

Lawrence C. Rezentes, CPA
Comments at December 7, 2009, Electric City Power Board
Meeting

I will read my statement in the interest of time. I will provide a copy to the city clerk.

\$60,000 plus expenses later, Burns and McDonnell's report may have satisfied the current city government's and city management's need to self justify, but missed the mark in leaving unanswered the question of why the city should continue in the business of providing electric power to 18 customers. The report, touting savings for the 18, primarily private, business customers such as FedEx, General Mills, and Montana Refinery, being served by ECP, ignored spelling out that those savings occurred, and continue to occur, at a cost to the taxpayers of multiple millions of dollars in losses, write-offs, and debts remaining to repaid, and partially resulted from subsidized pricing to these customers. Ignored, except in closing, is the fact that the city has done so, and continues to do so, in violation of ECP's founding ordinance requiring it at all times to be self-sustaining.

What is the conceivable benefit to the citizens and taxpayers of Great Falls to have ECP as a continued diversion of city time, attention and finances? I have pointed out before the cost of loss of the ability to fund such basic requirements as expanded staffing for police and fire resulted in large measure from the millions in losses and misspent investment in the ECP and HGS program.

Now the theory is that ECP is in prospect of making money. But is this prospect real and enough to justify the continued diversion of the city's attention in light of what has proven to be misspent millions in losses and dollars invested? Is the consultant's solution of negotiating rate increases to existing customers (suggested at 32% but settling at 10% to avoid loss of customers) realistic given existing contractual rate commitments to customers? How does this square with the concept that customers have any advantage relative to purchasing power from NorthWestern Energy?

The report states "In the last full fiscal year alone that trend reversed and ECP for the first time showed a positive cash flow by collecting

more revenues from its customers than the amount paid to SMEC for power purchases". That statement is incorrect. The August 31, 2009 ECP Board package financials include a cash flow statement that shows full fiscal year (fiscal year ended June 30, 2009) cash receipts from customers of \$9,023,565 and \$9,330,855 in payments: an excess of payment for power over cash receipts from customers of more than \$307,000.

A deficiency in the premise for Burns and McDonnell's calculations of profitability of ECP is their use in their calculations of the "transitioning to a blended rate" without referencing that the city currently pays the higher "pass through rate" and not the blended rate, nor even the transitional rate. Out of pocket, the city continues to pay what it paid before. This figment, as I have state repeatedly, is the reason for ECPs recent supposed "profitability". YTD financial results displayed in the year-to-date financials provided in tonight's board package continue to reflect this figment. Adjusting to reflect full cost of power paid by ECP out of pocket, ECP lost \$60,000 FYTD. I continue to feel it is inappropriate for the city to recognize the benefit from the "transitional rate" pending resolution of the Yellowstone Valley Electric Cooperative lawsuit and other uncertainties.

The consultants compromise their report when they truncate their Ordinance 2925 reference. They reference the ordinance's requirement that ECP have "revenues sufficient to pay all ECP expenses" without continuing the citation contained in the ordinance to include "at all times" be self sustaining. They then disingenuously take the position that the break even requirement does not state a time period and "has been an ineffective tool"; thereby attempting to justify the continuing violation of it by the city. What do the consultants not understand about the meaning of "at all times". Why did they not complete the quote? Their recommendation that the city amend the ordinance to further justify the city's violation *ex post facto* is simply outrageous.

A final major deficiency in the report is its lack of a proposed plan to exit Electric City Power, should the city elect to do so. The risks of shutting down are overly weighted and the likelihoods given overmuch credence. The citizens of Great Falls have been told all along that the city was insulated from liability resulting from the

activities of ECP, yet now the implication is that this is not so, that the city itself will have liability here, and the concept of "stranded cost" liability to SME is introduced with no assessment in the report of the validity of such a claim under the existing power purchase agreement with SME.

The newly-elected mayor and city commissioners will have to consider the facts and make the right decision in the interest of the citizens and taxpayers of Great Falls. I suggest that they consider carefully what I have said today.