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August 14, 2015

TO: Ms. Kate Whitney
FROM: Laura Shively
RE: Docket No. D2013.5.33/D2014.5.46- NorthWestern Energy Electricity
Supply Trackers for 2012-2013/2013-2014

Enclosed is Set 3 Data Requests of the Montana Consumer Counsel to NorthWestern Energy in the above matter. Thank you.

cc: Service List

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

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

REGULATORY DIVISION

DOCKET NO. D2013.5.33

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

DOCKET NO. D2014.5.46

**DATA REQUESTS SET 3 OF THE
MONTANA CONSUMER COUNSEL (MCC)
TO NORTHWESTERN ENERGY (NWE)**

MCC-122. RE: Hedging Losses
Witness: Kevin J. Markovich

In Docket No. D2012.5.49, Order No. 7219h, at ¶89, the Commission made the following statements:

“However, MCC’s advocacy in this docket has made clear the need for a review of North Western’s fixed price hedging strategy. The Commission is persuaded that North Western transacts with less incentive to avoid *hedging losses* than its hedging counterparties. The Commission will open a docket within 90 days of this Order to investigate possible mechanisms to better align the goals of rate stability and risk mitigation with the goal of providing service at the lowest long-term total cost. In the meantime, the prudence of *hedging losses* will continue to be a potential issue in annual electricity tracker dockets.” (Emphasis added.)

With respect to the Commission’s use of the term “hedging losses” in that statement:

- a. Is that terminology, i.e., the Commission’s reference to “hedging losses,” in and of itself confusing? If so explain why you believe it is confusing.
- b. Are you confused by the Commission’s use of the term “hedging losses” in Order No. 7219h, at ¶89? If so, please explain why you are confused.

- c. Is that terminology, i.e., the Commission's reference to "hedging losses," in and of itself potentially creating a misunderstanding of what hedging is and what it is intended to accomplish in the case of NorthWestern? If so please explain why you believe that is the case.

MCC-123. RE: Hedging Incentives
Witness: Kevin J. Markovich

At KJM-4, line 22, through KJM-6, line 6, you state that you do not agree with Mr. Donkin's assertion that the counterparties to NorthWestern's electric supply price hedging transactions have more of an incentive to "beat the market" than does NorthWestern.

- a. Is it your position that there are no parties to electric supply price hedging transactions that from time to time have an incentive to "beat the market," i.e., receive more in payment from counterparties than they pay to counterparties in their electric supply price hedging transactions?
- b. Does NorthWestern attempt to or have an incentive to "beat the market" in its electric supply price hedging transactions with counterparties? If so, please provide copies of all documents that demonstrate that NorthWestern has attempted to or had an incentive to "beat the market" when entering into electric supply price hedging transactions with counterparties.
- c. NorthWestern's response to Data Request MCC-004 shows that in the past the Company has entered into fixed price electric supply price hedging transactions with Citigroup Energy Inc., Morgan Stanley Capital Group, Inc., Barclay's Bank PLC, Merrill Lynch Commodities, Inc., and DB Energy Trading (affiliate of Deutsch Bank AG). Do these counterparties attempt to or have an incentive to "beat the market," i.e., receive more in payment from counterparties than they pay to counterparties in their electric supply price hedging transactions? If not, please describe what you believe are the objectives and/or incentives of these counterparties when they enter into fixed price electric supply price hedging transactions with NorthWestern.

MCC-124. RE: Hedging Incentives
Witness: Kevin J. Markovich

At KJM-5, lines 3-23, you address and disagree with Mr. Donkin's testimony that the counterparties to NorthWestern's fixed price electric supply price hedging transactions have an incentive to "beat the market" in their hedging deals with NorthWestern. You testify that for Mr. Donkin's testimony "...to be true, NorthWestern's counterparties would have to be able to influence future market prices to ensure they win their 'bets'

with NorthWestern.” Do you agree that nowhere in his testimony does Mr. Donkin state that to “beat the market,” NorthWestern’s counterparties are able to or would need to be able to influence future market prices to ensure that they win their ‘bets’ with NorthWestern? If you do not so agree, identify by page number and line numbers in Mr. Donkin’s testimony where he states that to “beat the market” NorthWestern’s counterparties would have to be able to influence future market prices to ensure that they win their ‘bets’ with NorthWestern.

MCC-125. RE: Hedging Incentives
Witness: Kevin J. Markovich

At KJM-5, lines 3-23, you address and disagree with Mr. Donkin’s testimony that the counterparties to NorthWestern’s fixed price electric supply price hedging transactions have an incentive to “beat the market” in their hedging deals with NorthWestern. You testify there that “...manipulating the market would be very difficult” and “...with the regulatory oversight provided by the Federal Energy Regulatory Commission and now the Commodity Futures Trading Commission, such behavior would very likely be detected.” Do you agree that nowhere in his testimony does Mr. Donkin state that to “beat the market,” NorthWestern’s counterparties are able to or would need to be able to manipulate future electric supply market prices? If you do not so agree, identify by page number and line numbers in Mr. Donkin’s testimony where he states that NorthWestern’s counterparties have the ability to manipulate future electric supply market prices.

MCC-126. RE: Hedging Incentives
Witness: Kevin J. Markovich

At KJM-5, lines 3-23, you address and disagree with Mr. Donkin’s testimony that the counterparties to NorthWestern’s fixed price electric supply price hedging transactions have an incentive to “beat the market” in their hedging deals with NorthWestern.

- a. Nevertheless, do you agree that some or perhaps all of NorthWestern’s counterparties are more sophisticated than NorthWestern at knowing market fundamentals and at valuing risk, when entering into fixed price electric supply price hedging transactions with NorthWestern? If you do not agree, please explain and reconcile your disagreement with your testimony at hearing in Docket No. D2012.5.49.
- b. Do you agree that more sophistication at knowing market fundamentals and at valuing risk may explain why some or perhaps all of NorthWestern’s counterparties have received more in payment from NorthWestern than they have paid to NorthWestern in their electric supply price hedging transactions?

MCC-127. RE: Hedging Incentives
Witness: Kevin J. Markovich

At KJM-5, lines 3-23, you address and disagree with Mr. Donkin's testimony that the counterparties to NorthWestern's fixed price electric supply price hedging transactions have an incentive to "beat the market" in their hedging deals with NorthWestern.

- a. Nevertheless, do you agree that, in comparison with NorthWestern, some or perhaps all of NorthWestern's counterparties have superior technical modeling skills available when entering into fixed price electric supply price hedging transactions with NorthWestern? If you do not agree, please explain and reconcile your disagreement with your testimony at the hearing in Docket No. D2012.5.49.
- b. Do you agree that superior electric supply price market modeling skills may explain why some or perhaps all of NorthWestern's counterparties have received more in payment from NorthWestern than they have paid to NorthWestern in their electric supply price hedging transactions?

MCC-128. RE: Hedging Counterparties
Witness: Kevin J. Markovich

Do you agree with the following statements?

- a. Some parties to electric supply price hedging transactions may be more sophisticated than some of their counterparties at knowing electric supply price fundamentals and/or valuing risk.
- b. If some parties are relatively more sophisticated then they may receive more in payments over time from some of their less sophisticated counterparties than they pay to those same counterparties in their electric supply price hedging transactions?

MCC-129. RE: Hedging Counterparties
Witness: Kevin J. Markovich

Do you agree with the following statements? If your answers are anything other than an unequivocal "yes" please explain your answers.

- a. Some parties to electric supply price hedging transactions may have superior technical modeling skills of electric supply price markets, in comparison with some of their counterparties.

b. If some parties do have superior technical modeling skills, they may receive more in payments over time from some of their counterparties having lesser technical modeling skills than they pay to those same counterparties in their electric supply price hedging transactions?

MCC-130. RE: CU4 Historical Capacity Factor
Witness: Kevin J. Markovich

In reference to your rebuttal testimony at page KJM-11, lines 7-9, please provide all data calculations and workpapers showing that the historical capacity factor of CU4 corresponds with the CU4 forecasted supply in the original 2013/2014 tracker filing in May, 2013.

MCC-131. RE: Exhibit__(KJM-1)
Witness: Kevin J. Markovich

Please provide an electronic working copy, with formulas and all links intact, of your Exhibit__(KJM-1), including all workpapers and supporting documents.

MCC-132. RE: Dr. Wilson's Statement
Witness: Patrick R. Corcoran

In reference to your rebuttal testimony at page PRC-5, line 13, please state with specificity where Dr. Wilson asserted "that NorthWestern should first sue somebody."

MCC-133. RE: Dr. Wilson's Statement
Witness: Patrick R. Corcoran

In reference to your rebuttal testimony at page PRC-5, line 17, please state with specificity where Dr. Wilson argued that NorthWestern "should have had outage insurance."

MCC-134. RE: NWE Recovery of Costs
Witness: Patrick R. Corcoran

In reference to your rebuttal testimony at page PRC-6, lines 1-3, does the Commission have a statutory obligation to provide NorthWestern full recovery of costs that NorthWestern has not demonstrated were incurred prudently? Please explain your answer fully.

MCC-135. RE: NWE Recovery of Costs
Witness: Patrick R. Corcoran

In reference to your rebuttal testimony at page PRC-6, lines 12-16, if NorthWestern does have a cause of action against another party for cost recovery, but does not pursue that recovery, does the Commission have a statutory obligation to provide NorthWestern full recovery of that cost from ratepayers? Please fully explain your answer.

MCC-136. RE: NWE Recovery of Costs
Witness: Patrick R. Corcoran

In reference to your rebuttal testimony at page PRC-7, lines 17-20:

- a. Please explain how you believe that the Commission should assure that any replacement power cost recovery from ratepayers is offset with labor cost savings that are associated with that replacement power.
- b. If you do not believe that the ratepayer cost burden associated with replacement power should be offset with the labor cost savings attributable to that replacement power please explain fully why such an outcome would be fair and equitable for ratepayers.

MCC-137. RE: NWE Recovery of Costs
Witness: Patrick R. Corcoran

In reference to your rebuttal testimony at pages PRC-9 through PRC-11: If the Commission concludes that NWE has been fully compensated through rates for its costs associated with CU4 and other investments for the time periods covered by these dockets and that no amount of authorized revenues have, in fact, been lost, is it nevertheless your position that additional LRAM revenues should be authorized for recovery at this time. Please fully explain your answer.

MCC-138. RE: Interruption (Outage) Insurance
Witness: Fred Lyon

Based on your rebuttal testimony at page FL-14 and FL-15, please provide a detailed list of instances where utilities, independent power producers, etc. have purchased interruption (outage) insurance.

MCC-139. RE: Generator's Interlaminar Insulation
Witness: Ronald A. Halpern

When asked if public utilities are typically aware of procedures related to inspection of a generator's interlaminar insulation in your rebuttal testimony at page RAH-11, you respond: "Most utilities rely on the OEM, in this case Siemens, to provide technical expertise for the inspection and repair of their generators." Since public utilities like NorthWestern rely on the expertise of the OEM, please explain in detail if you have an opinion whether Siemens should have noticed that there were core specific issues with CU4, and should have requested additional evaluations of the issues.

MCC-140. RE: CU4 Failure
Witness: Ronald A. Halpern

You conclude your rebuttal testimony at page RAH-13 stating: "NorthWestern could not have foreseen or prevented it." Please explain in detail if you have an opinion whether an OEM like Siemens could have foreseen or prevented CU4 failure.

MCC-141. RE: Lawsuit Against Siemens or Talen
Witness: Michael J. Barnes

Please provide a detailed list of each element NorthWestern considered in reaching its decision that it will not file a lawsuit against Siemens or Talen regarding the 2013 forced outage, as stated in your rebuttal testimony on page MJB-4, lines 5-8.

MCC-142. RE: Lawsuit Against Siemens or Talen
Witness: Michael J. Barnes

Please provide all correspondence and any other communications with other owners of CU4 concerning the issue of a possible suit against Siemens, as referred to in your rebuttal testimony on page MJB-4, lines 11-12.

MCC-143. RE: Lawsuit Against Siemens or Talen
Witness: Michael J. Barnes

Please provide a copy of the referenced email as well as all additional communications with FM Global, as mentioned in your rebuttal testimony on page MJB-4, lines 12-13.

MCC-144. RE: Lawsuit Against Siemens or Talen
Witness: Michael J. Barnes

Please provide all correspondence and communications from Talen stating what Talen concluded, as referred in your rebuttal testimony on page MJB-4, line 22.

MCC-145. RE: Colstrip Unit 4 – Overall Performance
Witness: Michael J. Barnes

In reference to your rebuttal testimony pages MJB-5, line 17 through page MJB-6, line 15: For each instance where you report an EAF (or other measure) for CU3 and CU4 on a combined basis, please provide the corresponding EAF (or other measure) for CU4 alone.

MCC-146. RE: General Availability Data System
Witness: Michael J. Barnes

Please provide a copy of NERC's Generating Availability Data System ("GADS") reporting Equivalent Availability Factor ("EAF") data on 102 coal-fired generating plants, as mentioned on page MJB-8 of your rebuttal testimony.

MCC-147. RE: Outage Insurance
Witness: Michael J. Barnes

In pages MJB-8 through MJB-10 of your rebuttal testimony, you appear to describe outage insurance as a hedging transaction with costs that are expected to exceed benefits. Is it your position that hedging transactions that are expected to lose money should be avoided? Please explain your answer.

MCC-148. RE: Outage Insurance
Witness: Michael J. Barnes

In reference to pages MJB-10 through MJB-13: Please provide all correspondence between NWE and insurance brokers related in any way to the issue of outage insurance for CU4.

MCC-149. RE: Exhibit__ (MJB-2)
Witness: Michael J. Barnes

Please provide an electronic working copy, with formulas and all links intact, of your Exhibit__ (MJB-2), including all workpapers and supporting documents.

MCC-150. RE: Reviewed Documents
Witness: James H. Goetz

In your rebuttal testimony at page JHG-6, lines 10-11, you state: "I have also reviewed a document indicating declination by the insurer to pursue litigation on potential subrogation interest..." Please provide the referenced document and any related documents.

MCC-151. RE: Siemens's Work in 2013 on CU No. 4
Witness: James H. Goetz

In reference to your rebuttal testimony at page JHG-7, lines 7-8, please provide the referenced contract.

MCC-152. RE: Corrected 2013-2014 Program Savings
Witness: Joe Schwartzberger

Please provide an electronic working copy, with all links intact, of your Exhibit__ (JS-1), including all workpapers and formulas intact.

MCC-153. RE: Corrected 2013-2014 Lost Revenues
Witness: Joe Schwartzberger

Please provide an electronic working copy, with all links intact, of your Exhibit__ (JS-2), including all workpapers and formulas intact.

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing Data Requests of the Montana Consumer Counsel has been served upon the following person by first class mail this 14th day of August, 2015:

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