were previously the sole domain of utility directors. Now that the initial planning phase has concluded and the first Regional Energy Plan is in effect, the opportunity exists to assess the effects of Montana's involvement in the regional energy planning process.

Montana has experienced certain political and programmatic changes related to the passage of the Act and the implementation of the Regional Energy Plan. These may be viewed as tangible results of Montana's participation in the process set up by Congress.

New Relationship with BPA

Previous to the passage of the 1980 Act, Bonneville as a federal agency made little attempt to consult with the states in their decision-making. As a result of excluding and/or ignoring state interests, BPA developed a reputation of arrogance throughout the region. Montana in particular experienced an extremely poor relationship with BPA as a result of the Colstrip transmission line issue. After the Act passed and BPA had a federal mandate to involve the states in planning, the federal agency offered a Memorandum of Understanding to each of the four Pacific Northwest states. The Memorandum is a generic agreement that provides for negotiation as the basis for executing future agreements between BPA and the states. Although the Memorandum itself is not a legally binding document, it does represent a gesture of good faith on the part of Bonneville to cooperate with the states -- which is a major departure from BPA's pre-1980 business as usual.

When the Memorandum of Understanding was to be signed with Montana, the BPA Administrator came to the state to present the document to the Montana Governor and to announce the initiation of a new era of cooperative relations between the parties.¹ This action also demonstrated a new emphasis by BPA to open communications with the state at the highest policymaking level -- the state executive. The Memorandum is designed to be renewed annually, providing an opportunity for state and BPA staff to meet and discuss the many programmatic and political issues that involve them both.

In another attempt to instill good will and respond to Montana concerns, BPA established a state liaison office in the capital city. Previously the only contact Montanans had with BPA staff on the state

level was through the BPA district office in Kalispell. The Montana State Liaison office in Helena was established to encourage more direct communication between state government and BPA.

The Northwest Power Act mandated Bonneville to provide the public with access to the energy planning and decisionmaking of the agency. Accordingly, BPA began to incorporate public informational meetings, group discussions, and formal public hearings into its planning process. As of August, 1982, Bonneville had held a total of 149 such meetings in Montana.² Issues discussed included such topics as the Colstrip transmission project, rates, energy conservation programs, and power sales. How much impact these public meetings had on BPA's decisions remains questionable; however they provided individual citizens and organizations in Montana with a forum to discuss controversial power issues before decisions were reached.

Fish and Wildlife

Although the major emphasis of the Council's Fish and Wildlife Program is on the restoration of anadromous fish, there are two sections of that Program that specifically relate to Montana: Section 800 - Resident Fish, and Section 1000 - Wildlife. Each section contains measures to protect and enhance fish and wildlife populations in Montana.

Resident fish of interest to the state are species such as kokanee salmon, Dolly Varden (bull trout), and westslope cutthroat trout. Section 800 of the Fish and Wildlife Program directed BPA to fund research activities that will develop additional protection, mitigation, and enhancement methods for the resident fish populations that have been adversely affected by the operation of the Columbia River hydroelectric system. BPA funding for these various studies in Montana in Fiscal Year

1983 approached \$2 million, and funding is projected to continue for several years. The information generated by the studies will form a comprehensive data base that will assist the state in determining the most cost-effective and feasible methods to meet the intent of the fish and wildlife provisions of the Northwest Power Act. Bonneville will be responsible for funding many of the mitigation efforts deemed necessary.

In addition to the extensive research activities, the Fish and Wildlife Program also recommended minimum flow requirements in streams and rivers to aid fish reproduction. BPA is currently negotiating for the purchase of 10,000 acre-feet of water from the Painted Rocks Reservoir near Hamilton to maintain summer and fall flows for resident fish in the Bitterroot River. This action is to compensate for the loss of a significant fishery in the lower Clark Fork drainage. Other important Fish and Wildlife Program recommendations for Montana include the development of drawdown limitations at Hungry Horse and Libby Reservoirs to aid in fish reproduction and the construction of a spawning channel on the Flathead River where the operation of dams has caused destruction of fish spawning habitat.

An additional study of interest in Montana relates to the cumulative impact of small hydroelectric facilities on fish and wildlife. This research is particularly timely because of the large numbers of license applications for small hydroelectric facilities recently filed with the Federal Energy Regulatory Commission (FERC). The Montana Department of Fish, Wildlife, and Parks is currently assessing the potential cumulative impact of small hydropower plants in the Swan River drainage. Study results will offer methods and criteria for assessing cumulative impacts, and will propose a method of incorporating these assessments into the FERC licensing process.

Wildlife recommendations applicable to Montana include studies to determine the impacts of water levels on Canadian geese breeding in the lower Flathead River and the northern Flathead valley, where operations at Kerr and Hungry Horse dams have alternately resulted in flooding and drought conditions in nesting areas. The Montana Department of Fish, Wildlife, and Parks (FW&P) and the Confederated Salish and Kootenai Tribes are responsible for this research, and will prepare recommendations for mitigation by November, 1986. Additional wildlife measures refer to the development of mitigation plans at Montana dam locations where inundation has caused the loss of wildlife habitat. These studies are being conducted by FW&P, and recommendations are expected to be released by November, 1986. At that time the Council will recommend which mitigation activities Bonneville is to fund.

The Council also set out recommendations stating that future hydroelectric development in the Columbia River Basin must comply with the Fish and Wildlife Program. In Montana the most significant impact of this provision would be on small hydroelectric projects. A project developer must meet the Council's fish and wildlife provisions as well as those set by FERC, which has sole jurisdiction over licensing hydropower projects. Although the concepts advanced by the Council in the Fish and Wildlife Program appear sound, it remains to be seen whether or not FERC will incorporate them into its licensing procedure.

Fish and wildlife studies and mitigation activities funded by Bonneville in Montana pursuant to the Council's Program will clearly augment the state's efforts to protect and enhance these natural resources. Considering the importance of the anadromous fish to the region's private interests, the inclusion of resident fish in the Council's

Program was a coup for Montana and one illustration of the success of Montana's participation on the Council.

Conservation and Energy Issues

The centerpiece of the Regional Energy Plan is the implementation of conservation as the region's least expensive resource to meet electrical power needs over the next twenty years. In the Council's Two-Year Action Plan, a variety of activities are specified to assist the region in achieving that goal. Recognizing, however, the current surplus of electricity, the Two-Year Action Plan primarily focuses on the development and testing of conservation programs so that they will be available when the region needs to acquire the power. The Council referred to this concept as conservation "capability building." The Two-Year Action Plan directed BPA to initiate and fund conservation capability building activities in all sectors, i.e., residential, commercial, irrigation, industrial, and state and local government.

State Government

To assist in building conservation capability in Montana, BPA contracted with the Montana Department of Natural Resources and Conservation (DNRC) as the operating agency for a number of BPA conservation programs in the western portion of the state. The BPA Technical Assistance Grant administered by DNRC provides technical assistance and information to small consumers and local governments to enable them to conserve electricity and to increase the electrical energy efficiency of space heating, water heating, and lighting. DNRC also administers the BPA Biomass Utilization and Cogeneration Program, which provides matching funds to participants for research and development projects; the BPA

Energy Efficiency Rating System Program, which provides funds to develop an energy rating system for residential structures; and the BPA Institutional Buildings Program, which offers payments from BPA for energy audits, technical analyses, and electricity saving projects in schools, hospitals, state and local government buildings, and public care institutions.

An additional program that represents a major effort on the part of Bonneville and the Northwest states is the Residential Standards Demonstration Program, which DNRC began in 1984. The purpose of this program is to demonstrate the cost-effectiveness of building new homes to the model conservation standards developed by the Council for new, electrically heated buildings. The Montana Demonstration Program will include intensive training for builders to learn energy-efficient construction techniques, and incentive payments to reimburse the extra costs of added energy-saving features such as insulation, triple-pane windows, and air-to-air heat exchangers. Up to eighty-five model conservation standard homes will be constructed in western Montana under this program. These homes will be monitored for electric space heating requirements for one year after they are occupied. The resulting data will demonstrate the increased energy-efficiency of structures built to the Council's model conservation standards. Concurrently, Bonneville has also provided DNRC with funds to support the implementation of the model standards through state building codes. DNRC is working with the Department of Administration, Building Codes Division, to accomplish this purpose.

In 1983 Bonneville contracted with the Montana Department of Highways to replace all state-owned high-pressure sodium street lights in the BPA service area with more efficient low-pressure sodium lights. The conversion is expected to be completed in 1984 at no cost to the

state. This is part of a regional Street and Area Lighting Program that BPA is conducting in spite of the Council's Two-Year Action Plan recommendation that the Program be suspended while the region is in surplus.

The Montana Legislature has also been drawn into the regional power planning arena as a result of the state's participation on the Council. The 1983 legislative session produced two resolutions relating to this issue. House Joint Resolution 14 urged the U.S. Congress to enact legislation that would give the Council review authority over BPA's annual budget. A second and more significant resolution for the state was House Joint Resolution 18, which set up an interim committee of legislators to review the Regional Energy Plan and make recommendations for legislation appropriate to implement the Plan in Montana. This eight member bipartisan committee is meeting regularly and is exploring two issues in depth, i.e., potential ways of implementing the model conservation standards in the state, and methods of integrating the "options" concept with the state's Major Facility Siting Act. The legislative interim committee meets in open session in various Montana cities to discuss these issues and provides an opportunity for public comment at each meeting. Interested individuals and organizations in the state closely monitor the progress of this committee, as the Committee's recommendations to the 1985 Legislature will significantly affect the implementation of the Energy Plan in Montana.

Local Government

Local governments in western Montana now have a new role in regional electric power planning pursuant to the Northwest Power Act and the Regional Energy Plan. The Act provided that the Council and BPA

consult with local governments in the planning process and cautioned BPA to recognize and not abridge the existing authority of these "state political subdivisions".³ The Act and the Plan also directed Bonneville to provide assistance to local governments in the implementation of the Regional Energy Plan.⁴

In 1982 the Montana League of Cities and Towns and the Montana Association of Counties jointly established the Montana Local Government Energy Committee to provide a local government perspective in the Council's planning process. Representatives of this committee are currently involved in consultations with BPA and the Council on programmatic and policy issues that affect local governments in Montana. In 1983 and 1984 Bonneville provided funds to support the activities of this committee and its small staff in their efforts to inform local governments in western Montana about electrical energy issues, including information about the Regional Energy Plan and its implications to local jurisdictions. The Energy Committee staff also provides technical advice to local governments on appropriate conservation methods for municipal facilities (e.g., energy audits, financing retrofits, and planning energy management systems).

A significant issue of concern to local governments currently is the potential adoption and enforcement of the Council's model conservation standards in the form of building codes. If the state decides to incorporate the standards into Montana's energy building code, local governments will most likely be responsible for enforcement of the code. Real costs and political implications of more stringent energy codes and associated enforcement activities are legitimate concerns to elected officials in these jurisdictions. The Montana Local Government Energy

Committee is pursuing a study to identify controversial issues and to determine the incremental costs of enforcing the model standards at the local level. Bonneville was directed in the Plan to reimburse local governments for the cost of enforcing the standards and to have the reimbursement program set up by 1985, one year prior to the target date for all jurisdictions to adopt the standards. This will allow local governments time to organize enforcement plans.

Montana Utilities

The recent energy planning process appears to have had little significant effect on Montana utilities to date. Rural electric co-operatives have been in a position to reap many of the benefits of the Act and the Council's Plan, however as full-requirements customers of BPA they also pay the full cost of these activities through rates. Investor-owned utilities have elected to withdraw from participating with Bonneville in the short-term, primarily because these utilities have a surplus of power and can therefore maintain their independence from the federal agency.

Investor-owned Utilities

Investor-owned utilities fought hard to achieve two major goals in the Northwest Power Act: (1) access to federal financing for new generating facilities; and (2) lower rates for their residential and farm customers. Montana Power Company, however, has received few benefits in either of these two areas.

Due to the surplus of electrical energy that became a reality in the region during the 1980s, federal financing of new generating facilities in the near-term has become a moot issue. Montana Power

owns a portion of two new coal-fired generating plants that are expected to begin supplying power in 1984 and 1985 respectively (Colstrip #3 & #4). Electricity from these two facilities will only add to the regional surplus, and the Company plans no new construction until the mid 1990s. Montana Power previously experienced no difficulty in financing construction of its generating facilities and may chose to remain independent from BPA in future construction activities. If MPC was to contract with Bonneville to build a power plant for regional need, the scheduling of that facility would be guided by the Council's resource plan. If MPC were to build a power plant to serve its own Montana load, the Council's Plan would not apply.

The residential exchange provisions of the Act, which were intended to provide lower rates for residential and farm customers of investor-owned utilities, have not produced significant benefits for Montana Power customers. Under this system, private utilities may sell BPA a block of power equal to that consumed by their residential and farm customers at the utilities "average system cost". In exchange, BPA sells the utility the same amount of power back at its lower "preference" rate. The savings are to be passed directly to the utility customers. When BPA first offered the residential exchange contract to utilities in 1981, MPC pursued the negotiation of certain contractual arrangements which resulted in a long delay before the contract was signed. The Company did participate in the residential exchange for several months in 1982, until such time as BPA's rates increased to the point where they exceeded Montana Power's rates. MPC then withdrew from the contract. The Public Service Commission estimates that MPC lost \$1.6 million in exchange benefits to their customers during the delay in signing the initial exchange contract with

Bonneville.⁵ When the Company did enter into the exchange in 1982, the Commission allowed MPC a direct credit spread throughout their entire service district (not just the western Montana portion). This amounted to relatively insignificant retail rate relief of a few cents per month per individual customer.⁶ Montana Power Company has recently submitted a request to the Public Service Commission to include the costs of the Colstrip #3 facility in the utility's retail rates, and a request for inclusion of Colstrip #4 costs is anticipated in 1985. If the Company is granted a significant portion of this request and MPC rates exceed BPA's exchange rates, the Company may again elect to participate in the residential exchange with Bonneville for the benefit of its customers.

Montana Power Company also declined to participate in recent conservation programs offered by BPA, asserting that the BPA contract language was ambiguous and that it did not quantify the costs and benefits in the long term.⁷ Instead, MPC is currently developing an electric energy conservation program of its own, and anticipates presenting it to the Public Service Commission for approval in the spring of 1984. MPC notes that their conservation program will equal or exceed the benefits of BPA's program and will ask the PSC to include the costs of the conservation program in the rate base.

Pacific Power and Light is a multi-state utility that generates the majority of power needed to supply its customers. In the 1960s PP&L participated in the early phase of the BPA Hydro-Thermal Power Plan. Since that time the Company has acquired more than sufficient resources to meet their demand, and is not dependent upon BPA for power resources or financing.

Pacific has participated in the residential exchange with Bonneville

on an on-going basis since 1981. Because their retail rates are quite a bit higher than BPA's rates, PP&L customers in western Montana (primarily the cities of Kalispell, Libby, and Columbia Falls) have realized a rate reduction of approximately 20%. This amounts to approximately \$100 per year per customer in rate relief.⁸

Pacific joined Montana Power and other investor-owned utilities throughout the region in rejecting the recently offered BPA conservation programs. Although PP&L has a reputation for being progressive in the area of conservation (they established the first regional conservation program, prior to BPA activity in this area), they currently offer only minimal conservation incentives to their customers.

Rural Electric Cooperatives

For the seven rural electric cooperatives in western Montana, the Northwest Power Act brought good news. That is, the Act reaffirmed their "preference right" to federal power and gave BPA the responsibility to meet their full power requirements in the future. However, the bad news followed shortly thereafter in the form of severe and abrupt rate increases from BPA. The Act directed that BPA sell electricity at a rate that reflected the melded cost of federal hydropower and the more expensive thermal resources in the federal base system. Currently, base resources consist of all federal hydropower, some power from the nuclear reactor at Hanford and the Trojan nuclear plant, and the power to be produced by Washington Public Power Supply System (WPPSS) nuclear plants #1 and #2 and 70 percent of #3. As a result of the new rate calculations, western Montana cooperatives have experienced BPA rate increases of approximately 100 percent since 1981.

Several of the cooperatives in western Montana invested in the WPPSS nuclear plants #4 and #5 in the late 1970s in an attempt to secure another source of power in the event BPA curtailed their electrical allotments.⁹ Financial obligations undertaken by cooperatives in these contracts were payable whether or not the units ever generated electricity. This financial burden added significantly to the retail rates charged by the cooperatives to their consumers. In 1983 WPPSS abandoned the construction of units #4 and #5 and defaulted on bonds that had been sold to finance their construction. Chemical Bank of New York, the major trustee for the WPPSS bondholders, initiated a suit against utilities sponsoring the nuclear units to recover the bond money. Because of current court rulings indicating that public utilities did not have the authority to sign the WPPSS "take-or-pay" contracts and are therefore absolved from repaying the debt, most western Montana cooperatives have been relieved of this financial burden. Some have elected to return the funds collected to their co-op members or to lower electric rates.¹⁰ However the litigation surrounding the WPPSS nuclear projects may extend into the next decade, and the cooperatives are likely targets for lawsuits for years to come. Many cooperatives have expressed dissatisfaction that the Council did not include WPPSS #4 and #5 in the future resource mix, and feel that by excluding these plants the Council effectively sounded their death knell.

In an attempt to secure an additional power resource of their own, western Montana cooperatives began investigating the possibility of building a dam at Kootenai Falls outside of Libby. In 1980 they formed the Western Montana Generating and Transmission Corporation and began working through the Federal Energy Regulatory Commission and the Montana Department of Natural Resources and Conservation to obtain a permit and

license for this facility. At the time of this writing no decision had been made on the permit for Kootenai Falls dam, although DNRC has recommended that the permit be denied. If the western Montana cooperatives do receive a permit and license from FERC, this facility may be a prime candidate for BPA financing under the options concept outlined in the Regional Energy Plan.

The severe rate shocks experienced by the Montana rural electric cooperatives, coupled with the realization that the region currently has a long-term electrical surplus, has dampened enthusiasm for conservation activities. Many cooperative managers question the logic of offering incentives for their consumers to use less energy when the product is plentiful (albeit expensive). This dilemma has a financial impact as well, since a significant conservation effort on the part of consumers would bring less total revenue to the cooperative, which has certain fixed costs that must be covered. Bonneville's conservation program costs are figured into its wholesale rates, so the co-ops are paying for them anyway. In 1983 two western Montana cooperatives declined to sign up for BPA conservation programs when offered.¹¹

In response to the emphasis on conservation as a resource in the Northwest Power Act, Bonneville began conducting a variety of pilot weatherization programs through its customer utilities. Two Montana cooperatives were involved in these pilots in 1981 and 1982, which evolved into an established Residential Weatherization Program that BPA continues to make available to all its wholesale customers. This Program is one of the few resource acquisition programs that BPA is currently operating in light of the surplus of resources that currently exists. i.e., BPA "buys" kilowatt hours saved through conservation measures installed in

license for this facility. At the time of this writing no decision had been made on the permit for Kootenai Falls dam, although DNRC has recommended that the permit be denied. If the western Montana cooperatives do receive a permit and license from FERC, this facility may be a prime candidate for BPA financing under the options concept outlined in the Regional Energy Plan.

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electrically heated homes. A typical customer might be reimbursed up to \$2,000 for the kilowatt hours saved as a result of adding insulation, storm doors and windows, weatherstripping and caulking. This is an attractive offer for the homeowner and the Montana cooperatives that currently administer this program have sizeable waiting lists of qualified applicants. Since most cooperatives have relatively small staffs, there has been a problem in providing the manpower to administer conservation programs. In addition, some cooperatives feel that BPA is not reimbursing the total cost of the administration of these conservation activities, including voluminous reporting requirements. Often these unreimbursed costs end up in the retail rates. Overall, however, electric space heating customers of BPA-affiliated cooperatives are receiving significant benefits from the Residential Weatherization Program.

The cooperatives also have an opportunity to participate in a number of other BPA conservation programs, e.g., street and area lighting, irrigation conservation, and various pilot programs including solar hot water heating. It appears that the cooperatives and their customers are the main beneficiaries in Montana of the new direction toward conservation that BPA has taken since the passage of the Northwest Power Act.

Direct-Service Industries

As a result of successful contract negotiations with Montana Power Company, Stauffer Chemical elected to terminate its direct service relationship with BPA and buy power directly from MPC. The Northwest Power and the Regional Energy Plan therefore had little effect on Stauffer. The Arco Aluminum Company remains the only

direct-service industrial customer of BPA in the western Montana service territory.

When Arco (formerly Anaconda Aluminum), along with other aluminum processing plants in the Northwest, received word from Bonneville that industrial power contracts would not be renewed after 1983, the Company responded by lobbying Congress. The resulting regional energy legislation included provisions to guarantee BPA's industrial customers twenty-year firm power contracts, although at higher prices than previously paid.

BPA rates to direct-service customers, including Arco, soon soared beyond predictions. Between 1977 and 1983 DSI electric costs rose almost 800 percent.¹² This enormous rate increase, coupled with the effects of a stagnant national economy and reduced worldwide demand for aluminum created a serious financial problem for Arco. In 1982 the Company was forced to lay off over half its 1200 regular employees and reduce production to 40 percent of normal.¹³ The loss of jobs had a ripple effect in the local economy of Flathead County, where Arco is the largest employer. Unemployment and welfare costs went up, and the county's banking community experienced a slow-down in mortgage payment collections. Many feared the plant would close altogether. These concerns were shared throughout the region and prompted the aluminum companies and labor organizations to petition BPA for lower rates. BPA did provide lower-cost interim power for a period beginning in June, 1983, but the direct-service industries are currently suing BPA over the new rates which took effect in October, 1983. At the time of this writing, the litigation had not been resolved. The Northwest Power Act provided for DSI price increases in yearly steps through July, 1985, in order to give the companies time to absorb the higher costs. Rates are now beginning to

level off, which may assist in restoring the competitiveness of the region's aluminum companies in world markets.

Recent market improvements have prompted the start-up of an additional pot-line at the Arco Columbia Falls plant, which will raise the plant's production to 80 percent of its total capability.¹⁴ This is encouraging news to the Company, the workers, and the region's rate-payers. The slump in aluminum production had produced a 1000 to 2000 megawatt surplus in the region.¹⁵ Since this represents electricity that BPA was unable to sell, the costs of producing this power were spread among the existing ratepayers. Now that aluminum companies are cautiously forecasting a revival, some of the cost burden of the surplus should diminish.

In 1980 Arco completed the installation of a new energy-efficient aluminum production method, which produces a 10 to 15 percent energy savings in aluminum processing. Arco managers anticipate that even more conservation is possible if the industrial conservation programs outlined in the Regional Energy Plan are implemented by BPA.¹⁶ To date BPA has moved very slowly toward developing industrial conservation programs, although the Council's Plan clearly directs the federal agency toward this end. The overall potential for conservation in the industrial sector is largely untapped and may represent a significant future resource for the region.

Citizen Groups

The Northwest Power Act mandated that all planning for electric resources and fish protection must involve the public, and it charged the Council and BPA with maintaining a comprehensive program to ensure public involvement in policymaking. Suddenly, individual citizens,

public interest organizations, and private interest groups had an official role in power planning.

In Montana the newly mandated public involvement process was particularly successful. Groups such as Northern Plains Resources Council, the League of Women Voters, and Montana Common Cause were primed to take part in the energy planning process. Enactment of the state's Major Facility Siting Act in 1973 and the ensuing controversy over Colstrip Units #3 & #4 and associated transmission lines had produced a body of citizen lobbyists well-versed in many of the complex technical issues of power planning. The Northwest Power Planning Council provided a new forum for public participation.

Although it is impossible to gauge to what degree the Council adopted suggestions from Montana individuals and interest groups, the public process set out in the Act did more than elicit thoughtful contributions from disassociated parties in the state. It also allowed a consensus to form among public interest groups throughout the region. For example, the Northwest Conservation Act Coalition was formed, and included representation from Montana. The successful coordination of the Coalition's member organizations appears to have influenced some of the Council's decisions. This is demonstrated by the close resemblance of the Council's Regional Energy Plan to the Coalition's "Model Conservation and Power Plan", issued one year prior to the adoption of the Council's Plan. The Coalition and other environmentalist groups were not successful in convincing the Council to eliminate all coal-fired power plants, however. Montana environmentalists were disappointed that Colstrip Units #3 & #4 were included in the Council's resource mix.

The public participation process established by the Council

allowed direct access by the public to the policy elite - the regional policymakers. It also provided access to information - an invaluable tool. As a result of the Council's planning process, citizens are now armed with state-of-the-art information and technical know-how. For example, a group of public and consumer organizations known as the Montana Conservation Coalition is currently evaluating the Montana Power Company Electric Conservation Plan by comparing it with the Council's Plan. The results of the Coalition evaluation will be presented to the Montana Public Service Commission at the time MPC seeks to have the costs of the Conservation Plan put in the rate base. Without the Council's Plan and supporting information, the Coalition's evaluation of the MPC Conservation Plan might have been based on less credible evidence, which would tend to minimize its impact on the PSC.

Information and education can work to disarm, however. Meeting with and educating the public often tends to diffuse the emotion of angry ratepayers and strident environmentalists, particularly when the forum for discussion is provided on an on-going basis and is not simply crisis consultation. Thus, although most Montana public interest groups wanted to prevent thermal generating facilities in the state, they acquiesced to the Council's resource mix which did allow for additional coal-fired generating plants if demand growth warranted them.¹⁷

The public process set out in the Act and implemented by the Council has set an example for Montana. Now that Montana citizens have experienced involvement in regional energy planning, they may demand the same process be instituted on the state level. Individuals and public interest organizations will likely seek the opportunity to become proactive -- to work with utilities and/or resource developers

for the maximum benefit of the people of the state.

Unresolved Issues

There remain a number of unresolved issues that preclude a definitive evaluation of Montana's participation in the regional energy planning process. These issues have been grouped into the following broad categories: (1) Montana's willingness to comply with the Plan; (2) Montana utilities' desire and/or obligation to implement the Plan; and (3) the potential influence of regional factors on implementation.

Montana's Willingness to Comply with the Plan

Montana state and local governments are primarily responsible for implementing two of the most significant aspects of the Regional Energy Plan, i.e., more stringent energy building codes and integrating the "options" concept in major facility siting regulations. Both of these actions are major departures from current practice in the state and are consequently somewhat controversial.

The Plan directs state and local governments to institute the model conservation standards as building codes in each jurisdiction within the BPA service area. In Montana building codes are adopted at the state level, and are minimum/maximum codes. That is, a local jurisdiction may not adopt any code that is either more or less stringent than the state code. The current Montana energy code is derived from a 1977 model code, which is considerably less stringent than the Council's standards. The Department of Administration Building Codes Division was in the process of administratively updating the state energy code when the model conservation standards were established in the Regional Energy Plan. To date there has been much discussion in the state

regarding the possibility of implementing the model conservation standards in Montana.

The Montana Council members have met with over 450 builders state-wide to discuss the issue and to promote the standards. Although Council research has shown that the standards are the most cost-effective method of conserving energy in a home, many builders are unfamiliar with the specific construction techniques necessary to achieve the energy performance level set by the standards. Builders are also concerned that the extra cost of installing these energy-efficient measures will boost the selling price of a home, effectively narrowing the range of prospective buyers. Council figures show, however, that after accounting for the decrease in energy cost to heat the home (as a result of its energy-efficient construction), the Montana homeowner will actually save money the very first year the home is occupied. Many builders are hesitant to accept these theoretical projections and want to postpone adopting the model conservation standards until the results of the Residential Standards Demonstration Program are available (see p. 74).

Two philosophical questions have emerged from the discussion of the model conservation standards. Because BPA is financially supporting the implementation of the standards only in the western third of the state, additional funds would have to be secured to support the standards in eastern Montana. Raising taxes or building permit fees to cover compliance and enforcement activities is not popular in Montana. The other philosophical question focuses on the market vs. regulation issue. Opponents of the model standards prefer that energy-efficiency in new construction be attained through the market place rather than as a result of the police power of government. Considering the Council's assertion that the new homebuyer will benefit significantly both in the first year

the home is occupied and each year thereafter, proponents of the market approach question the need for regulation via building codes.

The Legislative Power Plan Interim Committee established by the 1983 Legislature is examining this issue and may make recommendations to the 1985 Legislature regarding the implementation of the standards. One additional factor they must consider is the threat of a surcharge from Bonneville if the standards or a program achieving comparable savings is not in place by January 1, 1986. The surcharge would only apply to those utilities who purchase power from BPA and would range from 10 percent to 50 percent of BPA's wholesale rates to that utility. Currently the rural electric cooperatives in western Montana are the only entities subject to surcharge. The state's Building Codes Division has the authority to administratively adopt the model conservation standards statewide, and is currently considering this possibility. However, the Legislative Interim Committee could recommend a change in state law to allow for local adoption of building codes. This would give communities in western Montana an opportunity to comply with the standards in order to avoid a surcharge from BPA. A resolution of this issue is expected during the 1985 legislative session.

The options concept developed by the Council is another significant issue that Montana is examining. Options provide a method to reduce the risk of building new generating resources by shortening the time between the forecast of need and actual power generation. For instance, BPA could contract with Montana Power Company for the construction of a generating resource to meet the region's power needs. BPA would provide the financial assistance for the project in exchange for the right to decide when the actual construction should begin. Once the resource had

received siting, design, and licensing approval from the State Board of Natural Resources, it could be effectively put "on hold" until BPA and the Council verified that the power would be needed within four to six years. Montana Power would be compensated for the risk that the project might be delayed or cancelled. BPA could approve the construction, delay, or termination of the project in light of the most current demand forecasts, thus assuring that a new expensive resource was not brought on line when it was not needed. This planning strategy acknowledges the inherent uncertainty in forecasting electrical demand ten or twenty years in the future, and provides the needed flexibility to adjust new resource schedules accordingly.

The optioning of a resource would conflict with certain provisions of Montana law, however. The state's Major Facility Siting Act requires that the Montana Board of Natural Resources make a determination that the power is needed prior to approving the application of the resource sponsor. Under the options concept, this finding of need would effectively be made after the facility had received the Board's approval for siting, design, and licensing.

An environmental impact statement would be required by the Montana Environmental Policy Act before a state agency could take action permitting an optioned power plant. Given the length of time that may separate BPA's acquisition of the option and the actual construction, changes in technology and the environment where the plant is to be located may invalidate the original environmental impact statement. In addition, the Montana Environmental Policy Act requires that the state evaluate alternative resources available. In the case of resources for regional need, the state may be unable to consider all the alterna-

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tive resources available to BPA within the region, simply due to the magnitude of the task.

There is a strong emphasis in Montana on public participation in decisionmaking, which is guaranteed in Article II, Section 8, of the Montana Constitution (Public Right of Participation). Public hearings are required before permits are granted for new generating resources. Montanans have exercised their right to speak for and against proposed facilities and to question decisionmakers at these public forums. Public hearings are only required, however, during the permitting process. With an optioned resource, significant changes in the site's physical, social, and/or environmental conditions may occur over the potentially long lag time between permitting and actual construction. Under the current review process, the public might be denied the opportunity to comment on changes that may have occurred in the interim.

The Department of Natural Resources and Conservation is currently preparing a report to BPA which will outline institutional and legal barriers to implementing options, explore a variety of alternatives, and recommend appropriate changes to accommodate options in the state. DNRC is working with the Departments of Health and Environmental Sciences; Commerce; Fish, Wildlife, and Parks; the Environmental Quality Council; and the Public Service Commission in this endeavor.

It is currently recognized that the body of facility siting and environmental legislation developed in Montana in the 1960s and 1970s does not accommodate the uncertainty of power planning. Although options would provide a needed method of acknowledging and planning for this uncertainty, changes in either the Major Facility Siting Act or the Montana Environmental Policy Act might be seen as a threat to the cornerstones of the state's environmental policy. Previous attempts to amend

either piece of legislation have been unsuccessful. In order to secure amendments to incorporate options, the intent and strength of these laws must be preserved.

The options concept is the second area of the Regional Energy Plan that the Legislative Power Plan Interim Committee will be addressing in depth prior to the next legislative session. It is expected that the DNRC report being prepared for Bonneville will provide the Committee with significant resources and information on which to base their deliberations and recommendations to the 1985 legislature.

Implementation of the Plan by Montana Utilities

Another question affecting the implementation of the Plan in Montana is the utilities desire and/or obligation to comply. Rural electric cooperatives and investor-owned utilities again have different responses.

Rural electric cooperatives in western Montana who are full-requirements customers of BPA are inextricably involved in the Plan. They are the only entities in Montana potentially liable for a surcharge from BPA if model conservation standards are not implemented. If local governments in cooperative service areas do not adopt and enforce the standards, the co-ops will be forced to develop some alternative means of achieving the same savings as model standards would have produced. This could take the form of a hook-up charge that would be assessed on each new residential and commercial structure that does not meet the performance level of the model standards. The cooperatives could also elect to design their rate structure so as to achieve savings comparable to the model standards. Currently none of these alternative approaches appear very attractive to the cooperatives, and they have indicated

their intention to promote adoption of the model standards as the first priority.

Whereas compliance with the model standards is mandatory for the cooperatives, participation in other BPA programs spawned by the Regional Energy Plan is voluntary. To illustrate, only five of the seven western Montana cooperatives have entered into contracts with BPA to administer the Residential Weatherization Program.¹⁸ Customers of electric cooperatives in Montana are located in rural areas with very small population bases and consequently have little conservation potential. This fact, coupled with the attitude that promoting conservation activities while the region has a surplus of electric power seems illogical, dampens their enthusiasm for pursuing conservation, which is the basis of the Regional Energy Plan.

Western Montana's investor-owned utilities have hesitated to become involved with BPA since the passage of the Northwest Power Act. Although Montana Power and Pacific Power and Light did sign firm power contracts with BPA in 1983, each contract specifies that the federal agency is required to supply "zero" kilowatts. As a result of these contracts MPC and PP&L are considered as BPA customers and may participate in BPA conservation programs, however they are not liable for a surcharge if the model standards are not implemented. Montana Power and PP&L both declined to participate in BPA conservation programs offered in the fall of 1983, citing onerous administrative costs and vague contract language. Although both companies have purchased inexpensive non-firm surplus power from BPA over the past two years, there are no significant contractual arrangements linking either utility to BPA. The Council's Plan governs BPA, not individual utilities. Therefore, MPC and PP&L are essentially operating outside of the Regional Energy Plan.

Representatives of Montana Power have indicated that the Company does feel an obligation to fulfill the goals of the Regional Energy Plan, as long as its ratepayers and stockholders are not negatively affected.¹⁹ The Montana Public Service Commission also acknowledges that MPC has a responsibility to implement the Plan's conservation measures in the state.²⁰ MPC is currently designing an electric conservation program to be funded from its own revenues statewide. The Company has indicated that their conservation program will equal or surpass the BPA program that was rejected in 1983. The PSC and certain public interest groups promise close scrutiny of the MPC conservation program to determine its comparability with the BPA program. Thus the PSC may be the key to getting the conservation envisioned in the Regional Energy Plan implemented in Montana.

As discussed earlier in this paper, the BPA residential exchange contract with MPC is currently suspended. Montana Power intends to reinstate the contract only when it will result in benefits to its ratepayers. MPC has applied for a large retail rate increase to cover the costs of Colstrip #3, and anticipates filing an additional rate request for Colstrip #4 in 1985. If the PSC acts favorably on these requests, MPC will likely resume the residential exchange with Bonneville. A salient legal question exists regarding whether or not the exchange contract is subject to surcharge, and if that surcharge can be retro-active. The Council and BPA legal staffs are researching this issue. The outcome may affect MPC and PP&L's future relationship with Bonneville.

Although MPC at times does not view itself as part of the region, in reality it is inextricably involved with the operation of the regional power supply system--from the operation of dams on Montana rivers to the

generation and transmission of electrical power from Colstrip to the west coast. Because of the integrated nature of the regional electrical system, MPC has a significant stake in policies that affect this system. As a result, Montana Power representatives stridently objected to a recent Council staff recommendation which would limit access by utilities to BPA's major transmission lines unless those utilities were in compliance with the Regional Energy Plan. MPC viewed this action as forced compliance with the Plan, as it and other investor-owned utilities are attempting to market surplus power and must have access to the BPA transmission lines to deliver the power. This is not an irrational perspective on the part of MPC, however it does jeopardize the potential success of the Plan. As of this writing, the issue had not been resolved.

Regional Factors Affecting Implementation of the Plan

There are a number of unresolved issues at the regional level that could affect implementation of the Plan both in Montana and throughout the region. The most important are the complication created by the current surplus of electricity (expected to last through the 1990s) and BPA's bleak financial situation due to costs associated with the investments in Washington Public Power Supply System (WPPSS) Units #1, 2 & 3.

BPA has rejected several recommendations in the Plan that could result in aggravating the surplus; for example, expending funds to bring on new resources at a time when they are not needed. The federal agency has balked at providing incentives for regional industrial, commercial, and agricultural conservation which might produce unneeded electrical energy in the near future. In addition, BPA is very sensitive to the potential effect on rates that expenditures on these and other

recommendations in the Plan could create. BPA wholesale rates have jumped dramatically over the past few years as a result of financial obligations to the WPPSS units and these rate hikes helped cause price-induced conservation. Demand for electricity began to fall, reducing the total revenue collected by BPA. Therefore, although BPA has indicated a commitment to act consistently with the Council's Plan, financial constraints could preclude full implementation. BPA is currently working with parties out of the region (primarily California) to arrange for a sale of Northwest surplus electricity. The sale of surplus power would alleviate the current revenue shortfall experienced by Bonneville and could potentially speed up the pace at which the Plan is implemented. Such a sale is still in the early stages of negotiation, and it is unlikely that the resolution will be reached in the near future.

The politics of implementing the Regional Energy Plan are also interesting. The Council was established by the Congress to guide BPA, not individual utilities. With the surplus of electricity, most of the larger generating utilities are not purchasing power from BPA because they, too, have a surplus of power. Thus the region's major utilities are not necessarily bound by the Plan. BPA is acting to implement an energy plan that may affect less than half the region. This situation was not foreseen in the drafting of the Northwest Power Act, which took place during a time of looming electrical deficits. The Council lacks real enforcement power over BPA; BPA's only enforcement tool over its customer utilities is the surcharge (which will not take effect until January, 1986); and currently less than 40 percent of the region's utilities are firm power customers of BPA and subject to surcharge.

Considering these circumstances, successful implementation of the Council's Plan region-wide appears unlikely.

The Council has, however, one very significant political tool at its disposal to encourage regional cooperation -- the public process through which the Plan was developed and is being implemented. The broad-based public support generated for the Plan may be used to apply pressure to individual states and utilities. BPA, in addition, is responsive to political pressure not only from individual citizens and public interest groups but also from members of Congress and congressional committees that are responsible for evaluating BPA's budget. The media in the region has been very supportive of the Council's efforts to date and helps maintain the public focus on related energy issues. The ability of the Council to see its Plan successfully carried out may rest with the public at large.

CHAPTER IV FOOTNOTES

¹Hearings before the Subcommittee on Separation of Powers of the Committee on the Judiciary, U.S. Senate; testimony of Peter Johnson, BPA Administrator, 31 August 1982, Helena, Montana, p. 59.

²Ibid., p. 60.

³Northwest Power Act, sec. 2.(3), 2.(5)(A), and sec. 4.(g)(2)(c).

⁴Northwest Power Act, sec. 4.(g)(3) and Council, Power Plan, Chapter 10, Sec. 10, respectively.

⁵Thomas J. Schneider, Montana Public Service Commission, Interview held 8 December 1983, Helena, Montana.

⁶Ibid.

⁷Robert Miller, Montana Power Company, Interview held 14 March 1984, Butte, Montana.

⁸Bob King, Pacific Power and Light, Telephone interview held 29 March 1984.

⁹Western Montana rural electric cooperatives with WPPSS obligations include Glacier, Vigilante, Ravalli, Missoula, and Northern Lights (which serves 2000 customers in northwest Montana).

¹⁰"Co-ops face possibility of WPPSS suit", Bob Anez, Great Falls Tribune, 17 August 1983, p. 7.

¹¹Vigilante Electric Cooperative and Flathead Irrigation Project failed to sign conservation contracts with BPA in 1983.

¹²"BPA Stuns DSIs with \$60 Million Rate Increase", Northwest Aluminum News, October 1983, p. 1.

¹³"More lay-offs at aluminum plant likely", Great Falls Tribune, 10 November 1982.

¹⁴"Arco Metals: Sumitomo and State-of-Art Technology", Northwest Aluminum News, October 1983, p. 5.

¹⁵"BPA mulls discounts to aluminum industry", Great Falls Tribune, 6 March 1983.

¹⁶"Arco Metals", Northwest Aluminum News, p. 7.

Chapter IV Footnotes - continued

¹⁷The Council's Plan includes only generic resources for future planning purposes, although many Montanans recognize that additional Colstrip units might be the most logical and cost-effective resources at that time.

¹⁸Rural electric cooperatives that signed Residential Weatherization Program contracts with BPA include Glacier, Flathead, Lincoln, Missoula, and Ravalli.

¹⁹Robert Miller, Montana Power Company, Interview held 14 March, 1984, Butte, Montana.

²⁰Thomas J. Schneider, Montana Public Service Commission, Interview held 8 December 1983, Helena, Montana.

CHAPTER V

CONCLUSION

The fundamental question for Montana is whether or not the state has benefited by participating in the regional energy planning process. Has the state gained anything as a result of active collaboration with the other Pacific Northwest states to determine the region's electrical energy future?

After little more than one year under the Regional Energy Plan, it appears that Montana has not reaped significant tangible benefits. There are various new conservation programs funded by BPA in the state, however the aggressive conservation agenda anticipated by the Northwest Power Act has been limited due to the circumstances of surplus power and lack of cooperation by individual utilities. In addition, there are relatively few electrically heated homes and commercial buildings in the western third of the state to benefit from these programs. Montana has experienced only a slight amount of rate relief for residential and farm customers in the BPA service area. The Montana Power Company and Pacific Power and Light have elected not to participate in certain BPA programs. Because they have their own generating resources and are not obligated to purchase power from Bonneville, both these investor-owned utilities are currently operating outside of the Regional Energy Plan. The state's sole direct-service industry, Arco Aluminum, has suffered onerous rate increases from BPA, further compromising the financial viability of that facility during recessionary times.

Currently there is no indication that the state is willing to comply with the major provisions of the Plan, i.e., adopting more stringent energy building codes and integrating the "options" concept in facility siting regulations. Although environmentally sensitive, Montana has no specific energy policy to provide cohesion and guide the internal process of implementing the Plan in the state. The Montana Council members are appointed by the Governor and function as part of the executive cabinet, however no public gubernatorial support has been demonstrated for the Council's Plan or overall policy directions. Therefore, it remains to be seen what impact, if any, the Regional Energy Plan will have in terms of establishing an energy policy for Montana. Whether or not the Council's model of rational and flexible planning and emphasis on cost-effective resources will be incorporated at the state level is still undetermined.

Montana has, however, realized some very significant if intangible gains as a result of participating in this regional energy planning process. Primarily, the state now has access to a political process that will guide Bonneville Power in critical decisions -- decisions that will affect both the state and the region for years to come. Parochial as it often appears, Montana cannot afford to be isolated from the rest of the region. The economic climate of the region, which is intricately tied to the cost and availability of energy supply, will continue to affect Montana residents and businesses. The state, through its membership on the Northwest Power Planning Council, is now intimately involved in an on-going planning process designed to provide a stable electric power supply at the lowest possible cost. If the state had decided not to become involved in this process, it would have essentially handed

over the planning of the region's electric energy future to the larger energy-consuming states.

Although the Regional Energy Plan does not appear to have provided significant tangible benefits for Montana in the short-term, one must consider the potential long-term benefits of the Plan. The current surplus of electricity is projected to last into the 1990s, although this target will be severely shortened if certain thermal power projects that are currently in jeopardy are not completed (WPPSS #1 & #3). If the region swings back to near-term deficits of electric power, the Council's Plan will carefully guide the acquisition of new resources at the lowest possible cost. Montana will have an equal voice in these decisions, and will not merely be subject to the ramifications of the Plan and subsequent BPA actions without recourse.

Montana's political visibility in the region has been enhanced as a result of its equal participation with the other Pacific Northwest states on the Northwest Power Planning Council. Even though only one-third of the state lies within the BPA service territory and comprises less than 10% of the region's population, the Northwest Power Act established Montana as a full player on the Council. This was in recognition of the state's value to the region in potential future energy supply, i.e., the vast coal reserves located in the eastern part of the state. The state's active involvement on the Council and the recent appointment of a Montana member as Council Chairman has increased Montana's political stature with Bonneville and among the other states in the region.¹

State siting authority for generating resources was maintained and reaffirmed in the Northwest Power Act. Thus, through Montana's Major Facility Siting Act regulations, Montana has an effective "veto power"

over the construction of regional power plants in the state. In addition, the Regional Energy Plan is based on cost-effective resources according to the priorities set out in the Act. Coal-fired power plants are ranked after all other available resources, should the region require additional electric power. With this consideration and continued state control over siting and permitting a coal facility, it is much less likely that Montana will become the "boiler" for the rest of the region. This fear was the primary reason the state initially chose to become involved in the controversy over new regional energy legislation. Montana's presence on the Council should also assist in preserving the state's interest in future development of coal resources, and should help assure that Montana is not simply viewed as the "Land of Thermal Supply" by the rest of the region.

Montana's participation on the Northwest Power Planning Council is providing a significant technical resource for the state. The Council's work has generated an excellent data base for the region. Quantification of resources, analyses of their cost-effectiveness, and independent forecasting performed by the Council's staff are an invaluable supplement to Montana's planning and analysis capability. Prior to the advent of the Council, the region's utilities and BPA were the only entities that produced regional forecasts of electric power demand. Like other Pacific Northwest states, Montana lacked the ability to produce an independent regional forecast. Thus when Colstrip #3 & #4 were proposed as regional facilities with only 30% of the power designated for use in Montana, the state permitting entity had little choice but to accept the regional utility forecasts. The plants were approved based on utility forecasts that demonstrated a need for the electricity both in Montana and in the

region. Now that Montana has access to the Council's independent analytical resources and information base, the state's ability to evaluate similar proposed facilities in the future will be greatly enhanced.

Montana's participation in the regional energy planning process has also resulted in a broadened understanding of energy issues in general. Open public discussion of the issues before the Council has produced an on-going dialogue that could provide a framework for establishing an energy policy for the state. The unprecedented degree of Montana citizen involvement during the Council's policymaking process has set an example which may become a prerequisite to energy planning in Montana. Public involvement in the energy planning process has extended to the private utilities as well, witnessed by the recent attempts by citizen groups to influence the development of the Montana Power Electric Conservation Program. The public involvement experience provided by the Northwest Power Act and the Council's activities may have far-reaching consequences in this state.

In balance, then, considering the relatively small tangible benefits and the larger political gains that the state has experienced through its participation in regional electric energy planning, Montana's participation has been worthwhile. The state's role as an equal participant in regional energy decisionmaking was formally established in the Northwest Power Act; and Montana's presence in the deliberations of the Northwest Power Planning Council provides an on-going assurance that state interests will continue to receive consideration at the highest policymaking levels. Access to the decisionmaking process may be more worthwhile than the end result. What is most important is that Montana now has a place at the table.

The Council as a Planning Model

The Northwest Power Act set up the Council as a unique form of regional cooperation that essentially reversed traditional federal/state relations whereby the federal government sets policy and the states carry it out. The Act established the Council as a type of interstate compact to establish policy for Bonneville Power Administration, a federal agency. Thus, in this situation, the four Pacific Northwest states are setting policy and the federal agency is responsible for carrying it out.

Energy planning specifically lends itself well to this type of model. The National Governor's Association is currently pursuing legislation that would permit states to plan for electricity needs and regulate utilities on a regional basis. This is based on the increasingly multi-state character of the utility industry and the benefit of a multi-state perspective in regulatory issues.² New institutional arrangements would be necessary to accomplish this purpose, however the result might well be a more simplified process for both the utilities and the regulators.

It seems prudent to consider the regional planning process undertaken by the Council as viable for such critical areas as hazardous waste disposal, water resources, and natural resources management. It must be remembered, however, that a unique situation brought the Pacific Northwest states together, i.e., the hydroelectric system that binds the region and the regional federal power marketing agency that operates the system. The regional Council as a planning model can only be successful if there are two major factors present: some kind of "glue" or mutual concern to generate cooperation and the presence of an implementing agency to carry out the planning. Fragmented implementation efforts

are generally not successful in achieving a large-scale objective.

The collaboration of the four Pacific Northwest states in the Northwest Power Planning Council is a seemingly revolutionary concept in the framework of modern federalism. The success of the Council will be monitored by individuals and groups nationwide to determine the effectiveness of the model.

CHAPTER V FOOTNOTES

¹Keith L. Colbo was appointed as Chairman of the Northwest Power Planning Council in October, 1983.

²Western Interstate Energy Board, Western Energy Update, Newsletter No. 84-4, Denver, Colorado, 24 February 1984, pp. 12 & 13.

STATE OF MONTANA
Office of the Governor
Executive Order No. 31-81

Executive Order creating the Montana Northwest Power Planning Advisory Council.

WHEREAS, the development and implementation of a comprehensive electric power program is vital to Montana; and

WHEREAS, the availability and cost of electricity will shape both the future economic and environmental lifestyle of the people of Montana; and

WHEREAS, the creation of a Montana Northwest Power Planning Advisory Council will utilize the talent, ideas, and experience that exists in this state for energy planning; and

WHEREAS, the contributions of experienced and resourceful individuals are critical to the development and acceptance of an electric power plan; and

WHEREAS, the establishment and activities of a Montana Northwest Power Planning Council will provide for greater public awareness on the importance of energy planning;

NOW, WHEREFORE, I, TED SCHWINDEN, in accordance with the authority vested in me as Governor of the State of Montana pursuant to the Constitution and laws of the State of Montana, and specifically pursuant to Section 2-15-122, MCA, do hereby create the MONTANA NORTHWEST POWER PLANNING ADVISORY COUNCIL.

I. PURPOSE OF THE COUNCIL

The Council shall:

DEVELOP recommendations on ways to increase public awareness of the energy issues facing Montana and the region;

IDENTIFY the problems facing the formulation of an electric power plan that will satisfy the various and divergent interests of the people of Montana and meet the requirements of the Pacific Northwest Power Planning and Conservation Act;

RECOMMEND possible legislative, executive, and administrative actions to address the implementation of a 20-year energy plan.

II. COMPOSITION OF COUNCIL

The following persons are hereby named to the Montana Northwest Power Planning Advisory Council to serve at the pleasure of the Governor:

Senator Robert J. Brown, 5755 Farm to Market, Whitefish, MT 59937
 Senator Harold L. Dover, 712 7th Ave. N., Lewistown, MT 59457
 John A. Dowdall, 213 1st St. West, Polson, MT 59860
 William E. Egan, Box 385, Great Falls, MT 59405
 Robert L. Miller, Montana Power Co., 40 E. Broadway, Butte, MT 59701
 George L. Moon, Box 345, Arlee, MT 59821
 Thomas L. Pablo, Box 278, Pablo, MT 59855
 Donald R. Peoples, Courthouse, 155 West Granite St., Butte, MT 59701
 Representative Joseph Quilici, 3040 Kossuth Butte, MT 59701
 James A. Robischon, 1341 Harrison, Butte, MT 59701
 Marcia Rundle, 1130 Mountain View Drive, Missoula, MT 59801
 Representative Arthur H. Sheldon, Route 1, Box 1650, Libby, MT 59923
 Virginia Burns-Sloan, 845 2nd Ave. East, Kalispell, MT 59901
 Patrick Sweeney, 419 Stapleton Building, Billings, MT 59101
 Paul E. Verdon, Room 138, State Capitol, Helena, MT 59620
 C. Eugene Phillips, P. O. Box B759, Kalispell, Montana 59901

III. APPOINTMENT OF CHAIRMAN

Donald R. Peoples is hereby appointed to serve as chairman of the Montana Northwest Power Planning Advisory Council.

IV. DURATION OF COUNCIL

The Montana Northwest Power Planning Advisory Council shall remain in existence for a period of two (2) years from the date of this order.

Given under my hand and the GREAT SEAL
 of the State of Montana this 29th
 day of December in the year of our Lord
 One Thousand Nine Hundred Eighty-One.


 TED SCHWINDEN, Governor

ATTEST:


 JIM WALTERMIRE, Secretary of State

APPENDIX B

Montana Commentors

Fish and Wildlife Program

1. Marcia Rundle, Montana Common Cause
2. Pat Graham, Montana Department of Fish, Wildlife and Parks
3. Dick Ormsbee, Bitterroot Conservation District
4. Frank Pickett, Montana Power Company
5. Barbara Rhodes, Libby
6. McGregor Rhodes, Libby Rod & Gun Club
7. Ellen Knight, Montana League of Women Voters
8. Herschel Mays, Confederated Salish and Kootenai Tribes
9. Dave Odell, River Water Users Association
10. Marshall Bloom, Bitterroot Chapter of Trout Unlimited
11. Andy Carlson, Ravalli County Fish and Wildlife Association
12. Fritz Tossberg, Ravalli County Commissioner
13. Bill Bishop, Montana Wildlife Federation
14. Jennifer Cote, Western Montana Fish and Wildlife Association
15. Dennis B. Buechler, Montana Wildlife Federation
16. Gael Bissell, Montana Audobon Society
17. Tom Murphy, Bitterroot Conservation District
18. Jim Paro, Confederated Salish and Kootenai Tribes
19. Evelyn Stevenson, Confederated Salish and Kootenai Tribes
20. Wes and JoAnn Woodgerd, Missoula

APPENDIX C

Montana Commentors

Draft Energy Plan

1. Paul Schmechel, Montana Power Company
2. Mike Kadas, Montana House of Representatives
3. Carlene Nimlos, for Senator Max Baucus
4. John Driscoll, Montana Public Service Commission
5. Don Reed, Montana Environmental Information Center
6. Jack Speer, Arco Aluminum
7. Tom Pelletier, Butte-Silver Bow Local Government
8. George Roskie, Great Falls Area Chamber of Commerce
9. Janelle Fallan, Montana Chamber of Commerce
10. Ellen Knight, Montana League of Women Voters
11. Barbara Rhodes, Libby
12. Ray Klesch, Northern Lights Electric Cooperative
13. David Owen, Missoula Chamber of Commerce
14. Toni Kelley, Northern Plains Resource Council
15. Bob Palmer, Missoula County Commissioners
16. John McBride, National Center for Appropriate Technology
17. Karl Englund, Missoula
18. Gary Mason, Ravalli County Electric Cooperative
19. Jerry Brobst, Montana Solar Energy Industries Association
20. Ira Kaufman, Great Falls
21. John Grove
22. Gilbert Burk, Lincoln Electric Cooperative
23. Jim Morton, District XI Human Resources Council
24. Alan Okagaki, Alternative Energy Resources Organization
25. Kevin Wagner, Trout Unlimited
26. Gary Decker, Missoula Valley Energy Conservation Board
27. John Lowry, Montana Common Cause
28. Steve Loken, Missoula
29. Don Latham
30. James Curtis, Sierra Club
31. Scott Sproul, Missoula
32. Marcia Rundle, Missoula
33. Thomas Power, University of Montana Economics Department
34. Phillip Barrett, Clark Fork Basin Protective Association
35. Erika Kuhlman, Montana Public Interest Research Group
36. Diana Bjorgen
37. Steve Coffel
38. Gail Bissell, Montana Audobon Council
39. Peter Funk
40. Ronald McDonald, International Brotherhood of Electrical Workers
41. Arnold Volley, Council on Resources Assessment
42. Thomas France, National Wildlife Federation
43. Ken Knutson, Montana Wildlife Federation
44. Mildred Hodge, Corvallis Grange
45. Diana Bjorgen
46. Warren J. Ferguson, Missoula
47. Montana Department of Natural Resources and Conservation
48. Montana Department of Fish, Wildlife, and Parks
49. H. Allen Shumate, Montana Irrigators, Inc.
50. David B. Adkisson and Heidi Plochman, Missoula

51. Jo Ann B. Byler, Missoula
52. Ruth M. Brandborg, Hamilton
53. Barbara C. Cole, Hamilton
54. Janet I. Tatz, Boulder
55. Willa Hall, Helena
56. Hal Rylanos, Bigfork
57. Gary S. Zumberge, Bigfork
58. Douglas Baty, Dixon
59. Wes & JoAnn Woodgerd, Stevensville
60. Patricia Brobst, Bigfork
61. Janice Krueger, Missoula
62. Rene Bishop, Kalispell
63. J.T. Hamm, Montana Sprinkler Irrigation Society
64. Dick & Katherine Fichtler, Missoula

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