

THE IMPACT OF RISING ENERGY COSTS ON
OLDER AMERICANS

HEARING
BEFORE THE
SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE
NINETY-SIXTH CONGRESS
FIRST SESSION

—————
PART 7—MISSOULA, MONT.

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FEBRUARY 14, 1979



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THE IMPACT OF RISING ENERGY COSTS ON OLDER AMERICANS

WEDNESDAY, FEBRUARY 14, 1979

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Missoula, Mont.

The committee met, pursuant to call, at 9:30 a.m., in the Eagles Lodge, Missoula, Mont., Hon. John Melcher presiding.

Present: Senator Melcher.

Also present: Deborah K. Kilmer, professional staff member; Eileen Winkelman, minority professional staff member; Jim Stasny, legislative assistant to Senator Melcher; and Marjorie J. Finney, operations assistant.

OPENING STATEMENT BY SENATOR JOHN MELCHER, PRESIDING

Senator MELCHER. We will call this hearing to order now.

Those of you who haven't found a seat or who are coming in now, don't be bashful about it, we will get the procedure started. We expect people to come in and find a decent seat and be accommodated.

This is a hearing on a couple of problems that we have for senior citizens here in Montana and which are shared throughout most of the country.

Our committee, the Senate Special Committee on Aging, is conducting the hearing. I am the only committee member who will be here, but we have several staff members of the special committee here.

The testimony will be taken down and a transcript developed from the hearing. We will keep the hearing transcript open for at least 10 days or 2 weeks for anybody to add to it that cares to.

I don't need to tell any of you about the harsh weather we have here in Montana and in quite a bit of the country. I like this easy climate right now here in Missoula, but it's only a small portion of the State and this winter as well as last winter are two of the most miserably cold winters that I can recall in my 28 years in Montana. I know it's a hardship, just coping with it, for everyone, but it's particularly a hardship for our elderly people coping with the snow and with the ice, with the cold, and then, having to pay higher bills to keep warm.

I wish we had been way ahead on this. We already addressed this a couple of years ago and had some programs in mind that were meaningful in helping our elderly meet these rising costs. We do not have them in place yet. We have made some steps, short steps forward.

What we would like to get out of this morning's hearing are some typical feelings and some ideas from the elderly across the State.

We are to have Joe McElwain, the chairman of the board of the Montana Power Co. and perhaps he will testify on what plans Montana Power Co. has as a utility to make it easier to meet utility bills for the elderly or to minimize those bills through weatherization, through better insulation, through better heat-saving techniques.

It goes without saying that of all the things we are going to make sure that we have in our homes in the wintertime, heat comes first. We know we are going to pay the bill. As the costs rise we would like to know what can be done for the elderly to meet those expanding costs.

We're a little bit more fortunate than others out here in Montana concerning how fast natural gas prices have gone up, but you know they have gone up quite rapidly, even here in this State. But nationally, looking clear across the country, on an average over the past 5 years natural gas prices have risen 78 percent. Pretty close to doubling in 5 year's time. Electricity costs have gone up 28 percent nationally, and fuel oil price, nationally, on the average has risen 40 percent. I am citing these figures from the Bureau of Labor Statistics. I mention where I am getting the figures because often you will read various types of figures that are arrived at in different ways. We have used the Bureau of Labor Statistics figures because they are generally recognized as the most reliable by Government and, I think, by people in the public sector too.

To meet these increases the elderly income under social security has risen 44 percent and payments under SSI have risen 20 percent over the last 5 years. So obviously, neither in SSI nor in social security have the increases in benefits kept pace with the increased inflationary rising costs of fuel.

We all know that the first bill to be paid in the winter is the heat bill, whatever it is. If that causes skimping in the family budget or the household budget in other ways, we want to know the impact of that too, because it is going to mean that the food budget or the food supply is going to decrease; or medical needs are going to have to be sacrificed. In neither case is it any good, because that's only going to create a vicious circle. If your health is worse because you're skimping on food or medical costs you can't win. In order to eliminate that vicious circle, we have to address the first problem—and that is the heat. How are we going to pay those bills?

Congress has developed two new programs over the past few years to help. One provides cash assistance for utilities and the other provides weatherization grants to insulate homes. We have both programs in Montana and we are going to try to find out today in our discussions whether they are reaching the elderly and whether they are widely available.

As a member of this Special Committee on Aging and the Senate Energy Committee, I am very interested in seeing the problems and conflicts in these programs worked out so we can offer the best assistance possible to combat the cold.

There are several groups of elderly that have banded together to express their concern about rising utility costs. Montana had several

such groups and they are attempting to secure various changes in rate structuring so that the poor and the elderly are not overburdened. We will hear from several witnesses today representing these groups, who are very active in this cause.

I'm not going to have much more to say, but I do want to tell you that some of my neighbors from Rosebud County, which is our home county, came up from northern Cheyenne and brought me this Valentine's gift and I want you to know that I am very proud of it. The northern Cheyenne work is outstanding and it's very nice of them to be here. It's almost 500 miles from Lame Deer to Missoula, and that's a long way, even in Montana. So I am very glad to have the northern Cheyenne group here and I want to thank them, especially, for bringing me this Valentine's gift. Marge Hutchinson was also very kind to give us Valentine's cards, too.

So enough from me. I really came here to listen to what you have to say.

I believe we have asked each witness to summarize their remarks in no more than 10 minutes and we'll ask some questions to bring out points that aren't clear. All the written testimony the witnesses have to offer will be made part of the record. In addition, any comments that you want to appear in the record, or any remarks in written form, will be made part of the record. You can present that today or you can present it any time to use during the next couple of weeks and it will become part of the record.

Hopefully, on the basis of the comments and the suggestions made, we'll work out some better arrangements and make some progress in this field.

This afternoon we'll be talking about nutrition, but this morning it's on utility bills, the cost of heat.

[The following document was made available by Senator Melcher:]

ENERGY CONSERVATION GUIDE

Here's a brief list of some of the Federal agencies that may be able to help you with energy conservation needs. You may want to write them to see what they have to offer. If you don't get your questions answered promptly or get all the necessary information, let me know and I'll see what I can do to help: John Melcher, 1123 Dirksen Building, Washington, D.C. 20510.

Internal Revenue Service.—Homeowners and renters are eligible for a non-refundable tax credit of 15 percent of the first \$2,000 spent on purchasing and installing conservation equipment for a maximum \$300 credit. Qualifying equipment includes insulation, caulking and weatherstripping, modified flue openings, storm doors and windows, automatic furnace ignition systems, and clock thermostats. Property claimed for credit must be installed between April 20, 1977 and December 31, 1985, in the taxpayer's principal residence already in existence on April 20, 1977. New homes do not qualify. Condominiums and cooperatives are eligible when they are the principal residence. Vacation homes are not included. If the authorized credit exceeds the tax owed, it may be carried forward on future tax returns through 1987. The appropriate form (No. 5695) and a booklet explaining the credits are available from regional IRS offices. Or you can write to Walter Woo, Legislation and Regulation Division, Office of the Chief Counsel, Room 4311, 1111 Constitution Ave. NW., Washington, D.C. 20224.

Department of Energy.—They have a program to help low-income people, particularly the elderly and handicapped, make home repairs and energy-conserving improvements. The maximum grant expenditure is \$800 per dwelling. For further information you can contact your local community action agency or

you can write directly to Mary M. Bell, Room 6445, 12th and Pennsylvania Ave. NW., Washington, D.C. 20461.

Another program created by the National Energy Act requires electric and gas utilities to inform customers of potential conservation improvements and provide cost estimates. Upon request, utilities must inspect customers' residences to determine which improvements would be cost effective. They must provide a list of lenders, suppliers and contractors and must offer to act as "project manager," arranging installation and financing. Utilities may bill the customer on his or her monthly statement and offer to make the financing arrangements so that the customer can spread out payment. If you want more details, write Bill Methea, Office of the Assistant Secretary for Conservation, 20 Massachusetts Ave. NW., Washington, D.C. 20545.

The Department of Energy's Office of Consumer Affairs tries to get the public, particularly the poor, the elderly, minorities, and handicapped, involved in Federal agency programs. The Citizen Participation Division sponsors public meetings and briefings and publishes a consumer briefing summary on DOE activities. The Consumer Division tries to get the consumer point of view across with the Department of Energy. For more information write Richard Moorer, Office of Consumer Affairs, Room 8G031, Independence Ave. SW., Washington, D.C. 20585.

Community Services Administration.—Operates the crisis intervention program which is cash assistance for low-income persons to assist in meeting high utility bills. For details you can contact either your local community action agency or Dick Saul, Chief of Energy Programs, Community Services Administration, 1200 19th Street NW., Washington, D.C. 20506.

Veterans Administration.—The direct and guaranteed loan program can be used to finance a variety of conservation improvements, including insulation, caulking, weatherstripping, storm windows and doors, and furnace modifications. You can contact the nearest VA office for further information or write R. C. Coon, Director of the Loan Guarantee Service, Department of Veteran Benefits, Washington, D.C. 20420.

Farmers Home Administration.—Runs a program of home weatherization loan guarantees of up to \$1,500 through rural electric cooperatives and public utilities for low- and moderate-income families that are members of a rural electric cooperative, in good credit standing and need FmHA credit to pay for home weatherization improvements. To get a better idea of what's available, write Gordon Cavanaugh at the Farmers Home Administration, Room 5014, South Agriculture Building, Washington, D.C. 20250. Or you can just get in touch with Wally Edland, who runs the Farmers Home Administration in Bozeman.

Forest Service.—Conservation activities of the Forest Service are aimed at improved wood framehouse construction; weatherization in housing and substitution of wood and treated wood for more energy-intensive material. You can contact either your nearest Forest Service office for details or write John R. McGuire, USDA, Room 3008, South Agriculture Building, Washington, D.C. 20250.

Firewood.—Contact the nearest Forest Service office for a permit to cut timber.

Agricultural Stabilization and Conservation Service.—The agricultural conservation program helps finance two farming practices with substantial energy conservation benefits: Conservation tillage, which yields savings in labor, fuel, and machinery, and windbreaks for reducing fuel and animal feed bills. You can get in touch with your nearest ASCS office for the details or write to Stewart Smith, Agricultural Stabilization and Conservation Service, USDA, Room 207-W, Administration Building, P.O. Box 2415, Washington, D.C. 20013.

Senator MELCHER. Our first witnesses today are Oliver Dahl and Charles Banderob of the Montana Senior Citizens Association and we haven't seen either one of them here. Is there any word from them? They are not here at present and if they come at any time during the morning we'll put them on when they arrive.

Donna Eldrich, the director of RSVP, Helena, will be our first witness.

Please proceed, Donna.

**STATEMENT OF DONNA ELDRICH, DIRECTOR, RSVP,
HELENA, MONT.**

Ms. ELDRICH. Senator Melcher, we want to thank you very much for coming here and showing your concern for the problems that the senior citizens are having with high utility costs.

Basically why I am here is to inform you of a group of senior citizens from Helena who have formed a legislative committee to study all problems that concern senior citizens.

What they have done on utilities is, I think, really a tremendous job.

Last summer the Montana Senior Citizens Association sent a questionnaire to their 3,200 members asking them to identify their greatest concerns. Of those, 2,458 members indicated the high cost of utilities were their greatest concern. From there the Helena Senior Citizens Legislative Committee started looking into utility costs, what the high utility bills were doing to senior citizens and found that they were going without the food they should have, they were going without their prescriptions, some of them were considering selling their homes because they could no longer afford to keep them.

From there the legislative committee met with people from Montana Power, and the public service commission. The Montana Power had three suggestions on how to help with the high cost of utilities. One of them was that the State of Montana supplement the senior citizen's utility bills. The second proposal they had was that Montana Power give senior citizens a discount and then, in turn, Montana Power would get a Federal tax break. The third was that Montana Power would loan money at no interest for winterization of senior citizens' homes.

On the first proposal that Montana Power came up with, the legislative committee decided that the State of Montana could not supplement utility bills to that extent. The funding was not there. That in other States this had been tried and had been turned over by the Supreme Court as being discriminatory. So that wasn't going to do them any good.

They could find very little information on what kind of a tax break Montana Power would get from the Federal Government if something like this was implemented, but they looked at what was happening with railroads, with them getting tax credits and this type of thing from the Federal Government. They didn't feel that that would be very beneficial. So they started looking at restructuring of rates. They studied programs from Michigan, California, and a lifeline concept that was made for Montana.¹ They didn't care about the lifeline concept. They found that there were a lot of inadequacies. For one thing, on gas rates it wouldn't be very beneficial to senior citizens. Senior citizens need more heat to keep warm and the lowest rate on the lifeline scale was lower than almost anyone could use to heat their house.

What they did decide on was a plan from Vermont.² In Vermont,

¹ See appendix 1, item 1, p. 565, for lifeline rate proposal.

² See appendix 1, item 2, p. 576, for summary of hearings held on Central Vermont Public Service Corp. proposed rate increase.

rates have been restructured where the residential user pays the lowest rate that the utilities have, in Montana it would be hydroelectric power. Whatever the rate is on hydroelectric power would be the rate that residential users would be charged with. On the gas it would be the rate on Montana gas or on contract gas from, say, 5 years ago.

At this time there is a bill,³ it has not come out of the council, that is based on the Vermont bill which is basically the cheapest rate available for residential users. Representative Hal Harper is the sponsor of the bill. We are hoping that there will be a lot of cosponsors on the bill and that the senior citizens will contact their legislative delegation, from their districts, asking them to sponsor the bill. It wouldn't solve the whole problem but it would help. I am sure that there will still have to be supplementations on utilities for senior citizens. I understand if there was a restructuring of rates, where the residential user just paid the lowest rate that was available, that it would decrease residential utility bills 20 percent. Industrial rates would increase 10 percent. From the utility bills that we have collected, most senior citizen's bills run from a high of \$100 to an average of \$75 or \$76 in winter. A 20-percent decrease on a utility bill would be of great benefit to senior citizens.

I do have a copy of the bill here that we will pass out, if you would like to look at it. You can take it home and contact your legislators from your district about it.

Thank you.

Senator MELCHER. Donna, I think it's very helpful to have a definite bill that will be available for consideration and before the legislature.

To be very candid about this, we are going to find the answers wherever we can and we know that part of the answers may lie in the Federal realm and a great part of them may lie right in the State's responsibility, obligation, and authority. So it's very important that we do what we can, where we can, and coordinate it as best we can.

I am very pleased that the House Committee on Aging, from our Montana Legislature, will be over here this evening at 7 o'clock. So what they can accomplish on the legislative level, through our Montana Legislature, may be most important. What they find that they cannot do, perhaps we can do at the Federal level. So I think your testimony is right on the button, exactly what we're trying to get at through this hearing.

Ms. ELDRICH. One thing I have found and I probably should have brought this up earlier. Senator Melcher, there is some assistance in Montana from the Federal Government for utility bills, emergency energy assistance. But there is a problem with that in our county, the tricounty area which covers three counties, Broadwater, Jefferson, and Lewis and Clark Counties, in 2 year's time they have serviced 440 people, but only 12 percent of them were senior citizens. Senior citizens would not apply for assistance, they felt it was welfare. The senior citizens legislative committee has found most senior citizens have this attitude. If welfare is attached to it in any way, you don't have to say welfare, if they think of it as welfare, they'll go without things before they will accept it. So the only thing that I can think of,

³ See p. 526.

and I think you suggested this, that their social security checks be boosted to help take care of utilities. I think this would be acceptable, very acceptable.

Senator MELCHER. We have established a pattern in a couple other areas in Federal law where we actually considered where people live and the size of their heat bills. I think we ought to do that with social security, too. If we did, the onus might be taken off of it as being some sort of welfare program. It only recognizes the necessities and I would like to see us do that on the Federal level.

Ms. ELDRICH. Another problem concerning emergency energy assistance, the time limit is too short to contact all the people who need assistance. Sometimes in rural areas it takes a lot longer to get to the people that really need assistance.

Senator MELCHER. I understand that, it does take a long time and we should make some provisions for that.

Thank you very much for your testimony, Donna. I think it is most helpful.

[The prepared statement of Ms. Eldrich follows:]

PREPARED STATEMENT OF DONNA ELDRICH

I'm Donna Eldrich, tricity retired senior volunteer program director from Helena. I'm here to report on the study the Helena Senior Citizens Legislative Committee made on what effect the high cost of utilities have on senior citizens, and the effort the committee is making to alleviate high utility costs.

Last summer the Montana Senior Citizens Association sent a questionnaire to their 3,200 members asking them to identify their greatest concern. Of those, 2,458 members indicated the high cost of utilities as their greatest concern.

The legislative committee found senior citizens were going without other necessities in order to pay utility bills, were considering selling their homes because they could no longer afford to live in them. The legislative committee put out a request for senior citizens to send copies of their utility bills to the committee. The bills the committee received showed that many of the bills amounted to a third of the senior citizens income, several of the bills showed that almost half of the income was going for utilities.

The legislative committee found two programs that do help with utility costs. The emergency energy assistance program is a Federal program that will pay up to \$250 on delinquent utility bills for January-May months. RMDC administers the program in the tricity area. In 1976-77, 100 households were served; 1977-78, 344 households were served. Only 12 percent of the applicants were senior citizens. Rocky Mountain Development Council reported that senior citizens were encouraged to apply for assistance but the senior citizens felt the program was welfare and would not make application.

Agencies administering the emergency energy assistance programs at the local level have problems because the Federal Government does not allow enough time for the local agencies to carry out the program.

Rocky Mountain also has a weatherization program that will provide a crew to insulate your homes. Both of these programs are statewide, AAA offices can tell you where to apply for these two programs.

Montana Power, a Public Service Commission, and the legislative met, the power company had three suggestions: senior citizens utility costs be supplemented by the State; the utility discount the senior citizens utility bill and the Federal Government give the utility company a tax credit; the utility lend money to senior citizens at no interest rate to insulate their homes. The Public Service Commission assured the committee that there will be a rate increase.

The legislative committee has studied lifeline rate structures from California, Michigan, and a lifeline concept for Montana. The committee decided the lifeline approach would be of little benefit to most of the elderly because the lowest rate would not be set low enough to cover the amount of power used in winter months. The committee also found that States where senior citizens were given a supplement by the State, the decision was overruled by the Supreme Court or the cases were in court.

The last utility plan the committee studied is a plan that is in effect in Vermont. The plan states the rate for residential consumers will be based on the cheapest power available.

The legislative committee asked RMDC staff to help draft a bill along these lines to be sent to the State legislative council, the bill is sponsored by Representative Hal Harper, the bill is not out of the council at this time, so has no number. The Helena Senior Citizens Legislative Committee is asking senior citizens from across the State to support this bill. Contact the legislature from your district.

The Senior Citizens Legislative Committee has sent copies of the bill with me for you to look at.

PROPOSED BILL

Be it enacted by the Legislature of the State of Montana :

Section I. Direct the Public Service Commission to readjust utility rates to provide low-cost power for residential consumers. The Public Service Commission will insure that lowest cost source of power produced or purchased for resale by intrastate utilities shall be allocated for residential heating and lighting. Equity return over production cost or contract sale price is pursuant to Public Service Commission determination.

INTENT OF ACT

The intent of this legislation is to reduce utility rates for residential consumers. Presently, commercial consumers purchase power on the declining block-rate schedule (the more you use, the less you pay); and industrial users purchase power by contract, thereby receiving a substantial reduction in rates. Residential users paid approximately 230 percent more per unit of electricity and 20 percent more per M ft³ of natural gas plus the service charge. By contrast, the industrial/commercial users comprise 75 percent of the utility market. This act would provide residential users the cheapest available power either produced or purchased for resale by an intrastate utility. For example, hydroelectric power is produced for less than coal-fired generator power. Natural gas purchased by contract 5 years ago is cheaper than gas purchased today. This act requires a rate restructuring to pass "lowest cost power" savings on to the residential user.

The industrial and commercial users may have to absorb higher costs and/or equity return for the utilities may be lower (i.e., not based on the utilities most expensive capitalization). Some of the increase in industrial and commercial rates may be passed on to out-of-State product purchasers. Further, intrastate utilities may charge more for power "exported" to other States. Clearly, by this act, the taxpayers of Montana would not be required to subsidize the residential users who cannot pay ever increasing power bills.

Senator MELCHER. Our next witness is Patricia Sias, legislative council, RSVP, Helena.

Patricia.

STATEMENT OF PATRICIA SIAS, LEGISLATIVE COUNSEL, RSVP, HELENA, MONT.

Ms. SIAS. Senator Melcher, ladies and gentlemen, my name is Pat Sias, and I am really very honored to be asked to come here to testify in behalf of the 1,800 senior citizens that we have in our Helena senior citizens organization. As Donna mentioned, I am chairman of our legislative committee.

Before I go on, and just to make sure that we are all tuned in on the same channel, I would like to talk just a little bit about who or what is a senior citizen. Remember, we were born sometime around 1900 or a little before up to 1924. We were raised by parents who were living during World War I. We lived through the depression. We

lived through World War II. We grew up with maybe some different standards and different goals and some different values than other eras did. We vowed we would not ever be hungry again. We vowed that we didn't want to be without a job and we didn't want to be without money. So if you stop and think of the people who are senior citizens now, look at the education system we developed, the transportation system we developed, the communication system, the food and the things that we have done and now we have some other problems.

Donna mentioned the questionnaire that was sent out to the senior citizens in our area, there were 3,200 sent out and 60 percent of those were sent back, which is certainly an excellent return on a questionnaire. As Donna said, 2,458 said that utility costs were their biggest problem. So I would like to talk about senior citizens and utility costs.

Rather than talking about, maybe, the 44,000 senior citizens in Montana that are low income, I would like to talk just about one person. She is my neighbor and we'll call her Mary.

Mary is 77 years old. She is a widow. She and her husband had no children. She lives in a very modest home. She has a little bit of money in the bank, but as she always says to me, "That's to take care of me if I get to where I can't take care of myself." When you look at the cost of 1 month in a nursing home, her money would be gone in 1 month. But still, it is her security blanket. Mary could be anybody on any street in Montana or any country road, so that she represents a lot of senior citizens.

Last month her utility bill was \$92.50. Her medicine bill was \$60. Then we took her taxes and insurance and telephone and averaged them together and it came to \$55 a month. You may think of a telephone as a luxury, but when she lives alone she has to have a telephone. Her total social security check is \$293. The total of her utility and medicine and taxes and insurance came to \$207, which left her \$86 for food, for transportation, for housing, you've got to have a few household items, some soap and some things like that and every house has to have a little bit of upkeep and, then, clothing. I am sure that Mary hasn't bought an item of clothing in the last 2 years. No, she has. Last winter she bought two pair of long johns to help keep her warm.

So if you stop and think, you know it's easier sometimes to see things than to just hear, if you would think of this sheet of paper as Mary's total social security check, \$293, 30 percent plus went for utilities. So there goes that part of her social security check. Thirty percent plus went for medicine, taxes, insurance and so forth, so there goes that part. So she is left with one-third or \$86 for food, clothing, transportation, and household needs. Her transportation is furnished by the neighbors.

We went back and looked up Mary's utility bills for the last 5 or 6 years. In 1974, the month of January was \$36.22. In 1975 it was \$47.51. In 1976 it dropped a little bit, it went down to \$45, but in 1977 it came up to \$75.45. In 1978 her utility bill for January was \$81.25. This year, as I said, it was \$92.50. Now, Montana Power is talking about an increase in utility rates. I think they are talking about 26.7 percent. If you took that percent of \$92.50 her utility bill would have been \$116.44. So let's look at this other piece of paper. If we added her utility bill

and her bill for medicine, insurance, taxes, and so forth, we find it comes to 80 percent. So if this piece of paper, again, represents her total social security check of \$293 and the increase that there is in her utility bill and all of the other things came to 80 percent and here is what's left for Mary for food, transportation, housing, and clothing.

In Montana, of course, wood is in good supply and so you might think, why don't our senior citizens go to burning wood. Have you priced stoves lately? Have you priced that pipe that goes up through the ceiling? It costs a dollar an inch. How in the world would Mary ever get wood? I don't believe that Mary would be able to even carry in the wood to keep the stove going. So her only chance of heat would be gas.

This, I hope, has brought us all in on the same channel. So let's get back to the legislative committee for just a minute.

We met with the legislators. We met with the public service committee. We met with the utility people and we tried to come up with some solutions.

As a committee we agreed that we opposed Government subsidies. That energy stamps weren't the answer. The lifeline program wasn't the answer. We did decide it would be good if we could have a little bit of money added to our social security checks, if we didn't have to go to the welfare office to get that.

The National Energy Act calls for States to look at rate structures as a way to make rates more reasonable and we did take a good look at this. As Donna mentioned we hope to introduce a bill in the legislature asking for a restructure of utility rates. We have asked the public service commission to assign the cheapest power to residential users. Let the commercial and the industrial people pay higher rates. I am sure that we would find that industrial and commercial would find a way to develop some other sources of energy if they had to pay the higher rate.

There are lots of stopgap measures around that seem to be taking the money out of the taxpayer's pocket and putting it in the utility companies.

So, Senator Melcher, I hope from my report I have helped you to see the impact of rising energy costs on we older Americans.

Thank you for listening.

Senator MELCHER. Pat, that's a very good presentation.

Did you say that a senior citizen is anybody born up until 1924?

Ms. SIAS. Yes, I said 1900 or before and, then, up to 1924. That would make them 55 and in some areas I believe you are considered a senior citizen at 55.

Senator MELCHER. I was born in 1924.

Ms. SIAS. Well, see where that puts you.

Senator MELCHER. I know now why I'm on the committee.

I think you have demonstrated the key points. Is it your feeling that the bill coming before the legislature, that Donna mentioned, is the best legislative vehicle at this time?

Ms. SIAS. Well, yes. It certainly is not going to help us tomorrow, but maybe in the near future it will be of some help.

As I mentioned, you know, senior citizens are hesitant to take hand-outs, from the era in which we grew up.

Senator MELCHER. Yes; I think that's absolutely right.

You feel that wood replacement, a stove burning wood, is simply not a practical one for most senior citizens. Has this been looked at? You described Mary, your neighbor, as not being physically able to handle it. Are there some other senior citizens, though, that have been using wood stoves?

Ms. SIAS. Yes, my husband and I put in a wood stove and this is when we found out how much the pipe costs that goes up through the ceiling into the attic and it has cut our Montana Power bill considerably. But we are both able to get wood and take care of a stove.

Senator MELCHER. There is some possibility there, but it certainly isn't a cure-all for very many people.

Ms. SIAS. No, that's right.

Senator MELCHER. Thank you very much, Pat. I think your testimony is most helpful.

Mark Jennings, chairman, Montana Joint State Legislative Committee Task Force.

STATEMENT OF MARK JENNINGS, MISSOULA, MONT., CHAIRMAN, MONTANA JOINT STATE LEGISLATIVE COMMITTEE TASK FORCE

Mr. JENNINGS. Senator Melcher and ladies and gentlemen.

I am the vice chairman of the Montana State NRTA/AARP Joint Legislative Committee and I am also president of the Montana Retired Teachers Association. I am taking Mr. Art Jacobson's place this morning to present some statements that we have come up with on energy, which I will read.

Escalating utility rates have become a burden on all low-income persons, particularly the elderly who must live on low, fixed incomes. Although studies have demonstrated that older persons are frugal users of energy supplies, their use patterns are not reflected in utility costs they are asked to bear. The resulting budget stress frequently forces older persons to choose between the basic necessities of fuel, food, and medical care.

The impact of escalating utility rates on the older person's budget has caused the National Retired Teachers Association and the American Association of Retired Persons to take a hard look at the regulating, at the regulation and monitoring of the public utility industry. Too often State regulatory bodies or agencies with ratemaking power appear to us to be mere captives of their industry they purport to regulate in the public interest.

We, therefore, believe that the State legislatures must monitor these bodies and agencies and work closely to guard against the imposition of unreasonable rates and to eliminate regulation that frustrates competitive market forces.

Specifically, we advocate: One, establishing an independent energy agency and a legislative committee on energy for the purposes of providing the State legislature with comprehensive energy objectives, informing the public, monitoring the conduct of the energy industries within its jurisdiction. Two, restructuring of public utility rates so that small users do not end up subsidizing large users. Three, requiring public utilities seeking rate changes to justify them, in public hearings held prior to the adoption of the changes to which there must be broad consumer representation with staff support. Four, encouraging

and permitting public utilities to give discounts on utility rates to the low-income elderly. Five, prohibiting the disconnection of utility service to elderly and other at-risk consumers during the winter months. Six, requiring utility companies to allow older and other at-risk persons to register the name of a third party with the company so that any notice of discontinuance of service would be sent to both the third party and the at-risk person.

Thank you, Senator Melcher, very much, for permitting me to present this to you.

Senator MELCHER. Mark, I want to thank you on behalf of the committee for bringing your comments to us.

I am continually impressed by the number of people who are working in Montana, through various groups, yours is one of them, to reasonably and practically and as quickly as possible work out solutions for the elderly. This, I think, is one of the greatest problems we have for senior citizens today, is it not?

Mr. JENNINGS. Yes; I think so.

Senator MELCHER. The utility costs?

Mr. JENNINGS. Yes; that would be one of the greatest problems.

Senator MELCHER. I know that in your legislative task force you address all the broad spectrum, whether it's transportation or health care or what have you. You address all those broad problems for the elderly and your help in working with the legislature and working on a national level, too. Art Jacobson was back in Washington, I think, about 2 weeks ago and presented some ideas to me. I very much appreciate the work of your group. I hope we can make some strides forward on your recommendations.

Mr. JENNINGS. Thank you very much.

Senator MELCHER. Thank you, Mark.

Mike Barton, energy project director, human resources council, district XI, Missoula.

Mike.

STATEMENT OF MIKE BARTON, ENERGY PROJECT DIRECTOR, HUMAN RESOURCES COUNCIL, DISTRICT XI, MISSOULA, MONT.

Mr. BARTON. Senator Melcher, ladies, and gentlemen, I would thank you for this opportunity to testify. It's, to me, a rare honor for a local program operator to be able to voice concerns before a body that actually sets national policy.

Last year the human resources council received a special grant to perform substantial repairs in the homes of elderly people in Missoula County. We surveyed these households and found that of the 60 to 70 homes that we worked in, the average monthly income of the senior citizens was less than \$300.

As the previous witnesses mentioned, this winter these people, along with thousands of other low- and fixed-income Montanans are expected to pay monthly utility bills that range between \$50 and \$100 plus. We don't need a slide rule to measure the severity of this impact. I think rising utility costs pose life-threatening situations for older Americans.

For the past few years the human resources council has been involved in a variety of programs that are designed to ease the burden

of the energy crisis. Our efforts are aimed primarily at disadvantaged people, the handicapped, the unemployed, public aid recipients. Between a quarter and a third of the clients that we serve come from households that are headed by a person over 60 years of age.

We are obviously well acquainted with the problems caused by rising energy costs, but rather than dwelling on these difficulties I would like to address my remarks this morning to some of the solutions that are being considered and offered by the Federal Government. I happen to think that a few changes in existing legislation would greatly increase the benefits for victims of the energy crisis.

Since 1975 our agency has administered an energy conservation program that has provided weatherization aid to nearly 800 households. For the most part this assistance has included insulation, weatherstripping, caulking, storm doors and windows, furnace repair, and other minor rehabilitation work. More than 200 of the units that we have assisted are occupied by senior citizens. The fuel savings in these units have averaged between 15 percent and 20 percent, but I believe that the program's effectiveness could be doubled or tripled if three fundamental changes were made.

First, I think the Department of Energy or the Department of Housing and Urban Development should adopt energy conservation standards for residences and that households qualifying for assistance under the energy conservation program should simply be brought into compliance with these guidelines. The current limits on expenditures and on eligible activities should be lifted.

Too often, especially in the homes of older clients, we find serious structural or mechanical defects. Problems with roofing, plumbing, foundation, or heating equipment usually make houses serious energy wasters, but they are beyond the scope of the weatherization program. Unfortunately, the repairs are also usually beyond the means of low- and fixed-income homeowners.

Second, weatherization aid should be made available to households that fall between the poverty level and the local median income on a sliding scale basis. This would mean that a person with an income just above the poverty level could weatherize his home for a nominal charge and that someone who had an income, say, just below the local median would probably receive weatherization supplies at a small discount. Currently, a single person receiving \$300 per month qualifies for our weatherization program, but someone who makes only \$30 more per month qualifies for no aid whatsoever.

Third, I think that weatherization work should be performed by licensed union contractors. Currently the programs depend heavily on CETA labor and I think this dependence has hurt the weatherization program. This is of special concern to the elderly poor because fewer of them are able to install weatherization materials or do other necessary repairs.

I support job training and I think it should be an adjunct to any weatherization effort, but CETA has become so overregulated that it is more of a nuisance than a help. Regulations in this State limit a CETA employee to 12 months on the job and they don't provide for any merit increases. Also, the employment service here requires that our crew members in rural counties earn \$80 less per month than

workers in Missoula, despite the fact that they do the same work for the same employer.

I think these rules are stifling. I think they lead to high turnover, a lack of motivation, and demoralization among CETA participants and this leads, eventually, to poor quality work, to a lot of complaints, to dissatisfied clients, and to what I think is a waste of tax dollars.

Contracting for weatherization work would greatly reduce the bureaucracy that attends the program and its support systems. The grantees would simply authorize and inspect the work for eligible clients.

Improvement of the energy conservation program, I think, is the key to any plan for easing the impact of rising energy costs on older Americans. While we are at it, I think we should consider two other areas, alternative energy sources and utility rate reform.

Our council has actively explored the possibilities of renewable energy use by our winterization clients. Grants from the State department of natural resources and the National Center for Appropriate Technology and CETA have allowed us to install solar devices on 20 homes in this area. One of these units, a vertical collector that can be installed on a conventional house or a mobile home, has proven to be quite effective. It's especially attractive to older people because it allows them to increase the temperature in the unit without an attendant rise in their utility bills. I also think this particular device would be even more effective in areas of the country with more Sun and more temperate winters than our own. But the Department of Energy tells me that there are no funds to develop this type of project.

Consider this then: If the amount of money that has been available to subsidize fuel suppliers in our district over the past 3 years had instead been targeted for solar projects, our council would have been able to purchase components for 200 of these systems. That's enough for every senior citizen household on our weatherization program. Each device would result in savings that would pay back twice the original price of the system and the benefits to low-income and elderly consumers would eventually amount to three times the aid that had been available during the 3 years of the subsidy program.

Even if solar is brought on line at the fastest possible pace, low-income and senior citizens will still rely to some degree on traditional utility sources. Rising prices are making these sources less and less available.

I think that every American has the right to a reasonable amount of energy for domestic use at rates that are commensurate with his income. I think it is the duty of Congress to define and to protect this right.

The National Energy Act took a big step toward this goal by directing the public service commission in States to consider utility rate structures to protect the residential consumer. I think that every Senator and Congressman should monitor the implementation of these measures, in his or her home State.

Finally, the Federal Government has undertaken one other program that our agency has administered that's been aimed at cutting energy costs for senior citizens. This has been the series of crisis intervention programs under the auspices of the Community Services Administra-

tion. They have been called SCIP, EEAP, and the current one is called WEEP, which I think is somehow appropriate. These have provided up to \$250 in vendor payments to fuel suppliers on behalf of low-income citizens who are unable to keep pace with rising energy costs in the winter. Unfortunately, I'm afraid these efforts have been poorly planned, badly managed and are woefully inadequate to meet the energy emergencies of low- and fixed-income families. For the most part, they have provided relief only to fuel and utility companies. Many older people, as has already been pointed out here, would rather go hungry in the winter than ask the Government for handouts to pay their power bills.

It seems to me that the crisis intervention programs are the precursors of fuel stamps and energy welfare program, continued subsidies, not for the poor, but for wealthy corporations.

I trust that Congress will recognize the energy stamp approach as a totally ineffective solution to the energy crisis. Not only does it ignore the root causes of the problem, but also would overburden the individual taxpayer. This is grossly unfair when one considers that private utilities currently have the lowest average tax burden of any sector in our economy.

All of us want relief from skyrocketing energy bills, but we also want to maintain dignity and self-respect. To this end, I think Congress should continue to authorize and improve programs of energy conservation, alternative energy development, and utility rate reform.

Again, thank you for the opportunity to testify. I would be happy to answer any questions that I can.

Senator MELCHER. Mike, you have worked on the weatherization program here in this district. Your suggestion that the weatherization program doesn't work very well with CETA labor doing it, because they are untrained or inexperienced, is an important point because we're not anywhere near done with weatherization, are we? We're just beginning to get started.

The first point you made, other than the CETA point, was that it should not be geared to some sort of a \$300 maximum, is that right?

Mr. BARTON. Right now it's geared to an \$800 maximum.

Senator MELCHER. No, no, I mean the income maximum.

Mr. BARTON. Right, for a single person it's approximately \$325 a month.

Senator MELCHER. That's your first suggestion. It should not be geared that way, it should be put on a sliding scale?

Mr. BARTON. I would like to see the people who currently receive benefits continue to receive those, but there are people whose income is marginal, it's slightly above, the poverty level. They can't afford to install weatherization materials.

Senator MELCHER. No; and our whole problem is that weatherization should be everywhere, is it not?

Mr. BARTON. Right.

Senator MELCHER. It's a national problem.

Let's get back to what your problem is, then, in administering it in your job in this region.

You are the grantee?

Mr. BARTON. The State of Montana is the grantee and we contract with the State to provide the services under the Department of Energy and the CSA programs.

Senator MELCHER. You are the grantee on the spot?

Mr. BARTON. Right.

Senator MELCHER. You approve it, first of all, as eligible, and then see that it's properly done. Is that right?

Mr. BARTON. Yes; and also, we also do the work under the current system. I am proposing that it be done, instead, by contractors.

Senator MELCHER. All right, and that the grantee just authorize it, approve it, and then the work would be done by contractors who are actually in the business, rather than using this as some means of CETA use?

Mr. BARTON. As I said, I don't object to job training, but I think people deserve professional work. If the country is going to do the job, then, it should be done right.

Senator MELCHER. It's going to be effective and cost-effective too.

Mr. BARTON. Otherwise, we continue to go back and repeat the work, year after year, and I don't think that's cost-effective.

Senator MELCHER. All right.

I would like to have from you, if you have the time to do it in the next month or so, a specific recommendation on an amendment to the CETA program or where it would be most appropriate. It's probably a very practical and very necessary recommendation you are making here. Not for Missoula, but nationally. If you could provide that for me I would like to have it and see what we can do about it.

What about rate structure? I don't know if you zeroed in on it in your testimony about rate structure.

Mr. BARTON. We are currently involved as intervenors in the public service commission hearing and the power company's request for a gas increase. What we intend to propose is that there be some type of rate structure that, as someone mentioned earlier, gives the lower energy prices to the residential consumer.

Senator MELCHER. It's something like the Vermont plan?

Mr. BARTON. Along the lines of that or of a lifeline plan that provides enough protection for the elderly and residential consumers.

We found the same problem, that some lifeline designs don't protect the people who have energy inefficient homes and the people who need to turn the thermostat up by 5 or 6 degrees.

Senator MELCHER. There are 20 in this area, there are 20 solar devices that were installed in low-income homes?

Mr. BARTON. Right.

Senator MELCHER. Of that, one particular device you felt was practical?

Mr. BARTON. One design. It's been installed in 12 mobile homes.

Senator MELCHER. One particular design in 12 different mobile homes, and it has been effective?

Mr. BARTON. We think so. As I mentioned, especially in the homes of older clients, because when the Sun is shining it does allow them to heat up the trailer to a little warmer temperatures than they can normally afford.

Senator MELCHER. This is the first time, I think, this morning that mention has been made of the National Center for Appropriate Technology and they have been working on an authorization program. That was one of their first programs. How would they fit into this in Missoula here in regard to the installation of 20 solar units?

Mr. BARTON. We have one contract right now from the national center to do a demonstration home that includes a solar heating unit, a solar hot water unit, and a greenhouse. They offered to support our program to that degree after we had received substantial support from the State department of natural resources under the Senate bill 86 program.

Senator MELCHER. Has the National Center for Appropriate Technology assisted in other ways in the weatherization program here in Missoula?

Mr. BARTON. There hasn't been any direct assistance in terms of weatherization, although we have been able to use their equipment, say, to monitor some of the homes that we've done.

Senator MELCHER. If I understand you completely, the Community Services Administration program of SCIP and EEAP and WEEP are not particularly successful?

Mr. BARTON. That's my opinion.

Senator MELCHER. Maybe even failures?

Mr. BARTON. I would say so.

Senator MELCHER. That's your opinion, OK.

You are advising us to forget about energy stamps?

Mr. BARTON. Yes.

Senator MELCHER. I agree. I don't see that working.

Thank you very much, Mike.

Mr. BARTON. Thank you.

Senator MELCHER. I think you have been very helpful.

Marjorie Dahlstrom, community development program coordinator, Missoula Planning Board.

STATEMENT OF MARJORIE DAHLSTROM, COMMUNITY DEVELOPMENT PROGRAM COORDINATOR, MISSOULA PLANNING BOARD

Ms. DAHLSTROM. Good morning and thank you, Senator Melcher.

Today I would like to talk about one of Missoula County's programs, the residential environment assistance program, which is the only housing rehabilitation program, of its type, available in the Missoula urban area. It is financed completely by the Department of Housing and Urban Development under the community development block-grant program. Missoula County has submitted four applications for housing rehabilitation and neighborhood development, over the past 4 years. Missoula County has been fortunate enough to receive three grants during this time, totaling \$800,000. Approximately 50 percent of these funds have been used strictly for housing rehabilitation under the REAL program.

The REAL program is a low-interest loan and deferred-payment-loan program available to low-income homeowners to repair their residences so that they may meet local building codes. Eligible repairs include roofing, plumbing, wiring, weatherization, heating systems,

foundations, structural repairs, almost any type of defect in the house which relates to health and safety. A homeowner may borrow up to \$7,500 to make these repairs and if a homeowner owns a duplex, triplex, or fourplex and lives in one of the units they may borrow up to \$7,500 per unit.

The interest rate on each loan is based on the recipient's income and ranges from 0 to 3 percent. Any homeowner who is presently paying more than 25 percent of their income to housing, utility payments, taxes, and insurance, is eligible for a deferred-payment loan. In Missoula that means that almost everyone that qualifies for the program is eligible for a deferred-payment loan. Under the deferred-payment loan program no monthly payments are made by the recipient, a lien is attached to the property and whenever the property changes hands the recipient then pays the loan back. Therefore, a person could repair their home and live in it and not make any loan payments. If the homeowner does not meet the 25-percent rule, they may make monthly payments on their loan. The minimum monthly payment is \$20 and it may go up as high as 25 percent of the person's income.

To qualify for the REAL loan program, a homeowner must live in a target neighborhood defined by the grant application and meet income guidelines. For one person the income for a year is \$7,500. For two persons it's \$8,600 and it goes up from there.

When the REAL program started in October 1976, it was available on a countywide basis. However, because of the reduced funding the second year of the program, only homeowners that lived in the urban area were eligible. So the people that lived in Lolo and Frenchtown and Seeley Lake and other towns outside the urban area could no longer receive loans. Presently the program, again because of reduced funding, is available only to one area of town. It's about a 20-block area and we have only \$90,000 left for loans.

As the loans are paid off the money becomes available to other homeowners for loans. Over the past 26 months we have received about \$46,000 in repayments and this has funded 10 additional loans.

Since October 1976, 73 REAL loans have been made to Missoula County residents totaling \$286,400. The average loan amount for REAL recipients is about \$3,400. The average loan payment, if any is made, is \$39. Twenty-two percent of all REAL loans have gone to elderly persons.

Energy-related improvements are also an important part of the REAL program. Of the \$133,000 that has been spent on weatherization, insulation, storm windows and storm doors, and heating systems are the most common improvements. Approximately 70 percent of all REAL loans have included energy-related improvements.

Although we may do everything on a house, we generally end up doing something that relates to energy conservation, such as insulation or storm windows. We also, as an eligible activity, can do solar heating or alternative energy, such as wood heating systems. We have done several wood heating systems so far and they have worked out pretty well.

Although the REAL program has been well received in Missoula County, there have been a few problems with it. One of the most common problems, particularly for the elderly, is the burden of a monthly payment or a lien against their real property. It is difficult for many

elderly homeowners to enter into a situation which may pass a financial burden onto their children or their spouse, if they should die. Missoula County has never foreclosed on a REAL loan, but many people express the fear that it may happen. To try to alleviate this problem Missoula County is now offering grants to some homeowners who are in this situation.

Another problem often encountered with the REAL program is resistance from the homeowner to repair all building code violations, which is a requirement of the program. Some homeowners only want to repair one or two defects in their house. By offering grants Missoula County hopes that homeowners who now refuse to make all repairs will accept a grant to do repairs that they originally did not want to do.

The main reason given for the refusal to do the work has been the high cost of all the repairs and the increased monthly payment. Missoula County has recently increased the loan limit from \$7,500 to \$10,000 per unit. This will enable many residents to participate in the program, who were previously excluded because the loan limit was too low.

The community development block-grant program has been the primary source of funding available to Missoula County for housing rehabilitation. Because Missoula County has to compete with every other city and county in Montana for these funds, there is no assurance that a program like REAL will continue past this year. If the city or county of Missoula does not receive block-grant funding this year, the loan repayments will finance approximately five loans per year.

According to the Missoula County housing assistance plan, prepared by the Missoula community development staff in August of 1978, approximately 27 percent of the owner-occupied housing units in the county that need assistance, have elderly residents who live in them. This group is hit particularly hard by the reduced funding of a program like REAL, because they often are on fixed low incomes and are not considered a good risk by traditional lending institutions.

I would now like to answer any questions that you might have.

Senator MELCHER: The question of increasing the loan limit is a decision that can be made here on the county level?

Ms. DAHLSTROM: Right. We have control over income limits, loan amounts, and eligible activities, locally. We also have the decision locally of whether to give grants or loans.

Senator MELCHER: You can give grants or loans?

Ms. DAHLSTROM: We can. The reason we have not given grants in the past is because we were not assured of our funding and we wanted to have some kind of mechanism to assure that there would be repayments coming back to finance this program.

Senator MELCHER: Seventy percent of the loans are actually involved with weatherization and insulation?

Ms. DAHLSTROM: Of the loans we have made, 70 percent include some type of weatherization. In this, I only included insulation, storm windows and storm doors, and heating systems. The amount would increase, the dollar amount would increase, if I included structural repairs and roofing which, of course, would decrease the utility costs

that many people pay. So the \$133,000 would probably be closer to about \$160,000, if those two items were included.

Senator MELCHER. Would the tax credit for insulation have any bearing on any of the people to whom you made loans?

Ms. DAHLSTROM. If people do use this program to insulate their house or to do energy-related improvements, they have been awarded the tax credit and that has worked out. I know, I have filled out the forms for about seven residents on that.

Senator MELCHER. Are the forms pretty tough?

Ms. DAHLSTROM. Yes; that's why I filled them out.

Senator MELCHER. I'm glad you're filling them out. They ought to be simplified.

Thank you very much, Marjorie.

Ms. DAHLSTROM. Thank you.

Senator MELCHER. Our next witness is Joe McElwain, who is chairman of the board, Montana Power Co.

Joe, we're glad to have you here.

I might say that Joe is familiar with the legislative process too. He and I served in the Montana Senate together. What years were those, 1963 and 1965, Joe?

Mr. McELWAIN. Yes; 1963 and 1965.

**STATEMENT OF JOSEPH A. McELWAIN, CHAIRMAN OF THE BOARD,
MONTANA POWER CO., MISSOULA, MONT.**

Mr. McELWAIN. Senator Melcher, I appreciate very much the opportunity to appear here concerning this very vital subject. I think it is a very important subject so far as many of our citizens in the United States are concerned, particularly those on fixed incomes.

Not until society fully understands the plight of senior citizens and others who have been victimized by inflation, and I say they have been victimized by inflation, can we expect to solve some of these problems.

I would hope that this hearing would be a first step in all of us facing up to the difficulties that many of our senior citizens and others confront each month in juggling limited incomes and constantly increasing pressures on their financial resources.

At Montana Power we have become acutely aware of the problems energy bills pose for a significant number of our consumers. I am certain that other utilities, fuel oil suppliers, propane dealers, and other energy distributors have observed the same problems among their customers.

Simply, and briefly stated, the problems have emerged in the 1970's and have exerted ever more pressure and stress since the Arab oil embargo of 1973 and the rapid spiral of inflation our Nation has experienced since then. While inflation has stricken all segments of the economy, it has been a genuine source of privation to those people whose income must be spent entirely or almost entirely for the basic necessities of life, namely food, shelter, medical care, and utility service. Of these four necessities, three have been recognized as integral to basic human survival. National programs have been devised to ameliorate the effects of their costs on persons whose incomes have not tracked with inflation.

As a people and as a Nation, we have acknowledged through food stamps, through subsidized housing, and through medicare and other health programs, that it is necessary to supplement the incomes of persons trapped in the grips of inflation. At this point, I think it is worth noting that the incomes of the great majority of consumers have kept up with the increases in the demands energy utilities make on their budgets.

Since the early 1950's the percentage of total family income devoted to utility costs has remained constant or actually gone down slightly. But those are not the consumers we are discussing here today. We are discussing those whose incomes have not kept pace with inflation. We are talking about consumers whose cost of living has more than doubled since 1967, but whose incomes have not increased proportionately. We are talking about consumers who have received some measure of assistance in paying for all of the necessities of life, except for heating their homes.

I should note that we have participated in two exceptions to that general statement. During each of the last 2 years, the Federal crisis intervention funds have been made available through human resources development council to be used to help persons with large, unpaid heating bills. Our employees assisted in this effort by notifying consumers of the availability of these funds. We also worked directly with the human resources to assist customers with eligibility. Through our combined efforts Montana Power Co. consumers were able to avail themselves of almost \$250,000 in crisis intervention assistance. The program had two basic flaws: First, funds were limited to \$250 on unpaid balances and the funds were not available to those persons who struggled through the winter and paid their bills. Second, some consumers were highly sensitive to whether crisis intervention aids were a welfare program.

In addition to participation in crisis intervention, a substantial number of persons on fixed income have taken advantage of budget billing, which under the consumer's annual utility costs are averaged over 12 months. Budget billing eased the burden of high winter bills, with something of an increase in utility bills during the warm weather months. Neither of these two programs is a panacea. But I would point out that the Mary that was alluded to here this morning, had she availed herself of budget billing her January bill would be somewhere between \$35 and \$40 on a year-around basis and not the \$90 that was alluded to.

We have been aware of the basic problem for several years. In the past we proposed the introduction of energy stamps as one way to combat the problem. The energy stamp concept subsequently was adopted as a desirable solution by the electric utility industry. However, it has not received the support in many other quarters that I think it deserves. I do point out, however, that it does address itself to those areas of utility and heating problems that are not regulated, such as the use of propane, oil, and many other heating requirements in the United States, of which many people avail themselves. Montana Power Co. is not wedded to energy stamps or any other specific solution. We are committed to working with senior citizens, appropriate

Government bodies and other energy suppliers in a concerted effort to find and adopt the best solution to the problem.

In that regard, perhaps it is appropriate to suggest some of the criteria that might be helpful in discovering that best possible solution. First, the program should be capable of reaching all those persons needing assistance. Second, it should not reach persons who do not so need that assistance. Third, it should be amenable to efficient and effective administration. Fourth, no program will be successful from the standpoint of efficient energy utilization or reasonable energy costs unless it takes into account the quality of housing, which has been alluded to here this morning.

Persons on fixed incomes all too frequently use more energy than necessary because the thermal integrity of their dwelling is below standard.

Programs dealing with assistance to persons on fixed incomes should include a provision which would result in properties being upgraded, with the result that both homeowners and tenants may realize substantial reductions in energy costs.

Fifth, it seems to us that serious consideration should be given to the social philosophy which underpins whatever solution is evolved. That is, should the philosophy which supports society as assuming part of the cost for such other life necessities as food, housing, and medical care be operative in the area of energy?

Sixth, whatever program is derived should give careful consideration to the full scope of the energy needs the senior citizen has.

I am utterly convinced that whatever program or programs are adopted should and must go beyond the utility customer, to the consumer of fuel oil, propane, and other forms of energy.

A significant number of our senior citizens require assistance for energy services that are not rendered by utilities.

Finally, I think the energy assistance program that is developed should be labeled clearly as a redress of a legitimate problem created by our society and by inflation. It should not and must not be seen as a welfare program. I see too many victims of inflation who worked and saved all their lives with the expectation that their later years would be comfortable and they would have been, but for our problem of double-digit inflation. Those people should not be forced to endure hardships for the cruel hoax visited upon them by inflation and, apparently, our society at present with its inability to keep its economic house in order.

They have earned dignity and it must be accorded to them. I would suggest those guidelines with others suggested, I am sure, by other interested parties, should be applied to each potential solution.

Each solution should be given a total and fair hearing. Those which show promise should receive thorough testing to discover whether theory holds up under the pragmatic daylight of actual practice.

In that regard, I am certain that lifeline rates and a number of other potential solutions have not had either adequate testing or examination to date.

Finally, I would urge that we not simply look to see what others have done in order to solve our own problems. I don't think we should. This is an area for innovative thinking, for communications with

each other and for listening to each other's ideas and working together to solve this problem.

At Montana Power, we have weighed numerous potential solutions and we are in the process of discussing them with senior citizens and other organizations throughout the State.

Most recently, we have begun to examine a proposal which would operate in a manner very similar to the no-interest energy conservation and alternate energy program we have pending before the Montana Public Service Commission for weatherization and other efficient use of homes currently.

In brief, utilities and, perhaps, other energy suppliers, would credit energy bills of qualified consumers to the extent certified by an appropriate Government agency. In turn, energy suppliers would be granted a tax credit on state and/or Federal liability equal to the total annual reduction in the consumer's bill.

I can see positive and negative aspects to such an approach, but I believe it possesses sufficient merit on its face to be examined carefully by all interested persons.

The point is, all of us in this society must take responsibility for finding solutions and underwriting the cost of inflation on persons of fixed income.

We can accomplish those things if we reason together, if we work together and if we resolve to accomplish them.

Senator Melcher, I appreciate very much the opportunity to work with you and all other segments of the State of Montana as we approach what I consider a serious problem to a large segment of the people of our country.

Senator MELCHER. Thank you very much, Joe. I, first of all, want to stress a basic point, which I think you made quite clear in your testimony, that there is a real national need to save energy. Everybody has that responsibility.

In gaining the highest degree of energy conservation we can, you've touched on a proposal you have before the public utility commission, which I'm not too familiar with and I want to get your further comments on it.

Part of our conservation efforts have to center on insulation. Is the proposal you have before the public service commission here in Montana similar to a proposal that I believe is in effect with the utility company in Oregon, where they encourage their customers to actually insulate their homes on loans that come from that utility company and are interest-free loans?

Mr. McELWAIN. No, sir, ours is substantially different from the one out on the coast and the one that is utilized by the Pacific Power & Light Co. and proposed in Montana.

Our proposal is to cover all types of weatherization, whether it's storm windows, whether it's caulking or taking care of areas that do need insulation, or whether it's regular insulating of the home. It covers even some areas of solar utilization of alternative energy.

What we propose is under a State statute of the State of Montana, whereby we would guarantee a loan up to \$3,000 payable over a 6-year period at no interest for these purposes, to any qualifying home that had been certified to meet the standards as will be set by the public service commission.

This, we think, in turn gives us a credit under that statute for our costs in financing this program on our electric energy tax in the State of Montana and on our—or our corporation license tax.

Senator MELCHER. Just for the State?

Mr. McELWAIN. Just for the State. We receive that credit based upon the amount of actual out-of-pocket interest plus our costs and plus what the financing costs would be for such an endeavor in the private market.

Senator MELCHER. Would the Montana Power Co. have to approve the improvement or would the public service commission be delegated to approve?

Mr. McELWAIN. We have the responsibility for, I believe, with the public service commission, to approve the type of, or the contractor to do the work and to approve the work would substantially be cost effective to the individual involved.

Senator MELCHER. Both Donna Eldrich and Pat Sias, and I don't know whether you were present here in the room at the time they testified, but both of them mentioned a bill that hadn't been introduced yet. It is being prepared. It would be patterned after the so-called Vermont plan. Is it just for senior citizens?

Ms. ELDRICH. No.

Senator MELCHER. It's all residential users.

Ms. ELDRICH. All residential users, because we found that almost every case where they are just trying to give aid to senior citizens, the cases have been taken to court and the Supreme Court has overturned the decision.

Senator MELCHER. All residential users, if it were gas, would get the lowest rate of anyone now in the gas rate structure and electrical users would get the lowest rate of the particular utility company paying for the power.

Now, my question is, are you familiar with this proposal?

Mr. McELWAIN. I am not, Senator, familiar with the specific proposal. I think I understand what its import is.

I guess, philosophically, the Congress has said, in the National Energy Act, that we should have rate structures that are based on cost-of-service structuring. Then it goes on to have us study several areas to see if they meet that criteria.

To the extent that a cost of service represented in a residential home meets the criteria of what it costs to serve that particular home, I would have no problem with such a concept.

I guess we can't approach any problem we have in this country by just saying we are going to pass those costs on to some other consumer or some other group. Those costs are going to be there. To the extent you try to shuffle those costs, they are going to show up if they go on an industrial user or a commercial user. They are going to show up someplace else in your food budget, or in the cost of your other commodities. So, these costs aren't going away. We may reshuffle them, but the costs are going to be there and the consumers, in every instance, if we are going to have a free enterprise or a private enterprise endeavor in this country, are going to pick up the costs.

Senator MELCHER. I think that goes without saying. Your statement is true. Somebody is going to pick up those costs and it is going to be the consumer.

What the problem appears to be, that in order to have some recognition for the very serious problem that the elderly have and who are on this fixed income, just can't take up the slack, and faced with those Supreme Court rulings, you have to include all residential users, just to help the elderly.

It isn't a small group, of course. The elderly in our society and here in Montana are a pretty big group, depending on whose definition of the elderly you accept.

If we take—I think it was Pat Sias that said people up until, or born before 1924.

Mr. McELWAIN. That includes me.

Senator MELCHER. That gets you. It doesn't get me. I'm just barely on the other side.

I want to go back to part of your testimony where you say you want to have some workable plan that is fair and isn't too burdensome.

You say, first, the program should be capable of reaching all those persons needing assistance and, second, it should not reach persons who do not, and, third, it should be amenable to efficient and effective administration.

I think sometimes, in order to make sure we don't reach or aren't reaching somebody who really wouldn't have to have assistance, but could do it on their own, we create such an unworkable situation, such a tenuous, tortuous situation to administer, that we rob the effectiveness of the program, and I don't know what we've saved by not extending the program to some people who absolutely do not have to have it.

Mr. McELWAIN. I think that goes to saying that all residential people should have a preferential rate in order to satisfy what some courts apparently have said.

I get back to the point that by doing that you are merely shuffling somebody's utility bill into their food bill and that doesn't solve the problem.

Senator MELCHER. I wonder what you would think of utilizing the social security method, increasing the social security benefits, as being, perhaps, the fairest and the best possible way to arrive at helping all those who really need help?

Granted, some people on social security might have high income, but still they are social security recipients and they really would not classify as destitute for the help or really very needful for the help.

But, recognizing there are some people on social security that, perhaps, do have high incomes, would you object, would you find fault with using that method to reach the elderly?

Mr. McELWAIN. It certainly is a methodology that I think we ought to take a look at, certainly. I do think, and it has been stressed here this morning, that one way of attacking this problem is through having good weatherization of the homes in which some of our elderly live.

I think this is something that can make quite a difference, because a good many of us, you know, live in one house most of our lives. My mother, before she moved down to the Missoula Manor here, lived in a house in Deer Lodge for 56 years. That house was a pretty good sized house, but I'm sure it did not have the weatherization that modern housing has today and, as a result, was very inefficient from a standpoint of conserving energy.

I think there are a good many houses in the United States that way today and most of them are owned by people who have lived in those houses most of their life and they have not been built at a time when they were built for energy efficiency.

Senator MELCHER. I agree with you. If you are going to do anything you'd better address the house. That had better be an integral part of the program, improving the weatherization of the house.

Along that line, since it is our national concern that we conserve energy, the Congress last year said, "Everybody is going to get a tax credit for weatherization. Everybody." It didn't say you had to be poor. It didn't say you had to be elderly. It just said everybody.

That's a broad program, because it's of national concern to conserve energy and it's proper to encourage everybody, regardless of their income, so a lot of rich people will take advantage of that and gain that credit. But it's of the national interest that it be done, because we want a total conservation of energy.

OK, now that is available to everybody regardless of income. I feel that if we are going to set our criteria to just help those elderly who are really on the borderline, whose monthly budget is so narrow that they are going to have to give up food or medical costs to meet their utility bills, if we just try for a program to meet that for those people, I think it's going to be too tough to administer and to be effective.

So, realizing that it is difficult to get at this very particular question for the elderly, I still would like to pursue in Congress and would like to get a majority to vote for it, some method of increasing social security to make up for it.

We are going to have people that, perhaps, will have an extra income, but we will be catching the people who without it are going to have a terrible, tragic occurrence in their lives at a time when they should be comfortable, not uncomfortable.

Mr. McELWAIN. I think, Senator, you've hit one of the nails on the head. Certainly, the tax credit for these weatherization programs, in many instances you find people who are living on these fixed incomes, particularly when they are limited to social security, that cannot avail themselves of those programs by way of a tax credit, because they are not in a position that they—

Senator MELCHER. They are not going to pay any income tax. The tax credit doesn't help them in that instance.

Mr. McELWAIN. Right.

Senator MELCHER. I appreciate knowing of your proposal to the Montana Public Service Commission on the 6-year loan for weatherization, interest free, and I hope the Montana Public Service Commission finds no flaws in that proposal. It seems to me that is a very good program and especially the fact that you allow solar to be part of it. Is that right?

Mr. McELWAIN. It is and I am certain the public service commission will look favorably upon the program. I think it's a positive program that falls well within the guidelines set by the Congress in the National Energy Act.

Senator MELCHER. We were reminded by one other witness, I think it was Mike Barton, that the Montana delegation in Congress, and each other State's congressional delegation, ought to be checking to see what

our respective public utility commissions in our own States are doing to fulfill that directive from Congress.

If the proposed bill that has been mentioned by Pat Sias and Donna Eldrich, meets with the approval of the legislature, that certainly would be along the lines that we asked for in the National Energy Act.

I guess that's all the questions and comments I have for you, Joe. I want to thank you very much for coming here to be a witness today.

Mr. McELWAIN. I appreciate the opportunity to appear before you, Senator.

Senator MELCHER. Thank you.

We would like to afford the opportunity to anyone who has a statement to make, or a question to ask, to take that opportunity right now.

Please come up to this microphone right here in the front, one at a time, and either make your statement or ask the question. It will become part of the record.

While you are doing that, I might tell you that for any of you who are interested, we have prepared a list,¹ and it is available in the back of the room for an energy conservation guide of Federal agencies. You might take a copy and go through that and see if any of these particular Federal programs of a Federal agency might be of help to you.

You might want to write to that agency or ask for additional information. Please feel free to do so.

OK, do you have a question or a comment? Will you please state your name for the record.

**STATEMENT OF BARRY ADAMS, STUDENT ACTION CENTER,
UNIVERSITY OF MONTANA**

Mr. ADAMS. My name is Barry Adams. I am with the student action center at the University of Montana. My question is to Mike Barton.

The question evolves around his statement that weatherization should be done by a professional or professional people and that CETA people really don't have the qualifications. I just would like to ask whether or not he would recommend or is considering recommending his proposal that even if this work is done by professional people, so as not to lose the CETA training programs here in Missoula and CETA money, whether or not he would recommend that these CETA workers then be reassigned to these professional groups and then they would then go ahead and be trained in weatherization processes by professional people. Therefore, they would have the best of both things, both CETA training and professional work.

Senator MELCHER. I think I can answer that question. If I understand the law involved with CETA, I don't think they can be assigned to a contractor. Mike, am I correct on that?

Mr. BARTON. Currently, that's the case.

Senator MELCHER. He's suggesting a contractor, a private contractor, and it would be nice if CETA were that broad, but it isn't. You have to be assigned to a unit of government such as a county or a city or Federal agency or State agency.

Mr. BARTON. We would have no problems working out that type of arrangement if it were legal though. As I said in my testimony, we support the goal of job training that CETA puts forth.

¹ See p. 521.

Senator MELCHER. I might add that I would have no problem personally with it either, because that is very much the type of program that I'm interested in and I think it would be more effective. But, I don't know if there is a majority of people in Congress that feel as strongly about it as I do and would support that kind of an amendment. But, I would, personally.

Mr. ADAMS. Is there any kind of way that could be worked out?

Senator MELCHER. If we had the votes. I think it's a practical suggestion and I think it would be most helpful for individual young people in the CETA program to be able to have the opportunity to work with private groups, because I think then you are really in the mainstream of, perhaps, getting a job with them, rather than spending a year working for an agency of Government that probably cannot offer very many of those people a job afterwards.

But, I think it would take an amendment to the law.

Mr. ADAMS. Mike, are you intending to ask for some kind of amendment to the law for that to be worked out?

Mr. BARTON. That's what Senator Melcher requested me to do earlier and I said I would be happy to develop whatever information I could.

Senator MELCHER. Thank you very much. .

Mr. TURMAN. Senator, I have prepared testimony on behalf of the Montana Public Service Commission.

Senator MELCHER. We are delighted to have that, George.

Mr. TURMAN. I will not take the time to read it, but I might make some other comments.

Senator MELCHER. Would you, please.

All right, George Turman, a member of the Montana Public Service Commission.

STATEMENT OF GEORGE TURMAN, MONTANA PUBLIC SERVICE COMMISSION

Mr. TURMAN. We appreciate the forum which you have given senior citizens in Missoula, Senator Melcher, and I, for one, have definitely learned from the testimony which has been presented to you. I can assure you that my colleagues on the commission will hear of this from me and we will take whatever action we can, appropriately, to follow up on the problems identified.

The purport of my testimony, which I have filed with the Senator, is that conventional regulatory processes cannot go much farther than they have now gone to alleviate the problems which face aging Americans respecting utility bills.

I will not go into that at length, but I will supplement that testimony by making a few remarks based on things that have been testified to this morning.

First, Senator, I would certainly support your proposal to increase social security payments as a way of meeting the identifiable needs of senior citizens. That is probably the tidiest approach that could be undertaken. I subscribe to it fully.

Some skepticism has been expressed here about the regulatory process, perhaps as has been suggested, even that we may have "a cozy relationship" with the utilities. I would like to disabuse anyone of that notion, and I would refer you to publications in the financial

press which have been typically and consistently critical of the Montana commission for its relative stinginess respecting utilities' earnings. All of them have ranked us at the bottom of their scales. In effect, that is the price we pay for being as tight as we can with the regulatory dollars, with the revenue which you are required to pay as utility consumers.

Incidentally, as this affects Montana Power Co., you would find their stock now, on the market, trades at 80 percent, roughly, of its book value and that the earnings are down from a level of 4 years ago on a per-share basis.

Mention was made of tax reform respecting utilities. That is a logical area to address. Senator Metcalf, as many of you know, proposed that Federal income taxes be abolished respecting utilities, the reason being that they collect \$2 in order to retain \$1 in earnings under the approximately 50-percent corporate income tax rates, but pay only a fraction of that portion to the Treasury because of accumulated deferred income taxes arising from accelerated depreciation treatment and from investment tax credits.

What I should assure you in Montana is that those benefits to the utilities respecting taxes are passed on to the consumers. Those are calculated and considered as your contribution of capital upon which you, in effect, receive a return, that is, a reduction in your rates.

But, in some less progressive jurisdictions there may very well be some degree of rate relief implicit in that elimination of Federal income taxes. The proposed substitution for taxes of a fee for energy production would be appropriate.

We do certainly subscribe to the weatherization programs that are being put before us. What I would like to do is compliment the Congress for giving these private utilities the impetus, the boost, the kick in the rear as it were, to get it done.

We have had legislation on the books in the State of Montana since 1975 permitting the kind of program which only now is being offered to the citizens by the utility companies. It is most important that Federal Energy Act provision be sustained. I would compliment Pacific Power & Light for having gone ahead of the act to propose to us a very far-reaching weatherization program which literally involves no cash outlay to the recipients of the loan and contemplates payment only upon the sale of the property.

There is possible in this area a lifeline proposal of sorts, quite apart from other considerations which are being made, and it has to do with the Bonneville Power Administration legislation, Senator, as you know which is pending before the Congress now.

The revised act, originally introduced by Senator Jackson, now contemplates the provision of some hydroelectric and other Federal power from the Bonneville system to residential consumers generally, whether they are served by private or public utilities.

The flaw as far as Montana is concerned in that act is that it is limited only to the Bonneville service area which is that portion of Montana lying west of the Continental Divide. At the same time, Bonneville contemplates taking power from the full State of Montana. Eastern Montana's energy reserves are very much in their picture.

I think, Senator, I have said all I need to, to supplement the statement which I have left with you.

Senator MELCHER. George, I am just delighted that you are here, because you round out our testimony from witnesses in a very nice fashion.

I want to compliment you and the Montana Public Service Commission on what I feel, as a Montana citizen, is a very aggressive and a very forward and progressive job that you are doing for Montana. I know a lot of people are disappointed every time the commission is faced with a very difficult task, under our laws, of allowing utility rates to go up, but under the Montana law, as I understand it, the commission simply does not have the authority to say no, you can't have an increase at all because people can't afford to pay it. You don't like to have that be the case, only we know we wouldn't have any utilities with us after a very short period of time and we'd be destitute for electricity or gas in our homes and businesses if that wasn't the case.

So I think you people on the commission are doing a good job and I am delighted you are here to add to our testimony. I hope the proposals that have been made by the power company, by Montana Power, on their loans that you find favor with and don't find any serious flaws with, I hope the proposed bill that has been described to us today by Pat Sias and by Donna Eldrich will also be something you will find will be workable and that you can support them.

I know such a bill as this, as it comes before the Montana legislature, what the public service commission has to say about its workability and its practicality is most important as far as individual legislators are concerned.

Thank you very much, George.

Mr. TURMAN. Your comments are appropriate and thank you, Senator.

[The prepared statement of Mr. Turman follows:]

PREPARED STATEMENT OF GEORGE TURMAN

The members of the Montana Public Service Commission are keenly aware of the burden which increasing energy costs have placed upon people with limited incomes. The most eloquent testimony—and the most distressing—which has been presented to us in rate cases is that by older citizens who literally cannot afford utility services. We regard services to them as essential and we shall support and participate in the development of programs which will assure the continuation of those services.

Electricity costs have increased in our area primarily as the result of increased reliance upon thermal generating plants for power. Natural gas costs have increased because of Federal pricing directives and because of enormous increases in the Canadian Government's charges for gas imported from that country. These costs have been imposed upon the utilities under our jurisdiction and in this regard our objective in the ratemaking process has been to distribute them as equitably as possible. Our efforts, we think, have led to significant ratemaking reforms. Unfortunately, the consequences of these reforms have been hidden in generally higher energy prices.

It is of little consolation to consumers who cannot afford their utility services to know that energy costs in Montana still are relatively low and that the increases which have been allowed could have been more burdensome had not the commission substantially revised rate structures. However, I shall present some facts respecting reforms for the purpose of making my main point which is that progressive regulation in and of itself will not solve the problem of providing utility services to people whose incomes or resources are limited.

As you know, in Montana we have eliminated declining block-rate structures and we have separated energy and service charges. The result, in our view, has been more realistic and fairer pricing of energy. Incidentally, the elimination of unjustifiable volume discounts which were embodied in declining block rates has directly benefited smaller consumers. For example, when the "new" commission took office in 1975 a consumer of 400 kWh per month was paying, in the Montana Power Co.'s system, 2.5 cents per kWh. A larger customer then was purchasing a higher proportion of power at a rate of 1.4 cents per kWh and, in effect, was lowering his or her average price per kilowatthour. At the consumption level of 1,000 kWh per month, the average price per kilowatthour became 1.8 cents, approximately one-fourth less than the rate to the smaller customer.

Today, residential customers pay a flat rate per kWh, regardless of the quantity consumed. For Montana Power Co. that rate is slightly less than 2.5 cents per kWh which you may recall was the rate for the consumer of 400 kWh in 1975. Essentially, small consumers' bills have increased only by the amount of a specific service charge, \$2.25, while larger consumers' bills have been increased by that and higher energy charges. At the level of 1,000 kWh, the increase has been about 46 percent.

Natural gas prices, reflecting Canadian and United States governmental actions, are up more dramatically. Even with the elimination of declining block rates, in the Montana Power system for example, the cost of gas to a consumer of 15 M ft³ per month is up to about 50 percent over 4 years. However, it should be emphasized that gas remains less expensive than electricity for an equivalent amount of energy.

In keeping with progressive ratemaking we also have looked into the methodologies for allocating various expenses to customer classes and we have made rudimentary applications of marginal analysis to energy production costs.

In further efforts toward rate reform, we have established time of day rate alternatives for customers in the Montana-Dakota utilities service area. Under this rate schedule, electric service during offpeak hours—8 p.m. until 11 a.m.—costs approximately one-fifth as much as service onpeak. We expect to extend some forms of this alternative to the customers of other utilities in Montana.

I have mentioned these rate reforms to indicate that our commission already has taken steps to accomplish regulatory reforms contemplated by the National Energy Act. We subscribe to the objectives of that legislation and we appreciate, Senator Melcher, your efforts to achieve that constructive legislation in the Senate. Now we hope that the Congress appropriates the full amount authorized by the act for the use of State commissions in their efforts to achieve the intended reforms. I have indicated that we have made progress in Montana in some particulars. We could do more, especially regarding the allocation of expenses for determining costs of service and comprehensively considering lifeline utility rates, if money were available to undertake the necessary studies. Furthermore, we could participate more effectively in the development of the processes by which the act will be implemented if we had funds now which would make possible our participation in the related conferences and hearings.

In proceeding toward my central point, I should point out that our commission has vigorously followed the accounting practices which minimize expenses to utility consumers. We are among the most conservative in our treatment of utility construction expenses in progress, we pass on to consumers the benefits from accelerated depreciation and investment tax credits which have accrued to the utilities and we limit the price of coal in intracompany transactions.

We also have used a calculation of the investment base upon which a utility's earnings are calculated (average rate base) which is being challenged as too low by the utility before the State supreme court.

In a roundabout way I am suggesting that we have held the costs of utility services down about as well as we could within the conventional regulatory system including the minimum earning constraints of the Hope and Bluefield decisions of the U.S. Supreme Court.

Some proof that we have been relatively difficult for the utilities to get along with comes from publications of investment services. Mitchell, Hutchins, Inc., places our commission at the end of the scale marked "least favorable" and just beyond West Virginia, Rhode Island, and California. Incidentally, they rank Utah as "most favorable." Merrill Lynch, Pierce, Fenner & Smith, Inc., have given us a score of 1 on a scale of 1 to 5. Texas and Indiana have 5's. Dain, Kalman & Quail have grades. Ours was C. None were lower. And Duff and Phelps, Inc., put us in category IV, their lowest.

Continuing with Montana Power Co. as an example the facts are these: the book value per share is \$26.28; the current market price is \$21.25 or about 81 percent of its actual value; the rating of its bonds is "A," a downgrading from "AA." A Wall Street Journal article, January 19, 1979, said in part, "The Butte utility generally is considered to be among the weaker single-A borrowers."

All of this tells you that our commission has squeezed utility profits and that the utilities under our jurisdiction, like their customers, have not fared well in these difficult times.

What we have then in Montana are relatively low utility rates, but rates which none the less are higher than many of our citizens can afford. This situation argues for unconventional actions to assure the continuation of essential services to those in need.

I mentioned the lifeline rate earlier in connection with the National Energy Act and our need for funds. We are anxious to study lifeline proposals comprehensively. The benefit to the small user is obvious and usage does correlate generally with income. But there are hazards. Clearly to give a preferential rate to one group of customers is to impose a discriminatory rate upon others and discrimination in ratemaking, as in other matters, is illegal. Furthermore, a concern persists that the implementation of lifeline rates could be detrimental to many of those whom the rates are intended to benefit. We know that many people with limited incomes live in poorly insulated residences where they eat all their meals and watch television for entertainment. In those circumstances, energy use would be relatively high and the lifeline rate could be detrimental.

I should note, as you know, that we could have a de facto lifeline rate in that portion of Montana which is within the Bonneville Power Administration's service area under proposed legislation. We regret that the authors of that legislation have impliedly included eastern Montana as an energy source, but excluded its residents from access to lower cost hydroelectric and other federally provided power. You have the testimony of my colleagues Commissioner Schneider and commission chairman Bollinger regarding that legislation and I will not address it here.

Another solution to the problem of unaffordable utility service is the program of Federal grants to pay the delinquent bills of those in need. I support this program and would encourage the Congress to institutionalize it, thereby eliminating much of the anxiety which our less fortunate citizens must feel now.

I also would favor some program of assistance comparable in effect to food stamps for providing the needy with energy purchasing power.

The aging citizens and others who need assistance also would benefit from grants or loans with deferred payment terms for the purpose of weatherizing residences. An extension of the National Energy Conservation Policy Act or the expansion of programs in other Departments of the Federal Government could provide the administrative mechanism for this.

My emphasis with respect to help for those who need it is on forms of direct financial assistance. Such assistance should be administered by agencies which have the records necessary to make determinations of need.

In my opinion a regulatory commission's task is to develop rates which are fair within and among the classes of a utility's customers and are rational in an economic sense. The social task of providing essential energy services to individuals in need must be addressed by the State and Federal Governments. And given the national character of the problem, it falls most directly on the Congress.

STATEMENT OF CHARLES CHATTIN, MONTANA HUMAN RESOURCES DEVELOPMENT COUNCIL'S COMMUNITY ACTION PROGRAM DIRECTOR'S ASSOCIATION

Mr. CHATTIN. My name is Charles Chattin. I am employed by the Montana Human Resources Development Council's Community Action Program Director's Association.

I am involved with low-income and fixed-income senior problems as well as the State of minority aging in the State of Montana, which is a large segment of native American elderly who reside off of the reservations.

This testimony is from Montana United Indian Association, an umbrella organization that is working on the problem of the off-reservation elderly Indians.

This document here is supportive. It's a historical document that will serve as a national model in reviewing and this is what I would like to present on behalf of the Montana United Indian Association.

Senator MELCHER. Thank you very much. We are delighted to have it, Charles.

[The document referred to follows. Additional supporting material submitted by Mr. Chattin is retained in committee files.]

STATEMENT OF THE MONTANA UNITED INDIAN ASSOCIATION TO THE
MONTANA AGING CONFERENCE AND PUBLIC HEARINGS

THE CULTURAL AND HISTORICAL BACKGROUND OF MONTANA'S ELDERLY INDIANS

The roots of the problems facing Montana's elderly Indians are different from those of other, non-Indian senior citizens. These roots lie in the cultural traditions of the Northern Plains Indian people and in the historical treatment of this unique minority in America and in Montana.

The first two Montana Indian reservations were established in 1851, and the last one, at Rocky Boy, was established only 60 years ago. There are now seven reservations in the State with a total land area of over 8 million acres, and an additional nonreservation group known as the "landless" or Turtle Mountain Indian Band.

Estimates of Montana's Indian population vary. The two major reasons for variations are the differing definitions of "Indian" and the high mobility of Montana Indians to and from the reservations. A recent study estimates 50,000 on- and off-reservation Indians in the State.

The Indians of Montana represent the largest single minority group in the State. Approximately 1 out of every 20 Montana citizens is an Indian. There is high mobility of Indians within Montana between reservations, rural towns, and other off-reservation cities. The result is that at any given time roughly half the State's Indian population is residing at locations away from the reservations, with the major concentration of these off-reservation peoples to be found in the cities served by MUIA's Indian Alliance Centers. MUIA's eight alliances have documented the presence of 20,000 Indians living off reservations in the eight cities served by the alliances. The current Director of the Federal Office of Native American Programs has indicated that the rate of movement away from reservations to cities is increasing nationwide, and Montana is no exception.

Included among this off-reservation Indian population are the young, the job-seekers, and, in keeping with the cultural traditions of the Northern Plains Indian, the old.

Understanding of the elderly Indian in Montana must be rooted in a knowledge of the Northern Plains Indian culture and the fairly recent history of these people in Montana. Two important factors stand out: first, the traditional place of the elderly in Northern Plains Indian society was one of prominence. Councils of elders were in many cases the active centers of tribal decisionmaking and authority. Even after Indian people in Montana were removed to the reservation, councils of elders continued as active decisionmaking and authoritative bodies on the reservations until the 1930's. Thus, older Indians living today can remember the place of prominence the elderly held in reservation government and politics. However, with the passage of the Wheeler-Howard Act in the mid-thirties, reservation tribal government was reorganized to reflect the prevailing white notion of democratically electing governing bodies. The passage of this act eliminated the traditional role of the elders in decisionmaking processes and stilled the voice of "the old way" in governing councils.

A second factor of great importance is the virtually exclusive role played by the elderly Indian in transmitting the values, traditions, and cultural heritage of the Northern Plains Indian. Lacking a written tradition, the entire history, language, art, and value system is passed on to younger generations orally, and the transmitters of this oral tradition, are, for the most part, the elderly. The importance of the older Indian in this role as communicator of an oral tradition

within the family cannot be overlooked, because it bears directly on the contemporary condition of the elderly Indian throughout the Northern Plains area.

As the Indian people of working age leave Montana reservations seeking jobs in Montana cities, their families often accompany them. Given the cultural role of the elderly Indian, older Indians are part of this family movement. The result is that Montana cities with concentrations of off-reservation Indians also have concentrations of older Indian citizens as well.

Most of you here at this conference have some connection with the elderly citizens of Montana. If you live in any one of the Montana's major cities, ask yourself how many Indian senior citizens you have seen at senior centers or in your advocate organizations. Does this question puzzle you? Is your answer something to the effect that elderly Indians all reside on reservations? Because, if it is, it is untrue. Elderly Indians living off the reservations in Montana cities and towns simply do not enjoy participation in your centers and in your organizations.

Why is this true? The answer to this question is rooted in the cultural traditions of the Indians of Montana and in the cultural traditions of the whites in Montana. In off-reservation locations in Montana where the dominant culture is white, memories of the past are strong. The past that is remembered was one of prejudice and hostility. Senior citizens of today, both red and white, were part of that past. Do you remember that only 25 years ago, a red man and a white man could not even legally have a drink together in Montana?

It is worth considering that while racial prejudice has been successfully fought on many fronts in this country, perhaps among senior citizens in Montana this battle is still being waged. It is the Montana United Indian Association's view that this conference should consider this question seriously. This is because, if Indian elderly citizens who have moved from Montana's reservations to its towns are excluded from your conclaves and from your advocacy groups, an important part of America's promise is not being fulfilled. We urge you to give these questions your attention for a number of reasons. First, the hostilities of the past should not be repeated. Second, elderly Indians have a significant cultural tradition of elderly prominence from which the white culture could learn a lot. Finally, systematic exclusion of Indian people, or weak efforts to involve Indian people, violates the spirit if not the fact of senior citizen legislation and programs.

**STATEMENT OF MADELINE S. COLLIFLOWER, DODSON, MONT.,
NATIONAL INDIAN COUNCIL ON AGING**

Mrs. COLLIFLOWER. Honorable Senator, I—

Senator MELCHER. We had better have your full name. It is Mrs. Colliflower, right?

Mrs. COLLIFLOWER. I am Mrs. Madeline S. Colliflower.

Senator MELCHER. Go ahead, Mrs. Colliflower.

Mrs. COLLIFLOWER. I am with the National Indian Council on Aging. The office is in Albuquerque, N. Mex. I will read my testimony. It does not pertain to energy, but you will find it later. This is addressed to Senator Melcher.

The National Indian Council on Aging, Inc., mailed out a questionnaire to over 2,000 subscribers, including tribal organizations, Indian individuals, urban Indian organizations, and so forth. The results of the questionnaire have shown that in order for title VI of the Older Americans Act to be fully implemented the Appropriations Committee will have to fund title VI at a \$25 million level.

Therefore, as a board member of NICOA, I am respectfully requesting your support. Attached you will find the recommendations that have been made by NICOA and the National Tribal Chairman's Association.

A letter to Senator Magnuson from your office in support of your recommendations will be most helpful. Your help, support, and advocacy on behalf of Indian elders is seriously needed.

I would like to submit this for the record, from this conference and our national organization.

Senator MELCHER. We thank you very much, Mrs. Colliflower, for drawing that to our attention. According to the conference report on past year's amendments to the Older Americans Act, \$5 million will have to be appropriated before certain provisions for grants under the Older Americans Act can be followed through. Thank you very much, a good reminder.

[The document referred to follows:]

LEGISLATION: RECOMMENDATION FOR ACTION

1. (a) Historically, Indian tribes and nations have had a unique relationship with the Government of the United States; the Congress of the United States is therefore petitioned to amend the Older Americans Act to provide direct funding of programs to serve Indian tribes, Inter-tribal organizations, Native villages (Alaska), and urban Indian organizations upon request of the respective tribal council and other Indian or Alaska Native governing body.

(b) All enabling legislation should include specific language referring to federally recognized tribes and all other like tribes, Nations, etc. The words "Indian" and "federally recognized tribe" should be made a part of all grants to such tribes.

(c) The Indian elderly should be involved in the design, formulation, and implementation of all programs, including the Older Americans Act, from which they could benefit. All regulations authorized under this legislation request should be submitted to the various Indian tribes for consideration and input into development of regulations.

2. The United States must reassure our elderly citizens that the policy concerning termination is no longer a national policy.

3. That sections 303 part (a) and section 612 of the Older Americans Act of 1965, as amended November 1970, be revised so that Indian tribes no longer have to go through State agencies for funding. This is necessary because of the lack of sympathy by most States for their Indian population. All funds for older Indian programs should be funded directly to Indian tribes.

4. (a) A class action should be brought in Federal court in behalf of federally recognized Indian tribes which would make possible unrestrictive direct funding to tribes under the Older Americans Act and all other Federal legislation concerned with the funding of programs which could benefit Indian people.

(b) (1) Federal services to maintain and improve the health of the American Indian aging are mandated by the Federal Government's historical and unique legal relationship with and resulting responsibility to the American Indian aging. The Congress of the United States and the respective officials are urged to adopt the following positions with regard to State plans under the Older Americans Act:

(2) State agencies on aging must include in their State plans and proposals submitted for funding to the Federal Government a statement to the effect that they are not addressing the needs of the Indian elderly, thus making it possible for Indian tribes to receive direct funding, until such time as the necessary legislative amendments have been made.

5. (a) An agency should be created at the national level to administer programs to serve the elderly Indian.

(b) That an adequately staffed and funded Indian desk similar to Indian desks in other Federal agencies be established in the Administration on Aging or its successor. This office would act as a central point for information and an advocate for the needs of the Indian elderly.

(c) Establish an Indian desk (staff group) in Washington which would specifically concern itself with all problems of the Indian aged, provide technical assistance, and coordinate with other human resource services, as well as directing all funds from the Federal Government directly to all Indian tribes, bands, or organizations, regardless of their region or status and according to their individual needs.

(d) The Administration on Aging should establish a system whereby Indian tribes receive continuous notification of available programs and other pertinent information relating to services to the elderly.

6. (a) That agencies serving elderly Indians increase funding levels to Indian tribes so as to adequately serve their needs.

(b) There should be provisions for earmarked (set aside) allocations to Indian tribes and organizations, not requiring matching funds, specifically for services to the Indian elderly in all legislative acts affecting services to the elderly.

(c) The Administration on Aging should make planning grants to Indian tribes to identify the particular needs of the elderly on each reservation.

7. Appropriations by the Congress for Indian program for services to the elderly shall be based on identified need rather than on any form of per capita basis.

8. The funding of all programs to serve Indian elders by the Administration on Aging or any other agency shall be for a minimum of five (5) years. Those programs which have demonstrated their effectiveness shall continue to be funded on an ongoing basis.

9. (a) Tribal statistical data should be considered a primary data source for programing data in lieu of the 1970 census, which has proved to be inaccurate.

(b) Tribal jurisdictional areas should be considered standard statistical areas where they are not now so considered.

(c) The minimum age for eligibility for programs designed to serve the elderly should be lowered to 45 for the Indian elderly because of their lower life expectancy.

10. That a thorough and complete research program be developed to search, evaluate, and cause to be amended, existing laws and policies governing programs serving the elderly Indian.

11. An update should be given to the national Indian community on the status of recommendations stemming from the 1971 White House Conference.

12. The National Indian Planning Committee (on aging) should be assigned as a permanent task force on aging with direct HEW funding.

13. The Congress of the United States and the respective Federal officials should keep the National Tribal Chairman's Association informed of the status of these requests.

Senator MELCHER. Why don't you come right on up here?

STATEMENT OF OLETA SMITH, INFORMATION AND REFERRAL TECHNICIAN, LAKE COUNTY, MONT.

Ms. SMITH. Senator, I am Oleta Smith, area VI information and referral, Lake County, and when Debbie Kilmer called me about making a presentation here this morning, I had to confess to her that for some reason, in Lake County, where I work as an information and referral technician, I had not been inundated by tears from the elderly who were having trouble paying their fuel bills.

The testimony we've had, some of the information given out this morning, tells me why. The fuel oil, which is the main source of heating for the elderly in those little rural homes they live in, has raised 40 percent and social security 44 percent. So, that's why I'm in this position.

What I wanted to address myself to was to the other problems that the elderly have in maintaining themselves in their own homes.

The heating plants they use, you know, their little oil-burning stoves, if they are not run full blast, they have a tendency to foul up and go out. Only a person who is conditioned to that atmosphere can stand staying in that house for more than 10 or 15 minutes. It's a very unhealthy situation.

The problem prevalent in our area this winter was not paying the bills for the fuel, but keeping the fuel running in freezing fuel lines. To have anyone come, it's difficult to find anyone in the first place, who makes a business of servicing little oil-burning stoves. The fee runs from \$20 to \$30 for just the house call.

One lady awoke three times in the space of 10 days to a cold house and a frozen fuel line. The frozen water pipes are an even more serious thing. They are more expensive to repair and they are more difficult. I think someone in Polson had to spend about \$300 to have running water restored.

Those are just some of the problems of trying to help people stay in their own homes and I guess the thing I would like to suggest and I think other people have said things that bear on the point, too, is housing appropriately planned, carefully planned, to meet the needs and the financial limitations of the elderly.

Pouring more heat into those little homes is a gross waste of a natural resource that we need to conserve and I just—we do have some excellent subsidized housing, 50 units of Bill Magelssen's Lakeview Village Retirement Center are deep subsidy and they serve very, very well. We need more of them and we need them in each community. We have sent at least five people from the lower part of Lake County to convalescent homes the last couple of months, not because they need that much care, but because they can't cope with maintaining their homes in the wintertime. They hope to return in the summer.

The cost for these five people in the convalescent home must be about \$4,000 for 1 month. If we are to think of cost effectiveness, subsidized housing would seem to be more satisfactory in that respect—as well as in many other ways.

Senator MELCHER. I think you make some excellent points and I am glad to have this as part of our testimony, because it's true that in a county such as yours, most of the elderly are probably not using natural gas. They are using either fuel oil or propane.

I very much appreciate what you say about having them turned up high for fear of the fires going out. A couple of times in our house, that's what we heated with, and I had the same problem, I never did become proficient at repairing them, so I also know what you mean when you say it's hard to get somebody to repair a heating stove that uses fuel oil. I always had a problem with it and always had to get a lot of help to get them working again. The valve would be wrong, the float would be wrong, or something else would be wrong.

I hope in that regard, and it is a problem with somebody that's living in their own home and wants to continue living in their own home, to be able to have those heating units operate efficiently and effectively. I would hope each individual senior citizen center would comb through their own people to find out who does know how to keep those things running.

I wouldn't be of any help, but I always found that if I looked far enough in my neighborhood, when we used those kinds of stoves, that we always found somebody that really knew how to repair them. I think it would be true in the senior citizen centers too. There's somebody there that knows how to do it.

Ms. SMITH. But those somebodies are so inundated by these calls that really—

Senator MELCHER. They get swamped.

Ms. SMITH. They are and your sympathy goes to them. It's not just the stoves, it's the water pipes. And to whom do you go when the water

starts coming through the light fixtures in the middle of the living room ceiling?

The home maintenance in those little, poorly constructed homes is, indeed, a problem.

Senator MELCHER. When I was mayor of Forsythe, when they had problems like that, they called me.

Ms. SMITH. That's why I'm here. They are calling me.

Senator MELCHER. I would suggest to call the county commissioner. [The prepared statement of Ms. Smith follows:]

PREPARED STATEMENT OF OLETA SMITH

Rapidly rising fuel costs are certainly a cause for concern among older citizens. Unfortunately, they are not the only problems of home maintenance. In fact, dealing with fuel costs alone might well be another example of the Band-Aid treatment.

Most of the rural elderly live in small homes heated by an oil burning stove, frequently supplemented by small electric heaters. Their problem is more apt to be how to keep the fuel flowing through frozen lines than how to pay for it.

The first frightening question upon awakening to a cold house is whom to call. In many places there is no one who makes a business of servicing oil burning stoves; those who do charge from \$20 to \$30 for the house call. One lady in St. Ignatius awakened to the cold house condition three times in 10 days last month.

Frozen pipes are even more difficult and expensive to repair. A homeowner in Polson spent \$300 this winter to have running water restored. There are elderly people who have been without running water for 6 weeks.

Who does one call, at any price, to stop the water flowing through the overhead light in the living room?

These are some of the obstacles encountered as we try to help older Montanans stay in their own homes when they choose to do so.

At least five from the area of southern Lake County have been forced to go to convalescent homes, not because they need so much care, but because they cannot deal with winter maintenance. That cost must come to about \$4,000 a month and most had to rely on medicaid to cover it.

There is at least an equal number who would be forced to resort to convalescent care if it were not for good neighbors who pack in water and tinker oil burners.

It seems that housing, carefully planned to meet the needs and the financial limitations of the elderly, would enable them to cope with these problems as well as the very important one of fuel cost.

Senator MELCHER. We had a gentleman out here who had some testimony. Please come forward, sir.

STATEMENT OF HERBERT DE VRIES, POLSON, MONT.

Mr. DE VRIES. My name is Herb De Vries and I appreciate asking this question of you, Senator Melcher.

I received a copy, about a year ago, I believe, of a proposed revision of the social security bill, that you are proposing and a question I have is, what has become of this and, also, I would like to state that we as senior citizens are already using our social security system pretty heavy and young people object to the highly increased rates.

I saw a figure the other day of 5,600,000 public employees and I suppose that's Federal and State, who do not pay social security.

However, I heard you make the statement this morning that you suggest using more of the social security funds and I am wondering if you are now proposing that the social security rates continue to be increased?

Senator MELCHER. No. First of all, when you are talking about my proposals for social security, there are probably two different proposals you are discussing.

One of my proposals that is shared by a number of us in the Senate at least, is to remove from the social security obligation, from the fund, the medicare program and fund it separately and directly from the Treasury, not from the social security fund.

The other part is to remove disability insurance from the social security fund and, again, fund it directly from the Treasury.

Both of these programs were added by Congress to social security, the latter in the late fifties and medicare during the sixties.

I believe that both of the programs are extremely necessary and extremely useful, absolutely essential, but they should be funded from the broadest possible source of the Government and that would be from the Treasury itself.

If they were removed and we got that social security back to where it was for many years and where it was intended to be, supplemental income for people that were retired, I think we would be much better off.

That would mean the social security taxes for both employees and employers would go back to about 4½ percent.

I think from a very practical standpoint the concept of social security and the taxes that are involved with it are workable at 4½ percent and are very effective.

When it gets above 4½ percent, the burden on both the individual taxpayer, the employee, and the employer, tends to get unwieldy and I think that's part of why we've had a sluggish economy during the past decade or so.

That is one proposal. My other proposal is to—and I'm not alone with that proposal. Senator Gaylord Nelson and others in the Senate share in that viewpoint.

My other proposal, going directly to utility increases for the elderly, would be just to recognize there was no way to anticipate in the social security taxes during the past years and the way the fund's been handled, the rapid escalation that inflation would bring in utility bills.

To recognize that now and just to increase it. I think we can afford to do it and I think we will find that coupled with the other corrections in social security that I just mentioned, the fund would be perfectly stable and we would still be able to finance the extra benefits to help pay for increasing utility costs.

Now, as to the overall question of whether or not, you know, will social security get to everybody, no, it won't, because there are people who are not on social security. We would have to address those separately and have to review with them how desperate their plight was, whether it was railroad retirement or veteran's benefits, for instance.

Mr. DE VRIES. This figure I am referring to, I saw an advertisement the other day of a life insurance company saying that 5,600,000 people do not pay social security, because they are State, county, Federal employees. It seems to me there is a great inequity.

I hope that if we need more money in social security, then why not tap that source?

Senator MELCHER. That's a little bit different aspect, Herb. I think it's a good point to discuss with people.

The question for instance, of Federal employees not covered by social security has been looked at rather seriously during the past 3 or 4 years by Congress.

As a result of looking at that, a Commission was directed to review the whole system of Federal employee retirement system and whether it should be continued.

There is absolutely no thought on anybody's part in Congress of denying the benefits of Federal employees retirement systems. Those people that have paid into that are going to get those benefits and we want to make that clear right at the outset.

But there is some thought that in the future, the future employees of the Federal Government should not have a separate Government retirement system, including Members of Congress. They should be part and parcel of the social security system. That is what the Commission was instructed to review. The report, I believe, is due late this year.

It will be very seriously reviewed by Congress and at some point in time, my judgment is, that Congress will say, "We will not have any other Federal retirement program except social security." They will say to Federal employees, newly hired, that they will be coming under social security and there is no longer any Federal employees retirement system for newly hired workers.

But I again want to stress that for those people who are a vested interest, who have been contributing to Federal employees retirement system, Congress isn't contemplating taking that away.

For those people who are on retirement, Congress isn't going to take it away or change it in any way. And the same with our military retirees. It's a contract. That's part of the job. For people who go into the military, our country has assured them they are going to have a retirement program and that's part of the contract we have, the moral obligation we have when they accept the job. The same is true of the Federal employees.

But in the future, are we going to have a system where Federal employees and the military will be looking for social security for their retirement benefits? That's what the Commission is examining.

I want to also point out to you that while social security, under the present law, the tax has not only increased, but the amount of money that is subject to the tax has been greatly increased and is progressively increased.

If you are thinking about somebody that will retire on social security say, 25 years from now, you'd better look—well, not even that long, about 15 years from now, even though their taxes go up substantially, we are looking at benefits 15 years from now substantially higher, very much higher.

Federal employee retirement system will not be that much different 15 years from now in benefits as compared to social security and the same, social security 15 years from now compared to military retirement.

We are working toward that and I think sometime in the future it's all going to be one Federal retirement system and it won't be frag-

mented into both military and the Federal employees retirement system.

For those people who have an interest in that and are presently either in the military or in Federal employment, don't worry. Congress is not going to jerk the rug out from under either of those programs for those that are subject to them now.

Thank you, Herb, for bringing this to our attention.

[A supplemental statement of Mr. DeVries follows:]

SUPPLEMENTAL STATEMENT OF HERBERT DE VRIES

I favor the establishment of the lowest rate charged for energy, either gas (natural) or electricity for a prescribed amount, known as the threshold or first used (and lesser amount) quantity, rather than the higher or bigger amounts of energy as is presently the case. These are the amounts above the minimum quantity—and at a generally lesser rate. This policy would engender conservation and would be a very simple assist to the elderly who, in most cases, are naturally frugal. Our present rate charge schedule really penalizes the poor and thrifty.

Higher rates or prices for big energy users will be reflected to a degree in higher costs to consumers, but it will also allow for compensating choices. For example, aluminum production is the biggest user of energy in Montana—at the ACM plant in Kalispell. Much of our aluminum goes for pop and beer throwaway cans. Here is a pure luxury convenience item we don't need. The consumer doesn't have to buy it, and a curtailed market for throwaway cans could force industry to use energy for more constructive purposes. Present estimates are that it takes 400,000 tons of aluminum yearly for the beer and pop cans.

Senator MELCHER. I have time for two more questions or comments and then we are going to have to adjourn this portion of the meeting.

STATEMENT OF J. LEE COOK, HELENA, MONT.

Mr. Cook. Senator, my name is J. Lee Cook. I am a private citizen from Helena, Mont.

I am glad to have the opportunity to speak with you this afternoon.

First off, I would like to start with—electrical rates in Montana are hurting the economic buying power of senior citizens. Wintertime curtailments for lack of payment by senior citizens is humanistically unconscionable and in the last 3 years, approximately five deaths have occurred in the State of Montana as a result of direct curtailments by Montana Power Co.

I feel that I would like to see introduced in Congress legislation that would prevent this from happening nationwide. I feel that with the increase in cold weather, this will be a much greater problem in the near future.

Senior citizens in Montana pay a disproportionate percent of their net take-home pay for residential electrical generation. This circumstance has not been addressed in the context of qualitative end use power generation. This is for senior citizens an avenue that would provide an economical alternative to the current monopolistic industry engaged by a few electrical generation industries.

The alternatives that are currently available to senior citizens and, indeed, to all Montanans, are the development of renewable energies.

Renewable energies are cost-effective and provide decentralized heating control generation. It provides employment for Montanans and coupled with tax incentives, can be a meaningful self-uplifting for deteriorating neighborhoods.

Solar greenhouses can allow year-round production of food for senior citizens in rural areas, in urban areas, and on reservations in the State of Montana.

Conservation seems to be the cornerstone of reducing electrical utility bills for senior citizens, specifically, and for all Montana citizens in general.

Therefore, I would like to see you introduce, if possible, a comprehensive conservation weatherization bill that would provide for weatherizing all substandard houses in the United States within the next 2 years.

A greater emphasis should be placed on radical rate reform in States such as Montana, that have a monopolistic stranglehold on electrical generation, inverted rate structures, offpeak baseload powers and Federal and State subsidized transportation systems for all needy senior citizens.

The energy picture doesn't look rosy. In fact, with major suppliers of oil being unreliable and increasing costs are very near, prime moves must be made to act now to alleviate the disproportionate ratio that citizens, senior citizens, must pay for heat.

It would be very advantageous to increase the funds for developing community-based, locally-controlled, renewable energy systems.

I have one question for Mr. McElwain, if he is still present. That is, if coal strips 3 and 4 are built, will Montana's monthly utility bills go down appreciably?

I believe the cost of coal strips 3 and 4, at the present figure, stands at \$900 million. That's a lot of money, definitely a lot of money, and I feel that kind of money put into your homes for alleviating your high utility bills could be better spent, provide more jobs for your daughters, your sons, your nieces, and your nephews, than putting up two coal-fired generating stations in the eastern part of Montana.

As I said before, conservation is the cornerstone of any energy act or program in the State of Montana and the United States and weatherization, as you have seen by the witnesses here today, is playing a large part in senior citizen lives and will continue to play a large part.

With President Carter's—more the equivalent of war, I believe that \$2 billion initially started to weatherize all substandard houses that do not meet standard 7590 would be quite advantageous for the citizens of Montana, specifically senior citizens of Montana.

Senator MELCHER. We are trying to get weatherization done as quickly as possible and I feel we are doing rather inadequately in reaching everybody, first of all, regardless of income, but in particular I feel we are doing an inadequate job for senior citizens.

Everybody stresses how important that is. Part of our purpose is to have some direct suggestions as to how we make it more effective and more efficient in reaching senior citizens with substandard housing and get the houses weatherized.

We've had a couple of excellent suggestions. We all know that money is not the whole thing, though money is, indeed, a serious handicap, because we have not provided enough of it. But it simply isn't the whole answer either.

I can tell you that Congress is sympathetic to becoming more effective and more efficient on this program. We hope to gather some in-

sight into it through conferences and hearings such as this, to arrive at that situation where we are more effective, more efficient, and really are reaching out to everybody with substandard housing and particularly the senior citizen.

As to people getting their utilities turned off, I don't know whether we've done an adequate job in stopping that or not, but that's exactly what crisis intervention is for and if it isn't working, we'd better find out why. That's an absolute guarantee to the utility company to lay off. "You are getting your money anyway."

If it doesn't work, we'd better know about it and I don't know how successful it is, but apparently in some instances, it either isn't being used, people don't know about it, or somehow it isn't effective in arriving. I would be interested for any details you have on specific cases, people who have had their utilities turned off and whether or not crisis intervention was used. That's exactly what it's designed to prevent and protect the utility company. They don't even lose any money, or up to \$300, they don't lose any money, anyway. That is direct and available.

Perhaps people aren't using it, but if there is some reason they are not using it, we would sure like to know about specific instances.

Thank you very much.

Mr. Cook. One more point, Senator, and that is the degree of subsidized housing for senior citizens in Montana. I think the proportion should be increased in terms of money spent, in terms of cost-sharing funds with State and Federal, with the HUD funds, the HEW and those sort of agencies, they should increase their funding, because one home, senior citizens apartment building is being built in Missoula at the present time and right now there are 300 people on the waiting list. That's 300 citizens in the Missoula area that have no place else to go. They are probably living in substandard housing at the present time.

These are some of the difficult problems that confront you, confront all of us, that we must work, as Mr. McElwain says, together. I would like to reiterate that is what I would like to do, also, to help in any way possible.

Senator MELCHER. Thank you very much.

STATEMENT OF TOM WOIWODE, ATTORNEY, MONTANA LEGAL SERVICES, GREAT FALLS, MONT.

Mr. Woiwode. Thank you, Senator Melcher, for allowing me to come and speak here. My name is Tom Woiwode and I am an attorney with Montana Legal Services. I would like to address, just briefly, Mr. McElwain's remarks earlier.

Mr. McElwain named several suggestions as to how to address the energy problem. Those include energy stamps, crisis intervention, budget billing, and several others.

Unfortunately, the problem with all of those is that they are very much a short-term solution and they are a subsidy and don't attack the real problem that many people are facing these days and that's spiraling utility costs.

Programs that do attack those include some sort of a lifeline with the adequate coverage provided for basic human needs at minimal costs or, as Ms. Sias and Ms. Eldrich suggested, a proposal of lowest

cost energy that will redistribute the costs through the industrial sector.

As Mr. McElwain pointed out, that redistribution of costs will, indeed, come back to the consumer eventually in some sort of higher cost, perhaps higher food or housing costs, but the point of that is, that it will allow the free market system, the competitive forces, to absorb some of those costs and the residential consumer will not have to absorb the entire rate increase.

It also provides for the residential consumer in the free market system. It provides them with a choice. They can at least purchase their food, their housing, and any other products or services that will have to absorb the higher utility costs. They have a choice as to where they can purchase those and from whom they can purchase them.

Currently, in Montana, as you know, the residential consumer does not have a choice as to where they can get their utilities. They either get it from Montana Power or Great Falls Gas, Montana-Dakota Utilities, something like that.

Consequently, they are forced to absorb the full rate increase. I would urge, Senator Melcher, that in addition to development of alternative energy programs, that you seek some sort of a rate restructure or reformation and that we have some more equitable distribution of utility costs.

Senator MELCHER. Thank you very much. That was a good comment.

Now, I believe Norma Keil has a statement or suggestion to make. Norma.

Ms. KEIL. Thank you, Senator Melcher. Is this a case of a woman having the last word?

Senator MELCHER. It sure is.

STATEMENT OF NORMA KEIL, CHAIRMAN, HORIZON LODGE, INC., CONRAD, MONT.

Ms. KEIL. Anyway, I'm Norma Keil and I am chairman of Horizon Lodge, Inc., a retirement home in Conrad, Mont.

As the chairman of the retirement home, residents—I certainly approve and was glad that two of the fellow people up here have said that we need more of these homes to alleviate some of the problems of senior citizens.

What I want to report, John, because we had talked in varied areas about the solar energy program, that Horizon Lodge, Inc., a year ago, got a grant from the State of Montana, the board of natural resources, and I think we probably got the largest grant in Montana. It is complete as of January 18, but because of the adverse weather conditions that we have had, Nelson Plumbing of Great Falls was not really able to do the water testing on that.

It is supposed to give 80 percent of the water heating for the Horizon Lodge building. We hope this will be so, but just last week they were able to get the test in and I might tell you that last year, and you know we had a terrible winter, as well as everybody else in Montana, and our utility bill last year was \$5,000 a month, which is a terrible overhead and something you hardly can budget for, in a retirement home. But you have to do those things. You have to pay the bill.

Hopefully, the Montana Department of Natural Resources has made it possible for our utility bill to be decreased by at least 60 percent for this coming winter, as soon as this gets in operation. It did last week and we hope it's going to be right.

A year ago, too, Opportunities, Inc., of Great Falls built us a solar greenhouse and last week we had ripe strawberries. We didn't have enough for everybody to have strawberry shortcake, but nevertheless, they are looking forward to it in the very near future.

Last spring, one of the residents there planted all of the plants and all of the flowers that was planted out in their garden and they are looking forward to having a great time this year with vegetables out of there.

Thank you so much, John. This has been great this morning.

Senator MELCHER. Thank you very much, Norma. Those are most encouraging reports for us, because it shows that when you know the way and you want to get going on it, it does work out that there are true benefits for solar energy.

Thank you all very much and the committee is recessed until 1:30 this afternoon.

[Whereupon, the hearing was adjourned.]

APPENDIX

APPENDIX 1

MATERIAL SUBMITTED BY DONNA ELDRICH,* DIRECTOR, RSVP, HELENA, MONT.

ITEM 1. A LIFELINE RATE STRUCTURE PROPOSAL FOR MONTANA, PREPARED BY THE CENTER FOR THE PUBLIC INTEREST, INC., BOZEMAN, MONT.

I. THE SITUATION

A. The rising cost of electricity

In the past few years, this country has experienced a rapid rate of inflation, discouraging levels of unemployment, climbing interest rates, higher labor and construction costs, a weak stock market, and substantial fuel cost increases. One outcome has been the skyrocketing utility rates, which have had the most devastating effect on those with low incomes.

The magnitude of the increased rates is unprecedented. A recent congressional survey on utility rate increases found that utility bills increased nearly \$10 billion last year, with an additional \$3 billion in rate increases pending at the time of the survey. Four fifths of the increases were for electricity, despite the fact that consumption of electric power increased less than 1 percent. In one year, consumers paid over one and a half times the rate increase they previously paid in an entire quarter century.¹

Montana is feeling similar pressures. Montana Power Co. has applied for a 22 percent increase in electric rates for all residential consumers. For a 100 kilowatt-hour (kWh) a month consumer, the price increase would be an additional \$1.10 each month. For a 300 kilowatt-hour a month consumer, the increase would be \$2.14 monthly. And for a 500 kilowatt-hour a month consumer, the monthly increase would be \$2.84.

Rate increases—especially across-the-board residential percentage increases as proposed by the Montana Power Co.—place an increasingly harsh financial burden on those citizens least able to absorb it. If rate increases continue to be proposed and accepted (and indeed, no sign of slowdown has appeared) some families will simply be unable to afford electricity to cover basic human needs.

B. The declining block rate structure—a case for rate structure revision

Energy Conservation

High energy consumption was a positive and sought-after goal when the electric industry was first developing. Larger plants, more customers at the end of a distribution system, and increased sales of electricity allegedly lowered the unit cost for all. Since growth appeared beneficial, a rate structure promoting increased consumption seemed appropriate. Thus, the declining block rate structure—"the more you use, the lower rate you pay"—was established.²

Today, the situation is reversed. Resources are scarce, labor is more expensive, materials are more costly, interest rates are higher, and environmental protection is necessary to protect the public health and welfare. Each new unit of elec-

*See statement, p. 523.

¹ Congressional Record reprint, "Proceedings and Debates of the 94th Congress." vol. 121, No. 49. (Washington: Monday, Mar. 24, 1975) p. 2.

² Michigan Public Service Commission, "Tariff Information Concerning the Detroit Edison Company." U-4257, Jan. 4, 1974. p. 59.

tricity will be more costly than those in the past. This is especially true for a State like Montana which developed hydropower as a relatively cheap source of energy, but which must now resort to more costly overall unit cost for everyone. The faster the demand increases, the more rapidly customer costs will rise.

Discussing this situation, the Michigan Public Service Commission stated:

"Service to larger customers did result in economies of scale and did justify the 'declining price' rate structure. This is no longer the situation . . . The incremental cost of producing the next unit is higher than the existing costs. Every additional unit of electric energy that must be provided will increase the overall cost of supplying energy."³

Chairman Eich, of the Wisconsin Public Service Commission, has said:

"It is clear from the record that a declining block-rate structure is no longer appropriate for this company—and, by implication, for other Wisconsin electric utilities. I have long felt that the promotional aspects of such a structure are wholly unjustifiable under today's conditions; and the testimony in this case is very persuasive on the point that such rates are uneconomic and are not justified by cost."⁴

And, the New York Public Service Commission wrote:

"It is clear that, except for load which is clearly offpeak or offers other specific economies, the result of a growing demand for electric power is to increase the average cost of service."⁵

Perhaps declining block rates reflected true costs and important policy objectives in the past. Now, however, rate structure philosophy must be updated to reflect new cost factors and the changing policy objectives of the present. The Michigan Commission states: "Today, the rate structure must be designed to enhance basic public policy objectives in areas of consumerism, environmental protection, public health and safety, and conservation of natural resources."⁶

A rate structure which decreases unit costs as consumption increases would not appear to meet these new objectives. Because it is more expensive to generate and distribute electricity today, the cost can be expected to go up as demand increases. Since the cost per unit goes up for everyone as the demand increases, and since the Nation is experiencing shortages in energy and natural resources, it is in the public interest to encourage conservation of energy rather than to promote increased consumption. If a rate structure is to reflect true costs, and the public interest in conservation, the declining block-rate structure must be revised.

Regressivity of the declining block-rate structure

Montana's Senator Lee Metcalf has stated:

"Typically a poor person who does not use much electricity, who does not care whether his line is underground or above ground, who lives in a congested area where cost of service is low, pays three times as much per kilowatt-hour as an industry which is creating pollution and energy supply problems. And the poor person typically pays twice as much as the air-conditioned suburban homeowner who is demanding underground lines."⁷

A growing number of authoritative studies support his contention and have found a significant positive correlation between income level and energy consumption. These studies show that wealthy individuals and families have larger houses (and frequently more than one), more appliances, and a generally more extravagant lifestyle than low-income individuals and families. They establish that high-income individuals consume greater amounts of energy while low-income individuals consume smaller amounts. In some instances it has been asserted that low-income consumers even subsidize the high income, highly consumptive individuals, by paying artificially inflated energy prices which subsidize cheaper rates for the wealthy.⁸

³ *Ibid.*, pp. 59-60.

⁴ Wisconsin Public Service Commission, "Findings of Fact and Order on Application of Madison Gas and Electric Company for Authority to Increase Its Electric and Gas Rates." 2-U-7423. William F. Eich, chairman, concurring, Aug. 8, 1974, p. 22.

⁵ New York Public Service Commission, Opinion and Order No. 72-6, 1972, pp. 40-42. Cited from Ernst Habicht, Jr., Ph. D., "The Social Origins and Economic Basis of the Demand for Electricity," paper presented to the New Zealand Energy Conference, University of Auckland, May 25, 1974, p. 49.

⁶ Michigan Public Service Commission, *op. cit.*, p. 60.

⁷ Parade, Washington, D.C., Aug. 20, 1972.

⁸ Coyle, Eugene P., Ph. D., "Lifeline," Excerpts of a rate design proposal for Pacific Gas and Electric, Nov. 18, 1974, pp. 3-4.

For example, studies undertaken by the Rand Corp. found a correlation between low-income levels and low-energy consumption; and a similar correlation between higher income levels, the ownership of more energy-demanding luxuries, and therefore, higher energy consumption. Another study revealed that the low-income user (with an income of less than \$5,000 a year) is paying a 28 percent higher rate than the average upper income user (with an income of \$15,000 and above).⁹

Con Edison of New York found the same correlation in 1970¹⁰ and studies undertaken by Michigan utilities found similar evidence.¹¹ The Boston Edison system disclosed that the 100 kilowatt-hour/month consumer pays 5.6 cents/kilowatt-hour, the 300 kilowatt-hour/month consumer pays 3.9 cents/kilowatt-hour, and the 1,700 kilowatt-hour/month consumer pays 1.9 cents/kilowatt-hour, thus further documenting this theory.¹² And finally, the lengthy Ford Foundation energy project¹³ and the Center for Advanced Computation¹⁴ find the same correlation between energy use and level of income.

In short, we find overwhelming evidence that the current Montana rate structure has the greatest adverse impact on those who use the least electricity.

It is important to recall that low-income consumers not only tend to pay higher prices for each unit of energy consumed, but they pay a greater percentage of their income for electricity. The Washington Center for Metropolitan Studies found that the poor spend over 5 percent of their income on electricity but the wealthy spend only 1.1 percent of their income on electricity.¹⁵ Realizing that the low income spend a significantly greater percentage of their income on energy, in addition to a higher unit price for electricity, they clearly receive a double clobbering from rising utility rates and would benefit from a more equitable restructuring.

To summarize the existing situation, there are two compelling reasons for revising the Montana electricity declining block-rate structure: social equity and energy conservation. The rising costs of electricity place an unfair and unacceptable burden on low-income families and individuals; low-income individuals who tend to be low energy consumers bear an inequitable proportion of energy costs; and promotion of energy consumption is now an inappropriate objective.

II. APPLICABLE LAW

Montana law imposes some important duties on public utilities such as Montana Power Co. and the public service commission. For example, section 70-105, Revised Codes of Montana (1947) provides:

"Every public utility is required to furnish reasonably adequate service and facilities. The charge made by any public utility for any heat, light, power, water, telegraph, or telephone service, produced, transmitted, delivered, or furnished, or for any service to be rendered as or in connection with any public utility, shall be reasonable and just, and every unjust and unreasonable charge is prohibited and declared unlawful."

Section 70-121, Revised Codes of Montana (1947) provides:

"If, upon such hearing and due investigation, the rates, tolls charges, schedules, or joint rates shall be found to be unjust, unreasonable, or unjustly discriminatory, or to be preferential or otherwise in violation of the provisions of this act, the commission shall have the power to fix and order substituted therefor, such rate or rates, tolls, charges, or schedules, as shall be just and reasonable. If it shall in like manner be found that any regulation, measurement,

⁹ Berman, M. B., and M. J. Hammer, and D. P. Tibansky, "The Impact Of Electricity Price Increases on Income Groups: Western United States and California," the Rand Corp., R-1050-NSF/CSA, November 1972, p. 17. Cited from Hazel R. Rollins, "The Life-line Rate Concept" Director, Consumer Affairs/Special Impact: to Frank Zarb, Administrator: Federal Energy Administration, Jan. 31, 1975, p. 7.

¹⁰ Testimony of Abraham Berger, PSC Case No. 2534, for Consolidated Edison Co., 1970. Cited from Rollins, *ibid.*, p. 17.

¹¹ *Ibid.*, p. 12.

¹² Testimony of Martin L. Puterman, Ph. D., staff consultant, Massachusetts PIRG, before the Government Regulations Committee, Boston, Mass.; Apr. 2, 1974. Cited from *ibid.*, p. 7.

¹³ "A Time To Choose: America's Energy Future" (New York: Ballinger, 1974).

¹⁴ Herendeen, R.A., "Affluence and Energy Demand," center for advanced computation, University of Illinois, Urbana, Ill. CAC-102.

¹⁵ Newman, D. K., and D.D. Wachtel, "Energy in People's Lives," the Washington Center for Metropolitan Studies for the Ford Foundation, 1974. Cited from Rollins, *op. cit.*, p. 3.

practice, act, or service complained of is unjust unreasonable, insufficient, preferential, unjustly discriminatory, or otherwise in violation of the provisions of this act, or if it be found that the service is inadequate, or that any reasonable service cannot be obtained, the commission shall have power to substitute therefor such other regulations, measurements, practices, service, or acts, and make such order relating thereto, as may be just and reasonable."

The public service commission is also charged by law with a variety of environmental quality duties (imposed by 69-6503: Revised Codes of Montana, 1947).

- (1) Fulfill the responsibilities of each generation as trustee of the environment for succeeding generations;
- (2) Assure for all Montanans safe, healthful, productive, and esthetically and culturally pleasing surroundings;
- (3) Attain the widest range of beneficial uses of the environment without degradation, risk to health or safety, or other undesirable and unintended consequences;
- (4) Preserve important historic, cultural, and natural aspects of our unique heritage, and maintain, wherever possible, an environment which supports diversity and variety of individual choice;
- (5) Achieve a balance between population and resource use which will permit high standards of living and a wide sharing of life's amenities; and
- (6) Enhance the quality of renewable resources and approach the maximum attainable recycling of depletable resources.

This proposal to consider a revision of the rate structure responds affirmatively to these provisions of law.

III. THE LIFELINE PROPOSAL

To bring social equity and energy conservation incentives into the Montana residential electricity rate structure, the previously named Montana groups recommend the following rate structure revision:

Present residential rate structure:

First 20 kilowatt-hours (min. charge \$1.40)_____cents/kilowatt-hour_____	¹ 7
Next 80 kilowatt-hours_____do_____	¹ 4.44
Next 100 kilowatt-hours_____do_____	¹ 3.11
All additional consumption_____do_____	¹ 1.55

Proposed residential rate structure revision:

Service charge_____	\$1.50
First 400 kilowatt-hours_____cents/kilowatt-hours_____	¹ 2
Next 600 kilowatt-hours_____do_____	¹ 2.5
All additional consumption_____do_____	¹ 3

¹ See figure 1.

The revision, establishing the lowest rates for the smallest consumers, is commonly called the "lifeline" approach.

A lifeline rate structure would provide an amount of electricity sufficient for an average family's basic necessities. This amount would be priced reasonably, within reach of lower-income people, and should be protected against rapid rate increases. The lifeline we propose would provide 400 kilowatt-hours to Montana Power Co.'s residential customers at the price of 2 cents/kilowatt-hour. Currently that amount of electricity costs \$11.16. Under our proposed revision, it would cost \$8 or \$9.50 with the service charge. In order to make up the revenue lost by the reduction, we further propose a 2.5 cent charge for each kilowatt-hour beyond the first 400, and a 3 cent charge for each kilowatt-hour beyond 1,000. (See Figure 2.)

Basic necessities which would be covered by the 400 kilowatt-hour lifeline include sufficient electricity for cooking, hot water, lights, and refrigeration for an average-size family.

FIGURE 2.—*Lifeline proposal*

[Using statistics from Montana Power Co., Annual Report, 1973]

Monthly service charge for residential consumers_____	\$1.50
Maximum monthly kilowatt-hours subject to lifeline price_____	400
Lifeline price per kilowatt-hour_____	\$.02
Maximum lifeline portion of monthly bill_____	\$8

Lifeline portion of monthly bill plus service charge.....	\$9. 50
Number of residential customers served.....	160, 648
Total kilowatt-hours sold to ultimate customers.....	4, 722, 694, 922
Total kilowatt-hours sold to residential consumers.....	1, 015, 638, 639
Present rate schedule :	
20 kilowatt-hours or less (min. charge \$1.40).....cents/kilowatt-hour	7
Next 80 kilowatt-hours.....do.....	4. 44
Next 100 kilowatt-hours.....do.....	3. 11
Over 200 kilowatt-hours.....do.....	1. 55
Current monthly bill for maximum lifeline kilowatt-hours.....	\$11. 16
Monthly lifeline saving per residential customer ¹	\$1. 66
Annual lifeline saving per residential customer ¹	\$19. 92
Annual lifeline savings for all residential customers ¹	\$3, 200, 108
Kilowatt-hours to be sold annually at lifeline price.....	771, 110, 400
Number of large consumer kilowatt-hours to be increased in price.....	3, 951, 534, 522
Average price increase per large consumer kilowatt-hour.....	\$. 00081
Number of residential kilowatt-hours to be increased in price.....	244, 528, 239
Average price increase per residential consumer.....	\$. 0131

¹ Assuming all residential customers use the maximum lifeline amount of power each month.

IV. SIZE AND PRICE OF A MONTANA LIFELINE

In designing a lifeline monthly system, a decision must be made as to the amount and cost of electricity within the lifeline. We recommend that the lifeline include a maximum 400 kilowatt-hour a month at the rate of 2 cents/kilowatt-hour. The amount of electricity is admittedly a debatable figure, but after research and scrutiny of other rate structure studies we are satisfied that the proposal suggests a fair quantity at a fair price.

Lifeline proposals and proposals on rate protection for low consumers, generally cover from 300 to 500 kilowatt-hours a month at a price between 2 cents/kilowatt-hour and 3 cents/kilowatt-hour.

An entry in a recent Congressional Record states: "Experts say that the minimum amount of electricity needed to maintain a household's health and welfare is about 400 kilowatt-hours."¹⁶

The Vermont lifeline proposal, supported by low-income organizations, senior citizens, labor groups, churches, and the Vermont Governor's Commission on Electrical Energy, suggests 400 kilowatt-hours a month for \$10, or 2.5 cents/kilowatt-hour.¹⁷ An organization in California has proposed a lifeline of 400 kilowatt-hours at 2 cents/kilowatt-hour, plus a customer service charge.¹⁸

Regarding the California group's decision to establish a 400 kilowatt-hours amount of electricity, Dr. Eugene Coyle states: "I have chosen 400 kilowatt-hours a month based on both studying usage figures for certain appliances and also company figures on average usage." He points out that the Pacific Gas and Electric Co. estimates the average domestic customer will use about 586 kilowatt-hours/month in 1975, and he chooses 400 kilowatt-hours a month because it is about two-thirds of the average usage, and appears reasonable.¹⁹

Montana appears to be an average State, not differing significantly in residential consumption from other States. Similarly, lifeline proposals appearing in other States should be applicable, or at least refinable, for Montana conditions.

The average monthly residential consumption in Massachusetts is about 520 kilowatt-hours; in Florida it is about 1,000 kilowatt-hours;²⁰ in California it is about 586 kilowatt-hours.²¹ In Great Falls, the average monthly residential consumption is 475 kilowatt-hours; in Billings it is 484 kilowatt-hours; and in Missoula it is 534 kilowatt-hours.²² The average monthly consumption for all Montana Power Co. supplied residential consumers in 1973 was 526 kilowatt-hours.²³

¹⁶ Congressional Record reprint, Dec. 19, 1974. Reprinted from the Northern Virginia Sun, Nov. 1, 1974, an editorial, "A Lifeline Plug."

¹⁷ Congressional Record reprint, May 22, 1974, p. 2.

¹⁸ Coyle, op. cit.

¹⁹ Ibid., p. 2.

²⁰ Rollins, op. cit., p. 9.

²¹ Coyle, op. cit., p. 2.

²² Federal Power Commission, "Typical Electric Bills," Washington, D.C., 1974. (1973 figures).

²³ Montana Power Co., "Annual Report," 1973. Table 11, Electric Operating Revenues. (Account 501.)

Recognizing that defining "basic necessities" is difficult, and that necessary electricity consumption varies with size of family, geography, and other factors, it must nevertheless be recognized that all households are to a certain degree dependent on a fundamental amount of electricity to maintain health, safety, and welfare. It is our conclusion that 400 kilowatt-hours a month is a reasonable measure of the basic electricity needs of an average Montana family. We believe that a Montana lifeline should be no less than 400 kilowatt-hours/month, since cutting back consumption beyond that point could be quite difficult for many families, particularly during periods of temperature extremes. However, an amount significantly above 400 kilowatt-hours/month would be overly generous, and would give little incentive for conservation.

The proposed 400 kilowatt-hours/month lifeline, at 2 cents/kilowatt-hour, would cost a maximum monthly amount of \$8. If the rate was much higher than 2 cents/kilowatt-hour, residential consumers would be paying as much or more than they presently are, and there would be no social equity gain. If the rate was much lower than 2 cents/kilowatt-hour, the lost revenue could become a heavy burden for other classifications, or other consumption levels, to bear. The purpose of this proposal is not to penalize large consumers for their necessary consumption.

It is hoped that the suggested rates come close to reflecting true costs of providing service. Dr. Eugene Coyle states that the 2 cent/kilowatt-hours charge in the California lifeline proposal is "fully cost justified."²⁴ We do not know the difference in cost of generating and distributing 400 kilowatt-hours in Montana compared to California. However, since electric rates in the San Francisco area are not significantly different from those in Montana,²⁵ and since the average residential consumption is not markedly different, we assume that Dr. Coyle's assertion is basically applicable to Montana.

The reduced amount of revenue from the lower lifeline rates (about a \$3 million reduction) can be easily made up in the higher use brackets of residential consumption without putting an undue burden on them. Too, a higher rate serves as an inducement to cut back on energy consumption.

V. MONTANA NEEDS A LIFELINE

As previously noted, low- and fixed-income individuals and families are having increasing difficulties absorbing rising energy prices. The existing declining block-rate structure is regressive to low-income consumers in that they actually pay more for each unit of consumption than higher consuming, higher income families. A lifeline will bring an end to the regressive nature of the existing rate structure, and would therefore, be particularly beneficial to low-income individuals. A fundamental belief embodied in this proposal is that the cost of energy should be distributed more equitably on the basis of ability to pay. Since a certain amount of electricity is essential, that amount should be available at an affordable price.

Since, as proposed here, the lifeline would be protected against future rate increases, it would provide a hedge against inflation and guarantee a basic quantity of electricity to consumers at a reasonable and reachable price in coming years.

In addition to benefiting the lower income levels, any consumer who stays within the 400 kilowatt-hours/month limit will benefit from a lifeline, regardless of income. The \$8 a month (plus service charge) rate would save residential consumers who use 400 kilowatt-hours/month almost \$20 a year—about a 15 percent decrease from present rates for that level of consumption. In comparison, it should be noted that the current rate increase proposed by the Montana Power Co. would increase the bill of a 400 kilowatt-hours/month consumer by \$2.54 or over \$30 a year—a 22 percent increase. In fact, our proposed lifeline would give rate decreases from present rates to any residential consumer who uses 500 kilowatt-hours or less each month. Of course, the actual dollar decrease is smaller as the level of consumption increases. And in comparison to the Montana Power Co. rate increase, the lifeline rate would save consumers on all monthly bills for consumption up to 1,000 kilowatt-hours/month. However, at monthly consumption levels above 1,000 kilowatt-hours, the lifeline rate would be sig-

²⁴ Coyle, *op. cit.*, p. 5.

²⁵ "Why Should Your Utility Bill Go Up?" Montana Power Co. brochure.

nificantly above existing rates, and also above with the proposed increase. (See figure 3.)

FIGURE 3

Kilowatt-hours a month	Present monthly bill	Bill for proposed lifeline	Dollar change for lifeline	Percentage change for lifeline	Bill reflecting MPC proposed increase	MPC proposed dollar increase	MPC proposed percentage increase
100.....	\$4.95	\$3.50	-\$1.45	-29	\$6.05	\$1.10	22
300.....	9.61	7.50	-2.11	-22	11.75	2.14	22
400.....	11.16	9.50	-1.66	-15	14.15	2.54	22
500.....	12.71	12.00	-.71	-5.5	15.55	2.84	22
750.....	16.59	18.25	+1.66	+10	20.30	3.71	22
1,000.....	20.46	24.50	+4.04	+20	25.05	4.59	22
1,200.....	23.56	30.50	+6.94	+29	28.74	5.18	22
1,500.....	28.21	39.50	+11.29	+40	34.41	6.20	22

In addition to promoting inequitable rates, the declining block-rate system does not discourage wasteful or extravagant consumption. A lifeline will reverse this incentive by rewarding frugality instead of penalizing it. All low electricity users would be rewarded for conserving energy, instead of paying more, as they presently do. And if the lifeline succeeds in lowering energy consumption, it is conceivable that part of an increasing financial dilemma of the utilities will be resolved since less capital will be needed for the expansion of new facilities.²⁶

Also, to its benefit, a lifeline would take very little time to implement, and could be easily administered through the existing public service commission. The price, and the burden on other Montana Power Co. electricity consumers would be minimal. If all other consumer kilowatt-hours, including higher residential consumers as well as the commercial and industrial classifications were to absorb the revenue lost from the rate decreases provided by the lifeline, the cost would only amount to an additional \$.0008 for each kilowatt-hour. If only larger residential consumers were to absorb the lost revenue, the cost would be an additional \$.0131 for each kilowatt-hour. Should the public service commission feel that the higher residential consumers ought not to absorb the revenue lost from the lower lifeline rates, studying the higher use commercial and industrial brackets would be appropriate. (See Further Recommendation No. 3.)

VI. RATES AND CHARGES BEYOND THE FIRST 400 KWH

A. Service charge

The Montana Power Co. does not presently have a fixed customer service charge for each customer of the class and which do result in higher per kilowatt-hour established at a rate of \$1.50 per month. Examples of service charge systems are the Mountain Bell Telephone and Cable television. Many utilities across the Nation also use such a system.

Regarding electricity, fixed customer costs exist for all customers who are hooked up, and are independent of the amount of electricity consumed. Such costs for smaller customers, must be treated differently than demand-related ment, etc.

On the topic of service charges, Wisconsin Commissioner Cudahy states, "I must emphasize that customer-related costs, which are approximately equal for each customer of the class and which do result in higher per kilowatt-hour costs for smaller customers, must be treated differently than demand-related costs, which are presumptively different for each customer."²⁷

Our study concludes that a separate service charge, which reflects actual cost as nearly as possible, makes more economic sense than hiding these necessary costs in the rate bill, as they presently are. If the service charge is segregated from the rate charge, the electricity rates can not be artificially inflated to accommodate these costs for the company. Resulting benefits are first, a much simpler and more understandable structure for the consumer, and second, lower electricity rates which will be particularly beneficial to those who consume less than the 400 kilowatt-hours/month maximum lifeline.

²⁶ "Electric Utilities Face a Price Dilemma," Business Week, Feb. 2, 1974, p. 34.

²⁷ Wisconsin Public Service Commission, op. cit., Richard D. Cudahy, commissioner, concurring; p. 37.

Montana Power presently charges \$1.40 for the first 20 kilowatt-hours/month or less. It can be assumed that this charge is designed to cover customer costs since it is a minimum charge, not based on consumption of the full 20 kilowatt-hours. MPC's rate increase application proposes increasing the minimum charge to \$1.70. If the first 20 kilowatt-hours, at our proposed lifeline charge of 2 cents/kilowatt-hour, are subtracted from \$1.70, the remaining sum is only \$1.30. In other words, our service charge of \$1.50, plus the lifeline charge for 20 kilowatt-hours, amounts to \$1.90, which we find to be a fair charge for the company as well as the customers.

The Wisconsin Public Service Commission raised the fixed charge for Madison Gas and Electric Co. from \$1 to \$1.50 in 1974, to reflect more closely the actual cost of service.²⁸ Since this is apparently the most recent decision on a service charge, our choice rests heavily on their opinion.

B. Rates for consumption in excess of 400 kilowatt-hours a month

Adopting the lifeline will reduce the utility bills of some residential consumers. Since they will pay the company less money, total revenues to MPC would drop unless countervailing measures are taken. Since the purpose of this study is to examine the entire residential rate structure, we are proposing some countervailing measures which should adequately make up the lost revenue. Our intention is to generate, as nearly as possible, the same amount of revenue as the existing structure.

We propose that the price of each kilowatt-hour beyond the first 400 kilowatt-hours be 2.5 cents—a half a cent increase from the lifeline charge; and that the price of each kilowatt-hour beyond the first 1,000 kilowatt-hours be 3 cents—a cent increase from the lifeline charge. In contrast to this proposal, the present residential rate structure decreases the price of electricity as consumption increases. For all consumption beyond 200 kilowatt-hours, consumers presently pay 1.5 cents. Such low costs are possible in part because of the steep prices for the first 200 kilowatt-hours. (See Figure 1.)

In recommending a new structure to take up the slack, we are unable at this time to be certain that the new revenue will approximate the old. If a comparison is to be accurate, information must be obtained throughout the MPC distribution system as to what percentage of the customers consume electricity at different levels. For beginning estimates, we must know what percentage generally consumes less than 400 kilowatt-hours/month, what percentage consumers over 1,000 kilowatt-hours/month, and what percentage lies between the two. In seeking this information for the city of Bozeman, it was discovered that such data has never been compiled. And in order to compile it, one would have to use the only source of information—the ledger sheets. Since the ledger sheets contain consumers' names and addresses we were unable to examine them, as such activity could constitute an invasion of privacy for the consumers. We asked a number of other States for similar information, which in most cases was supplied to us. However, the consumption patterns vary to such a great degree from State to State, that this information could not be used for our purposes.

In any case, we believe that when a rate structure change is implemented, the rates will have to be adjusted over time. One purpose behind our change is to increase energy conservation. If this goal succeeds, a certain amount of revenue will be lost, and continuing adjustments will have to be made.

An increasing number of studies and rate decisions point out sound reasons for resting a greater proportion of financial burden on larger consumers. In Montana, as has been previously mentioned, the greatest source of electricity has been relatively cheap hydropower. Future energy generation will be more costly. It is difficult to devise a system which fairly allocates these new and old costs. We feel that each Montana consumer deserves a fair share of the cheaply generated hydropower. But beyond that share, all consumers should help pay for the more expensive energy in accordance with ability. Thus, at a certain point in consumption—and we recommend breaking points at 400 kilowatt-hours and 1,000 kilowatt-hours a month—rates should increase for residential consumers.

In recent decisions regarding rate increases for Duke Power and Carolina Power and Light, the North Carolina Utilities Commission followed the theory

²⁸ *Ibid.*, p. 12.

of protecting the smaller consumers, while requiring the larger consumers to bear the brunt of the necessary rate increases. Their justification centers around the need for conservation of energy, and the fairness of placing rising prices on those who are largely responsible for them.

"The commission concludes that the demands upon Carolina Power and Light for increased capacity of generation and transmission facilities and the demands for large amounts of fuels generated by heavy-use customers are the principal factors behind C.P. & L.'s needs for increased revenue. The commission also concludes that there is an urgent need for additional conservation of electric energy. The commission, therefore, concludes that C.P. & L.'s proposed residential rate schedules should be redesigned to meet the above objectives. This can be accomplished by placing a heavier burden on larger residential customers than that placed on the small and medium-use customers."²⁹

And with regard to Duke:

"After careful consideration of all the evidence, we do not see or feel that the small and medium-use customer on Duke's system is responsible for the pressures upon Duke for increased revenues, and this order will therefore reflect our decision to allow no increase in basic rates in the residential low-use blocks (up to 350 kilowatt-hours per month . . . which customers will receive base rate reductions from present existing rates); and our decision to allow reduced increases lower than that requested by Duke, in basic rates in the residential medium-use blocks (up to 1,300 kilowatt-hours per month . . . which customers will also receive a base rate reduction from present existing rates)."³⁰

The recent decision made by the Wisconsin Public Service Commission reflects similar reasoning. Quoting from Chairman Eich:

"An electric rate design based on long range increment costs, then, will insure that those uses placing the greatest demands on the system will pay the true costs of such usage—including the costs of new generating capacity. Such a design would give the proper "signals" to customers—that the more you use, the more costly it is to you and to society—and, to the extent that demand is elastic, it would have a desirable dampening effect on demand growth."³¹

Changing and simplifying the residential rate structure, and establishing a financial reward for frugality as well as a disincentive for waste and extravagance, will focus clear attention on the rate structure. Customers' awareness of consumption will increase, and they will be more willing and eager to join the battle to save energy. Higher prices for larger consumption will help identify more clearly the source of increased energy demand.

Recognizing the elastic nature of consumer consumption at higher consumption levels (see VII) there is little doubt that conservation of electricity will take place, with no punitive hardships placed on anyone.

Energy conservation is an important and desirable societal goal, as is the attainment of social equity. These two goals can best be pursued through the development of a rate structure based on ability to pay, one which places the greatest financial burden on the higher quantity users. Clearly, we all stand to lose if these conservation efforts fail.

As noted by the North Carolina Utilities Commission:

"It is, however, our opinion that reasonable and prudent conservation measures on the part of all our people will speed the day when energy prices will begin to level off and perhaps recede in the direction of the levels of the early 1970's. We cannot, of course, promise that conservation will achieve these goals; but we can certainly predict that lacking conservation, the pressures on energy prices will continue to escalate. We urge all concerned to investigate every avenue of energy conservation and savings and to practice conservation as a way of life for the predictable and foreseeable future."³²

And quoting from the Wisconsin Public Service Commission, one of the suggested basic principles alluded to most frequently in the proceedings:

"Rates should promote an efficient allocation of resources, thus discouraging wasteful use of energy."³³

²⁹ North Carolina Utilities Commission order; final order on rate design case for Carolina Power and Light, p. 25.

³⁰ North Carolina Utilities Commission; final order on rate design case for Duke Power, pp. 10-11.

³¹ Wisconsin Public Service Commission, op. cit., Eich, p. 21.

³² North Carolina Utilities Commission, op. cit., note 30 supra, p. 11.

³³ Wisconsin Public Service Commission, op. cit., p. 3.

VII. THE INFLUENCE OF ENERGY COSTS ON CONSUMPTION LEVELS

A common question raised in utility rate discussions, is whether electricity costs actually influence consumption. It is, in economic terms, a question of whether energy consumption is "elastic." With regard to electricity, elasticity measures the degree of flexibility with which a consumer adjusts his use as rates go up or down.

In the past, and frequently by utilities, it has been claimed that elasticity was low or negligible. In other words, it was argued that price increases did not reduce consumption. Recent economic studies are concluding this is not correct. Studies on elasticity "demonstrate that price is an important determinant of demand for electric power."³⁴

"Clearly what is now emerging is that with increasing use, the demand for electric power in the United States is growing more price elastic . . . The response of electric customers in the United States to the recent wave of very abrupt price increases, affords excellent empirical evidence that the demand for electric power is moderately responsive to price over the very short term."³⁵

Two particularly important conclusions concerning elasticity of residential consumption must be kept in mind. First, among residential consumers elasticity is most notable in the long term. "There is considerable evidence that residential demand for electricity is sensitive to price in the long term."³⁶ Adjustments are made in individuals' and families' consumption habits, although they do not necessarily happen overnight.

Second, elasticity tends to increase as the level of energy consumption and income increases. The Rand study indicates that higher consuming individuals are more responsive to higher prices than low consumers since a greater percentage of the consumption is devoted to luxuries in which cutbacks can be made.³⁷ But, when most of the energy goes for basic necessities—cooking, refrigeration, and lights—the price responsiveness of consumers is minimal. There is little room to adjust. At a certain point low consuming families simply cannot conserve more energy without "freezing in the dark," so to speak. Nor can they economically switch to a viable alternative. We contend that they should not be expected to.

In advocating a California lifeline, Dr. Coyle testified :

" . . . for basic necessities the demand is inelastic. The minimum usage will take place regardless of price. The utilities have long recognized this and twisted their rate structures accordingly. It is time for the regulators to recognize it and prevent abuse of this inelasticity."³⁸

Recognizing the existence and limitations of elasticity for residential consumers, a rate structure should be designed to make beneficial use of it. The desirable goal is a balanced structure which rewards frugality, discourages waste, and does not penalize the consumption of basic necessities. Our lifeline proposal would accomplish this goal.

VIII. A FOOTNOTE ON ENERGY STAMPS

Perhaps the most frequently discussed alternative to a lifeline, aimed at softening the impact of spiralling utility rates on low-income families, is an energy stamp program. Energy stamps would be an energy welfare system, similar to the existing food stamp system.

In speaking against what he called "social ratemaking" Joe McElwain, president of Montana Power Co., states :

"The Congress should enact legislation that will establish a national energy stamp program similar to the existing food stamp program. Such a program would carry out the principles of social justice, would alleviate the problems of the recipients, would relieve the almost-constant pressure on regulatory commissions and would allow utilities to carry out their mandate of adequate service without discrimination. And, from a philosophical standpoint, it would place the responsibility where it properly belongs—with all the people."³⁹

³⁴ Habicht, op. cit., p. 41.

³⁵ Ibid., p. 42.

³⁶ Rollins, op. cit., p. 21.

³⁷ Berman and Hammer, op. cit. Cited from Rollins, op. cit., pp. 22-23.

³⁸ Coyle, op. cit., p. 2.

³⁹ Testimony of J. A. McElwain, docket No. 6279 before the Montana Public Service Commission, p. 21.

We have concluded that although there are merits in the energy stamp concept, the lifeline should be tried on an experimental basis first. It is a simpler system which would adequately accomplish the same social goals, and could perhaps obviate the necessity for an energy stamp system. An energy stamp system should be studied, but its implementation is surely a number of years away, and would require complicated Federal as well as State action. And regardless of whether an energy stamp system is established, inequities should in any case be removed from the present rate structure. Most important, the possibility of energy stamps should not be used as an argument against the timely implementation of the lifeline. Unlike an energy stamp system, a lifeline would take little time to institute. In much less than a year (allowing time for further study) consumers could experience its benefits. No additional administrative bureaucracy would be needed. For this reason alone it is undoubtedly a less expensive proposal than energy stamps.

Most important, a lifeline will go to one root of the energy problem—an inequitable and antiquated rate structure—rather than take the Band-Aid-on-a-symptom approach.

Mr. McElwain has stated that “. . . social ratemaking puts a severe and unfair pressure on commissions” and that the responsibility of social justice properly belongs with Congress, “with all the people.”⁴⁰ We respond, that in Montana the public service commissioners are elected by the people, just as Congressmen are. We believe that you as elected officials can just as accurately represent the public on “social ratemaking” decisions as Congress or the State legislature. And we believe that you can, in fact, withstand the pressure. We hold that because of the concentration of expertise among the commissioners and their staff, and the requirements of Montana law, it is your duty and responsibility to consider the social ramifications of the rate structure, and design a structure based on equity and fairness. In fact, the statutes carefully delineate this responsibility by requiring that the charges made by any public utility be “reasonable and just, and every unjust and unreasonable charge is prohibited and declared unlawful.”⁴¹

As long as regulated utilities receive a fair and just rate of return they have no complaint when social justice is sought either through rate structure revision, or legislated subsidies.

IX. FURTHER RECOMMENDATIONS

Our study of residential electricity rates and consumption has led us to make several other observations and recommendations apart from the lifeline.

(1) We recommend that the public service commission review the rate schedules which provide that “full-time permanent employees of the (Montana Power) company shall obtain a 40 percent discount from the above rate for personal residential use.”⁴² This provision should be examined in light of the requirement that electricity be provided at reasonable, just, and nondiscriminatory rates.⁴³ On its face, the employee preferential rate clause appears discriminatory. It is not based on ability to pay, or other reasonable criteria.

(2) We recommend that the public service commission consider a lifeline for Montana Dakota Utilities’ residential customers. We further recommend that the lifeline concept be studied for possible application in residential natural gas consumption.

(3) Since 50 percent of energy consumption in Montana Power Co.’s distribution is industrial whereas less than 28 percent of the total revenue is paid by industry,⁴⁴ we recommend that further study be given to the possibility of requiring industry to absorb a fairer share. Some utility commissions have found that the substantially lower industrial electric rates are not justified.⁴⁵ In Montana the average residential rate is 2.45 cents/kilowatt-hour.⁴⁶

(4) It is recommended that time-of-day metering and peakload pricing be investigated for possible application to all rate classifications as a possible means to level the daily and seasonal consumption peaks, and thereby slow the need for construction of new facilities.

⁴⁰ *Ibid.*, pp. 20–21.

⁴¹ Section 70–105, Revised Codes of Montana, 1947.

⁴² (S) of Montana Public Service Commission schedule R–74.

⁴³ Section 70–105 and 70–114, Revised Codes of Montana, 1947.

⁴⁴ Bourke, Richard. Montana Environmental Quality Council. Testimony presented to the Montana Legislative Business and Industry Committee, Jan. 21, 1975, p. 3.

⁴⁵ North Carolina Utilities Commission, *op. cit.*, note 30 *supra*, p. 25.

⁴⁶ Bourke, *op. cit.*, p. 3.

X. CONCLUSION

In conclusion we find compelling arguments to support residential rate structure revision and in particular, a lifeline proposal. Social equity and conservation of energy would be promoted thereby.

Similar proposals and rate structure revisions are being considered across the country, and a number of leading energy authorities endorse the concept.

In discussing a 400 kilowatt-hour/month, \$10 lifeline proposal, Senator Lee Metcalf has stated:

"Surely this idea deserves more consideration than has so far been reflected in rate structures. The idea is gathering momentum. It deserves support, and most importantly, advocacy before the State commissions which regulate retail rates."⁴⁷

John Sawhill, former Administrator of the Federal Energy Administration, has stated, with regard to a lifeline,

"Customers who used more than the minimum amount would pay higher rates to offset this (lifeline) rate reduction for the poor and the elderly existing on fixed incomes. I feel very strongly that the poor and elderly must not bear the brunt of recent price increases.

"This provides both incentives for conservation and relief to the low-income families faced with higher costs for their necessities of life, I endorse this approach and am very anxious to see more innovations like this adopted."⁴⁸

And the Federal Energy Administration's present Administrator, Frank Zarb, said he "would endorse any (rate structure) scheme that would make the low-income level the baseline."⁴⁹

The previously named Montana organizations support and endorse a lifeline rate structure for Montana. We present it to the Montana Public Service Commission with hopes for its expeditious implementation.

ITEM 2. PETITION OF CENTRAL VERMONT PUBLIC SERVICE CORP. FOR INCREASE IN RETAIL RATES

Introduction

On May 18, 1977, Central Vermont Public Service Corporation ("CVPS" or "the Company") filed for an 11.9 percent increase in retail rates to become effective 30 days thereafter for bills rendered on or after June 20, 1977. The Company proposed increasing each component of its base rates by 14.5 percent over currently effective base rates and updating the base of its purchased energy and fuel adjustment clause. The net result of these two changes would produce an average increase paid by the customers of 11.9 percent. This rate change, filed pursuant to 30 V.S.A. § 225, was suspended by the Vermont Public Service Board on June 7, 1977, pursuant to 30 V.S.A. § 226(a), and an investigation was ordered into the justness and reasonableness of the proposed rates.

On June 24, 1977, the Company filed a request for an immediate temporary rate increase of 8.87 percent to become effective August 1, 1977. On June 14, 1977, upon notice to all parties, a hearing was held in Montpelier on this request. On September 2, 1977, the Public Service Board denied the Company's request for a temporary rate increase.

On June 24, 1977, a prehearing conference on the original filing for a permanent increase was held in Montpelier, as required by 30 V.S.A. § 11(a)(2). At this prehearing conference, the Company was asked to adjust the test year, calendar year 1976, to include the 5 months ending May 31, 1977, so the case would reflect the most recent data then available. At this meeting, the Board decided to admit as intervenors the Vermont Low-Income Advocacy Council and the "Middle-Income Consumers Group". The Board also decided to hold five public meetings around the State to allow the public an opportunity to present their views on the record.

On August 15, 1977, the Company filed an updated test year ending May 31, 1977, and a request for a supplemental rate increase of 4.5 percent which would bring the overall average requested increase to 16.4 percent.

⁴⁷ Congressional Record, May 22, 1974. S8872.

⁴⁸ Rollins, *op. cit.*, p. 11.

⁴⁹ *Ibid.*, p. 10.

Public hearings subsequently were held in St. Albans on October 11, in Rutland on October 12, in Brattleboro on October 17, in Bennington on October 18, and in St. Johnsbury on October 20, 1977. Sworn testimony was taken at these hearings and officially recorded by a reporter.

Technical hearings were held in the conference room of the Public Service Board in Montpelier, all parties being duly noticed, on October 24, 26, 27, 28 and 31, 1977, and continuing November 1 through 4, 7 through 10, 28 through 30, 1977, December 1, 2, 5 and 7, 1977 and January 31, 1978.

On December 20, 1977, pursuant to 30 V.S.A. § 227, the Company placed the originally filed rates of 11.9 percent into effect under bond. The supplemental 4.5 percent rate increase was never put into effect under bond.

On January 31, 1978, a hearing was held in the conference room of the Public Service Board to add testimony to the record with respect to lobbying expenses.

On April 11, 1978, the attorney general, joined by the Bristol Alliance, filed a motion to refund a certain portion of the rates collected under bond. On June 15, 1978, oral arguments were heard on this motion.

Findings and Decision

TEST YEAR

The test year for purposes of this case is found to be 12 months ending May 31, 1977. This test year was not contested by the parties and is found by the Board to provide a recent record upon which to base this decision.

RATE BASE

Construction work in progress

The Company seeks to include in its rate base payments for construction work in progress ("CWIP") on plant which, when and if it is built, will serve the Company's customers. Inclusion of CWIP in the rate base will allow the Company to earn a return on its investments for the future before the equipment is actually producing or delivering electricity.

There is no debate as to whether a company should be allowed to earn a return on its utility plant in service. The debate centers on whether or not a company can earn a return on a plant under construction but not in service during the test year. There are three basic regulatory treatments of investment in plant under construction:

(a) Waiting until the plant is serving customers or is about to serve customers, i.e., until its use is imminent or is "used and useful," before allowing a return on the investment by including the plant in rate base;

(b) Including CWIP in the rate base as it is paid by the company, allowing the company to earn an immediate return on it; and

(c) Including CWIP, but applying an allowance for funds used during construction as an offset to income, thereby reducing the company's revenue requirement.

These basic approaches have been applied in various ways by this and other regulatory commissions.

The subject of CWIP in the rate base was much debated at both the public and technical hearings, with expert witnesses offering a full range of views as to which treatment should be used. Prof. Richard C. Bower was particularly critical of its inclusion, calling it a "very bad expedient" for achieving needed revenues. In particular, Bower was concerned that, if a company were assured that its investments in future plants would be included in rate base, it might not exercise sufficient caution in investing in those plants, or it might be encouraged to overbuild beyond the likely future demand. In short, he felt that ratepayers were, in effect, being turned into investors and the Company's investment decisions were bypassing the scrutiny of the marketplace. He was also concerned that payment by present ratepayers of the costs to serve future ratepayers created an "intergenerational transfer" in which one "generation" of ratepayers paid for power to be furnished to another later "generation."

Frederick Bailuff, another expert who also testified for the Public, maintained that CWIP in the rate base would be necessary in order to reduce the Company's need for external funds, to improve its cash flow, "quality of earnings," and coverage ratios.

Relying on the testimony of Bower, Bailuff, and the other witnesses who addressed the issues relating to CWIP, we have determined that the following con-

cerns should be addressed with respect to particular items of CWIP sought to be included in rate base:

1. The effects on customers of the Company.
2. The likelihood that a plant will be available at the optimum time to serve the Company's requirements.
3. The extent to which the allowance of CWIP in the rate base is necessary for the preservation of the financial integrity of the Company.

Some of the effects on customers are obvious. Professor Bower's "intergenerational transfer" will inevitably occur, as today's customers pay the cost of money for investments in plants to serve tomorrow's customers. We consider this a factor to be borne in mind while weighing the advantages and disadvantages of inclusion of CWIP. While the problem is negligible over a short period of time, such as 1 or 2 years, it intensifies as the gap between payment and inservice date lengthens. Even Zvi Benderly, one of the Company's strongest proponents of inclusion of CWIP, conceded that it should not be included for plants to be built in the distant future, such as 15 years. Furthermore, since about one-half of the Company's revenues go to pay income taxes, ratepayers would have to contribute \$2 for every \$1 actually applied by the Company to the cost of CWIP.

Mr. Benderly presented an analysis which indicated that, over the years, the total dollars paid by the present and future customers of the Company would be less if CWIP were included than it would if inclusion were deferred until the plant was on line or about to become operable. Benderly conceded that his analysis depended upon the compounding of cost of CWIP (a practice which subsequent testimony showed that the Company does not follow). He disregarded the fact that, if growth projections are to be believed, the costs would be spread over more kilowatt-hours and probably over more customers, if the inclusion of CWIP is deferred. Also, although it was not Mr. Benderly's purpose to include in his analysis the likelihood of various plants ultimately being built, we feel that it is our duty to examine that question as part of this decision. Certainly, the time-tables for completion of plants will affect the level of progress payments over the years.

Our second concern involves the likelihood that a plant will be available at the optimum time to serve the Company's requirements. Considerable testimony was taken at the hearing with respect to the future needs of the Company and the generation which would be needed to meet those needs. The Company seeks to include its investments in five nuclear units planned by the New England Power Pool. Those units, together with the Company's present investment in them, are as follows: Montague No. 1, \$514,051; Millstone No. 3, \$6,711,656; Pilgrim No. 2, \$2,133,529; Seabrook Nos. 1 and 2, \$3,172,733.

The company has contracted as a joint owner for a percentage of each of these units. In no case does that percentage exceed 3 percent. Control over the timing of construction of the units rests elsewhere, with the "lead utility," the commission which oversees that utility, or the financial marketplace in which that company operates. Thus, if the lead utility for one of these plants determines that its load will not require that the plant go on as scheduled, or if a utilities commission in another State makes that determination and denies sufficient funds to that lead utility, the likelihood is that the plant will be deferred, irrespective of any interests of Central Vermont or its ratepayers.

The construction history of these plants gives very little assurance that they are likely to come on line even under their current schedules. Montague No. 1 was originally to be completed in 1981, but has been delayed indefinitely; Millstone No. 3 was to be built for operation in 1978, but while this case was pending, it was deferred to 1986; Pilgrim No. 2 was also to be completed in 1978 but was delayed to a presently scheduled 1984; Seabrook No. 1, which was to be on line in 1979, has been deferred to 1982; and Seabrook No. 2, originally scheduled for 1981, is now scheduled for 1984. This record, together with the lack of control of the Company over the construction schedules of these plants, we find to be perhaps the most persuasive argument against including in the rate base CWIP which relates to plants to be completed in the distant and indefinite future.

Our third consideration is whether the allowance of CWIP in rate base is necessary for the preservation of the financial integrity of the company. Several witnesses argued that this was the case, particularly in view of the fact that they projected the financial needs of the company in the near future as being so great that the company needed a particularly strong financial pattern to go into the money market.

However, we are persuaded that, except in cases of severe financial hardship, the inclusion of CWIP in the rate base is, in the words of Professor Bower, a "very bad expedient" for achieving needed revenues. The Federal Power Commission, in order No. 555 issued November 8, 1976, allows CWIP in rate base only for construction of pollution control facilities and fuel conversion facilities and in cases of severe financial stress. "Severe financial stress" is defined as "a clear showing of severe financial difficulty which cannot be otherwise alleviated without materially increasing the costs of electricity to consumers."

In our opinion based on the record, the company is not in such shaky financial straits that its problems must be solved by an "emergency" injection of CWIP in the rate base. We feel that as a general proposition, the proper place to position the company in the financial marketplace is through its allowed rate of return.

Since the issue of CWIP in the rate base has been a vexing one to many public utilities regulatory commissions in courts throughout the Nation, a brief review of some of the decisions in this field would be appropriate.

On several occasions, the Vermont Supreme Court has spoken on the issue of construction work in progress. In *In re Petition of New England Telephone & Telegraph Company*, 115 Vt. 494 (1949), the court held:

"A public utility company should expand in order to meet the demand of the people for additional service. Construction to meet such demand cannot be started in one day and completed the next. Such construction when reasonable, should be encouraged. If at the time of a rate hearing it should appear from the evidence that certain property under construction will be available for use in the way of furnishing service during the period in which the rates in question will be in effect, such property should be included in the rate base." 115 Vt. at 504.

In a recent case, *In re New England Telephone and Telegraph Company*, Vermont Supreme Court docket No. 104-76 (June Term 1977) at 6, the court affirmed the inclusion by the Board of certain CWIP in the rate base on the ground that "the Board did receive evidence that construction work in progress represented plant in construction which was part of a continuing construction program . . . the next contention [of the appellant], that construction work in progress does not meet the 'used and useful' test, is without merit because construction work in progress is in the nature of working capital whose 'use' is imminent . . ." We interpret the above opinions to mean that the Vermont Supreme Court has modified, or re-defined, the concept of "used and useful" only to take into account those construction projects whose use is imminent, in that they will serve customers while the rates being decided in the particular rate case are likely to be in effect.

In other States, there is precedent for virtually every conceivable treatment of CWIP. The position taken above by the Vermont Supreme Court has received considerable support from State commissions grappling with applications seeking to introduce large amounts of CWIP in the rate base. In its 1977 decision, *Re Arkansas Power and Light Company*, 19 PUR 4th 53, the Arkansas Public Service Commission analyzed at great length the question of whether to include CWIP of over \$300 million. The Commission concluded (at 58) that "severe financial distress might justify" the full inclusion of CWIP, but held (at 59):

"As well as rejecting the various company arguments in favor of including CWIP in rate base, the commission adheres to the traditional reasons for its practice of including in rate base only those amounts of CWIP that will be completed and placed in service within 12 months from the end of the test year. The basis and origin of this practice emanates from the long-standing regulatory principle of allowing a utility to earn a rate of return only on that portion of its plant which is used and useful in providing utility service. Until a plant is available for service it is not used and useful. We are well aware that investors supply the funds for plant construction and that failure to provide a fair return on these funds will discourage future investment in the utility. However, we have determined that plant is of no direct benefit to a ratepayer until it is placed in service, therefore a ratepayer should not have to pay a return on plant until it is placed in service.

"The method still accepted by this commission to balance the divergent interests of the investor and the ratepayer involves the use of an accounting concept (AFDC) whereby the capital costs associated with construction are capitalized and this entire amount earns a rate of return once the plant is placed in service. This method is fair to both the investor and the ratepayer. The utility will recover the entire cost of the plant over the life of the plant. Since the capital

costs associated with the funds used during construction of the plant are included in the total cost of plant (once such plant becomes used and useful), the utility and, in turn, the investor is compensated for the opportunity costs associated with having funds committed to the building of plant during the period of construction.

"For the reasons set out above, the commission finds that there is no basis for departing from traditional practice relating to the treatment of CWIP and, therefore, denies the company's proposal to include CWIP in the rate base."

This method of limiting CWIP to plants whose use will take place soon after the test year has been followed by several other commissions. See, most recently, *Re Columbus & Southern Ohio Electric Company* (Ohio P.U.C. 1978), 24 PUR 4th. 261, 273; *Re Public Service Company of Oklahoma* (Okla. Corp. Comm. 1977), 22 PUR 4th 118, 120-22; *Re Texas Power & Light Company* (Texas P.U.C. 1977), 20 PUR 4th. 243, 245.

These decisions attempt to strike a fair balance between the needs of the companies for new generation to serve customers, and the needs of present customers to be protected against paying for service they may never enjoy. The need for CWIP in rate base is decided with respect either to the completion dates of specific projects or to plants to be completed within a number of months or years after the test year. In this manner, the commissions are seeking to assure themselves that use of the plant included in rate base, is imminent.

We consider this approach to comport with the above decisions of the Vermont Supreme Court and to give us guidance in deciding the CWIP treatment as it applies to the specific facts of this case.

Therefore, based on our discussion of the investments in nuclear plants above, we find that CWIP payments for those plants should be excluded from the company's rate base. The effect of this determination is to exclude \$12,531,969 from the requested rate base.

The company's request also included "miscellaneous CWIP," i.e., payments for distribution, substation and other facilities due to serve customers shortly after the test year. Payments for these facilities amounted to \$2,090,000. In addition, the company had advanced \$1,934,074 toward construction of the Wyman generating unit, which is scheduled to be completed and serving customers in late 1978. We find that the completion and operation of both of these additions to utility plant is sufficiently certain and imminent that inclusion in rate base of CWIP attributable to them is appropriate, in light of the considerations set forth above.

There remains the issue of whether an offset against revenue requirements of an allowance for funds used during construction is appropriate. This practice, which results in earnings which are not cash, was harshly criticized by virtually all witnesses who were experts on financial matters and who are concerned with the company's strength in the marketplace. Several witnesses referred to these earnings as "funny money," and made it clear that the financial community tends to downgrade a company whose earnings include a significant portion attributable to these funds used during construction. We are persuaded that inclusion of this offset is not necessary and could well weaken the company in the financial marketplace. Therefore, we will not require it.

Unamortized Vermont Yankee deferred capacity cost

The company includes in rate base the average unamortized balance of Vermont Yankee deferred capacity costs for the test year ended May 31, 1977. The company submits that the inclusion of that amount in rate base is consistent with the Board's final decision dated September 20, 1974, in docket No. 3744, which allowed the company to amortize \$3,374,207 of fixed costs over a 10-year period beginning January 1, 1974.

Witness Balluff, testifying for the Public, argued that the unamortized Vermont Yankee deferred capacity costs should be adjusted downward by \$703,000 to reflect the deferred balance which will be on the books as of December 31, 1978, rather than the average balance outstanding during the test year, in order to recognize a known and measurable change which will occur during the period when rates set in this case will be in effect.

The Board agrees with the company that the average unamortized Vermont Yankee deferred capacity costs for the test year ended May 31, 1977, are the proper amounts to be included in rate base. Rate base is a constantly changing amount, since the various items that make up rate base change both upwards

or downwards over time. Mr. Balluff has proposed that this item alone be valued as of a future date while other items of rate base are valued on a test year basis. The Board declines to make the public's adjustment for the reason that all rate base items in the test year should be given similar treatment.

Cash compensating balances

The Company included in rate base, cash compensating bank balances in the amount of \$1,213,000. Company witnesses testified that in consideration for the extension of short-term credit lines to the Company in the aggregate amount of \$11 million, the Company's banks require the Company to maintain on deposit an amount equal to 10 percent of its total line of credit commitments, and, in addition, to deposit an amount equal to 10 percent of any funds actually borrowed. In order to reflect this cost, the Company included compensating bank balances in rate base equal to 10 percent of its credit lines plus 10 percent of its average borrowings during the test year.

Based on the record, we are satisfied that the Company does have a requirement to maintain compensating bank balances as a condition to the continued immediate availability of short-term bank credit and that the costs of maintaining those compensating balances to the Company should be recognized in the regulatory process. At issue in this case is how those compensating balances should be recognized by this Board.

The Company argues that its compensating bank balances should be included in rate base since they constitute assets required and reasonably employed by the Company for public service operations upon which it is entitled to earn a rate of return.

The Public's witness, Peter Williamson, disagreed with the Company's proposed treatment of compensating balances. Williamson testified that since the Company is claiming a cost of capital of 10.6 percent, by including compensating balances in rate base, the Company is asking the ratepayers to pay approximately \$117,000 for a basic line of credit, and in addition, the Company is asking ratepayers to provide approximately \$11,900 more (10.6 percent \times \$112,500) to cover the cost of their test year borrowings. Williamson testified that those amounts are considerably higher than the actual costs to the Company of its line of credit borrowings.

To illustrate, Williamson computed an effective interest rate of 9.33 percent on the Company's usable borrowing capacity. He then pointed out that if compensating balances of \$1,213,000 are included in rate base and ratepayers are asked to furnish a 10.6 rate of return, the Company would show an effective cost of carrying compensating balances of 11.4 percent. Williamson testified that, in his opinion, the better way to recognize compensating balances is "to treat compensating balances as the Board has consistently done, as essentially a cost of capital, and to deal with their effects in the determination of the cost of capital."

This Board finds Williamson's arguments persuasive and agrees with Williamson that the costs associated with compensating bank balances are more appropriately considered as a cost of capital. We, therefore, disallow compensating bank balances as rate base items and include them as a cost of capital.

In connection with reviewing the ratemaking treatment of compensating bank balances as rate base items and include them as a cost of capital, evidence in future cases with respect to its entire cash management practices. Affirmative testimony on this point is contained in the cross-examination of Mr. Millspaugh. Mr. Millspaugh indicated that a cash management practices review is his responsibility as the treasurer and that the Company's cash management practices are under continual review. Witness Balluff testified that, in his opinion, the Company did have an adequate cash management review, but that he did not himself conduct a formal cash management practices review.

Unbilled retroactive revenues

We will not allow in rate base unbilled retroactive revenues in the amount of \$2,020,000, which reflect recoupment moneys. Company witness Millspaugh proposed that \$2,020,000 be included in rate base to reflect the deferred collection of recoupment in this case which the Company anticipates will take place over a substantial period of time. To the extent that the Company has not received funds representing recoupment from its ratepayers, it must obtain them, at a cost, from alternate sources. The Public's witness Balluff suggested, and the Company agreed, that the proper way to reflect this cost item is with reference to the actual amount of recoupment, if any, allowed in this case.

We agree that the cost of deferring collection of recoupment is a legitimate cost item. We believe, however, that it should be recognized by applying the rate of return allowed by the Board in this case to the recoupment amount allowed over the period of time of recoupment, and not by inclusion in rate base.

Deferred revenues

Witness Balluff deducted \$2,078,000 from rate base (specifically from working capital) to reflect the increased cash flow to the Company from a change in the Company's billing practices. The Company agreed that the deduction was appropriate.

In view of the fact that no contrary evidence was presented to the Board, \$2,078,000, representing the adjustment to working capital resulting from the increased cash flow to the Company from its change in billing, is deducted from rate base.

Deferred credit—rural line extensions

The Company also agreed to the deduction from rate base of \$907,000 proposed by the Public, which is the total amount owed by customers to the Company for construction of line extensions, on the condition that the Company is able to charge its customers for the use of those funds at a compensatory level.

The rationale for the adjustment is that where the customer has already paid interest at a compensatory level on credit extended for rural line extensions, to include those amounts in rate base would require him to pay twice. We find that new customers should pay all the costs of constructing line extensions, including the costs of financing at a compensatory level, and, therefore, it is inappropriate to include this item in rate base.

Property held for future use

The Company included in rate base \$570,000 worth of property held for future use. \$277,000 is attributable to property in Shoreham, Vt., located on Long Point, Lake Champlain, across from the International Paper Co. The Company's witness conceded that the Company has no plans, either short range or long range, for use of the Shoreham property. The property is being held as a possible future site for a base load generation plant. We find that the possible use of the Shoreham property as a site for future generation is too remote to give its cost the character of working capital and for that reason, it should be excluded from rate base. (*In re Petition of New England Telephone Company*, 115 Vt. 504, 506.)

The Company argues that if the Board disallows the Shoreham property from rate base, it is in effect telling the Company to dispose of the property. In disallowing the Shoreham property from rate base, the Board does not intend to tell the Company to dispose of what may be an excellent long-term investment. This is a management decision.

The other properties included by the Company as plant held for future use are the Quirk Farm, \$17,000; Quechee lot No. 3102, \$20,000; Schofield lot \$36,000; and East Georgia Hydro Development, \$220,000, for a total of \$293,000. The Company is planning to develop the "Quirk Farm" as a Rutland area stockroom to replace and supplement the present facilities in Rutland and is presently using a part of the property as a pole yard. The Company plans to site future substations on Quechee lot No. 3102 and the "Schofield lot." The Company is presently exploring the development of the East Georgia Hydro Project. There is no evidence in the record that the purchase of any of the foregoing properties was made other than in the pursuit of honest and reasonable business judgment or that the expenditures were wasteful, dishonest, or imprudent. The Company is presently pursuing plans of development and, accordingly, we find it is appropriate that these properties be included in rate base.

Rate base summary

On the basis of the preceding findings we conclude that the proper rate base is \$109,512,000.

COST OF SERVICE

Operating expenses

The Company presented test year operating expenses with adjustments for known and measurable changes, sponsored by several witnesses. The Public and the other parties had been afforded ample and lengthy prehearing discovery, and challenged several items and adjustments. Uncontested items and adjustments will be allowed, except as otherwise set forth in these findings.

The parties other than the Public presented no witnesses on the components of operating expenses. However, some issues were raised by these parties in their memoranda and requests for findings. These issues will be discussed below, where we feel a discussion is appropriate. Failure to discuss an issue raised by memorandum or requested finding means that the board finds that the argument raised was not supportable or that the finding should be denied.

New VELCO facilities.—After some testimony and several adjustments, both the Company and the Public agreed that \$462,000 presented the Company's proportionate share of the annual costs related to new VELCO facilities. Neither the Public nor any other party contests that amount. It is found to be the correct amount.

Westinghouse contract settlement.—The Company includes as an operating expense the costs of the settlement with Westinghouse relating to the cancellation of the Georgia plant, which it amortizes over a period of 5 years. The Vermont Low-Income Advocacy Council takes the position that the board should exclude these costs, or in the alternative, require them to be amortized over 10 years.

The Vermont Supreme Court in *Letourneau v. Citizens Utilities Company*, 125 Vt. 38, held that the function of the Public Service Board is one of control and not management, and unless a utility clearly acts in bad faith or incurs expenses which are excessive and unwarranted, they should be allowed as operating expenses.

The record contains no evidence that the Westinghouse contract was imprudently entered into or that the settlement terms with Westinghouse were imprudent or unwise. Accordingly, the Board finds that the costs associated with the cancellation of the contract with Westinghouse are reasonably included by the Company as an operating expense and further, that the 5-year amortization period is reasonable. However, the Board considers the cancellation of this contract between Westinghouse, the Company, and the other parties to be a special situation and inclusion of the costs of cancellation in this case should not be construed as establishing precedent in the event that other units in which the Company has an interest are cancelled.

Pole treatment, tree trimming, and overhead maintenance program.—The Board finds that the Company's proposed pole treatment, tree trimming, and overhead maintenance programs are necessary parts of delivering service to its customers and that the costs it presented associated with those programs are a proper operating expense. The Company's witness was a convincing and credible witness who convinced the Board that the Company will actually spend in 1978 the amount sought for these items. In allowing the Company these costs, the Board expects that the funds approved be spent exclusively on these programs and within the time schedule to which the Company testified.

Vermont load study.—Based upon the testimony of witnesses Schill and Balluff, it is found that a downward adjustment of \$38,000 in operating expenses was appropriate to represent correctly the continuing cost of the Company's participation in the Vermont load study.

Space heating and load management system study.—Witness for the Public, Balluff, eliminated test year expenses of \$44,000 relating to a space heating-load management system study on the grounds that those expenses had already been fully amortized by December 31, 1976. Mr. Schill testified that the Company plans continued involvement in load management programs in order to improve its overall load factor from 54 percent to 58 percent over the next 10 years.

The Board concludes that the Company is committed to spend sums in the future relating to load management studies at a level of funding at least equal to that spend in the past and allows the \$44,000 presented as the cost of such programs.

Rate case expense.—The Public amortized rate case expense over a 2-year period instead of the 1-year period presented by the Company, resulting in a downward adjustment in operating expenses of \$175,000. History shows that it has been at least 2 years between the closing of the record in one case and the beginning of the next, for the Company. Therefore, we find that rate case expenses should be amortized over a 2-year period and accept the Public's reduction of the Company's operating expenses by \$175,000 to reflect that amortization.

Federal and State income taxes.—The Company agreed that the Public's methodology in computing interest for tax purposes was appropriate. The Board adopts this method and finds it to be fair and reasonable.

Investment tax credit.—The Company proposed to calculate the amount of investment tax credit to be used in computing Federal taxes by using the average of the tax credits for 1976, 1977, and 1978. The amount of investment tax credit for the first 2 of these years recognized the full amount of the credit received by the Company for each of those years. The credit for 1978 recognized one-thirtieth of the amount for that year, spreading the full amount over the estimated 30-year lives of the assets.

This method recognizes a shift in treatment of this item which may well be in the long-term interests of the ratepayers. We find that it is a reasonable approach to take the average of the 3 years as calculated above. No testimony was presented to suggest it was an improper or unfair treatment of the credits.

Lobbying expenses.—The Company originally included as part of the cost of service, \$43,000 attributable to the costs of lobbying. The Company subsequently removed \$36,000 of that expense from its rate case presentation. At issue is whether the remaining \$7,000 is a proper utility operating expense for the purpose of determining the Company's rates.

We conclude that the Company has not met its burden of showing that the \$7,000 should be included as a proper utility operating expense. The Company was unable to distinguish for the Board why lobbying expenses of \$7,000 were determined by it to be proper utility operating expenses, whereas expenses of \$36,000 were deemed inappropriate. The Company's decision as to what portion to include and what portion to exclude was apparently based more on its judgment of public relations than on an analysis of what expenses were properly allocable to its provision of utility service.

We find that the Company has not met its burden of showing that the \$7,000 of lobbying expense included as a operating expense is a proper cost of providing its utility service. Accordingly, the \$7,000 as well as the \$36,000, for a total of \$43,000, is disallowed.

1978 wage increase.—The Company, according to witness Warren L. Stevens, allowed for a wage increase in calendar year 1978 of 6.5 percent, as a known and measurable charge. This testimony was not challenged or rebutted, and we find the charge to be reasonable.

Advertising expenses.—Company witness Millspaugh testified that administrative and general expenses of the Company included approximately \$45,000 for general advertising expenses and \$8,619 for advertising related to promotion of conservation and efficient use of energy. On cross-examination, he conceded that \$14,000 of this amount was attributable to payments for a film entitled "This Atomic World," which was distributed in Vermont; certain expenses relating to written material on nuclear power referenda which was mailed to stockholders in other parts of the country; payments for a second film on nuclear power; and bill stuffers which addressed issues of public controversy likely to become the subject matter of legislative votes or referenda. The testimony indicates that these expenses were approximately \$14,000; therefore, that amount will be deducted from administrative and general costs.

Rate of return

The fundamental considerations in finding a fair return are set forth in *Bluefield Water Works and Improvement Company v. Public Service Commission*, 262 U.S. 679 at 692, 43 S. Ct. 675, 679 (1932).

"A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time, and become too high or too low by changes affecting opportunities for investment, the money market, and business conditions generally."

The principles enunciated in the *Bluefield* case were confirmed in *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 591, 603 (1944) and have been consistently followed in Vermont. *Petition of New England Telephone and*

Telegraph Company, 120 Vt. 181, 136 A.2d 357 (1957), *Petition of Letourneau v. Citizens Utilities Company*, 128 Vt. 129, 259 A.2d 21 (1969) and *Petition of Green Mountain Power Corporation*, 131 Vt. 284, 305 A.2d 571 (1973).

The determination of a specific return to satisfy these requirements derives from the application of logic and informed judgment to numerous factors, such as the cost of money, capital structure of the utility in question as compared with other similar utilities, interest coverage ratios, return on common equity, price/earnings ratio, and price/book ratios. This rate of return, when applied to rate base, is intended to provide sufficient funds to pay interest on the utility's long-term debt, dividends on its preferred stock, and a predetermined reasonable return on common equity.

"Total enterprise."—The Company, through its witness Franklin Sanders, asked that the Board take the "total enterprise" approach in determining Central Vermont's cost of capital. The "total enterprise" approach consolidates the financial statements of the Company, Vermont Electric Power Corp. (Velco), and Vermont Yankee Nuclear Power Corp. The Company asserts that this new approach to the determination of a reasonable cost of capital for the Company is proper because it contends that the financial community looks at the three companies as a whole.

The Company points out that its common stock is considered by the market as substantially more risky than that of other comparable companies because the Company has contractual obligations to support financing by Velco and Vermont Yankee. The Company also points out that its interest coverage ratios are lower and, in its view, inadequate, if the Company is evaluated under the total enterprise approach.¹ A consolidated statement of just Central Vermont Public Service Corp. and its subsidiary, Connecticut Valley, for the 12 months ended May 31, 1977, shows interest coverage ratios of 3.13 before income taxes and 2.67 after taxes. Under the "total enterprise" system, the interest coverage ratios drop to 2.08 before income taxes and 1.76 after income taxes. Thus, the desired three times interest coverage is achieved by the Company if it is considered just with its Connecticut Valley subsidiary in a consolidated statement, but is lost if the obligations of Velco and Vermont Yankee are included.

The Board declines the invitation to depart from well-established precedent by adopting a "total enterprise" approach. We find this reasoning inappropriate and unnecessary for the purposes of this rate case. Central Vermont's contractual obligations to Velco and Vermont Yankee have always been met by the Company. It is neither necessary nor desirable to attribute the debt and risk of Vermont Yankee and Velco to the Company as the Company proposes, which would have the effect of making the Company's stock appear risky and decrease its interest coverage ratios.

Cost of equity

The cost of common equity capital to a company is the rate of return that investors in its common stock demand on their investment. Determination of that rate of return is largely judgmental. We cannot observe this rate directly as we can in the case of bonds and most preferred stocks. There is no way of knowing exactly what an investor in any common stock expects to receive on his investment. However, we have attempted to receive guidance from expert witnesses as to the factors which influence the return an investor will expect in return for purchasing company stock.

In docket No. 3744, the Board held that the Company should be allowed to earn a return on equity of 14.5 percent. The Company argues that its condition and prospects in the financial marketplace dictate that this allowed return be continued. This return would be necessary, says the Company, even with the continuation of the purchased energy and fuel adjustment ("PEFA") and the inclusion of CWIP in rate base without an offsetting credit.

The Public, by its witness, Prof. Peter Williamson, disagreed. Williamson estimated the cost of equity capital for the Company at 11.7 percent and, in order to counter the effects of attrition, added an additional 1.8 percent resulting in an allowed return on equity of 13.5 percent. In Williamson's opinion, allowing a 13.5 percent rate of return in equity in this case will enable the Company to earn 11.7 percent for 2 years after the test year, which in his opinion, is sufficient to

¹ Interest coverage ratios are one of the criteria used by investors in their evaluation of the Company's securities. The ratio is computed by dividing interest expense into gross income before and after income taxes.

satisfy investor expectations and will fulfill the legal requirements relating to a fair rate of return. Williamson's testimony was based on the premise that the Company's PEFA would be retained and, we assume, that the Company would be allowed in this case to include all of its CWIP in its rate base. Williamson did not offer an opinion as to the effect of removal of CWIP on expected return on equity, but he suggested that investors might expect as much as an additional 1.5 percent to compensate for the loss of the PEFA.

The Company's financial record and performance in the marketplace has been far from robust in recent years.

Company witness Schill set out in his testimony the market price of the Company's common stock as against its book value, for the five new issues prior to the test year, and at the end of the test year. These figures showed that in the late 1960's, the market price was substantially above the book value (in May 1967, market price was \$22.325 per share, while book value was \$15.15 per share), whereas, on May 31, 1977, the market price was \$15 per share and the book value \$18.24 per share, for a market-to-book ratio of 82.2 percent.

Company witness Sanders offered a comparison of the Company with other investor-owned utilities of similar size which showed that the Company was among the lower utilities with regard to price/earnings ratio. Witness Schill presented convincing evidence of what he termed "a serious and steady decline in earnings ever since January 1976."

Against this background, the Company estimates that its capital requirements over the 5 years 1977 through 1981 will be in excess of \$88 million. With the uncertainty of the construction schedules of the large nuclear units to which the Company has committed, we are not entirely convinced that the Company's capital needs will be quite that large; however, even assuming they were somewhat less, they would be great enough to require the Company to go to the marketplace for funds in a stronger position than it has in the recent past. It will be to nobody's benefit if the Company is obliged to pay exorbitant interest rates in order to meet its commitments.

Finally, we feel that our decision to exclude CWIP from the rate base (except for utility plant whose use is imminent) and our elimination of the purchased energy and fuel adjustment clause will have an impact on the Company's desirability for investors. As we noted in our discussion of CWIP, we agree with Professor Bower that this problem should properly be solved by allowing the Company an adequate rate of return.

Consequently, we find it to be fair and reasonable to continue to allow a rate of return on common equity of 14.5 percent.

Cost of debt.—The issues as to the actual cost of the Company's debt are very limited. Professor Williamson included interest on short-term bank debt as a cost of capital, while the Company omitted interest on short-term bank debt as a capital cost. For the reasons discussed in the preceding section on rate base, we find that Professor Williamson's treatment of bank debt as a cost of capital is appropriate.

Another issue relating to the cost of the Company's debt is the appropriate treatment of the amortization of debt discount and gain. The Company deducts from its outstanding total debt an amount for unamortized debt expense which results in increasing the effective interest rate. The Public takes the expense of a debt issue and accounts for it as an operating expense spread over the years the debt will be outstanding. We agree with the method followed by the Company, which reflects in the rate the fact that most of the bond issues were sold at less than par value.

Finally, the Public's calculations fail to reflect a 0.5 percent increase in the interest rate on nine different series of bonds effective April 25, 1977, and an exchange of bonds which had been pledged to exchange. Both the higher rate of interest and the exchange appeared on the Company's calculated proformed for December 31, 1977; they are found to be properly includable as known and measurable charges.

Based on the foregoing, the cost of debt is found to be 7.39 percent.

Overall rate of return.—Based on the foregoing, we find a fair and reasonable overall rate of return for the Company to be 10.6 percent.

PURCHASED ENERGY AND FUEL ADJUSTMENT CLAUSE

The Company has requested the Board to continue the purchased energy and fuel adjustment clause (PEFA) which has been in effect since the decision in

PSB docket No. 3744. This clause sets a base rate and allows the Company to file periodically for deviations from that rate depending upon the cost of energy to the Company over a recent historical period. If the filing is allowed by the Public Service Board, a charge or refund reflecting that cost of energy is then applied to customers' bills.

The primary purpose of the clause is to protect against unforeseen volatility in the cost of energy to the Company. For instance, if the price of a fuel, such as oil, which is used in generation units rises suddenly, the Company can pass on the resulting increase in wholesale energy charges without the necessity of a full rate case. Conversely, if the Company is able to obtain energy at a lower cost than had been projected, those savings may be passed on to consumers.

The Board is convinced that the reasons against the PEFA far outweigh the reasons for it. We agree with Professor Bower that an adjustment clause is an expedient which should be used only when absolutely necessary. At other times, electric utilities should respond to the discipline of the marketplace, planning their generation sources as much with an eye to reliability as to other factors. The clause should not act as an "insurance policy" against risks which should have been foreseen.

We find it significant that oil-fired generation comprised only approximately 6 percent of the Company's sources of electricity over the test year. Since oil is likely to be the fuel most subject to unpredictable price fluctuations, it is unlikely that the Company could be seriously affected by loss of a clause to respond to the volatility in oil prices.

Second, we note that the clause has been quiescent recently, having produced only \$160,000, or 0.3 percent of the Company's test year revenues.

We also note that a PEFA can be subject to abuse if a company is so inclined. Simply stated, a company could juxtapose its power and energy sales in such a way as to profit by sales of power while customers are paying for more expensive energy. No proof was adduced to indicate that the Company has, in fact, abused the clause in this fashion, and we have no reason to think that it has. However, the potential for abuse does exist.

Therefore, for the above reasons, we have concluded that the PEFA should be eliminated, and no adjustment clause shall be allowed.

RATE DESIGN

PASNY block

The Board agrees with VLIAC and the attorney general that allocation of PASNY power should be on a per capita basis to domestic and rural ratepayers. Since 1974, with the realization of the need for a policy of conservation, the Board has in most rate cases mandated a front-end PASNY block for residential and rural consumers. We find that this method spreads the benefits of PASNY power in a more equitable manner, as each consumer receives equal benefits and the benefits are more recognizable. Therefore, the Company shall include in its residential rate a front-end PASNY block of 200 kilowatt-hour, which is consistent with witness George Sterzinger's computation and an allowance for losses.

This clearly defined block of low-cost energy will reward customers who practice conservation by providing a financial incentive to keep their use at a minimum.

Customer charge

VLIAC proposed that there should be a lower customer charge in order to promote conservation by including in the customer charge only those costs which vary with the number of customers. This scheme would result in a higher charge per kilowatt-hour. Therefore, although the proposal may have merit, the Board is concerned that the lower customer charge, in addition to the PASNY block mandated above, will cause an undue hardship on farmers and other large users, particularly in view of Mr. Sterzinger's admission that he did not know what the impact of his rate would be on the average Vermont farmer and the company's assertion that his rate would produce a 76 percent increase.

Therefore, we will not require the company to lower its customer charge to residential users.

Class allocation and result

This Board finds that with the addition of a PASNY block, the rate design as proposed by the company is just and reasonable. The allocation of costs by classes of customers shall be in accordance with that submitted in the filing of

July 22, 1977, in order to reduce the spread in rates of return as between classes. We find it reasonable that the return made by the company in serving each class of customers be as near as practicable to that of serving other customers and, consequently, to the average of all customers. The company's design was buttressed in this respect by the testimony of witness Gerald Cook.

DENIAL OF INCONSISTENT FINDINGS

All requested findings which have been omitted or are inconsistent with the above decision and findings, are denied.

MOTION TO REFUND RATES COLLECTED UNDER BOND

Several months after the record in this case was closed, the attorney general moved to refund certain of the rates collected under bond.

The company originally filed for a change in rates on May 18, 1977, to be effective on June 20, 1977. On December 20, 1977, after approval of a bond filed with the Board, the company began to collect part of its requested rates. These new rates were applied in bills rendered on and after December 20, covering usage over the immediately preceding billing period.

Title 30, V.S.A. § 225 provides in pertinent part:

"... [E]ach company... shall file with the [board] schedules... showing all rates... for any service performed or any product furnished by [the company] within the State... A change shall not thereafter be made in any such schedules... except upon 30 days' notice to the board and such notice to parties affected by such schedules as the board may direct. All such changes shall be plainly indicated upon existing schedules, or by filing new schedules in lieu thereof 30 days prior to the time the same are to take effect..."

The procedure for the Board to follow in dealing with changed rates is set forth in 30 V.S.A. §§ 226 and 227. Section 226 provides, in pertinent part, as follows:

§ 226(a).

"At least 6 days before the date on which such new or changed rate, in this section and in section 227 of this title called a "change" is to become effective, the board, on its own motion, may order an investigation and hearing on the justness and reasonableness of such change... Thereupon, if the board in its discretion so orders, such change shall not go into effect until the final determination of the proceedings so instituted..."

Section 227(a) provides as follows:

"If the board orders that a change shall not go into effect until final determination of the proceedings, it shall proceed to hear the matter as promptly as possible and shall make its determination within 6 months from the date that the change otherwise would have gone into effect. If the board fails to make its determination within such time, the company may put a changed rate into effect upon filing with the board a bond running to the board members and their successors in office in amount and with sureties approved by the board, conditioned that within 30 days after the termination of such proceedings, the company shall repay to the persons from whom such changed rates shall be collected all sums collected in excess of the rate in force at the time such changes are filed or of such rate as shall be determined to be just and reasonable."

The attorney general argues that the words "schedules" and "change... in any such schedules" in § 225 have a meaning separate and distinct from the words "such new or changed rate" and "change" in sections 226 and 227. He concludes that the changes can be applied only to prospective usage.

We feel that the attorney general is trying to read into the statutes a meaning which simply is not there. The three sections seem to us to have been aimed at creating a plain, straight forward procedure for dealing with rate increase requests. We find the reasonable interpretation would equate a change in rate schedules with a change in rates. Another interpretation would create unnecessary and inadvisable ambiguities.

(We also note that, while granting the motion might appear to create a sizable refund, the "benefit" to customers would be almost entirely illusory, since it would last only until the rate case is finally determined.)

We conclude that the motion should be denied.

ORDER

It is hereby ordered, adjudged and decreed by the Public Service Board of the State of Vermont that:

(1) Central Vermont Public Service Corp. is entitled to rates which would produce additional retail revenues in the amount of \$6,347,000 for the test year ended May 31, 1977, as adjusted in accordance with the findings herein, and summarized on appendices A and B hereto.

(2) Central Vermont Public Service Corp. may file a temporary surcharge under 30 V.S.A. § 226(b) of not more than 5 percent per bill, to be applied to bills rendered only during the period May 1 through December 31, until the sum calculated as set forth in said statute is fully collected.

(3) Central Vermont Public Service Corp. shall file tariffs on or before December 20, 1978, in conformity with the above findings and decisions and with the terms of this order. Such tariffs shall be served on the other parties, who shall file their comments, if any, on or before December 27, 1978. In the absence of any subsequent Board order, said tariffs shall be applied to bills rendered on and after January 1, 1979.

(4) The above motion of the attorney general is denied.

Dated at Montpelier, Vermont, this 8th day of December, 1978.

APPENDIX 2

MATERIAL SUBMITTED BY INDIVIDUALS

ITEM 1. STATEMENT OF AGNES C. CROW, AREA II SENIOR HEALTH COORDINATOR, BILLINGS, MONT.

Because of high utility bills in Montana, many older Americans are going without food, therefore, more meals are going to be needed in all cities, towns, and villages so that the very persons that have made this great country and State will not starve.

Commodities are a big part of making more of these meals available. Commodities need to be ordered of the type of food our older Americans can eat. They need to contain less salt, sugar, fat, and other spices, and they need to be a good variety of food. A list of the things that are available needs to be given as soon as those in the planning know what will be available.

The high cost of utilities are causing many of the older Americans in Montana to go without food, medicine, and soap to do laundry with, as the money to pay the increased utilities must come from some place. Many small homes had bills of \$40 to \$50 in January and in February they jumped to \$95 and \$100.

In our program we have found many are turning the heat down to 65 degrees and this is not good for circulation and arthritic patients. We also find that they have had to cut back on washing clothes and taking baths as this (they hope) will cut down costs some.

We are seeing the very people that have worked all their life to have a very few comforts in their later years, having to give all this up and in many cases suffer great hardships.

ITEM 2. LETTER AND ENCLOSURE FROM ELSIE KARLOVICH, GREAT FALLS, MONT., TO SENATOR JOHN MELCHER, DATED FEBRUARY 9, 1979

DEAR SENATOR: Since I will be unable to give oral testimony at your conference, I would like you to accept the testimony that was prepared and submitted to the Public Service Commission on an intervention for the rate-increase hearing that the Montana Power is asking for at the present time.

As a senior citizen on a very limited income who worked hard all my life, I feel the increases are very unjust. I find it very hard to think, that at a time with my poor health and my age, I cannot even enjoy the time of life I had looked forward to.

I believe what you are doing, holding this conference, is very commendable and that something good will materialize for us senior citizens who seem to find ourselves in this position all through the State of Montana and the country.

Thank you for taking the time to read this letter and the enclosed testimony, and I would like to be put on your mailing list.

Sincerely yours,

ELSIE KARLOVICH.

Enclosure.

TESTIMONY OF ELSIE KARLOVICH, SUBMITTED TO THE MONTANA PUBLIC SERVICE COMMISSION

Question. What is your name?

Answer. Elsie Karlovich.

Question. What is your address?

Answer. 2104 Eighth Avenue North, Great Falls, MT.

Question. What is your age?

Answer. 68.

Question. What is your race?

Answer. Caucasian.

Question. What is your sex?

Answer. Female.

Question. What is your health condition?

Answer. Poor; I have had open heart surgery in Spokane (January 1977); tumor (malignant) surgery on my intestine; 2 months in hospital; frequent returns for blood; I have arthritis in my spine and back; eyes need to be tested; I can't see to read.

Question. How long have you lived at your present address?

Answer. Forty-two years.

Question. How long have you lived in Montana?

Answer: Fifty-seven years; I was 11 years old when I came here from Germany.

Question. What is the general description of your house?

Answer: Two-bedroom home, with a total of five rooms. It is 50 years old, being built in 1929. It is not in good condition; basement is caving in; foundation is all cracked and collapsing; paint is needed in interior; house was winterized in October 1977 but my kitchen ceiling was ruined while they were winterizing my house.

Question. How many people live in your house?

Answer. One person.

Question. Do you own your own house?

Answer. Yes.

Question. What type of heat do you have?

Answer. Gas.

Question. Do you use natural gas for other purposes than heat?

Answer. Water heater.

Question. What other sources of heat do you have?

Answer. None.

Question. What is your monthly income?

Answer. \$309.10.

Question. What is the source of this income?

Answer. Social security.

Question. Is this a fixed income?

Answer. Yes.

Question. Do you anticipate any change in this income in the near future?

Answer. No.

Question. Do you have any other source of income?

Answer. No.

Question. What is your total monthly income?

Answer. \$309.10.

Question. What are your monthly expenses in the following categories?

Answer. Taxes: \$20 per month approximately, city and county. Food: \$80 to \$90 per month. Utilities: gas \$40 approximately, lights \$13.50, phone \$6.66, water \$8.00. Automobile: \$10 gas per month. \$20 repairs per month approximately (new transmission, new battery, etc.). \$10 insurance per month, \$1 registration per month. Newspaper: \$4.60 per month. Clothing: Nothing, I have no money left for clothes. Hospital and doctor: \$14.72 per month for Blue Shield; my health costs (doctor and hospital, etc.) were approximately \$25,000 in the last 16 months. Medicare and private insurance paid part of this; I still have bills amounting to over \$1,000 to be paid by me. Laundry: \$5 per month. Entertainment: None; TV (no cable, no smoking). House maintenance: \$10 per month repairs approximately. Also, for a new furnace I had to put a lien on my house for 5 years to the city.

Question. What is your average monthly gas bill?

Answer. \$40 per month.

Question. At what temperature do you keep your thermostat?

Answer. 68 degrees night. 70 degrees daytime.

Question. Do you have a separate thermometer to indicate if your thermostat is operating correctly?

Answer. No.

Question. Have you tried to save on gas usage in your home? If so, in what ways?

Answer. Had my house winterized, wearing warm sweater and thermal underwear. I don't touch the thermostat even if I'm cold.

Question. What is the total of your monthly expenses?

Answer. \$373 per month approximately.

Question. If your monthly income is \$309.10 and your monthly expenses are \$373, what will be the effect of a 26 percent rate hike on your gas bill?

Answer. That will be terrible. It will mean \$10 per month more; \$120 per year more. I can't pay it; I can't catch up now.

Question. What is your gas bill now?

Answer. Forty dollars.

Question. What will your gas bill be after the increase?

Answer. Fifty dollars.

Question. With your monthly income and expenses what ways of paying an increased bill do you have?

Answer. I'll have to pay what I can and let the rest pile up; I'll have to use my savings, lose everything I worked for all my life. I worked all my life until I was 66 years old; I paid taxes all those years and paid all my bills. It's discouraging.

Question. After such an increase, what percentage of your monthly household income will be used to pay your gas bill?

Answer. Seventeen percent approximately.

Question. Is there any other information you would like to share with the Public Service Commission regarding the proposed rate hike?

Answer. It is absolutely outrageous. Instead of giving senior citizens some consideration we are getting it from all sides. It is just impossible for me to think about paying anymore. It frustrates me and it scares me.

