

AGENDA REPORT

DATE October 7, 2003

ITEM Ord. 2861, Amending Title 5, OCCGF, to include Chapter 20, Authorizing the City of Great Falls to Establish and Operate an Electric Utility and to Market Electric Power Service to Consumers

INITIATED BY John W. Lawton, City Manager

ACTION REQUESTED Adopt Ord. 2861 on final reading

PRESENTED BY John W. Lawton, City Manager

RECOMMENDATION: It is recommended that the City Commission adopt Ord. 2861 as amended on final reading.

MOTION: I move the City Commission adopt Ord. 2861 as amended on final reading.

SYNOPSIS: This is a proposed ordinance to allow the City to establish an electric utility. The ordinance is general in nature, allowing the City to enter the business of providing electricity at varying levels. Presently, we are only considering entering at the level of supplying electricity for City operations. If we are successful in doing this, we will also attempt to supply the needs of other governmental agencies. At this point we are not considering entering the "poles and wires," or retail distribution, end of the business.

At the same time, the proposed ordinance authorizing the City's entry into the electric utility business is very broad, allowing eventual entry into all phases of supplying electricity locally. We are proposing this to position the City to respond to several different scenarios should they materialize. Northwestern Energy, the City's current provider, has filed for Chapter 11, bankruptcy restructuring, and no one knows exactly how their attempts to solve their financial problems will play themselves out. In the event it becomes necessary or advantageous for the City to enter the distribution side of the electric utility business to provide citizens with a stable, reliable, and reasonably priced supply of electricity, a broad grant of authority will permit it to respond quickly. If it is neither necessary nor advantageous to Great Falls' residents for the City to be involved in energy distribution, then the City will not enter this side of the business.

The ordinance is attached along with an Attorney General's Opinion which affirms the City's authority to establish an electric utility.

In the future, it may be deemed necessary to establish an Electric Utility Board to advise the City Commission on all matters related to the electric utility established by this ordinance. See also additions to Ord. 2861 on final reading to include: a finding of electricity service in the best interests of the City; and, a more detailed description of bond financing.

BACKGROUND: This proposal will position the City of Great Falls to purchase electricity in wholesale markets and to distribute it in one or more of several optional ways. These optional ways of distributing power are as follows.

- To its own needs. The City uses about 16 megawatts of electricity annually. This is about 20 percent of the total community usage. The City is a large user. We should leverage our own use to increase our purchasing power.
- To its own needs and the needs of other governmental users. When the electrical loads of the Airport, the School District, the County, and other agencies are aggregated, the potential for leveraging purchasing power becomes even greater. Great Falls Public Schools were part of the contract to purchase electricity cancelled by Northwestern Energy.
- To other large users through Northwestern's distribution system.

- To the entire community if and when an opportunity presents itself to acquire all or part of the Northwestern electrical distribution system.

The City's immediate strategy will be to assemble a portfolio of power contracts by working with governmental power marketers such as the Western Area Power Administration and with our neighboring rural electric co-operatives. Preliminary discussions have already been held with representatives of co-operatives.

Several Montana cities and school districts contracted with Northwestern Energy to supply their needs for five years at a fixed price. Northwestern unilaterally abrogated the contract in late June of this year. As everyone knows, Northwestern is in difficult financial straits. Their lack of credit-worthiness has affected their ability to commit to long-term contracts to supply electricity. After Northwestern repudiated the contract, the City of Great Falls' electricity costs at its water treatment plant increased by 21 percent, because City facilities reverted to the default rate. The annual cost increase will be in the neighborhood of \$100,000. This is just for one City facility. The total additional cost to the City will be over \$300,000 annually. These costs will be passed on to the ratepayers and taxpayers who are already suffering from increased electricity costs in their homes.

At present, Great Falls residents and businesses are at the mercy of the electrical energy marketplace. Northwestern Energy's ability to purchase power at advantageous prices is diminished by its financial situation. If there is another spike in prices for electricity, Great Falls energy costs will be affected immediately as increased costs are passed on to consumers. Montana is in a crisis of price and supply vulnerability.

It is obvious that electrical energy price and supply vulnerability will affect all of us as consumers. What may not be quite so obvious is that it will also affect our ability to develop our economy. An unstable supply of electricity at high prices could choke off any possibility of economic growth.

This proposal does not provide an immediate solution. But it provides a start. The City must begin to go its own way because statewide solutions have not been forthcoming. Local public power is well established throughout the nation and it may be time for it to come to Montana. Other avenues to a secure and stable energy future have failed in the parts of Montana served by the former Montana Power Company. It is time for municipalities to work with our successful and viable co-operatives to fill Montana's vacuum in energy policy.