Concerned Citizens Montana

Voices for honest energy.

January 18, 2012

Julia Haggerty, Ph.D.
Headwaters Economics
P.O. Box 7059
Bozeman MT 59771

SUBJECT: Questions for Economic Analysis - MSTI

Dear Dr. Haggerty,

Thank you for requesting that Concerned Citizens Montana (CCM) submit questions for economic analysis in connection with NorthWestern Energy's (NWE's) proposed Mountain States Transmission Intertie (MSTI) as currently routed through Broadwater, Jefferson, Silver Bow, Madison, and Beaverhead Counties.

There are many economic issues the citizens of these counties face in connection with establishing a new high-voltage transmission corridor through the scenic and productive region. Here are three:

1) **What is the impact of MSTI's costs on the economic well-being of Montana's residents, workers, and businesses?** Attached, we present evidence that serious uncertainty surrounds the question of who will pay for MSTI. The impacts of costs to Montana residents through taxes and higher utility rates must be accounted for.

2) **What is the total cost throughout the MSTI-impacted region in uncompensated economic damages to residents?** Attached, we address the transfer of wealth from rural families to corporations that would be caused by MSTI and the new transmission corridor through depreciation of land values, job destruction, and outright loss of productive land. The loss of land impacts families who rely on it for their livelihood.

3) **How will the addition of subsequent high-voltage transmission lines and upgrades along the new corridor affect the economic well-being of residents in the future?** Attached, we argue that this is the most important unasked question in the MSTI permitting decision.

Numerous other economic concerns merit study, including but not limited to the incremental costs of weed control, depredation of the region's tourism and recreation industries, and diminished opportunities to establish conservation easements. But the three questions listed above are ones where industry and procedural biases have drowned out the most pressing and legitimate concerns of communities along the route alternatives for MSTI.

In addition to researching the questions above, we respectfully request that your report review and analyze **scientific Montana "jobs" data** as well as **broad energy policy perspectives from recognized economists**. To this end, we submit a PDF of a presentation given by Dr. Larry Swanson at the *Montana's Energy Future Summit* (held in Helena, January, 2011). We also submit a PDF of a commentary for Montana Public Radio by Thomas Powers entitled *Montana's "Dependence" on Coal Mining, Electric Generation, and Oil Refining* (October, 2010).

Throughout the MSTI debate, the public has been subjected to industry propaganda and "jobs" hype of low analytical quality. Energy jobs are valuable and important. But energy jobs represent fewer than 2% of Montana jobs. Throughout the legislative and permitting process regarding MSTI, the interests of Montana's ratepayers as well as tens of thousands of MSTI-impacted residents have been systematically undercounted.

CCM wants that to change, and we sincerely appreciate any contributions you can make in this regard.

Respectfully,

Concerned Citizens Montana

Attachments

Supporting Information on CCM's Questions

What is the impact of MSTI's costs on the economic well-being of Montana's residents, workers, and businesses?

NorthWestern Energy has repeatedly assured the public that MSTI (a private "merchant" export line) would be paid for by commitments from large power generators in Montana and end-consumers in far-away population centers. Many Montanans, ranging from Public Services Commissioners to ordinary ratepayers, are concerned that these assurances are highly uncertain or outright false. This uncertainty stems from several factors:

1) **Failure of MSTI to meet market test for need –** Two separate MSTI "Open Seasons" have resulted in insufficient demand from power generators or end-consumers to justify either the $1 billion cost or massive 500 kV scale of MSTI. Failure of the first open season prompted the Montana Department of Environmental Quality (MDEQ) to write in the Draft Environmental Impact Statement for MSTI (DEIS) that based upon transmission service requests, "MDEQ cannot reach a finding of sufficient need for the proposed project at this time." (p. 1-26) DEQ noted that the second "Open Season" could change this conclusion. But NWE again failed to demonstrate a market-based need for MSTI. NWE has disclosed in SEC filings that it seeks a partner to own up to 50% of MSTI. The company has also reported in investor briefings that the probability of NWE completing MSTI as a 100% NWE project is "medium to low." The prospect of NWE flipping its MSTI permit for profit to a much larger corporation has become a serious concern for residents impacted by the agency-preferred route. Absent the sources of paying for MSTI that NWE has previously indicated to the public, ratepayers and taxpayers are at increased risk of bearing the cost burden.

2) **Rate pressure –** Building MSTI without proven new cost-effective energy suppliers could result in export of Montana's legacy generation without comparably priced replacement generation. This would likely put upward pressure on Montana rates.

3) **Secret negotiations with federal BPA** – In a January 9, 2012 *Memorandum of Understanding* (MOU), Northwestern Energy (NWE) and the federal Bonneville Power Administration (BPA) revealed they have been in secret negotiations since February 14, 2011 to involve BPA with NWE in developing MSTI. While the details of their *Mutual Confidentiality and Non-Disclosure Agreement* dated February 14, 2011 remain secret, it is evident that BPA has wide-ranging powers to allocate public funds and commitments to MSTI as part-owner and/or subscriber to MSTI. This development puts taxpayers and ratepayers at increased risk of paying for MSTI. The development causes further concern

because the purpose given by BPA for its proposed involvement in MSTI contradicts the reasons NWE has previously given the Montana public for building MSTI.

4) **Evolving federal policy regarding allocation of transmission costs** - Federal Energy Regulatory Commission (FERC) policy is evolving rapidly (e.g., FERC's Order No. 1000). Even prior to adoption of Order No. 1000, FERC had already established precedents in other regions for allocating transmission costs more broadly (e.g., Midwest ISO) than in previous transmission financing arrangements. The dynamics of the MSTI project are potentially changeable through increased federalization, repurposing of the line, and/or sale of the MSTI permit to another corporation. This could result in the line's reassignment from being purely a "merchant line." If MSTI (or its successor in the permitted corridor) were to be selected for regional cost allocation and the current trend in FERC policy continues, an allocation of the costs could well be rolled into the utility bills of Montana customers.

5) **The need for a public accounting on the status of NorthWestern Energy's other applications for government subsidies** – NWE responded to the federal Western Area Power Administration (WAPA) Request for Interest in WAPA's programs authorized by the Recovery Act, Section 402 (i.e., "stimulus" money). These programs give WAPA authority to participate in certain transmission construction and upgrade projects and provide borrowing authority to facilitate WAPA's participation. This program is currently providing $161 million in federal financing to the Canadian firm, Enbridge, Inc., in connection with Montana Alberta Tie Line (MATL). NWE also expressed official interest in the federal Department of Energy (DOE) program providing federal loan guarantees for electric power transmission infrastructure investment projects.

In summary, the sources of paying for MSTI promoted to the public by NorthWestern Energy have not materialized. The magnitude and nature of the proposed federal role is not presently disclosed, but the socialization of costs and risks of MSTI (together with the privatization of profits and rewards) have been evident to the public from the beginning. Costs to Montana residents through taxes and utility rates must be accounted for.

What is the total cost throughout the MSTI-impacted region in uncompensated economic damages to residents?

Uncompensated economic damages include costs for lack of full compensation for lands, impacted viewsheds, and job destruction.

1) **Uncompensated property damages -** Attached, please find a letter from Frank Colwell, Managing Broker of Prudential Montana Real Estate.

He writes:

> "View obstructions such as the proposed MSTI line would seriously impair the affected properties' marketability and as a result, property values would diminish to a point where view scape objections are equalized by diminished price."

Realtors broadly agree that significant loss in property values throughout the five impacted counties will accompany the high-voltage transmission corridor's range of visual impact, an area that extends well beyond the footprints of the transmission facilities themselves. This is more than simply the opinion of real estate professionals. The US Department of Housing and Urban Development appraisal requirements include Overhead High Voltage Transmission Towers and Lines under the category of "Hazards and Nuisances." The appraiser "is instructed to note and comment on the effect on marketability resulting from the proximity to such site hazards and nuisances."

Advocates of eminent domain powers for merchant transmission ventures frequently assure the public that property owners receive full compensation for takings. This is highly misleading. It is true that owners of property directly underlying the facility receive compensation through condemnation proceedings. But owners of proximate parcels that do not directly underlie the facility will experience a taking of property value with no opportunity for compensation. In the case of a new high-voltage transmission corridor like the one for MSTI, the viewshed can extend miles from the transmission towers and lines themselves. In the case of Whitehall, MT, where the proposed alignment remains in everyone's daily viewshed, every resident and property owner faces some degree of taking.

For a property owner sued by MSTI for condemnation, there are two components to the taking. First is the loss of the property taken for construction of the project. Second is the depreciation to the remainder of the parcel due to the project. The report *Eminent Domain in Montana*, produced for the Environmental Quality Council by the state's Legislative Environmental Policy Office, revised in 2007, states, "If the property sought to be taken constitutes only part of a larger parcel, the [condemnation] commissioners will determine the depreciation in current fair market value that will accrue to the remaining parcel. …This provision is included in law to provide compensation to the condemnee if the installation of the project leaves the condemnee with a … remnant that is decreased in value because of the project. … The [condemnation] commissioners also determine the appropriate payment for damages to the property taken, as well as to any remaining parcel of property that may be adversely impacted by the project."

The existence in law and in practice of compensation for economic damages to the remainder of a condemned parcel is proof that damages to proximate parcels from projects like MSTI are real. During MSTI condemnation proceedings, courts can and surely will find that remaining portions of condemned parcels are damaged through loss of viewshed by proximity to MSTI. But proximate parcels, even ones that lie nearer to MSTI than remnant portions of condemned parcels, will have no access to the condemnation courts. Those takings will consequently go uncompensated.

Uncompensated losses extend beyond viewshed impacts. The loss of productive agricultural land results in a loss of yearly income for families who rely on the land for grazing or farming. There will be a loss of local produce which will raise the cost of goods to consumers.

To the disadvantage of ordinary citizens, concerns about takings in property value are routinely dispensed with in agencies' Environmental Impact Statement proceedings through use of industry-funded studies which are biased as well as incomparable to the communities affected. We implore Headwaters Economics not to ignore the vast transfer of wealth from Montana's rural families to corporations such as NorthWestern Energy that will result from permitting MSTI along its current agency-preferred route.

2) Job destruction - Job destruction will occur with occupations tied to agricultural lands, tourism, hunting, fishing, hiking and recreational lands. To date, there are no projections on specific impacts to these types of existing jobs and their incomes for the five-county impacted area.

How will the addition of subsequent high-voltage transmission lines and upgrades along the new corridor affect the economic well-being of residents in the future?

One has only to travel by car from Montana to Seattle, Las Vegas, or Houston to be convinced that high-voltage transmission lines rarely occur singly. The noxious nature of the land use, combined with the difficulty in permitting such a noxious use over so great a distance, promotes concentration of the highest-voltage steel tower transmission lines within corridors. Permitting the current MSTI preferred route will establish the route through Broadwater, Jefferson, Silver Bow, Madison, and Beaverhead Counties as a new high-voltage transmission corridor and default preferred route for future transmission lines and upgrades.

The government agencies involved in the MSTI permitting decision are well-aware that the siting process they are performing now will, practically speaking, decide the location for future additional transmission lines and upgrades. For example, with respect to TransCanada's proposed Chinook 500 kV high voltage DC (HVDC) line the MSTI working-DEIS states, "The location of Chinook is unknown at this time; however, these two projects would most likely be near each other through the Jefferson Valley and along the I-15 corridor from near Dillon to near Idaho Falls" (page 4-7). … "If the Jefferson Valley Route were to be selected for the proposed project [i.e., MSTI], and if the final route for the Jefferson Valley portion of Chinook line were to be located within the impact area of this MSTI route, the combined effect of the two projects would be to create a major, and in certain locations, visually dominant transmission corridor in an area where no major transmission facilities exist**.** In the I-15 corridor from Dillon south to the Idaho state line, it is inevitable that the proposed transmission line and the proposed Chinook transmission line would be in close proximity. " (underline added, p. 4-45)

MSTI is one single-circuit 500 kV transmission line. It's an illusion that this is all the affected residents need to consider and plan for now. The decision to establish a new high-voltage transmission corridor through rural Montana towns and across productive agricultural land will fundamentally alter the nature of the affected communities. Recognition that permitting of MSTI would likely result in a multiplication of the most serious negative impacts attributable to MSTI alone is a necessary acknowledgment of government agencies today, and a subject for additional study by Headwaters Economics.

Some affected residents point to the market failure of repeated MSTI "Open Seasons" and thereby feel that the threat from permitting MSTI is minimal. This opinion may correctly predict that a company called "NorthWestern Energy" is unlikely to build a line called "MSTI." But this fails to take into account the fact that the MSTI permit becomes NWE's marketable asset for ten years, and that the current permitting process can be directly applied to a successor transmission line in the corridor. Corporations like Enbridge and TransCanada dwarf the resources of NorthWestern Corporation. These Canadian giants could build the facility with pocket change and pay NWE handsomely for the permit.

Montana Energy Jobs in Perspective

Attached is a PDF of slides from a presentation delivered by Dr. Larry Swanson of the O'Connor Center for the Rocky Mountain West at the University of Montana. The presentation was delivered at the *Montana's Energy Future Summit* in Helena, MT in January, 2011. The data and propositions contained therein can provide perspective on the unscientific "jobs" hype that has dominated legislative and permitting debate over MSTI.

The following excerpts are from Dr. Swanson's presentation:

> "Sectors of the economy that are directly tied to energy production and distribution (utilities, oil and gas exploration and production, coal production, refineries, pipelines, etc.) are a relatively small part of the Montana economy, together accounting for less than 2% of all employment and 5% of all labor earnings. What's more, over the last two decades of growth in the overall economy, these energy-related sectors together have grown very little (2.1% of total employment in 1990 vs. 1.9% in 2009 and 5.0% of total labor earnings in 1990 vs. 5.5% in 2009). Their growth is not 'driving' growth in the larger economy." (slide 62)
>
> "Over the last ten and more years, much of the growth in the Montana economy has shifted to professional and technical services, business and financial services, health care, trade, real estate, and construction. Our economy is becoming more and more services and 'human resource based' and less and less 'natural resource industry based'." (slide 62)

> " 'Energy spending' and not 'energy producing' is where energy as a whole has its biggest impact on the Montana economy." (slide 62)

Dr. Tom Powers, University of Montana Professor Emeritus, Economics, also points out that energy sector jobs are a small part of Montana's economy:

> "If we add all of the coal mining, coal-fired electric generation, and petroleum refining jobs together, there are about 2,600 jobs associated with these energy sectors. That is, these sectors provide one out of every 250 Montana jobs or about four-tenths of one percent of total jobs. " (see attachment for Powers's complete commentary)

CCM's interpretation and conclusions

CCM's questions submitted to Headwaters regarding the socialization of MSTI costs and risks are crucial because over 98% of Montana workers are energy spenders, not energy suppliers. Benefits from new energy jobs must be weighed against costs to the vastly larger group of workers in other industries – the energy spenders. The greatest recent dynamism in Montana's economy is coming in industries like construction, real estate, and professional services. Job opportunities in these areas will be adversely impacted by imposing a noxious high-voltage transmission corridor upon hundreds of miles of scenic and productive lands in Broadwater, Jefferson, Silver Bow, Madison, and Beaverhead Counties.

The MSTI preliminary draft EIS acknowledges that permanent Montana jobs from MSTI will be "negligible." Further, NWE's "Open Seasons" have failed to turn up any new energy jobs attributable to MSTI. While no new jobs can be credibly attributed to MSTI, impacted residents can be certain that jobs along the MSTI preferred route are seriously threatened by the degradation of valuable resources.

Montana Energy Policy in Perspective – The Need for Balance

Dr. Swanson's presentation to the *Montana's Energy Future Summit* also contains some valuable perspective on Montana's energy policy. Following are extended excerpts:

> "Montanans currently spend almost $6 billion annually on energy and this cost will only rise and probably rise precipitously as energy prices increase in the future. More aggressive implementation and deployment of cost-effective energy conservation measures in Montana would save energy users hundreds of millions of dollars each year, even taking full account for what these would cost. Doing this much more aggressively and intelligently than at

present is where energy policy and programming could have its single biggest positive impact on the Montana economy." (slide 62)

"The 'energy policy equation' has a supply or production side and also a demand or consumption side. State policymakers in Montana are tending to focus almost all of their attention on the supply side of the equation in formulating energy policy and programs in Montana. They emphasize the state's role as an 'energy producer' and see opportunity to benefit by enlarging and expanding this role (more coal production, more electricity production and export, more development of large wind farms as concentrated sources of electricity for export, etc.). The economic benefits of doing so are seen as stemming from more jobs in these energy industries, income from these jobs, and state and local revenues from energy production taxes. And the emphasis is placed on 'exporting' energy to places and users outside of Montana."

"While there is a role for all this, what seems to be overlooked if not almost totally obscured is the much larger benefits that would accrue to a much larger number of people and entities in the state, both households and businesses, of well-targeted and aggressive programs that accelerate the production of 'conservation energy' in the state, particularly when savings largely accrue to in-state users while increased production goes to out-of-state users. Each Btu of energy saved is equal to or better than each Btu of additional energy produced. And whereas the benefits of more energy production and export accrue to some Montanans, savings from broad-based programs in energy conservation accrue to almost every Montanan."

"Energy expenditures by residential, commercial, and industrial consumers in Montana reached nearly $6 billion in 2009 –roughly equivalent to 17% of state-wide personal income. This will rise to 20% and above of all income in the very near future as energy prices begin to rise more rapidly in a recovering U.S. and world economy. The last time energy expenditures in Montana totaled more than 20% of total personal income was in 1981, at the height of the last energy 'crisis' in the U.S. The question becomes: 'What has been learned by policymakers in Montana between then and now about preparing for rising energy expenditures and their impact on the economy?' That remains to be seen."

"Almost all credible experts on energy attest that gains in conservation energy and energy efficiency are the 'low-hanging fruit' in the total energy supply mix - they are the most easily attainable and least costly alternatives we have before us. However, these 'fruit' will not fall to the ground through gravity alone. They must be 'picked' and this will require aggressive new programming involving more expansive and sophisticated energy auditing, patient and low-cost sources of capital for financing energy conservation, and

speedy deployment of such measures through utilities and area contractors across the state." (slide 63)

CCM's interpretation and conclusions

Hundreds of citizens from along the agency-preferred MSTI route repeatedly approached the Montana state legislature during the last legislative session in a vain attempt to stop House Bill 198, the eminent domain bill that was specifically tailored to the interests of MATL's and MSTI's owners. Citizens confronted a Potemkin village of unsubstantiated "energy jobs" hype that had been built up by energy industry lobbyists. Legislators and policy-makers were indeed focused exclusively upon the "supply side" of the energy equation. Meanwhile, the interests of the over 98% of workers who are energy spenders went practically unrepresented. The interests of workers in growing industries such as tourism and recreation, real estate, and professional services, who stand to lose jobs due to degradation along the agency-preferred MSTI route, went similarly unrepresented.

In MSTI, Montanans confront a proposed $1 billion "public need" private venture for which no public need or benefit has been truly established. NWE's "merchant line" story fell apart following its failed "Open Seasons." California has largely decided to develop renewable resources closer to its load centers (toward the more efficient model of distributed generation), removing NWE's stated need for MSTI. Meanwhile, failing to get commitments from new energy generators in Montana, NWE has secretly turned to possible federal benefactors such as BPA. NWE's profits and rewards from MSTI remain privatized, where the risks and costs are increasingly not so.

It is past time to acknowledge that MSTI is not a prudent investment of $1 billion in taxpayer/ratepayer resources, nor is MSTI beneficial to Montanans on balance. If the taxpayers and ratepayers have money to invest in pursuit of a sound energy future, then there are more beneficial places to invest.