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Time to Face Facts: Power Flap a 'Disaster'

BY TRAVIS KAVULLA

Reading last Sunday's *Tribune* editorial about Electric City Power, I was more than a little surprised to find no mention of the cause of this failing city entity's massive debt of $5 million.

The *Tribune* infers that ECP's failure is due to its lack of "marketing" experience and "political clout." It says "ubiquitous change" in "the legal, political, regulatory and market climates" put the company on shaky ground.

In fact, ECP's debt has nothing to do with any of that.

Instead, the ECP fiasco boils to catastrophically bad business decisions by the city government from 2005 to 2007. The root of the problem was city officials' decision to sign multi-year, fixed-rate contracts to sell power to a handful of the community's large businesses, influential individuals, and (bizarrely) a talc mine near Dillon, even though the wholesale price at which the city bought power was not fixed.

Today, ECP's largest customers are being sold energy for about $48 per megawatt-hour by ECP, while ECP is paying a little more than $69 per megawatt-hour to buy it from its supplier. In other words, the city is subsidizing 30% of those customers' power bills. *That* is the problem.

You don't need to be an industry expert to know that you oughtn't sign contracts that offer fixed retail rates when the wholesale costs are variable. Do gas stations set a fixed price for years on end? Do grocery stores ensure tomatoes' prices over a long term? For that matter, does NorthWestern Energy guarantee your electric rates for five years?

Obviously not. The only time power companies should offer fixed rates is when they have a price-predictable source of supply. It isn't rocket science, and to this day it remains incredible that erstwhile city officials could have signed such mind-blowingly risky contracts. Too bad the *Tribune* has never called them out on it, instead preferring a muddled narrative which only leaves readers confused.

Someone will have to pay for that $5 million debt, and it will be some combination of ECP customers and city taxpayers. This coming month, ECP is finally able under its contracts to set rates which recover its actual costs, plus the accumulated debt. Higher ECP rates mean that customers who receive electric service pay for more of the debt. Lower ECP rates, meanwhile, will leave city taxpayers, most of whom received no service at all from ECP, footing the bill for ECP's failure.

The city has proposed a debt rider of $3.50 per megawatt-hour, which would schedule the debt for repayment over 11 years. Practically speaking, this means taxpayers will be stuck with over $4 million of that $5 million debt, because ECP customers are expected to invoke a provision that exists in nearly all their contracts which allows them to leave ECP well before the debt is repaid through rates. To my mind, that is simply unreasonable, and the city commission should move to recover more of ECP's debt to taxpayers in a shorter period of time so taxpayers will not be left holding the bag.

Unfortunately, ECP's problems may get worse before they get better. Its supplier, Southern Montana Electric G&T Cooperative, is notoriously erratic. Southern's rates have increased 13 percent just this year, and Southern's rates are 69 percent higher, respectively, than the wholesale co-op (Central Montana) based in Great Falls, even though they were both in the same boat at the beginning of this adventure in 2004.

While most co-ops buy only the power that its members need, Southern's manager Tim Gregori rolled the dice and bought an excess. Now, he is having to dump power onto the market at a loss, causing still more rate increases for his customers, including the city.

The over-supply of power has led to another scheme, where a new entity (also headed by Mr. Gregori and sharing a staff with Southern) is attempting to undercut the city, itself a member of Southern, and usurp ECP's power customers—all while blaming the city for its loss of customers!

ECP's customers understandably want out now that their cushy rates are disappearing. But the city commission, to its credit, is refusing to let those with long-term contracts off the hook, a move which would expose taxpayers to further liability over Southern claims that the city is breaking its contracts.

The *Tribune* needs to begin talking straight on this issue. That begins by shaking off the mealy-mouthed explanations and acknowledging ECP and Southern for what they are: an unmitigated disaster.

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