

Service Date: June 12, 2015

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

IN THE MATTER OF NorthWestern
Energy's 2012-2013 Electricity Supply
Tracker

REGULATORY DIVISION

Docket Nos. D2013.5.33, D2014.5.46

IN THE MATTER OF NorthWestern
Energy's 2013-2014 Electricity Supply
Tracker

**MEIC AND SIERRA CLUB'S RESPONSES TO MONTANA PUBLIC SERVICE
COMMISSION'S FIRST SET OF DATA REQUESTS TO MEIC AND SIERRA CLUB**

PUBLIC VERSION

MEIC & Sierra Club

Docket No. D2013.5.33/D2014.5.46

Responses to Montana Public Service Commission Set 1 (031-034)

PSC-031 Regarding: Root Cause Analysis
 Witness: David A. Schlissel

- a. Did you conclude that the outage at Colstrip Unit 4 was the result of any imprudent or negligent actions by Siemens during the May-June 2013 generator overhaul?

Response:

No. Based on the Root Cause Analysis and the conclusions of NorthWestern Energy, I concluded that work performed by Siemens during the May-June 2013 generator overhaul was the most likely cause of the Unit 4 outage.

However, NorthWestern Energy has not provided sufficient information to allow me to form a conclusion about whether Siemens engaged in imprudent or negligent actions. The Root Cause Analysis did not address the issue of whether the outage was the result of any imprudent or negligent actions by Siemens. In response to Data Request MEIC-064, NorthWestern Energy indicated that it has not evaluated or caused to be evaluated the work performed by Siemens during the May-June generator overhaul. Further, although Factory Mutual Insurance Company informed PPL Services Corporation in a July 19, 2013 letter that it was investigating whether to seek subrogation from Siemens, which is the process an insurance company uses to seek reimbursement from the responsible party for a claim it has already paid, I have not been provided any information regarding the status of the Insurance Company's investigation.

Although I am unable to draw a conclusion regarding whether Siemens acted negligently or imprudently based on the information provided by NorthWestern, I have reasons to believe that Siemens' actions may have been negligent. Specifically,

- The extended outage was triggered within days of being returned to service following work performed by Siemens during the May-June 2013 generator overhaul; and
- The Root Cause Analysis stated that:

[REDACTED]

¹ *Root Cause Analysis* at 22 (Confidential, subject to Protective Order 7283c).

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I believe these facts warrant investigation of whether Siemens performed work negligently during the generator overhaul, and whether any such negligence caused the extended outage. I want to be clear that I have not concluded that Siemens acted negligently. As explained in my testimony, however, the Commission need not determine whether *Siemens* acted negligently in order to find that *NorthWestern Energy* has acted imprudently. Here, NorthWestern Energy stated that it is still in the process of evaluating potential claims against Siemens for outage related costs.² In my opinion, NorthWestern acted imprudently by failing even to conclude its evaluation of whether it can recover replacement power costs from Siemens before seeking recovery of replacement power from ratepayers.

- b. If you did conclude that there were imprudent or negligent actions by Siemens during the overhaul please explain in detail how you reached your conclusions.

Response:

N/A.

- c. In your opinion did Siemens knowingly engage in imprudent or negligent actions during the overhaul at Colstrip Unit 4? If yes, please explain in detail the basis of your opinion.

Response:

As I explain above in response to subpart (a), NorthWestern Energy has not provided sufficient information to allow me to form a conclusion about whether Siemens engaged in imprudent or negligent actions, knowingly or unknowingly.

² NorthWestern Energy's Response to Data Request MCC-118.

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Responses to Montana Public Service Commission Set 1 (031-034)

PSC-032 Regarding: Insurer's Recovery of Costs from Siemens
 Witness: David A. Schlissel

Do you have updated information on whether the property insurer has sought to recover any costs from Siemens? If yes, on what basis did the insurer attempt to recover any such costs?

Response:

No.

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Responses to Montana Public Service Commission Set 1 (031-034)

PSC-033 Regarding: CU4 Replacement Power Costs
Witness: David A. Schlissel

- a. At Page 4 of your testimony you claim that NorthWestern Energy has not acted prudently in seeking to recover outage-related replacement power costs from ratepayers without first seeking recovery of those costs from Siemens or, at a minimum concluding an evaluation of whether an action against Siemens is warranted. Have you concluded that replacement power costs should be paid by Siemens? If so, explain the basis for that conclusion.

Response:

No. NorthWestern Energy has not provided sufficient information to allow me to form a conclusion about whether Siemens should pay replacement power costs.

- b. Do the Colstrip Unit 4 owners have a contract with Siemens which provides that Siemens will pay for replacement power?

Response:

I am not aware of whether the Colstrip Unit 4 owners have a contract with Siemens that provides Siemens will pay for replacement power under certain conditions. NorthWestern Energy has not provided the contract between Siemens and the operator and/or owners of Colstrip Unit 4.

- c. Are you familiar with how common it is for an OEM such as Siemens to pay for replacement power expenses in the event of an extended plant outage? Cite all examples of such contract provisions with which you have encountered.

Response:

No.

- d. Please provide your best estimate of the “replacement power costs that would have been covered by business interruption insurance.”

Response:

The amount that would have been covered by business interruption insurance would have equaled the full costs of replacement power, less any deductible. Both NorthWestern Energy and the Commissioner Kavulla have provided reasonable estimates of replacement power costs associated with the extended outage of Unit 4.

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Responses to Montana Public Service Commission Set 1 (031-034)

PSC-034 Regarding: Evaluation of Outage Insurance
Witness: David A. Schlissel

- a. Have you concluded that outage insurance was available at a reasonable cost to NorthWestern Energy prior to the generator overhaul at Colstrip Unit 4? If you have concluded that outage insurance was available at a reasonable cost, please explain in detail the basis of that conclusion.

Response:

No. I am aware of both coal-fired and nuclear power plants that carry or have carried outage insurance (also called business interruption insurance) to mitigate ratepayers' exposure to high replacement power costs from an extended forced outage. However, only NorthWestern Energy has the information necessary to evaluate whether the cost of outage insurance is reasonable for Colstrip Unit 4, and the Company has conceded that it did not evaluate the reasonableness of acquiring such insurance in advance of the Colstrip Unit 4 extended outage.³ The cost of outage insurance is reasonable if the insurance premium over time would result in lower costs to rate payers than replacement power costs for forced outages. This determination requires NorthWestern Energy to estimate likely future costs to ratepayers due to forced outages based on historic forced outage rates and costs, the condition of the generator and other equipment, and operation and maintenance needs to prevent forced outages. Colstrip's owners have exclusive access to most of this relevant information.

NorthWestern stated that it is currently "in the process of investigating the costs and benefits of obtaining outage insurance for Colstrip 4,"⁴ so NorthWestern should have information responsive to this question.

- b. Have any of the Colstrip Unit 4 owners obtained outage insurance which would pay the cost of all replacement power during an extended outage?

Response:

Not that I am aware of. NorthWestern stated that, to the best of its knowledge, "no other Colstrip owner has business interruption insurance on their share of Colstrip Unit 4."⁵

- c. You state that NorthWestern Energy failed to evaluate outage insurance to protect its ratepayers against the risk of having to pay expensive replacement power costs during an extended Colstrip Unit 4 outage. Are you claiming that NorthWestern Energy should have anticipated that the generator would be damaged during its reassembly? If so, please explain in detail.

³ NorthWestern Energy's Response to Data Request MEIC-39.

⁴ NorthWestern Energy's Response to Data Request MEIC-39(b).

⁵ NorthWestern Energy's Response to Data Request MEIC-47c.

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Response:

No. I am not claiming that NorthWestern Energy should have anticipated the generator damage that caused the extended outage at issue in this tracker docket. Insurance of any type is valuable specifically because it covers costs due to unforeseen events. Just because NorthWestern Energy may not have anticipated the specific generator damage that caused the 2013-2014 outage, however, does not mean that NorthWestern Energy could not have anticipated some event that would result in excess costs to ratepayers based on the history of forced outages at Unit 4. As summarized in my testimony at pages 18-19, the Colstrip Unit 4 generator had an extensive history of problems before the 2013-2014 outage, including a forced outage in 2009 that lasted for five months. The history of forced outages at Colstrip Unit 4 should have alerted NorthWestern Energy to the risk of future problems.

- d. On a prospective basis are you recommending that NorthWestern purchase outage insurance for Colstrip Unit 4 to protect its ratepayers on an ongoing basis? What added cost would the recommended outage insurance place on ratepayers? Would the increased costs provide a benefit to ratepayers?

Response:

No. First, my testimony concerns only the actions NorthWestern should have taken to prevent the costs to ratepayers of the 2013-2014 outage, and thus is not prospective. Second, I do not state that NorthWestern Energy should have purchased outage insurance. Instead, in light of the history of past problems with Unit 4, NorthWestern Energy should have evaluated before the 2013-2014 outage whether business interruption insurance would have been a prudent investment, considering both the costs and benefits to ratepayers. As described in my responses to subpart (a), NorthWestern Energy is in a unique position to undertake such an analysis.

- e. Do all generators have planned as well as unplanned outages during their operating lives?

Response:

Yes. In general, all generators have both planned and unplanned outages during their operating lives. However, the evidence NorthWestern has provided and information from the North American Electric Reliability Corporation's Generating Availability Data System (GADS) together suggest that the amount of time for which Colstrip Unit 4 has been shut down for unplanned outages has been greater in recent years than what similar units have experienced.⁶

⁶ See NorthWestern Energy's Response to Data Request PSC-9(a) (showing much higher forced outage rate at Colstrip Unit 4 compared to Colstrip Unit 3 from 2009 to 2013); North American Electric Reliability Corporation, 2012 and the 2013 Generating Unit Statistical Brochures, available at <http://www.nerc.com/pa/RAPA/gads/Pages/Reports.aspx>.

CERTIFICATE OF SERVICE

I hereby certify that on this 12th day of June, 2015, I served the foregoing "Responses to Montana Public Service Commission's First Set of Data Requests to MEIC and Sierra Club" by first-class mail, postage prepaid, to the following:

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