



Energy and Telecommunications Interim Committee

PO BOX 201706
Helena, MT 59620-1706
(406) 444-3064
FAX (406) 444-3036

59th Montana Legislature

SENATE MEMBERS

JEFF ESSMANN
DAVE LEWIS
GREG LIND
GLENN ROUSH

HOUSE MEMBERS

ROBYN DRISCOLL
HARRY KLOCK
GARY MATTHEWS
ALAN OLSON

COMMITTEE STAFF

CASEY BARRS, Lead Staff
TODD EVERTS, Staff Attorney
DAWN FIELD, Secretary

MINUTES

June 20 and 21, 2005

City Council Chambers
Roundup, Montana

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed. Committee tapes are on file in the offices of the Legislative Services Division.

Exhibits for this meeting are available upon request. Legislative Council policy requires a charge of 15 cents a page for copies of the document.

COMMITTEE MEMBERS PRESENT

SEN. DAVE LEWIS
SEN. GREG LIND
SEN. GLENN ROUSH

REP. ROBYN DRISCOLL
REP. HARRY KLOCK
REP. GARY MATTHEWS
REP. ALAN OLSON

COMMITTEE MEMBERS EXCUSED

SEN. JEFF ESSMANN

STAFF PRESENT

CASEY BARRS, Lead Staff
TODD EVERTS, Staff Attorney
DAWN FIELD, Secretary

AGENDA & VISITOR'S LIST

Agenda, [Attachment #1](#).
Visitors' list, [Attachment #2](#).

COMMITTEE ACTION

The Energy and Telecommunications Interim Committee:

- elected SEN. ROUSH Chair;
- elected REP. OLSON Vice Chair;
- approved the minutes from September 9 and 10, 2005, meeting as written;
- approved allowing the use of open proxy votes for the 2005-2006 interim;
- adopted the meeting schedule, as changed; and
- discussed and tentatively adopted the proposed work plan priorities.

MONDAY, JUNE 20, 2005

TAPE 1 - SIDE A

CALL TO ORDER AND ROLL CALL

SEN. ROUSH called the first meeting of the 2005-2006 Energy and Telecommunications Interim Committee (ETIC) to order at 10:21 a.m. The secretary noted the roll, SEN. ESSMANN was excused ([ATTACHMENT #3](#)).

The staff and members introduced themselves and REP. OLSON welcomed the members, staff, and visitors to the meeting and thanked them for traveling to Roundup in order to attend.

ELECTION OF OFFICERS FOR THE 2005-2005 INTERIM

REP. OLSON **nominated** SEN. ROUSH for Chair. SEN. LEWIS **moved** to close nominations and elect SEN. ROUSH on a unanimous voice vote. The **motion passed** on a unanimous voice vote.

REP. MATTHEWS **nominated** REP. OLSON for Vice Chair. REP. KLOCK **moved** to close nominations and cast a unanimous ballot for REP. OLSON. The **motion passed** on a unanimous voice vote.

SEN. ROUSH said as Chair of the Energy and Telecommunications Interim Committee, he would welcome comments and input from committee members and the public and to contact him with any concerns. He said it is to the benefit of the Montana public to work together.

SEN. ROUSH introduced former state representative Gay Holliday, who resides in Roundup.

REP. OLSON asked to have entered into the record SEN. ESSMANN's proxy vote given to him for the June 20, 21, 2005 meeting ([EXHIBIT #1](#)).

APPROVAL OF MINUTES

REP. MATTHEWS **moved** to adopt the minutes from the September 9 ([EXHIBIT #2](#)) and 10 ([EXHIBIT #3](#)), 2004, meeting, as written. The **motion passed** on a unanimous voice vote.

OVERVIEW OF RESPONSIBILITIES AND GUIDELINES

Casey Barrs, Lead Staff, and Todd Everts, Staff Attorney, Legislative Environmental Policy Office (LEPO) gave an overview of the legislative guidelines for the Energy and Telecommunications Interim Committee for the ensuing interim ([EXHIBIT #4](#)). They discussed:

- staff responsibilities;
- statutory basis of duties;
- quorums and parliamentary procedures;
- public participation guidelines;
- proxy voting;
- appointments and subcommittees;
- travel and reimbursement rules;
- requests for materials and telephones;
- completing interim committee work; and
- ETIC rules and procedures for 2005-2006.

The committee members discussed the use of proxy voting. SEN. ROUSH said he would allow the Committee how it wanted to use proxy votes.

REP. OLSON and REP. MATTHEWS were both of the opinion that rules for proxy votes are important and necessary.

SEN. LIND asked what protocol the last ETIC members used regarding proxy votes. REP. OLSON said the previous ETIC members allowed open proxy voting. SEN. LIND said he would support proxy voting only if the vote could be used for a specific and relevant issue.

TAPE 1 - SIDE B

DISCUSSION OF MEETING DATES & COMMITTEE BUDGET

Casey Barrs, lead staff, LEPO, reviewed the proposed meeting schedule for the 2005-2006 interim as proposed in the Energy and Telecommunications Interim Committee Work Plan (Page 9 -[EXHIBIT #5](#)). SEN. ROUSH said the schedule will remain flexible and that dates may be changed if Committee members encounter conflicts.

Mr. Barrs discussed the ETIC estimated interim budget for 2005-2005 ([EXHIBIT #6](#)). He reviewed the travel and salary costs per meeting and related expenses such as postage, secretarial support, and materials.

REP. OLSON asked Mr. Everts for a comparison of the 2005-2006 interim budget to the 2003-2004 interim budget. Mr. Everts said the budget had been increased slightly but cautioned that if the committee decided to schedule additional out-of town meetings, one Helena meeting may have to be dropped in order to stay within budget. Mr. Everts said the committee would be updated periodically by staff on the status of the ETIC budget.

SEN. ROUSH said he is aware of interest from both the Committee and the public of having the Committee tour different areas and facilities in Montana, if money allows. He offered the

possibility of meeting just before or during the upcoming Special Session as a way of cutting costs. REP. OLSON expressed strong support for SEN. ROUSH's suggestion.

PUBLIC SERVICE COMMISSION REPORTS

Greg Jergeson, Commissioner, Public Service Commission (PSC), addressed the ETIC members via teleconference from the Mid America Regulatory Conference in Little Rock, Arkansas. Mr. Jergeson reported on his activities as Montana's PSC Commissioner at the conference. (The other Montana PSC members are in attendance at the western states conference, in order to stay current on all relevant energy issues.) Mr. Jergeson referred to three handouts distributed to ETIC members:

- MISO-LMP MAP ([EXHIBIT #7](#)) - Midwest Independent System Operator (MISO) is a regional transmission organization approved by the Federal Energy Regulatory Commission (FERC) to manage transmission systems in the regions indicated on the map. Locational Marginal Price (LMP) is a listing of the market clearing price for energy at a given location within the regions shown on the MISO map. The map illustrates the congestion that exists between where the majority of resources for generation are located and where the actual load is. Much of eastern Montana is in the MISO region.
- Regional Scope ([EXHIBIT #8](#)) - illustrates the routes of over 62,000 miles of transmission lines and the location of most of the transmission facilities in the Grid West region. The western half of Montana is served by this region.
- Qwest Regional Oversight Committee (ROC) ([EXHIBIT #9](#)) - shows the region of the country that is served by Qwest. There are regional meetings that the Commission attends twice a year to discuss issues relating to Qwest as the major telecommunications provider of the region. Other carriers are also discussed, since their decisions also affect telecommunications in Montana and other states.

Kate Whitney, Administrator, PSC Utility Division, presented an overview of current telecommunications and energy issues the PSC is dealing with ([EXHIBIT #10](#)).

! Telecommunications:

- ▼ Extended Area Service (EAS), which expands the free local calling area;
- ▼ Designation of eligible telecommunications carriers (ETCs);
- ▼ PSC's investigation into Qwest's use of federal universal service funds (USF); and
- ▼ an intercarrier compensation workshop on June 28, 2005

! Energy:

- ▼ Montana Dakota Utility's (MDU) gas rate increase;
- ▼ Energy West's pending gas general rate increase;
- ▼ NorthWestern Energy (NWE) settlement; and
- ▼ Pennsylvania Power & Light (PPL) - Federal Energy Regulatory Commission (FERC) filing regarding market-based rate authority. The PSC has filed a complaint against PPL.

REP. OLSON asked if the USF money that is available to ETCs could be put towards e911 for wireless carriers. Ms. Whitney said, as she understands it, the receipt of that money can be used to serve high cost areas in whatever manner the phone company wishes to use it.

Commissioner Jergeson added when ETC designation is granted to a telecommunication company, that company is expected to provide the same types of services to rural areas that urban areas have available.

REP. MATTHEWS said he is aware of a certain amount of controversy regarding the Mid Rivers ETC application and asked for an update on the situation. Commissioner Jergeson said the Mid Rivers Cooperative is already an eligible telecommunications carrier and that status hasn't changed. Mid Rivers Cellular, a wholly-owned subsidiary of Mid Rivers Cooperative, has just been approved as an ETC and is facing some major challenges due to having to serve a very large rural area with a very sparse population.

SEN. LIND asked for clarification on if it is typically the carriers, and not the residential consumers, that request the EAS applications. Ms. Whitney said the Commission's rules allow for customers to petition the Commission for EAS but in practice, it has been the carriers who have petitioned.

TAPE 2 - SIDE A

Will Rosquist, Staff Economist, PSC Utility Division, gave a presentation on NorthWestern Energy's (NWE) default supply service ([EXHIBIT #11](#)) and discussed:

- PSC default supply portfolio planning and resource procurement rules, key goals, and objectives in PSC rules;
- NWE's current supply requirements and contracts; and
- PSC advanced approval decisions regarding the Basin Creek natural gas-fired generator in Butte and the Judith Gap wind project approved by the 2005 Legislature; and
- NWE's 2005 default supply plan.

REP. OLSON asked what the average cost of the Qualifying Facility (QF) contracts are. Mr. Rosquist said the average total cost of the contracts is in the \$68 dollar per megawatt hour range.

REP. OLSON asked for an estimate of what the cost will be for the Basin Creek power when it comes online. Mr. Rosquist said the cost of that power will be determined by the cost of natural gas, if NWE decides to dispatch it. The company will pay a fixed cost of about \$4.5 million per year to have that capacity available and if it decides to dispatch it, will base the price on the current cost of natural gas.

REP. OLSON asked if the wind generation project being constructed at Judith Gap is coming online at \$31.60 per megawatt hour. Mr. Rosquist said it would be \$31.71 the first year and would increase after that. REP. OLSON asked what the cost would be at the end of the 20-year contract. Mr. Rosquist said he did not have that number available but estimated it would be in the neighborhood of \$34 per megawatt hour.

REP. OLSON asked how ancillary services are going to be handled. Mr. Rosquist said in the proceeding, the Commission was convinced that the cost of ancillary services from the project would be in the \$5 - \$9 range per megawatt hour. He added that those are not fixed costs and that it would be a function of what NWE is able to obtain in the market or, alternatively, if it

constructs any gas-fired dispatchable plant like the Montana First Megawatts facility in Great Falls, NWE may be able to use that for a portion of the ancillary services.

REP. MATTHEWS asked about the Qualifying Facilities (QF) contracts that now constitute approximately 13% of NWE's portfolio. For the next ETIC meeting, he said he would like staff to provide answers to the following questions:

- (1) What was the PSC's settlement amount on the QFs?
- (2) What percent of NWE's costs are QF contracts?
- (3) What portion of QFs are wind power, as opposed to co-gen?

SEN. LIND asked for an explanation of what the captured or allowed costs are, with respect to thermal or hydro generation in the state and if that is well defined by the PSC. Mr. Rosquist said he couldn't answer that. The PSC does not regulate PPL so it doesn't have access to its facilities costs. All the PSC knows is what NWE is contracted to pay PPL for their power and that the 300 megawatt contract that NWE has with PPL is a mixture of hydro and coal resources.

Al Brogan, PSC Staff Attorney, reported that earlier in June of 2005, NWE filed a petition for rulemaking, which is allowed by a provision of the Montana Administrative Procedure Act (MAPA) ([EXHIBIT #12](#)). Currently, when the PSC grants a party's motion for a protective order, the party is still required to provide that protected material to the attorney and to any outside experts or any other party in the proceeding, after those individuals have executed a nondisclosure statement. NWE has petitioned to amend this rule and has asked specifically that the PSC create four new terms: energy supply arrangement, market sensitive information, market participant, and non-market participant; and that the PSC eliminate for NWE any requirement to provide market sensitive information to either legal counsel or experts of any market participant. Pursuant to MAPA, the Commission has 60 days to either deny the petition or to begin the process by issuing a notice of proposed rule. Currently, the Commission has issued a notice of the petition and a notice of opportunity to comment. It has requested the parties to comment by June 28, 2005, and after June 28, the Commission has asked that they provide any reply comments by July 12, 2005. Once those comments are received, the Commission will make a determination on the petition. The Commission is faced with two decisions:

- 1) Can the Commission constitutionally limit access by market participants to protected material; and
- 2) If it can, should it do so.

Mr. Brogan said the Commission is at a very preliminary stage in this process and would welcome input from the ETIC. At issue is weighing the constitutional right of the people to observe everything that happens in the government and everything that governmental agencies rely on in making decisions and the right of individual companies to file things with the Commission to protect what they consider to be confidential information.

REP. OLSON agreed this is a difficult situation but made the point that there are legitimate situations in which information should be withheld for various reasons. He asked Mr. Brogan, Mr. Rosquist, and Ms. Whitney to prepare copies of their remarks and submit them to the committee.

DISCUSSION OF WORK PLAN

Mr. Barrs referred the committee members to the Energy and Telecommunication Interim Committee Work Plan ([EXHIBIT #5](#)). He said the primary determinant of the ETIC's meeting agendas would be a number of issues that the committee can effectively address within the available time and resources of the members and staff. He said the proposed work plan should be considered a decision making tool in setting the committee's priorities. The plan includes the assigned study resolutions, topics suggested by committee members, and statutory mandates and will serve as a blueprint for the interim. In addition to this work plan, staff will prepare draft study plans for each of the study resolutions.

Mr. Barrs reviewed and discussed:

- SJR 36 - study distributed energy generation ([EXHIBIT #13](#));
- SJR 39 - study the possible creation of an energy planning and coordinating entity ([EXHIBIT #14](#));
- the work plan matrix for SJR 36 (Page 5, Exhibit #5) and asked members to examine the options for addressing SJR 36, saying that the committee could choose some or all of the choices available;
- the work plan matrix for SJR 39 (Page 6, EXHIBIT #5) and asked members to consider that options they wished to pursue regarding SJR 39;
- the statutory duties of the ETIC committee (Page 7, EXHIBIT #5); and
- the option for member/committee-driven study issues (Page 8, EXHIBIT #5).

Panel Discussion on SJR 36 - Study Distributed Energy Generation

SEN. ROUSH commented that this study seemed to pertain mainly to small energy producers. He distributed information on a hearing on the proposed transmission line between Alberta, Canada, and Great Falls, Montana, known as the Montana-Alberta Tie, Ltd. (MATL) ([EXHIBIT #15](#)).

SEN. LEWIS asked what the alternative use of staff time is if the committee approves the less comprehensive study plan. Mr. Everts said if the Committee does not allocate all of its staff time, then other responsibilities outside the Committee would be given to staff. The Committee may choose not to pursue the assigned studies, but instead use the time to study a different issue of interest to the members.

TAPE 2 - SIDE B

REP. DRISCOLL suggested hosting panel discussions for each study and to schedule the panels for the same meeting day for the sake of convenience and efficiency.

REP. MATTHEWS said he thought it important to have SJR 36 sponsors, Sen. Toole and Sen. Essmann, attend the next meeting and have them explain their respective visions for the resolution.

REP. OLSON thought it work well to combine SJR 36 with SJR 39 because distributed energy would definitely be a part of any energy policy that the Committee crafted. He thought that

separate panel discussions should be held for each resolution and agreed that it would be useful to have the bill sponsors speak on the resolutions. He said he considered distributed generation extremely similar to the QF's in existence now. There are many small energy projects divvied up around the state and that power is coming back onto the grid on a contract basis.

SEN. ROUSH said he has discussed with Mr. Barrs the need to identify solutions to the transmission problems that small electricity producers face.

REP. OLSON questioned the popularity of identifying transmission problems for small producers, saying the Committee must be mindful of the fact that all the bills introduced in the 2005 Legislature on this issue were killed.

SEN. ROUSH said that the Committee will have to deal with these issues eventually and that he would prefer that they be addressed in the ensuing interim.

SEN. ROUSH reported that the University of Montana has done extensive work using fuel cells and that he would like to get an update what is being done.

REP. MATTHEWS said that he recently learned that the Department of Energy has awarded a "clean coal technology" grant to the Montana State University and that MSU is the leading university in this type of technology. He said that the Board of Regents wants to be a tool and to assist the Legislature in furthering these type of programs. He asked that the Committee contact the Board of Regents, in order to work together and share information.

REP. OLSON said Paul Williams of the University of Montana is the person heading up the fuel cell technology program.

Panel Discussion on SJR 39 - Study Distributed Energy Generation

REP. OLSON, as one of the sponsors of SJR 39, presented the highlights of the study resolution ([EXHIBIT #14](#))

REP. OLSON said Montana had made an unsuccessful attempt in the past to establish a Transmission Infrastructure Authority (TIA), and that neighboring states have successfully adopted TIAs. He reported that Wyoming, Utah, Nevada, and California are working together on some major transmission projects, that Montana has resources that would benefit from this type of development, and that Montana needs to be involved in these types of projects.

REP. MATTHEWS asked about the bonding authority for the Wyoming transmission authority.

REP. OLSON said he recalled that it was right at \$1 billion dollars and asked **Don Quander, Holland & Hart, LLP**, to confirm the amount. Mr. Quander confirmed that the Wyoming infrastructure authority has bonding authority for \$1 billion and also has a non specified but very large authority to invest state funds directly into state projects.

SEN. ROUSH requested that the Governor's Office of Economic Development (GOED) be asked to provide a report to the Committee at the September meeting on the status of the Governor's synfuel project.

REP. OLSON asked for information on the coal gasification plant at Beulah, North Dakota, how much money it costs to operate the plant, and what the revenues are. He said coal becomes a value-added product when it is processed in Montana and he would like to know the economic details of the situation.

SEN. ROUSH said he has toured the Beulah plants and that the larger one is a cooperative and the other is a government-owned plant.

Doug Hardy, Montana Electrical Cooperative, responded to SEN. ROUSH's comment, saying that larger plant originally belonged to the Department of Energy but was purchased by Montana cooperatives. He said the primary product is natural gas.

REP. MATTHEWS said the Governor's energy proposal also includes developing assets at Otter Creek, including the development of the Tongue River Railroad. He requested that the Governor's Office provide information on this project to the Committee.

PUBLIC COMMENT ON SJR 36 AND SJR 39

Tom Ebzery, Pacific Corp., Portland General Electric and Avista Corporation, said his clients agree that there are serious transmission issues to be dealt with and that they believe in the need to establish a transmission authority policy because Montana's neighboring states have passed similar statutes.

Mr. Ebzery also testified on behalf of Qwest, stating that telecommunications policies in Montana are long overdue for discussion and restructuring. Telecommunications has changed dramatically recently, with many new companies doing business in the state. He stated his concern that Qwest is being heavily regulated as the incumbent carrier, when other companies are providing the same type of services without the regulation. He said he would like the Committee to determine how Qwest compares to other telecommunications companies doing business in the state and to determine if Montana's policies are inviting to new telecommunication companies looking to invest in Montana.

Mr. Quander said that while he was not speaking at the meeting on behalf of any of group or entity that he represents, he knows they are all vitally concerned about transmission in Montana and what the PSC and ETIC can do to facilitate better transmission. It is the key to competitive markets and his clients feel they are being limited in their access to these markets.

Mr. Quander said he also represents large electrical customers. He said it is his observation that while bonding has proven to be a potentially important tool for the State to have for structuring a transmission and energy policy, it is almost, if not more important, that the State have a coherent policy on siting, permitting, and other related issues. There are substantial investors who are prepared to invest significant sums in transmission but are at a loss as to a framework within which they can be selected to do a project or obtain siting approval for a project. This has held up a lot of investing in Montana. Neighboring states have taken the initiative and are ahead of us.

Mr. Quander said a business partner has been appointed to the Wyoming Infrastructure Authority and is also representing the State of Wyoming as the Governor's Appointee with four

other states to select the favored path and a large company to work on that. Mr. Quander said his partner has offered to work with Montana. He said his partner would be happy to brief the Committee on any aspect of the Wyoming Infrastructure Authority.

SEN. ROUSH asked Mr. Quander to formulate a list of his suggestions and submit them to the Committee for its consideration at a future meeting. Mr. Quander agreed to do this.

Doug Hardy, Montana Electrical Cooperatives, commented that in examining the study resolutions, particularly SJR 36, he noticed that the impact on consumers is not included in the study and that he would like to Committee to consider any potential impacts on the ratepayers.

TAPE 3 - SIDE A

REP. ROUSH agreed that consumers must be protected and that the committee would gather and analyze the impacts.

Tim Gregori, General Manager, Southern Montana Electric G & T, commented on SJR 39, saying that one of the fundamental problems in Montana is the lack of an integrated energy resource plan which would create a template to help create an appropriate plan for future energy needs. Looking solely at any one issue gives a skewed view of the overall needs of Montana and does not allow appropriate use of resources in a well-thought out manner. An integrated energy plan should be multi-layered so it takes a look at infrastructure needs, reasonable locations of various resources, and where it makes sense to put these resources, in order to make the wisest and most beneficial use of environment and resources in an environmentally-friendly way.

Bill Pascoe, Great Northern Properties, Butte, said his client is the largest owner of private coal reserves in North America and owns the private coal reserves at Otter Creek and at Colstrip, as well as many other locations across the northern tier. Great Northern Power Development, an affiliate of Great Northern Properties, is trying to develop a lignite-fired coal plant at Circle, Montana. If that project is successful, the transmission line that will connect to the grid will open up another portion of eastern Montana for potential wind development. Mr. Pascoe agreed with previous public comments regarding the need to prioritize transmission.

Mr. Pascoe said he had testified in support of the failed infrastructure authority bill during the legislative session, He said even among those who supported the bill there was a very wide range of views as to the desirability of expanding the transmission system to facilitate more natural resource development in the State. The ETIC has time to study and analyze the issues and should work to develop consensus among the committee members, which would hopefully be a catalyst to getting the Legislature to support an infrastructure authority bill in the 2007 Session.

SEN. ROUSH thanked those who offered testimony and encouraged them to submit written comments to staff.

COMMITTEE DISCUSSION ON WORK PLAN

SEN. LIND asked the Committee to consider visiting a transmission facility in order to improve the level of understanding of the costs and issues involved in transmission. He asked for information on safety issues related to some of the distributed generation issues that have come up. He also asked to discuss externalized costs of generation, particularly mercury emissions. He proposed having a panel discussion on the effects of mercury and how it relates to the energy industry.

REP. OLSON said it is his opinion that there is a lot of misinformation regarding mercury and the effect of coal-fired power plants on mercury levels in the United States. He said the EPA estimates that 700,000 tons of mercury found in the oceans result from natural events and agreed that the Committee does need information on mercury to help it sort out fact from fiction, including the information on the different types of mercury.

REP. MATTHEWS said the mercury issue was discussed during the 2005 legislative session and that a lot of information was provided to members. Education is important to prevent mercury from being used as a scare tactic. He said he would like to know what percentage of mercury comes from coal-fired generation and what percentage naturally occurs.

SEN. LEWIS said his constituents in Senate District 42 are of the opinion that transmission is a critical issue. He said he was disappointed that REP. OLSON's transmission authority bill was not passed in 2005 because there are many projects that are being held up until this issue is solved. SEN. LEWIS said he didn't think the transmission authority issue could wait until the 2007 Legislative Session and said he would like to see it handled in the upcoming Special Session.

Mr. Barrs asked for direction on how to incorporate the member input and public comment into the work plan.

REP. OLSON recommended that the Committee choose to address SJR 36 by having a white paper study completed and working the issue of distributed energy into SJR 39. He asked that the Committee devote more of its time and resources to SJR 39, due to the critical nature of the transmission authority issue.

REP. DRISCOLL said the white paper approach for SJR 36 would be acceptable, so long as information from other states is still gathered and presented.

SEN. LIND asked staff to include the mercury issue into the study plan. Mr. Everts said a panel discussion, using a question and answer format, at a future meeting should provide an appropriate opportunity to address concerns.

REP. OLSON said he would prefer that expert testimony be given at the panel discussion on mercury. SEN. LIND said the panel should include a public health expert as well as industry experts. SEN. ROUSH said both sides of the issue would be represented.

The Committee concurred on the study plan direction, as discussed by the members. SEN. ROUSH asked staff to compile the suggestions and prepare guidelines for the members.

REP. OLSON referred to Page 7 of Exhibit #5 and asked the Committee what level of oversight it wished to take with regard to the PSC oversight. SEN. ROUSH said other interim committees he has served on has had the staff attorney monitor rule changes or issues and provide comment at meetings. REP. OLSON said in the past, the PSC has been timely in sending out draft rules before adoption to Committee members and also has encouraged comments and feedback from ETIC members. SEN. LEWIS suggested that staff should review the rule changes and report to the Committee any rules or changes that the Committee needs to be aware of.

MEMBER ISSUES

REP. OLSON asked the ETIC to reconsider HJR 45 - study of wireless enhanced 911 (e911) emergency phone system ([EXHIBIT #16](#)) and House Bill 539 - revising and clarifying telecommunication laws ([EXHIBIT #17](#)). He said telecommunications issues have not been thoroughly reviewed recently and that there are telecommunication issues in Montana that need to be addressed. He encouraged the Committee to consider reviewing these bills as part of the study plan because of these concerns.

SEN. LIND asked Mr. Everts give an overview of HJR 45 and HB 539.

Ron Ostberg, Montana Independent Telecommunications Systems (MITS), explained that Rep. Himmelberger introduced House Bill 775 in the 2005 Legislative Session and that the bill would have provided additional funding for wireless enhanced 911. He explained that:

- currently, every subscriber is contributing 50 cents on their phone bill, whether it is wireless or a land line;
- twenty-five cents of that goes into the basic 911 program and the remaining 25 cents goes into the enhanced 911 program;
- HB 775 would have provided for an additional 50 cents for the wireless side;
- there are several unique requirements in wireless 911 which account for the additional expense, mainly inequities between the small and large companies; and
- ultimately, HB 775 didn't pass and was converted to HJR 45.

Mr. Ostberg went on to explain that ETC certification would allow access to additional Universal Service Benefits (USB) but that this funding would not pay for transmission costs for certain aspects of the services, such as the Global Positioning Satellite (GPS) costs. The Department of Administration (DOA) and the Public Safety Answering Points (PSAP) e911 Division are looking at alternatives for paying for these type of associated costs. Another issue that needs to be resolved is what the actual cost will be. HB 775 mandated that .50 be collected to pay for the e911 service but no cost analysis was done to determine if that amount was too much, not enough, or adequate.

REP. OLSON asked if the Department of Administration, in conjunction with the 911 Advisory Council, is working on this. Mr. Ostberg said the DOA works with an e911 PSAP Advisory Committee and plans to prepare legislation if the ETIC does not draft a bill of its own. Mr. Ostberg said he hoped that the DOA and the ETIC would work together on this issue because it is technical issue and a solution is needed.

REP. OLSON asked if the ETIC could send a letter to the Department of Administration asking it to share with the ETIC any information and progress being made on this issue.

REP. OLSON asked the interested parties to review HB 539 - revising and clarifying telecommunication laws and asked to have it incorporated into the study plan. SEN. ROUSH agreed and asked all telecommunications companies to work with the Committee to help formulate legislation for the next legislative session.

TAPE 4 - SIDE A

Approve ETIC Calendar

REP. OLSON said he supported SEN. ROUSH's earlier suggestion of a ETIC meeting being held in conjunction with the Special Session and suggested that the November meeting be moved to coincide with the Special Session. SEN. ROUSH said this issue could be finalized at the September meeting.

REP. DRISCOLL reported that the Governor's Office has an energy summit planned for October in Helena and asked if there was any interest in rescheduling the September meeting to coincide with the Governor's Summit. REP. OLSON thought it would be better for the ETIC to meet prior to the Governor's Summit in order for it to have its plans developed and in place.

REP. MATTHEWS thought the September meeting date should be maintained and suggested that the Governor's Office be invited to report to the committee on the summit agenda and other energy-related projects the Governor's staff is working on.

SEN. ROUSH asked staff to contact the Governor's Office and invite them to attend the September meeting.

REP. OLSON pointed out that the May 25, 2006, meeting date is very close to the primary elections and suggested moving it to allow the members to devote time to campaigning. The Committee changed the date to May 4, 2006.

REP. OLSON **moved** to adopt the proposed schedule, as changed. The **motion passed** on a unanimous voice vote.

Tim Gregori, General Manager, Southern Montana Electric Generation & Transmission Cooperative, Inc., (SME) introduced Ray Walter, Project Engineer, Stanley Consultants, Jeff Chaffee, Coordinator of Environmental Impact Statement and Permitting Process, and Candace Payne, Government Relations. Mr. Gregori discussed a PowerPoint presentation (EXHIBIT #18 - pending) containing information on a project underway near Great Falls, Montana. SME has organized a 501C12 tax exempt electric cooperative, founding members are Beartooth Electric in Red Lodge, Fergus Electric in Lewistown, Mid-Yellowstone Electric in Hysham, Tongue River Electric Cooperative in Ashland, and Yellowstone Valley in Huntley. The City of Great Falls joined shortly after the cooperatives formed the association.

TAPE 4 - SIDE B

Mr. Gregori concluded his portion of the presentation and asked **Jeff Chaffee, Project Manager, SME**, discussed the Environmental Impact Statement (EIS) and permitting process ([EXHIBIT #18](#) - pending). Mr. Chaffee explained the timeline for completing the EIS the status of the permitting process.

Ray Walters, Project Engineer, Stanley Consultants, explained that the purpose behind the coal test burn is to evaluate the quality of the coal that will be mined.

Mr. Gregori extended an invitation to the Committee to visit at its convenience.

SEN. LEWIS asked if it is cheaper to transport coal than electricity. Mr. Gregori said it is cheaper to transport coal in this particular case, due to the location of the facility.

SEN. LIND asked about cost modeling with the carbon tax. Mr. Gregori said that a carbon tax has been discussed. It was decided that if a tax is placed on a facility for carbon, it will assumed that the tax will be universal and placed on any other facility, so a draft mitigation plan has been created. Mr. Gregori gave as an example of a mitigation plan, a Montana reforestation plan for affected communities.

SEN. LIND noted that the project is estimated to use approximately 2,900 gallons of water per minute and asked if the project has water rights that would allow that much consumption. Mr. Gregori said that one of the reasons the Great Falls site was chosen was because the City of Great Falls has substantial water rights. He emphasized that care will be taken to use the water supply judiciously and didn't think that water use would be an issue.

REP. OLSON asked if any test burns have been done on the coal reserves in the Great Falls area. Mr. Gregori said the coal has a high sulphur rate and several other problems, but that a test burn has not been ruled out.

Ray Walter said the clean fuel technology process is very fuel friendly and flexible and from that perspective, it is not anticipated any issues would arise from burning a different type of coal than what is currently being planned. A high sulphur content coal would require additional limestone to burn efficiently and that the Great Falls type of coal has a higher ash content, so there would be more product to handle on the back end of the process.

SEN. ROUSH commented that in examining the numbers, it appeared to him that there would be a substantial profit margin and asked how SME plans to handle the tax issue. Mr. Gregori said SME will pay taxes and that as a cooperative, SME doesn't make a profit. The power will be sold at cost, so whatever it costs to produce it is what the members will be charged for their electricity.

SEN. LIND asked when the California - Colstrip contracts end. **Don Hoffman, Pennsylvania Power & Light (PPL)**, said it was a long term contract and didn't know the exact date it was set to expire.

SEN. LEWIS asked where the limestone is coming from for the Great Falls project. Mr. Gregori said the limestone will be trucked to Great Falls from Indian Creek Limestone in Townsend, MT. SME has been alerted that railroad issues have surfaced, so it was decided that trucking would likely be a better option. He said there are also limestone reserves available southeast of Great Falls.

SEN. ROUSH announced that ETIC members, staff, and interested persons attending the meeting are invited to a reception at the home of former State Representative Gay Holiday of Roundup.

SEN. ROUSH said members should dress for the outdoors for the tour of the Bull Mountain Coal Mine, scheduled for the next day's meeting. REP. OLSON said that a bus would be providing transportation to the mine and that mine safety training would be provided at the mine headquarters for those interested in going into the mine.

SEN. ROUSH said the Committee would reconvene at 9 a.m. in the morning and that there would be several brief presentations given before members and staff departed for the mine tour.

With no further business before the Committee, SEN. ROUSH recessed the Committee at 4:30 p.m.

TUESDAY, JUNE 21, 2005
TAPE 5 - SIDE A

SEN. ROUSH reconvened the Energy and Telecommunications Interim Committee meeting at 9:02 a.m. on Tuesday, June 21, 2005, in Roundup, Montana.

ISSUE UPDATE - PPL MARKET-BASED RATE AUTHORITY

Mr. Barrs, Research Analyst, provided a recap of the issues involving the rising costs of PPL's power and whether or not PPL should be required to move from its current market-based pricing to cost-based rates ([EXHIBIT #19](#)). Mr. Barrs also distributed statements from the Montana Consumer Counsel (MCC) ([EXHIBIT #20](#)) and from PPL Montana ([EXHIBIT #21](#)).

Don Hoffman, Pennsylvania Power & Light (PPL) Montana, said PPL takes issue with the statement that it has supplied false information to FERC, saying that:

- The dispute that Mr. Barrs referred to is part of a FERC triennial review of a wholesale generator's market power. This is a routine review for all wholesale generators.
- While PPL welcomes discussion from MCC and NWE and would like to get a FERC decision, PPL is confident that it will pass the market power test.
- PPL made the decision to make a significant investment in Montana - nearly \$1 billion to date - based on the rules established to handle the deregulation process. One of the major rules on which PPL based its decision was that it would be allowed to sell power at market price.
- MCC makes the assumption that there is a Montana market. There is no Montana market. Electricity doesn't stop at state borders. PPL's market is the west and the entire western interconnect drives prices.

- There are factors that drive prices up or down and PPL contends that it does sell power at competitive prices in relation to that market. If PPL did manipulate the market and controlled the price, it would not be NWE's largest and cheapest supplier.
- PPL agreed in 1999 to continue to supply the Montana Power Company (MPC) power at \$22.25 per megawatt hour, which was an unrealistic and uncompetitive price even at that time, and did so at that price through July 1, 2002. During that time, if PPL had an unscheduled outage at a plant, PPL had to buy market-based power that cost upwards of \$300 per megawatt hour to replace \$22 per megawatt hour power. That was PPL's risk and was a substantial cost that PPL had to bear.
- This is an attempt to create a regulated, integrated system within Montana as there used to be under MPC and that simply can't be done. This is just an effort to use the FERC to help manipulate the price to something below market.

John Fitzpatrick, Northwestern Energy (NWE), stated that NWE does not share PPL's opinion of its role in the electricity market in Montana and that the market in Montana is fundamentally nonexistent because the electricity supply is dominated by PPL Montana. Mr. Fitzpatrick stated that:

- If there was another power plant available in Montana that could sell NWE a block of 200 -250 megawatts of power to compete with PPL for baseload, he suspected that electricity rates would flatten rather than continuing to go upward. Similarly, if there was additional transmission capacity from markets where excess power is available, NWE thinks that would also help stabilize prices.
- There will never be a return to the \$20 per megawatt range, as was the case before the divestiture of MPC's generating assets, but NWE does believe with the presence of competitive generation or transmission, prices would stabilize.
- With each subsequent PPL Request For Proposal (RFP), the prices offered continue to increase. Only one Montana generators has made an offer, compared to 40 or 50 offers from out of state. This is a serious situation for Montana and one of the best things that could happen for the people of Montana would be to have FERC take away PPL's market-based authority and to force PPL to sell power on a cost basis.

SEN. LIND asked what factors are driving the rates up. Mr. Hoffman said PPL produces power and sells it at the market-based or below the market price and does not calculate the cost of production.

SEN. LIND asked Mr. Hoffman to respond to a statement from Mr. Barrs regarding the price of power, quoting PPL as saying it is misleading to try to compare the pre-2002 power purchase price of \$22.25 to the \$32 price that PPL bid into 2002. Mr. Hoffman stated that NWE customers benefit from as the cheapest power in the entire region. The prices PPL is now offering are still at or below market, but are close to the \$49 or \$50 referred to by Mr. Barrs. Mr. Hoffman said he thought what Mr. Barrs may have been talking about was the portfolio price, which is driven up by other costs. Some of the renewable contracts could potentially drive that up. The QFs and Competitive Transition Charges (CTCs) also drive that up.

SEN. LIND asked Mr. Hoffman to clarify that PPL is pursuing a market price and is not using an argument to explain the needs for doubling of prices. Mr. Hoffman said that was correct, that PPL is a wholesale generator operator with market-based rate authority.

SEN. LEWIS said that he wanted to be clear that PPL's argument is that, if it is limited by state law to some kind of cost basis, that is essentially a form of regulation, that at some point PPL wants a fair return on investments made based on market value of the asset, and that there is no way to go back to cost-based return, based on the old value of the assets prior to deregulation. Mr. Hoffman agreed that those days are gone and will never return, whether it is PPL that owns the generation facilities or a different entity. PPL invested \$750 million when it made its original purchase and it has invested approximately an additional \$250 million since then in upgrades. Fundamentally, it must be recognized that no matter who owns the assets, even under a cost-based scenario, there has to be a return on the investment.

SEN. LIND asked if the FERC has the regulatory authority over the transmission of generation from PPL assets. Mr. Fitzpatrick said the FERC does have authority over interstate transmission and that NWE does not have the right to deny any generator unless the system is at capacity.

REP. OLSON said the QF contracts have an average cost of \$68 per megawatt hour and that he would like the Committee to place a high priority on finding out why the PSC and MCC are not looking into these contracts. These QF contracts account for 13 % of the base load for NWE customers and are considerably higher than any other contracts in the portfolio and place a tremendous burden on the consumer.

SEN. LIND said it is his understanding that many of the QF contracts are long term contracts. Mr. Fitzpatrick said that some of the contracts are 20 years and longer, with the last one set to expire in 2027. Currently, there are 17 of those contracts that are market-based contracts using a market-based number of \$32.75 per megawatt hour. The average cost of QF contracts during the 2005 legislative session was \$68.80 per megawatt hour in that group of contracts and, as 13% of the portfolio, they make up about 24% of the total cost to the consumer. If those contracts disappeared, the price of power to the NWE consumer would drop about \$7 per megawatt hour. Mr. Fitzpatrick said it is not possible for NWE to break existing contracts but that some were modified during the bankruptcy. He noted that if a federal energy bill passes in the way that it was initially represented, the QF criteria that was in the 1970 federal Public Utility Regulatory Policies Act (PURPA) application will be eliminated, so there shouldn't be any more QF contracts in the future.

REP. OLSON said in either the 2003 or 2005 session, legislation was passed stipulating that if the federal government repealed PURPA, that the State would also. REP. OLSON said he has questioned Commissioner Bob Raney about why the PSC has approved the QF contracts. He reported that Commissioner Raney told him that no one questioned the contracts but that if someone did, the PSC could conceivably take some type of action on them. REP. OLSON encouraged both the MCC and the PSC to examine the QF contracts and asked the ETIC to make a formal request to that effect.

SEN. ROUSH asked for an explanation of the ownership of the Colstrip facilities and the transmission system out of Montana. Mr. Hoffman said PPL owns about 25% of the Colstrip plant. Puget Sound Energy is the majority owner of Colstrip and other partial owners are Pacific Corps, Avista, and NWE. Mr. Hoffman said that PPL Montana does not own any of the transmission system and relies on transmission providers, such as NWE, for distribution of its power. PPL Montana and NWE fit well in this regard. Since they once were a vertically

integrated utility, the distribution points are well located geographically among the various fuel sources that PPL has. This saves transmission costs and is one of the pricing considerations PPL uses when pricing power to NWE. However, if NWE was to go to Mid Columbia to purchase power, its transmission costs would increase. It is mutually beneficial for NWE to purchase its power from PPL because of the discounts for transmission.

Mr. Fitzpatrick said the 500 KB transmission line from Colstrip to Washington State is jointly owned by NWE and other Colstrip partners. The other partners use their share of the transmission line to run power from Colstrip to Washington and northern Idaho. NWE uses its part of the system to move power from Colstrip to distribution points in Montana. The other transmission corridor that NWE has is a 230 KB ring that runs from Billings to Great Falls, Great Falls to Missoula, Missoula to Anaconda, and from Anaconda back to Billings and is the basic ring through which NWE routes its power.

Mr. Fitzpatrick explained that NWE's transmission services are regulated at two levels: the interstate transmission is regulated at the federal level, and the in-state delivery of electricity is regulated by the PSC.

SEN. LIND asked if there is a document in existence on the history of Colstrip available. Mr. Everts said he would provide that information to SEN. LIND.

TAPE 5 - SIDE B

Bill Edwards, Mayor of Roundup, officially welcomed the Energy and Telecommunications Interim Committee and thanked them for holding a meeting in Roundup. He said the merchants appreciated the boost to the local economy and that the community appreciates the endeavors of the Committee to further energy development in Montana, saying that it is a vital part of the Roundup's economy.

REPORT ON ROCKY MOUNTAIN ETHANOL

Pat Joyce, Project Coordinator, updated the Committee on the status of the Rocky Mountain Ethanol (RME) plant:

- RME is finalizing plans to build a 60 million gallon ethanol plant in Hardin, Montana, and hopes to close the financing in late July.
- The plant will provide 38 new jobs and RME is planning to hire from Hardin and the surrounding area.
- RME is renovating the old sugar beet factory which closed in 1974 and the Hardin area is very excited and supportive of the project.
- The majority of employees will receive training at another ethanol plant.
- The RME plant projects that it will use 22 million - 24 million bushels of corn, wheat, and barley. RME originally planned to use a corn as its principal grain but discovered there is not an adequate supply available, so the plant had to be modified to accept other grains. In the modification process, RME discovered that in order to accept all three kinds of grain, it would have to use different processing equipment, which required a major redesign of the front of the plant. This added considerable time and expense to the plant.

- The feeder cattle industry is very supportive of the project because of the availability of distiller grain as a feed source. This will allow the farmer feeder who raises his own corn to sell RME the corn and then buy the distiller grain product back to feed to cattle. The farmer can eliminate the silage processing and storage, thus decreasing his production costs. Also, the distiller grain has a much higher protein content (between 28-32% protein) than the corn silage (between 18 and 20% protein) and helps the feeder cattle finish faster and have a better weight gain over a shorter period of time.
- As SB 293 was going through the hearing process, it became obvious that Montana is predominantly a wheat state and barley state, growing about 48 million bushels of barley. In 2004, maltsters and breweries contracted about 14 million bushels of the barley. The Great Falls malting plant, AgriTech, has the potential to contract up to 38 million bushels of barley.
- As an incentive, an amendment put on SB 293 at the end of the session required that RME use 20% Montana-raised product the first year, increasing to 65% by the sixth year. RME recognizes that the legislators were trying to create an incentive for Montana growers and in theory, agree it is the right thing to do. Unfortunately, that amount of grain is not available in Montana and it will take time to convert acres to meet those requirements. RME will not be able to meet the requirements of that amendment for the first few years it operates, but intends to work up to meet the requirements. The issue is that most of those acres are in wheat, which gets a better market price than barley, so many producers will be reluctant to convert.
- When the amendments to the incentive were being discussed, it made investors nervous. Many other states have a good ethanol incentive and when Montana dropped its incentive to .10 per gallon, RME lost an investor. It was restored to .20 per gallon, but it is important to realize that there is a lot of competition nationally to build ethanol plants. Most investors are not from Montana and they can choose to invest anywhere. Legislators must consider what is going on nationally when making laws for Montana. Now, instead of focusing the investors on the state incentive, which RME probably can't afford to take, it is focused on the five-year ethanol requirement.
- Even if more barley acres are converted, it must be transported to Hardin. RME will contract within 100-150 miles of plant. The majority of grain raised in the State is on the High Line and in northern Montana. RME will contract grain as far west as Lewistown and Stanford.
- One of the major reasons the RME plant will work is that it will be a coal-fired plant and there is a good source of coal available. The plant will create its own steam electricity from the coal, as opposed to other plants that use natural gas. That will make a substantial cost difference of about \$18 million.
- RME originally hoped to build for about \$60 million but with the redesign and other expenses, the estimated cost is approximately \$89 million.

Ms. Joyce said overall, RME enjoyed good support from Legislature and said she would like to schedule a site visit with the ETIC.

REP. MATTHEWS and SEN. LIND both asked for confirmation that, if the financing is obtained, RME will definitely build the ethanol plant. Ms. Joyce said the plant would be built if the financing is secured.

REP. MATTHEWS asked if a railroad is in close proximity. Ms. Joyce said RME is a captive audience to the Burlington Northern Santa Fe, which goes within two miles of the plant and has a spur into the plant from the mainline. Some track will have to be replaced to allow shipments to travel south. Currently, RME can ship just East-West. Ms. Joyce said another benefit of being in Montana is that there is not a lot of ethanol plants in the Northwest. The majority of ethanol plants are located in the corn belt. Investors like this location because it is accessible to the Pacific Northwest and California.

REP. MATTHEWS said, in reference to the amendment put on SB 293, that it was known that there is not enough grain grown in Montana to supply the plant, and that the intent of the amendment was to create more supply. He pointed out that the Yellowstone valley where he lives has over 37,000 irrigated acres and said there are plans for an ethanol plant to be built there. He asked Ms. Joyce how many acres of cropland is available in the Hardin area. Ms. Joyce said RME would not limit the area in which it would contract for grain. She said beet producers have to rotate crops and are glad to be able to contract their grain with the ethanol plant on their off-beet production years. Local grain growers are excited about having a local market and not having to pay transportation costs.

SEN. LEWIS said he knew of many Senators who voted for the bill, despite misgivings about the 10% mandate. The saving grace was that the amendment would provide a market for Montana products. He asked Ms. Joyce if RME's position is that there is not an adequate supply of Montana products and that it plans to import corn from the Midwest. Ms. Joyce said a percentage of the corn would have to be imported because RME is going to be corn plant. Corn produces more ethanol than wheat does: 2.7 gallons of ethanol is produced from a bushel of corn versus 2.1 - 2.2 gallons of ethanol per bushel of wheat

Ms. Joyce said RME is going to buy as much grain in Montana as it can. She reported that Lloyd DeBruycker, the largest Charolais breeder in America and one of the larger grain farmers in the state, is one the RME partners. RME has a real commitment to the feeder cattle industry in Montana, as well as to the grain growers. RME does not know what the conversion rate will be so it has deliberately kept a low profile because it didn't want to promise something it couldn't deliver. RME plans to have a meeting with area producers in the late summer to start planning and contracting for the summer of 2006.

SEN. ROUSH asked how shipping and transportation costs will be addressed. Ms. Joyce said shipping costs vary from different times of the year and there will be times when trucking is more competitive than railroad and vice versa. RME will build a loop track to accommodate the rail shipments but will try to be flexible in order to take advantage of the most competitive rates.

SEN. ROUSH asked if the RME contracts signed would be similar to those signed by malt barley producers. Ms. Joyce said that was the hope because RME would like to be able to guarantee its supply. Nationwide, any time an ethanol plant is put in, there will a .10 to .20 increase per bushel in the grain price. If RME is going to buy a bushel of corn from a producer in Hardin, it will pay him the same price it would pay if the grain was bought out of the western Dakotas and shipped in. The local grower will get the benefit of that transportation cost. RME will be competitive here because it has product availability and storage facilities. It is fortunate that Montana has a great deal of on-farm storage available and RME will likely pay farmers to store the grain and deliver it as needed to the plant.

TAPE 6 - SIDE A

SEN. ROUSH asked Ms. Joyce if there was room for more ethanol plants in Montana. Ms. Joyce said currently there is a lot of interest in building ethanol plants in Montana and that the biggest issue facing them in competition for the grain grown in Montana. She noted that the malting plant in Great Falls has had to modify its plans several times because it has not been able to obtain the amount of grain it needs. It initially planned to use 100% wheat and has eventually modified its plan to use 75% barley and 25% wheat.

Ms. Joyce explained that there are "wet" mill and "dry" mill ethanol plants. RME is a dry mill, so it is capable of drying the distiller grain it produces as an end product, creating a much longer shelf life and more economic benefit. She said the goal will be to sell as much of the wet cake as possible to local feeders but that dairies in Idaho have contacted RME to inquire about purchasing the dry product. Ms. Joyce said, in her opinion, it would be realistic that two or three ethanol plants could operate successfully in Montana.

SEN. ROUSH asked if the Centennial co-gen plant was the power supplier for the RME plant. Ms. Joyce said RME will be completely independent and self-contained.

SEN. LIND asked Ms. Joyce to clarify that it was a co-gen plant for local use and would not put any power on the grid. Ms. Joyce said that was correct.

REP. MATTHEWS said the availability of wet mill feed is very important to the feeder cattle industry in the State. Ms. Joyce agreed.

SEN. ROUSH said that there are many by-products of ethanol production that are beneficial to other industries. Ms. Joyce said the benefits are huge and said the wet grain by-product can be hauled economically within a 100 - 150 mile range to feeder cattle operations and that swine, dairy, poultry, and fish farmers are all interested in purchasing distiller grain for their operations. Ms. Joyce predicted that interest in the products will come from not only Montana, but from other states and Canada as well.

Ms. Joyce also reported that there is lots of activity in the ethanol industry nationally and predicted that it would not be long before the federal government issued mandates regarding ethanol production.

SEN. ROUSH asked when RME plans to be operational. Ms. Joyce said it is anticipated that it will be ready for business in the fall of 2006.

Allen Evans, Roundup, Montana, said Canada is raising a tremendous amount of grain and asked what effect, if any, that may have on the Hardin plant. Ms. Joyce said that at this time, RME has no plans to import grain from Canada. She said RME is interested in pursuing some of the high starch grains being developed in Montana and Canada in the future.

INSTRUCTIONS TO STAFF

SEN. ROUSH said the Governor's Office of Economic Development would be invited to present at the ETIC's September meeting and that information on the Governor's energy summit would also be presented.

REP. OLSON said the issue of proxy votes still needed to be decided. SEN. LIND said he would like to follow the protocol on proxy votes as set forth by the Legislative Council. Mr. Barrs said the Legislative Council's suggestions on use of proxy votes are to be considered guidelines and that the Committee may choose to use the Senate Rules on proxy voting.

SEN. ROUSH said he had no problem with someone using a proxy, if the matter being voted on is not changed substantially at the meeting.

Mr. Barrs read the exact wording of the Legislative Council's guidelines on proxy votes. (EXHIBIT #22).

REP. MATTHEWS said he supports the use of proxy votes and views them as a necessary tool to keep committees functioning smoothly and efficiently.

REP. OLSON agreed with REP. MATTHEWS, saying that he is comfortable with any member of the committee voting his proxy because he trusts that all of the members know the issues and know how his vote would be cast. He asked Mr. Everts to read the Senate Rules on proxy voting. Mr. Everts said the Senate Rules state, "that the privileges of any committee member include the following: to vote either by being present or by proxy using a standard form".

REP. DRISCOLL also supported the use of proxy votes.

SEN. LIND said pointed out that geographical separation between members is an issue during the interim, whereas it is not during a legislative session. The separation makes it more difficult to stay in touch with other committee members, which may prevent a member from knowing exactly how another member would wish to vote. He said an interim situation differs from a legislative session, which is what the Senate Rules are designed to address, and that he did not support the use of proxy votes in the interim.

SEN. ROUSH said the Committee members must have trust in one another and trust that the person would use a proxy as intended. SEN. LIND said he is not concerned about trust but rather making sure that votes are cast based on testimony given and discussion heard at that meeting.

REP. OLSON **moved** that the ETIC follow Senate Rules regarding the use of proxy votes. The **motion passed on a 6 - 1 voice vote**, with SEN. LIND voting no.

REP. OLSON announced that the bus had arrived to transport the members to the Bull Mountain Coal Mine.

With no business before it, the Energy and Telecommunications Interim Committee was adjourned. The next meeting date is September 22, 2005.

CI0429 5209dfxa.