

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

IN THE MATTER OF NorthWestern	)	REGULATORY DIVISION
Energy's 2012-2013 Electricity Supply	)	
Tracker	)	DOCKET NO. D2013.5.33
	)	ORDER NO. 7283a
IN THE MATTER OF NorthWestern	)	
Energy's 2013-2014 Electricity Supply	)	DOCKET NO. D2014.5.46
Tracker	)	ORDER NO. 7283a

**DISSENTING OPINION OF COMMISSIONER TRAVIS KAVULLA**

Several years ago, in arguing that the Commission brush aside concerns about the integrity of Colstrip Unit 4 (CU4), NorthWestern Energy insisted that there was nothing to worry about. The plant was said to be not merely in satisfactory working order, if old and liable to periodic forced outages. Instead, an extravagant claim was made; that CU4 was “an extremely well-maintained facility to which the owners have made, and continue to make, systematic capital improvements, making the plant at least as good as when it was new, if not better.” *See NorthWestern Opposition to Mont. Consumer Counsel Mot. for Reconsideration of Or. 6925f*, Dkt. D2008.6.69, p. 3 (Dec. 2, 2008).

Since that time, CU4 has suffered two significant forced outages that have left the plant unavailable to serve customers for nearly one-fifth of the time since NorthWestern consumers began paying for the plant about five years ago. (Additionally, the plant has been uneconomical to run, because of low-price market conditions primarily in the spring and early summer, for another significant period of time.) NorthWestern itself has suffered no adverse financial consequences as a result of the plant’s poor performance. Consumers have continued to pay NorthWestern its return on investment in the plant even while it has been out of service, and in addition consumers have also (here and in a previous proceeding) made the utility whole, dollar for dollar, for all market purchases it made to replace CU4’s output. The utility appears to have no financial incentive at stake in whether the plant operates, or not; it makes the same profit either way.

The financial consequences of the second of those major outages, which lasted from July 2013 to January 2014, are manifest in this proceeding and, as in the last outage, are entirely

placed upon the shoulders of consumers. Through its application, the company proposes both a complete recovery of all fixed and variable costs associated with CU4—including a 8.25% annual return on investment, amounting to nearly \$20 million payable for the time during which the plant was out of service—as well as all the costs associated with market purchases to replace CU4's expected output. *See Test. of Frank V. Bennett*, Dkt. D2014.5.46, Annual CU4 True-Up, Exh. 4, p. 1 (May 29, 2014).

While it seemed to have disregarded the Montana Consumer Counsel's warnings about the integrity of the plant during the pre-approval process, the Commission indicated in its Order pre-approving the acquisition that it would "conduct rigorous examinations in annual supply trackers of the prudence of NWE's expenses related to CU4." Or. 6925f at ¶ 227. In this proceeding, NorthWestern should be expected to explain both the prudence of its plant operations and of the replacement power purchases the outage caused it to make.

The application falls well short of the mark in both respects. NorthWestern does not provide a comprehensive explanation of the cause of the plant outage, nor does it outline the steps that were taken to make the plant operational again. NorthWestern does not detail what market transactions replaced the CU4 output, and it asserts that assessing the costs of the outage would be nearly impossible. *See Test. of Kevin J. Markovitch*, Dkt. D2014.5.46, p. 10 (May 29, 2014). This last claim is particularly risible. Of course no precise number can be calculated. In virtually every matter that is heard by the Commission, parties and commissioners must rely on best guesses, estimates, and assumptions. Here, the task is surely not impossible. It is possible to compare what NorthWestern expected in terms of CU4 output and market purchases before the outage occurred, to the actual output of CU4 and market purchases during the period of the outage. In doing so, an initial, educated guess of the financial consequences of the outage can be derived. That amounts to just over \$11 million. *See Ex. A* (attached).

In my view, the mere two pages of testimony offered in relation to NorthWestern's handling of the Colstrip outage does not constitute sufficient information to support approving the recovery of these costs from consumers on an interim basis. The Commission should expect that a request for recovery of replacement power costs be accompanied by at least a best-guess attempt to isolate and quantify them, as well as a thorough explanation of the outage, how the plant was made operational again, and how the utility went about purchasing replacement power.

In both of the last electric tracker dockets, the Commission excluded from interim recovery costs of replacement power purchases beyond what it would have been expected to cost to run the plant, were it operational. Or. 7219a, Dkt. D2012.5.49, ¶ 21 (July 17, 2012) (“The Commission finds that adopting this approach, based on DGGS’s expected operations, is reasonable for purposes of interim ratemaking.”); *see also* Or. 7283, Dkt. D2013.5.33, ¶ 12 (June 18, 2013). The Commission should have abided by its precedent here, and excluded from interim recovery the amount of \$11,135,466 associated with NorthWestern’s deferred supply account. This amount reflects the Commission staff’s best guess, given the information available at present, of the incremental costs of the outage, beyond the ordinary fixed and variable costs of CU4 that could have been expected were the plant operational. A more accurate number may be higher or lower than this amount. But it is at least a starting point around which the Commission can begin to fulfill the promise it made to ratepayers to “conduct rigorous examinations” of a facility the Commission pre-approved. Or. 6925f at ¶ 227.

I therefore respectfully dissent.

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TRAVIS KAVULLA, Commissioner

<b>Exhibit A</b>								
<b>Estimated cost of Colstrip Unit 4 outage</b>	<b>Jul-13</b>	<b>Aug-13</b>	<b>Sep-13</b>	<b>Oct-13</b>	<b>Nov-13</b>	<b>Dec-13</b>	<b>Jan-14</b>	<b>Total</b>
Actual MWh with outage <sup>1</sup>	73,215	81,713	79,371	71,355	70,692	81,925	104,897	458,271
Capacity factor <sup>2</sup>	88.7%	98.9%	99.3%	86.4%	88.5%	99.2%	98.9%	
Estimated MWh without outage <sup>3</sup>	146,430	163,426	158,742	142,710	141,384	163,850	163,407	916,542
Actual variable cost with outage <sup>4</sup>	1,527,767	1,610,318	1,561,015	1,488,015	1,413,922	1,460,984	1,724,690	10,786,711
Actual fuel cost with outage <sup>4</sup>	1,258,603	1,344,565	1,297,141	1,233,848	1,126,537	1,359,517	1,516,331	9,136,542
Fuel cost per MWh <sup>5</sup>	\$17.19	\$16.45	\$16.34	\$17.29	\$15.94	\$16.59	\$14.46	
Estimated fuel cost without outage <sup>6</sup>	2,517,206	2,689,130	2,594,282	2,467,696	2,253,074	2,719,034	2,362,118	17,602,540
<b>Estimated variable cost without outage<sup>7</sup></b>	<b>2,786,370</b>	<b>2,954,883</b>	<b>2,858,156</b>	<b>2,721,863</b>	<b>2,540,459</b>	<b>2,820,501</b>	<b>2,570,477</b>	<b>19,252,709</b>
Estimated MWh lost from outage <sup>8</sup>	73,215	81,713	79,371	71,355	70,692	81,925	58,510	516,781
Actual monthly spot purchase prices <sup>9</sup>	34.93	36.84	38.62	34.74	32.05	54.82	42.65	
Cost to replace MWh lost from outage <sup>10</sup>	2,557,400	3,010,307	3,065,308	2,478,873	2,265,679	4,491,129	2,495,452	20,364,147
<b>Cost of providing expected CU4 MWh with outage<sup>11</sup></b>	<b>4,085,167</b>	<b>4,620,625</b>	<b>4,626,323</b>	<b>3,966,888</b>	<b>3,679,601</b>	<b>5,952,113</b>	<b>3,457,459</b>	<b>30,388,175</b>
<b>Change in supply cost from CU4 outage<sup>12</sup></b>	<b>1,298,797</b>	<b>1,665,742</b>	<b>1,768,167</b>	<b>1,245,025</b>	<b>1,139,142</b>	<b>3,131,612</b>	<b>886,982</b>	<b>11,135,466</b>

**Notes:**

1. Reported in May 29, 2014 Electricity Supply Tracker, D2014.5.46, Exhibit\_(FVB-1)13-14, p. 3
2. (Actual MWh / (111\*hrs per month)) Reciprocal sharing agreement provides NWE 111 MW of PPLM's 222 MW share of CU3
3. (222 \* capacity factor \* hrs per month) Assumes CU4 would have operated at CU3 capacity factor absent the outage
4. Reported in May 29, 2014 Electricity Supply Tracker, D2014.5.46, Exhibit\_(FVB-4)13-14, p. 2
5. (Actual fuel cost / actual MWh with outage)
6. (Estimated MWh without outage \* Fuel cost per MWh)  
variable costs) Non-fuel variable costs are the difference between actual variable & fuel costs with outage. This assumes other components of CU4
8. One-half of estimated MWh without outage, based on reciprocal sharing agreement
9. Reported in May 29 Electricity Supply Tracker, D2014.5.46, Exhibit\_(FVB-1)13-14, p. 5
10. (Estimated MWh lost from outage \* spot purchase price) Assumes NWE replaced all lost production with spot purchases.
11. (Actual variable cost + Cost to replace MWh lost from outage)
12. (Cost of providing expected CU4 MWh with outage - variable cost without outage)