

MEMORANDUM

From: Carl Borgquist

To: Montana Governor Steve Bullock's Key Industry Network - Energy

Subject: Montana Energy Infrastructure Authority

Date: November 25, 2015

I. INTRODUCTION

Montana is a state that is blessed with a vast abundance of energy resources including an estimated one-third of all U.S. coal reserves,¹ the third ranked U.S. wind resource,² the thirteenth ranked state in crude oil³ and twentieth in natural gas production.⁴ Over the coming decades, the U.S. and Montana will face a changing energy landscape as old paradigms are challenged by: new technologies, the cost burdens of maintaining aging infrastructure, regional market forces driven by shifting customer demand, changing (and complex) regulatory regimes as well as the consolidation and reorganization of markets (i.e. Energy Imbalance Market (EIM)).⁵ We need to be ready for what will undoubtedly be a fast and profound shift in how we generate power in the US. And we need to steer into this future with purpose and intelligence. As Governor Bullock has aptly stated:

“Montana is going to be an energy leader for generations to come and we’re poised to create thousands of new jobs while protecting the ones we have. I’m looking for realistic and common sense solutions that work for Montana, expand our economy and protect our clean air and water.”⁶

A. WHAT OTHER STATES ARE DOING

¹ In one year, coal generated \$123 million in revenues for the state of Montana and employs approximately 1,200 people with a annual payroll of \$86,758,000

² American Wind Energy Association 2015. <http://www.awea.org/learnabout/publications/upload/1Q-11-Montana.pdf>

³ U.S. Energy Information Administration, *Rankings: Crude Oil Production, August 2015* -- <https://www.eia.gov/state/rankings/#/series/46>

⁴ U.S. Energy Information Administration, *Rankings: Natural Gas Marketed Production, 2014* -- <https://www.eia.gov/state/rankings/#/series/47>

⁵ <http://www.utilitydive.com/news/warren-buffetts-pacificorp-considers-joining-california-iso/386760/>

⁶ Office of the Governor. 2014. *Governor Bullock Comments to EPA Regarding Proposed Clean Air Rules*. Dec. 1, 2014. <https://governor.mt.gov/Portals/16/docs/2014PressReleases/120114111dCommentsRelease.pdf>

To meet these challenges, a number of states in the west have created “Authorities” to facilitate the development of energy market opportunities in their states. Examples are:

- Wyoming Infrastructure Authority
- North Dakota Pipeline Authority
- South Dakota Infrastructure Authority
- Kansas Electrical Transmission Authority
- New Mexico Renewable Energy Transmission Authority

While these Authorities differ in the details, all have the following general structures: 1) they have been established by their respective state legislatures over the past decade or so; 2) they are governed by an appointed board⁷ (except North Dakota⁶); 3) they are designed to facilitate the development of energy infrastructure; and 4) they have been granted various general (such as planning, financing, constructing, developing, acquiring, owning and/or disposing of facilities) and financial tools (bonding authority or the ability to issue loans) to achieve their stated goals.

The sections that follow lay out a possible plan for establishing an Infrastructure Authority that would serve to coordinate efforts between private industry and state government stakeholders on Montana’s energy future. For purposes of this memo we will label the office as the Montana Energy Infrastructure Authority (or MEIA).⁸

II. THE MISSION

The simple draft mission of the MEIA would be to strategically assist in the development of Montana’s energy economy.

MEIA would be a focal point for Montana state government to support energy industries including, but not limited to:

⁷ Wyoming and South Dakota the Governor appoints the board. In Kansas the Governor appoints 3 members and the remaining 4 are Legislators ex officio. In New Mexico the Governor appoints 3 members, the Speaker of the House appoints 1, the President of the Senate appoints 1, and the State Treasurer and the State Investment Officer are members for a total of 7.

⁸ From Wyoming’s Infrastructure Authority: “The purpose for which the authority is created is to diversify and expand the Wyoming economy through improvements in the state’s electric and energy transmission infrastructure and to facilitate the consumption of Wyoming energy by planning, financing, constructing, developing, acquiring, maintaining and operating electric transmission facilities, advanced coal technology facilities, coal distribution facilities including ports, advanced energy technology facilities and related supporting infrastructure and undivided or other interests to facilitate the transmission of energy Statutory References to the WIA contained in the Statutes of the State of Wyoming -- <http://wyia.org/documents/statutory-authority/statutory-references-to-the-wia-contained-in-the-statutes-of-the-state-of-wyoming/>.”⁸

- Coal
- Oil & Gas
- Renewable Energy (wind, solar, geothermal)
- Interstate/Regional Transmission
- Advanced Energy Technologies – carbon capture, batteries, biofuels, etc.

III. THE PATH FORWARD

To create the MEIA please consider the following suggested next steps:

- The Governor would appoint an interim Energy Advisory Board (EAB).⁹
- The EAB would be charged with drafting a founding charter for the MEIA.
- The advisory board would also be tasked with the development of a statewide energy strategy.
- In close coordination with the Governor’s office, the EAB would assist in drafting of a bill and securing sponsors who would then introduce legislation during the 2016 Montana Legislature that would establish and fund the MEIA.

Outlined below is a suggested *draft framework* for the MEIA.

IV. ORGANIZATION

Board

The MEIA would be governed by a Board (MEIA Board) appointed by the Governor with the advice and consent of the Senate on staggered terms.¹⁰ The Board would include experienced leaders drawn from each of Montana’s important energy sectors (coal, oil & gas, renewable energy, transmission/utilities, and the university system).

Budget

One of the first tasks would be to establish the MEIA with a credible budget—for comparison, the Wyoming Infrastructure Authority’s 2015-2016 budget request to its legislature was \$1,620,000¹¹. Expenditures would likely include office space and supplies,

⁹ The Governor has the authority to appoint advisory councils as defined in MCA 2-15-122 <http://leg.mt.gov/bills/mca/2/15/2-15-122.htm>

¹⁰ Similar to the Governor appointed Infrastructure Authority Boards in Wyoming and South Dakota.

¹¹ Wyoming Infrastructure Authority 2015-16 Biennium Budget Request --<http://wyia.org/wp-content/uploads/2015/05/2015-2016-032-Wyoming-Infrastructure-Authority.pdf>

staff salaries, funding grants/loans, travel, support services, advertising and promotion activities, and contractual and/or consultancy fees consistent with the mission and as governed by the MEIA Board.

V. SCOPE OF DUTIES/SERVICES

Develop Statewide Energy Strategy

The MEIA would be charged with developing an articulate, coordinated, and holistic approach for diversifying Montana's high-value energy resources. The MEIA should: 1) carefully examine the energy marketplace and regulatory landscape; 2) determine what will be needed to remain competitive across all of Montana's energy sectors; and 3) lay out a clear strategy of concrete steps to achieve these goals over a benchmarked timeline.

The scope of duties/services could also include the following:

A. Resources for State Legislature – The MEIA would be a valuable resource able to provide neutral, third party expertise to state and local governments. It could be called on to testify at Legislative hearings, provide research products, educate and provide evaluation for energy related legislation, initiatives and developments.

B. Coordination of State Resources – Energy related infrastructure projects require the engagement of state and federal regulatory agencies to acquire the necessary permits, environmental reviews, public engagement and legislatively decreed processes for development. For energy project development in Montana, the MEIA could provide technical assistance and be available to facilitate the engagement of macro state resources.

C. Changes to Regulatory Regime – The MEIA could conduct, or contract for independent review to the regulatory and statutory framework governing the development of energy infrastructure projects in Montana. Examples would be the Montana Major Facilities Siting Act (MFSA), regulations related to greater sage grouse, energy related tax policy, 111(d) compliance, and other important issues related to energy infrastructure development.

D. Bonding Authority – In order to stimulate energy projects and infrastructure development, the state could issue bonds to support part of the debt capital structure. Bonds of this type are typically either *general obligation* (backed by the full faith and

credit of the state) or *revenue* backed by project financials¹². As a point of comparison the Wyoming Infrastructure Authority has \$1 billion in bonding authority to finance transmission and generation assets that benefit Wyoming¹³. A similar authority could be granted to the MEIA to provide financial support for the development and construction of important infrastructure projects in Montana.

E. Revolving Loan Program – Loan programs related to the MEIA could be State or federally based and administered by the organization. The fund could use loan repayments to capitalize future grants. A selection process would be implemented based on demonstrated need, benefits to the state and financial viability. This program would be targeted to smaller developments that create jobs/opportunity in strategic statewide locations, including those areas covered by our electric co-ops that are confronting the maintenance of aging infrastructure. There are many good examples of small business development loan programs that can serve as a template for this program.

F. Engagement with Montana Universities – The Montana University system represents a wellspring of world-class engineering, environmental science, geology and other disciplines critical to the energy sector. The MEIA should engage with university faculty and students in the planning, modeling, marketing and development of energy infrastructure projects. Additionally, the universities could be encouraged to collaborate with the MEIA and private business to explore Advanced Energy Technologies, including, but not limited to, carbon capture utilization and sequestration (CCUS), smart grid, energy storage, and advanced biofuels.

G. Market Outreach – A critical part of the potential scope of responsibilities for the MEIA is to increase Montana’s energy export opportunities. This requires regional coordination and comprehensive strategy development. The following two scenarios are illustrative:

Example 1:

There is a likely chance that Colstrip units 1 & 2 will be decommissioned in the next decade due to their age, as well as market and regulatory pressures. This has profound implications for Montana’s economy, the future of the communities who depend on the Colstrip generation facility, coal mining, and the revenues this industry generates.

¹²<http://www.municipalbonds.com/education/two-types-of-bonds-general-obligation-vs-revenue-bonds/>

¹³ Wyoming Infrastructure Authority, *About Us* -- <http://wyia.org/about-us/> In Wyoming, the bonding authority granted to the WIA does not carry the authority of the State, which has lead to a widespread reluctance from anyone taking advantage of them.

The majority of the power generated at Colstrip is sold to load markets in Washington and Oregon. The consumers and the utility commissions serving these markets have signaled that they will divest themselves from Colstrip. A worst-case scenario for Montana would be for Pacific Northwest utilities to decide to build that new generation in their home states (Washington and Oregon) and cut energy developed in Montana out of their generation portfolios.

The MEIA could develop and market the value proposition for building the generation here in Montana thus preserving revenues, creating jobs, and strengthening our economy.¹⁴

Example 2:

On a somewhat parallel path, the MEIA could develop and articulate the value proposition of exporting Montana coal through terminals in Oregon and/or Washington to foreign markets. This would require the engagement with private industry and regional stakeholders on a variety of complex issues. Thus coordination and consolidated effort is an important part of engagement with stakeholders in Montana and the Pacific Northwest; and the foreign governments of targeted markets in Asia and around the world.

VI. CONCLUSION

Montana is a net supplier of various forms of energy to the region, nation and globe. In order to protect and enhance our competitive position we need to think and act strategically and in a coordinated fashion. New market forces and technology will require that we transform business as usual and help shape an energy future that will benefit all Montanans. The above is offered as an outline for the creation of a dedicated group to support, diversify and expand Montana's energy economy.

¹⁴ Wind generation built in geographically diverse locations and firmed with energy storage, could replicate and replace the 614 MW of generation currently provided by Colstrip 1 & 2 and at a estimated cost (given the attractive capacity of Montana wind) that is 25% below what could be built in Washington and Oregon as an alternative.