

(Subject to approval of the Interim Committee)

MINUTES
ENERGY, ENVIRONMENT AND TECHNOLOGY INTERIM COMMITTEE
OCTOBER 20 & 21, 2009
Capitol Annex
Boise, Idaho

The meeting was called to order by Cochairman Senator Curt McKenzie at 9:35 a.m. Other members present were Cochairman Representative George Eskridge, Senator Bert Brackett, Senator Patti Anne Lodge, Senator Kate Kelly, Senator Elliot Werk, Representative Eric Anderson, Representative Maxine Bell, Representative Bob Nonini, Representative Bert Stevenson and Representative Wendy Jaquet. Legislative Services Office staff present was Mike Nugent.

Other persons present were Steven Aumeier and Bob Neilson, Idaho National Laboratory (INL); Paul Kjellander, John Chatburn and Lisa LaBolle, Office of Energy Resources; Jay O'Laughlin, University of Idaho; Glen Pond and Russell Westerberg, Rocky Mountain Power; Morris Huffman, Woody Biomass Partnership; Jerry Deckard and Zach Hauge, Capitol West; Skip Smyser, Connolly and Smyser, Ltd; Gary Gould, Sho-Ban Tribe; Rich Hahn, Idaho Power; Neil Colwell, Avista Corporation; Jayson Ronk, Idaho Association of Commerce and Industry; Peter Richardson, Industrial Customers of Idaho Power; Dar Olberding, Ridgeline Energy; Terri Ottens, Community Action Partnership Association; John Watts, Veritas Advisors; Jim Kempton, Wayne Hart, Lou Ann Westerfield and Gene Fadness, Public Utilities Commission; Jeremy Chou, Givens Pursley; Russ Hendricks, Farm Bureau; Courtney Washburn, Idaho Conservation League; Leif Elgethun, Clean Lakes; Benjamin Davenport, Risch-Pisca; John J. Williams, Bonneville Power Administration; Jim Reilly, Intermountain Forest Association; Ron Williams, LS Power; Brenda Tominaga, IIPA/IGWA; Betsy Russell, Spokesman-Review; and Andy Brunelle, US Forest Service.

Paul Kjellander, Administrator, Idaho Office of Energy Resources and **Dr. Steven Aumeier**, Executive Chairman, 25x'25, discussed the wide-ranging work on options for Idaho's energy future being done by the Strategic Energy Alliance (SEA), an effort launched by the Governor that includes task forces, a board of private industry representatives, and a council that includes state agency heads. **Dr. Aumeier** said the SEA grew out of the Governor's 25x'25 Council with the goal to actualize the 2007 State Energy Plan. **Dr. Aumeier** said the goal of the plan was to have energy security for Idaho. **Dr. Aumeier** gave a structural overview of the Strategic Energy Alliance and said that 140 people took part in the alliance and the task forces.

Mr. Kjellander said transmission is at the center of energy resource development. He said Idaho does not produce all the energy it consumes and that the siting of new generation needs to take transmission into account so that it can get to ultimate consumers. He said that 100% of gasoline and diesel in Idaho is imported, 100% of natural gas and 50% of electric energy is imported. He added that this figure could change with production of biodiesel and the use of methane for manufacture of natural gas.

Representative Anderson asked about the Bonneville Power pricing mechanism and whether Bonneville should be developing more energy for distribution in this state. **Mr. Kjellander** said we need to continue to look at Bonneville as well as developing other resources.

A discussion occurred between **Senator Kelly** and **Mr. Kjellander** about whether the Office of Energy Resources should be statutorily codified and whether the Strategic Energy Alliance and its task forces are complying with the State Open Meeting Law and Public Records Act.

Senator Werk moved, seconded by Senator Kelly that the minutes of the Committee's preceding meetings on September 1 and 2, 2009, be approved. The motion passed unanimously by voice vote.

The Woody Biomass Task Force, headed by **Jay O'Laughlin**, University of Idaho, reported that woody biomass - converting mill or forest residues into thermal and electrical energy - provided 4.7 percent of the energy consumed in Idaho in 2007, and 1.8 percent of the energy consumed in the U.S. He said the U of I has been heating the campus with wood for 20 years. The University of Idaho's wood-fired steam plant uses 22,000 dry tons of woody biomass per year, resulting in savings on utilities for taxpayers. **Professor O'Laughlin** said the University of Idaho is saving \$1.5 million per year compared to natural gas costs. Currently, he said, Idaho's mill residues are being fully utilized. He noted that expanding the use of woody biomass for energy in Idaho would require new supplies of logging slash and leftovers from additional forest thinnings. **Professor O'Laughlin** said he viewed woody bio-energy as a bridge to the next energy technology and that wood has always been an important part of our energy picture. He said that there are co-generation projects in Lewiston and Plummer using woody biomass and that schools in Garden Valley, Council and Kellogg are using woody biomass for heat and that studies are underway for projects in Elk City and Salmon.

Professor O'Laughlin said Avista Corporation has a wood-powered generating facility at Kettle Falls, Washington, with a 46 MW nameplate capacity. He said they are currently hauling product for fuel within a 250 mile radius and 300 mills have shut down in that radius over the past several decades. He said national forests are producing about the same amount of timber for harvest as they did in 1947. He also said there is three times more dead wood in our forests than a decade ago.

Senator Werk said it appears the benefit of using biomass is displacing current fossil fuels. He asked how society derives a benefit. **Professor O'Laughlin** said technology today is different from the past and is much cleaner than the old dirty wood stoves and boilers. He said that biomass is projected to grow at the rate of 4.8% per year. He also said that coal-fired power plants might start to burn wood with coal to cut down on CO₂ emissions.

In response to a question from **Representative Eskridge**, **Professor O'Laughlin** said there are three areas where a woody biomass power plant similar to the Kettle Falls, Washington, plant could be built because of access to transmission and availability of fuel. He said issues in siting a

biomass plant include transportation cost, reliable supply and current forest service law. He said sophisticated new harvesting technology is helping.

Professor O’Laughlin said there are some policy options that would encourage the development of woody biomass. They include creating tax incentives since Idaho is behind Oregon for the encouragement of biomass. These tax incentives could be for the plants themselves, new equipment used to harvest biomass and a tax credit for biomass delivered to an energy production facility. In Oregon that is \$10/ton delivered. He also said they could expand the “fuels for schools” and increase the heating of campuses and public buildings.

Professor O’Laughlin said some social benefits of a robust biomass industry include reducing fire suppression costs, avoided site rehabilitation costs, avoided air emissions and increased energy security. **Representative Eskridge** opined that the decreased cost of fire suppression ought to be the responsibility of the taxpayers in the form of a tax credit instead of a utility rate increase. **Professor O’Laughlin** agreed with this. **Representative Anderson** said the State of Oregon has overcome hurdles with the various tax incentives along with increased years in stewardship contracts. He suggested that perhaps Idaho needs to increase the length of stewardship contracts. **Professor O’Laughlin** said that could be done for state lands but many U.S. forest service managers are uncomfortable thinking that for the long term. Plus, it would take a change in the federal stewardship law that expires in 2013.

Representative Anderson discussed timber pests that are finding their way from Canada and the use of urban interface components in fire suppression efforts.

Mr. Kjellander said a developer has come forward with an interest in developing woody biomass and the discussions are in the preliminary phase at this point, including issues such as the length of contract and performance criteria in the contract.

Representative Anderson said Idaho’s efforts to keep invasive quagga and zebra mussels from getting into the state’s waterways appear to be succeeding. He said the efforts were very successful this year and seem to have avoided any contact with these species in our waterways. He said seventeen sites were set up statewide to inspect boats coming into the state, and Idaho required boaters to buy a special sticker to fund the anti-mussel efforts. He said the program needs to be regionalize it and the federal government should be involved. **Representative Anderson** said there are federal statutes that are not being enforced. He called on **Leif Elgethun**, of Clean Lakes, who described what services his company provides. **Mr. Elgethun** said Idaho is at the front of the pack in attacking this issue. **Mr. Elgethun** said his company provides a technology called a “flo cam” which is a high-tech microscope that takes a picture in water to determine if an invasive species is present.

Representative Jaquet asked if the program collected enough money this year to satisfy the deficiency warrants. **Representative Anderson** said there was not enough money collected from

the stickers for this year, partly because the program was enacted and in effect for only part of a year. He estimated that a full year's registration would provide sufficient moneys.

Senator Werk and **Representative Cronin** presented a proposed statute and a concurrent resolution that would give the Public Utilities Commission further direction in implementing the 2007 State Energy Plan. The proposed concurrent resolution and statute had been presented at the Committee's September meeting. **Senator Werk** said the purpose of both drafts are three-fold:
Be more specific about reports to the Legislature;
Keep the 2007 Energy Plan in front of the Legislature; and
Help define who plays on what ground.

Mr. Jim Kempton, PUC Commissioner, after meeting with **Senator Werk, Representative Cronin and Idaho Power**, said there should be no additional cost and workloads should not be increased as a result of this legislation. **Senator Werk** said a major purpose behind both pieces of legislation is to keep the 2007 Energy Plan from ending up on the shelf and have it be a working, living document.

In response to a question from **Representative Bell**, **Mr. Kempton** said he had seen the legislation and that he and the PUC were taking no position on the resolution or proposed statute.

Mr. Kempton then discussed what actions the PUC had taken regarding the 2007 Energy Plan. He noted that the PUC had addressed the applicable "E section" action items and has integrated them into regular statutory duties and responsibilities. He said that the plan impacted multiple ongoing efforts and dockets and influenced most new proceedings. He said the PUC balances multiple objectives and change is evolutionary, not revolutionary.

Mr. Kempton said a PUC goal in rate-setting and cases before them is "all cost-effective" demand-side management. He said the term "all cost-effective" is a moving target. It involves complex calculations and is dependent upon assumptions about the future. New technologies and laws can change assumptions. **Mr. Kempton** then discussed the cost-effectiveness and evaluation process by the PUC. He said improved and refined program impact evaluation is a necessary requirement and there are ongoing workshops to refine PUC evaluation requirements and to get the word out to regulated entities.

Mr. Kempton then asked whether it was desirable to have targets. If it is felt that a target for conservation and demand-side management is desirable, should it be a policy or regulatory decision? Should the target be firm or flexible? **Mr. Kempton** said that "all cost-effective" is a target and the firm target that exceeds cost-effective levels exact a premium from ratepayers.

Mr. Kempton said there has been a long-standing PUC recognition of demand-side management as a resource. Utility programs were first approved in 1980. There was significant expansion during the 2001 western energy crisis and recently there has been increased emphasis based upon the 2007 Energy Plan guidance.

Mr. Kempton went on to say that there have been timely increases in demand-side program funding, now totaling over \$60 million per year for Idaho's three investor-owned utilities for Idaho's demand side management projects. There has been a decoupling pilot to remove financial disincentives and there have been financial incentives for utilities and a review, reporting and updating of cost-effectiveness methodology. Tiered and time-of-use rate designs are also in the mix.

Mr. Kempton said the American Council for an Energy Efficient Economy ranks Idaho as 13th in the nation in the "2008 State Energy Efficiency Scorecard" and declared Idaho as the most improved state, moving up 12 places from the 2007 scorecard.

Mr. Kempton next discussed the Public Utility Regulatory Policy Act, which was passed in 1978 by Congress to promote greater use of renewable energy and implemented by the PUC in 1980. This law created a market for non-utility electric power producers by requiring electric utilities to buy power from these producers at the "avoided-cost" rate, which was the cost the electric utility would incur were it to generate or purchase from another source. Generally, this is considered to be the fuel costs incurred in the operation of a traditional power plant. **Mr. Kempton** said there was a significant increase in published avoided-cost rates in 2008 (SAR) and that the 2007 Energy Plan policies specifically addressed in recent PUC cases include PURPA fuel component adjustments, PURPA SAR review, wind integration policy and an interconnection policy review.

Mr. Kempton said each of Idaho's major investor owned electric utilities are required by other states annually to provide their customers with information about the fuel sources used to generate the electricity sold by the company. Each of these companies provides this information to their Idaho customers.

Mr. Kempton said the PUC approved a yearly rate adjustment that allows Idaho Power to recover fixed costs it loses when demand-side management programs result in lost sales. He said this removes a disincentive to implement demand-side management programs. The fixed-cost adjustment decouples the amount the utility receives for fixed costs from the amount of energy sold. The three-year pilot program is for residential and small commercial customers only. The PUC annually revises the amount of the adjustment based on the difference between actual and the rate case established per customer sales.

Mr. Kempton said the PUC approved a pilot program to provide financial incentives to Idaho Power if it achieves better-than-expected savings from its Energy Star Homes Program and, at the company's request, the PUC approved early termination of the pilot program, and workshops are ongoing to design a replacement effort.

Mr. Kempton said the PUC authorized an increase in the tariff rider (public purpose charge) used by Idaho Power to recover its investments in energy conservation and demand response

programs. He said the amount increased from 2.5% to 4.85% of the bill and the increased funding would obtain all cost-effective demand-side resources.

Mr. Kempton next discussed tiered rates on the Idaho power system. He said the PUC ordered the implementation of a residential rate structure that contains three tiers, with rates increasing as consumption levels increase. Rates for each tier are higher in the peak summer period and for the winter months.

Mr. Kempton next discussed the “smart meter” project, which is a three-year project to install automated meters throughout Idaho Power’s service territory at the cost of approximately \$71 million. He said the meters can provide the customers and the utility with more detailed information and enhanced opportunities to control and manage energy use. The PUC approved including the costs of replacing existing meters in rates.

Regarding energy education, **Mr. Kempton** said the PUC approved a project that would use a portion of the revenue received by Idaho Power from the sale of emissions credits to provide energy conservation education within the school systems in the company’s service territory, at a cost of approximately \$500,000. The PUC also authorized specific funding for Idaho’s community action agencies to provide energy efficiency education to low-income households at a cost of approximately \$25,000.

Mr. Kempton said the PUC rejected an Idaho Power proposal to lower the rate paid to customers who generate their own electricity and sell surplus back to the utility. The utility will continue to pay the full retail rate. He also said that Idaho Power was authorized to recover the new customer expenses associated with net-metering in its annual power cost adjustment. He said the PUC also removed a requirement for a second meter that was an impediment to net-metering experienced by some customer classes.

Mr. Kempton next discussed expansion of the irrigation peak rewards program. He said program revisions encouraged additional participation. The PUC added a dispatchable option whereby Idaho Power remotely curtails irrigation during peak load times with larger credits to the customers that are more valuable to the utility and the irrigator. He said the original scheduled curtailment option is still available. In 2009 peak reductions were 102 MW from dispatchable option and 10 MW from the scheduled option.

Mr. Kempton next discussed expansion of the air conditioner cycling program providing customers a monthly credit if they agree to allow the company to turn off the air conditioner for up to 30 minutes of each hour during peak hours on peak days. He said the program has been expanded to the Mountain Home Air Force Base and saved 34 MW during 2009 peak reductions.

Mr. Kempton said the PUC rejected Idaho Power’s commercial air conditioning cycling program because the loan reductions were uncertain; the overall cost was too high (\$700,000) and was projected not likely to be cost-effective.

Mr. Kempton next discussed expansion of weatherization assistance for low-income customers. Idaho Power contracts with regional community action agencies to target an otherwise hard-to-reach customer segment, offering utility dollars to supplement federal dollars; it expands funding for both number of homes serviced and the measures taken per home, and consumer education is added to the program.

Mr. Kempton discussed a commercial/industrial demand-response program approved by the PUC. EnerNOC is an independent energy services company selected by competitive bid to implement and manage the program. They recruit commercial and industrial customers and pay them to reduce demand. Idaho Power issues an alert and EnerNOC reduces demand. Idaho Power pays EnerNOC, which guarantees demand reductions. They have entered into a five-year contract to attain up to 65 MW of demand reduction by year five.

Mr. Kempton next discussed programs with Avista and their electric energy demand-side management activity from 2006 to 2008 and energy conservation activity on its gas side during the same period. The PUC authorized an increase in both the gas and electric energy-efficiency tariff riders used by Avista to recover its investments in energy conservation and demand response programs. He said the amount increased from 2.24% to 3.27% of the total bill for electric and 1.55% to 2.6% for gas. The PUC also authorized increased funding to obtain all cost-effective demand side resources. **Mr. Kempton** said the PUC approved a year-long load-management pilot project in which programmable thermostats are remotely adjusted by two degrees in response to utility alerts.

Mr. Kempton next discussed the Rocky Mountain Power Company. He indicated that their most recent integrated resource plan calls for system-wide demand-side additions with 900 MW energy efficiency and 105-325 MW demand response. Also, the utility will add 1,423 MW of new generation with 1,313 MW wind, 35 MW geothermal and 75 MW upgrades to existing hydropower facilities. They plan to add 1,000 MW of new generation from non-renewables with 831 MW natural gas and 170 MW upgrades to existing coal facilities.

Mr. Kempton said the PUC authorized an increase in the energy efficiency tariff rider used by Rocky Mountain Power to recover its investments in energy conservation and some demand-response programs. The amount increased from 1.5% to 3.72% of the total bill and provided increased funding to obtain all cost-effective conservation, energy efficiency and demand response resources.

Mr. Kempton said the irrigation credit has been doubled and a second irrigation load program has been offered. The PUC approved program revisions that encourage additional participation and peak reduction more than doubled from 78MW in 2007 to 215 MW in 2008. Finally he discussed Rocky Mountain Power's expansion of weatherization assistance for low-income customers, which was very similar to Idaho Power's program.

In response to a question from **Senator Werk**, **Mr. Kempton** said Idaho is the only state to have PURPA projects as large as 10 MW. **Representative Eskridge** said an issue regarding decoupling is separating what is done individually versus what the utility is doing.

Senator McKenzie asked **Mr. Kempton** and **Mr. Kjellander** when the report was going to be ready for presentation to the Legislature. The response was that it would be transmitted no later than the beginning of the 2010 Legislative Session. **Representative Eskridge** said he was impressed by the presentations by **Mr. Kjellander** and **Mr. Kempton** on how the 2007 Energy Plan is being implemented.

Senator Werk and **Representative Cronin** said at this point they had no further plans regarding the resolution and draft legislation.

Representative Jaquet and **John Watts, Veritas Advisors**, presented proposed legislation that would provide a state income tax credit to businesses and individuals who install alternative energy devices on their property. The proposed statute was based on a similar statute in Oregon. **Mr. Watts** indicated he was representing the McKinstry Company as part of the presentation and said it was the goal of the legislation to create a tax credit incentive program to encourage business owners to invest in renewable and achieve Idaho's energy goals. It is intended to facilitate investment in buildings and equipment. He said the legislation is fiscally neutral as expenditures must be made up front. Businesses applying for the credit must pay a fee and a portion of income tax goes to the Office of Energy Resources to administer the program. He said the maximum investment that would be allowed a credit would be \$20,000,000.

Mr. Watts said non-profits, school districts and local government entities could participate in this program. They could install equipment, qualify for the credit and then sell the credit. An example would be a school that expends \$100,000 on equipment, and then would be able to sell the credit to a taxpayer for \$20,000 who could take a \$100,000 credit over time against income taxes.

Representative Jaquet said there was an effort in Oregon to roll this program back and the legislation doing that was vetoed by the Governor. **Representative Jaquet moved the committee conceptually endorse the concept of the legislation, knowing that there would be changes made before it reaches the Legislature. Senator Kelly seconded the motion.**

Representative Anderson said he had not seen the legislation before today and will probably not see it again unless it is introduced in a committee he sits on or comes before the floor of the House. He said it is not a good way to do business, to have a piece of legislation this complex sprung on the committee cold. **Representative Anderson** said he does not support every piece of tax legislation before the Legislature that grants an exemption or credit and does not want to support something he has not reviewed thoroughly.

Representative Bell said she was not sure she supports moneys going to non-profits as is written in this draft.

Representative Stevenson said we need a starting place for discussion and this is it. He said this is not a finished product and will go through some refinement before it is ready for introduction. He said he liked the sunset clause and the delayed effective date given the state's current economic climate.

Representative Eskridge said that if he voted for the motion, he does not want that to be construed as support for the draft as it is currently worded.

Senator Werk asked how the benefit will be tracked. He said there doesn't appear to be a mechanism in the bill to track it. **Mr. Watts** said one can be built in and there still needs to be more work done on the draft. He said the goal of the legislation is to promote renewable energy and help with a weak economy in Idaho.

Senator McKenzie said there will have to be a general fund impact at least initially with this legislation. He said it will be a tough sell in the Senate Local Government and Taxation Committee. He said before he could support the concept he would have to see the fiscal impact. **Senator McKenzie** said that maybe the committee shouldn't take a specific action on the draft legislation at this time.

Representative Jaquet withdrew her motion with the consent of her second, Senator Kelly. **Senator Kelly** said the 2007 State Energy Plan stated that tax incentives are a tool that can be used positively. She said she does not want the minutes to reflect that this is a concept the committee does not support. In her opinion, the committee needs to continue to discuss this.

Mr. Watts said the action the committee has taken is appropriate and he will work with the committee in refining the draft legislation.

Terri Ottens, Community Action Partnership Association, presented proposed legislation that would allow the Public Utilities Commission to provide additional assistance to low-income persons for heating and energy purposes upon application by regulated utilities. She said there would be annual reports by utilities to the PUC under her legislation. She said that currently utilities have costs of collections, and states that have done this sort of program have a one-on-one tradeoff on collection costs. She said the three investor-owned electric utilities support this legislation and the Public Utilities Commission and AARP supported the bill that was introduced in 2009.

Ms. Ottens said she realizes that this is a tough economic year, but the utilities currently pay for people not paying their bills through collection costs.

Representative Stevenson asked if a person qualifies one year, would they have to reapply. **Ms. Ottens** said she assumes it would be similar to the process for the LIHEAP program, in which a person has to apply every year. **Representative Stevenson** asked if a utility would verify income tax returns. **Ms. Ottens** said LIHEAP requires a payroll stub or tax return.

Representative Nonini asked if this were in place, what would stop people in the program from being wasteful with energy. **Ms. Ottens** said there would be an energy education program to all recipients. Also there might be federal funds available for weatherization.

Representative Eskridge said we are paying for this anyway in collection costs. This would allow the PUC to authorize the utility for recapture of their costs in the rate process.

Senator Werk said there will always be some bad eggs but that's not to say there will be a million bad eggs. He said he liked the added accountability and counseling to recipients under the legislation.

Senator Lodge asked if we would be creating more bureaucracy with the legislation. **Ms. Ottens** said the utilities have discussed this and the bureaucracy is already in place in the form of collection teams. She said another way to fund this might be to add a surcharge on ratepayers bills. **Senator Lodge** said she is afraid if the Legislature passes legislation such as this that we are impacting families, churches and individuals with the ability of individuals to decide for themselves. **Ms. Ottens** said some people requesting assistance do not have a church or family in the community to turn to for help. **Ms. Ottens** said the goal is to make recipients sustainable in two years.

Representative Nonini asked what percentage of uncollectable accounts are written off and what percentage and picked up by the ratepayers. **Mr. Neil Colwell, Avista,** said he did not know but would try to get the figure for the Committee. **Mr. Colwell** said Avista goes after past-due accounts fairly aggressively. He sees people getting into financial trouble when they have a huge winter bill for heat and then things start to snowball out of control.

Senator Brackett asked how his legislation differs from the 2009 bill. **Ms. Ottens** said last year Section 61-315, Idaho Code, would have been amended. There were complaints about a lack of accountability. This legislation would add a new section to the public utilities law and would have the accountability component in it.

Representative Jaquet spoke in support of the legislation stating that Avista has testified in the past regarding the need for a program like this. **Representative Eskridge** said he was glad to see the monthly payment requirement and it would be the company enforcing the program. There was no action taken on the proposed legislation.

The meeting recessed at 5:05 p.m.

October 21, 2009

The committee reconvened at 8:05 a.m. Members present were Senator McKenzie, Senator Lodge, Senator Brackett, Senator Fulcher, Senator Kelly, Representative Eskridge, Representative Stevenson, Representative Bell, Representative Nonini, and Representative Jaquet. **Representative Nonini** requested the minutes reflect the unexcused absence of **Senator Jorgensen** both days. **Senator McKenzie** said the Cochairmen have taken note of the members who have responded and **Senator Jorgensen** had not responded about attending the meeting, and his absence would be noted as unexcused.

Andy Brunelle, U.S. Forest Service, provided copies of “Making Biomass Pay: Obstacles and Opportunities,” in the September 2009 edition of “Fire Science Digest,” which were handed out to the committee.

Representative Stevenson presented a report on meetings about fees for impacts of growth on electrical systems that took place this legislative interim. This is an outgrowth of HB52 of 2009 and the last meeting about the concept took place October 15, 2009. **Representative Stevenson** said he feels the PUC should keep the bill in the “warming oven” for the time being and he will not go any further until we have the Governor’s support. **Representative Stevenson** said the irrigators of the state are some of the groups being penalized with time-of-use restrictions and higher rates that are brought about in part because of new growth to the systems.

Lane Packwood, Department of Commerce, gave an update about proposed legislation he had presented at the last meeting regarding energy independence districts that would provide for renewable energy systems and energy efficiency systems by homeowners. The projects would be like a local improvement district and have bonds issued to pay the costs of the projects, with repayment from property taxes. He said since the last meeting he had requested an Attorney General’s opinion as to whether the legislation he presented violated the Constitution about lending the state’s or municipality’s full faith and credit to private individuals. He said the opinion was not favorable as to the constitutionality of the legislation that was presented at the last meeting.

Mr. Packwood discussed some of the state constitutional provisions and case law that had been reviewed. Given the Attorney General’s opinion, they were looking at alternatives such as using urban renewal agencies to accomplish this or to go through the Idaho Housing and Finance Association. It was noted that there are exceptions in the state Constitution to the lending of the state’s or municipality’s full faith and credit, and this might be the year to propose a Constitutional amendment to authorize these type of programs.

Representative Stevenson and **Senator Kelly** both noted that there will probably be Constitutional amendments proposed regarding the Frazier decision and, at the very least, to address public hospitals and airports. **Representative Nonini** asked where in Colorado they have moved forward, and has there been positive economic development. **Mr. Packwood** said

one county has issued \$40 million in revenue bonds for this, but it is still too new to say how it is working.

Representative Eskridge said he felt this is worthwhile pursuing and would like the Association of Idaho Cities and the Idaho Association of Counties to weigh in on the subject.

Paul Kjellander discussed transmission projects that have been proposed to be sited across Idaho. **Mr. Kjellander** said there are eight major transmission projects planned to cross the state of Idaho. He said that people recognize the need for new transmission, but the projects can be controversial. One variable in the siting is that transmission projects cannot be too close to one another in case of a natural disaster, such as a range fire hits and takes down a transmission project. You do not want to have them too close together if that were to occur and then have multiple projects down. He also said endangered species are a big issue in siting transmission projects, particularly on federal lands. Regarding endangered species and transmission, land swaps between the state and federal government can be a good idea to help mitigate that issue.

Senator Kelly asked if **Mr. Kjellander** was going to bring back the concept of renewable energy enterprise zones. **Mr. Kjellander** said instead of a bill with an income tax credit, they will probably use stimulus money and have a competitive grant program.

Representative Stevenson said there is no question why utilities prefer to site on private lands instead of public lands. **Mr. Kjellander** said litigious parties can make transmission siting problematic on public lands. **Senator McKenzie** said this is an issue that is central to load growth and siting of renewable energy projects. **Mr. Kjellander** said the Strategic Energy Alliance has a transmission subgroup.

Rich Walje, President of Rocky Mountain Power and Neil Colwell, Avista Corporation, discussed the federal cap and trade legislation that is working its way through the United States Congress. **Mr. Walje** said his company's position on climate change is, if it is the societal desire to reduce CO₂ emissions, Rocky Mountain Power will try to participate. They do not like the trading mechanisms that are contained in the bill that passed the U.S. House. He said some of the profiteers of this will be Wall Street banks and brokerage houses. He said CO₂ emissions can be reduced without cap and trade and he would prefer to work with state public utility commissions to achieve this objective.

Mr. Walje said for his company, if the tax is \$25 per ton of CO₂ emitted, it would result in a 16% rate increase for Rocky Mountain ratepayers. He said Monsanto Corporation in Southeast Idaho is a customer that is price-sensitive to power costs and this increase might make them non-competitive.

Mr. Walje said that under the Waxman-Markey bill there are winners and losers among utilities. Utilities that generate power with mostly nuclear or hydro will be winners. He said he would prefer to work with public utility commissions to back out coal, and that process will not be as costly as cap and trade. He indicated that they are in discussions with a developer of a nuclear

plant. **Mr. Walje** said the CAFÉ standards put in place for automobile mileage by Congress would be preferable to the system in the House passed bill. **Mr. Walje** would prefer to see the states with more autonomy in addressing the issue.

Senator Kelly asked if cap and trade worked well regarding acid rain. **Mr. Walje** said the only participants in that were the polluters. You did not have the intermediaries in the markets. **Senator Kelly** asked how the states would do this. **Mr. Walje** said under Waxman-Markey there are goals for companies to meet. **Mr. Walje** said he just did not like the market aspect of Waxman-Markey.

Senator Kelly asked about the nuclear company. **Mr. Walje** said it is in Utah. He said they looked at Payette County in Idaho, but it was just not feasible. He said they are bullish on nuclear energy because it solves intermittency problems with wind and solar generation. He said his company has an interest in a battery company in China that is working on ways to store electric energy from wind and solar generators for a longer period of time.

Representative Eskridge asked where support for the trading mechanism in the Waxman-Markey bill originated. **Mr. Walje** said in the House the majority of the wealth would be transferred into districts of the Congressman who voted for the bill.

Representative Eskridge asked what are the chances of having the market mechanism removed when the bill is considered by the Senate. **Mr. Walje** said they are having amendments drafted to the bill to suggest it is a state's rights issue to regulate pollutants. Perhaps the answer is to make the program like acid-rain reduction so there is no market methodology.

Representative Eskridge asked whether it would be beneficial for the Idaho Legislature to adopt a Memorial asking the state public utilities commission to implement the reduction of CO₂ by utilities. **Mr. Walje** said yes.

In response to a question from **Representative Anderson**, **Mr. Walje** said all utilities have an obligation to serve their customers. **Mr. Walje** said that until they build more renewable, the emissions probably will not be cut. He said rationing energy would solve part of the problem, but people do not like that.

Representative Anderson said if you had a tax that was industry-wide and could be used for carbon reduction, that would be preferable. **Mr. Walje** said that Congress and the Legislatures just need to tell utilities how much they want their CO₂ emissions reduced, and they will work with state public utilities commissions.

Mr. Colwell said there is a schism between companies based on their greenhouse gas profiles. He said that under Waxman-Markey they won't have to raise their prices as much as Rocky Mountain Power, but the ratepayers should expect a rate increase. He said his company was supportive of the Edison Electric Institute's plan for carbon dioxide reductions based on 50%

allowances on land for carbon sequestration and 50% on emissions. They would like to see the individual states implement a cap and trade system without the huge market presence. **Mr. Colwell** said the federal mercury reduction law did not stop states from having stricter programs. **Mr. Colwell** said right now the technology is not there to reduce coal emissions to virtually zero.

In response to a question from **Representative Eskridge**, **Mr. Colwell** said there would be a rate payer impact under the cap and trade system that is in the House bill. **Representative Eskridge** asked if cap and trade as written in the House version becomes law, will it be a certainty that emissions will be reduced. **Mr. Colwell** said there is some merit to a carbon tax or a program to bring down allowable emissions. He added that there are ways to address the problem successfully other than what is written in the House version.

The Cochairman said this will be the Committee's last meeting this legislative interim.

The Committee adjourned at 10:55 a.m.