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

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IN THE MATTER OF the Petition of	)	REGULATORY DIVISION
Greycliff Wind Prime, LLC to Set Contract	)	
Terms and Conditions for a Qualifying	)	DOCKET NO. D2015.8.64
Small Power Production Facility	)	

Pre-Filed Direct Testimony

of

Jaime T. Stamatson

on Behalf

of

The Montana Consumer Counsel

November 16, 2015

I. INTRODUCTION

Q. Please state your name and business address.

A. Jaime T. Stamatson, Montana Consumer Counsel (“MCC”), 111 North Last Chance Gulch, Suite 1B, Helena, MT 59620-1703.

Q. In what capacity does the MCC employ you?

A. Since October 2012 I have been employed at the MCC as an Economist. My duties include participating in various stakeholder groups representing the interests of Montana utility consumers and providing economic analysis on regulatory issues appearing in Dockets before the Montana Public Service Commission (“PSC” or “Commission”).

Q. Please describe your professional qualifications.

A. I earned a Bachelor of Science degree in 2004 and a Master of Arts degree in 2007, both in Economics, from Kansas State University. Prior to my employment at the MCC, I was employed by the Kansas Corporation Commission (“KCC”) from August 2008 to October 2012 as a Senior Research Economist where my duties included conducting research and providing economic analysis on regulatory issues before the KCC. Prior to this I was employed by Kansas State University’s Department of Economics as a Graduate Teaching Assistant where my duties included teaching undergraduate courses in Macroeconomics and conducting research on a variety of Macroeconomic and Microeconomic topics.

Q. Have you previously testified before this Commission?

A. Yes, in Docket Nos. D2011.4.35, D2012.5.49, and D2015.2.18.

II. SUMMARY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to advise the Commission of concerns regarding Greycliff Wind Prime, LLC's ("Greycliff") petition to have the Commission set contract terms and conditions pursuant to MCA 69-3-603.

Q. What are your concerns regarding Greycliff's petition to have the Commission set contract terms and conditions pursuant to MCA 69-3-603?

A. They are as follows:

1. Greycliff's use of an outdated avoided cost rate that was a product of both Docket No. D2015.2.18 ("the CREP Docket") and Docket No. D2014.4.43 ("the Greenfield Docket" or "Greenfield").
2. Greycliff's use of a wind integration rate that was a product of the Greenfield Docket.

3. If the Commission approves Greycliff's proposed contract rate, NorthWestern Energy ("NWE" or "the Company") seeks to recover the contract costs set in this Docket in a general rate case, and such a request is approved by the Commission, the impact such an approval could have on ratepayers.

I address each of these in turn.

III. GREYCLIFF'S PROPOSED CONTRACT RATE IS NOT AN ACCURATE REFLECTION OF UTILITY AVOIDED COST

Q. How did Greycliff calculate NWE's avoided cost to arrive at a contract rate?

A. Greycliff did not perform an actual detailed avoided cost analysis. Its current avoided cost proposal is a result of several factors. It is based on the avoided cost calculations that were performed in the Greenfield Docket and NWE's testimony in the CREP Docket, with adjustments for additional expenses incurred in the interim between the CREP Docket and this proposal and a proposed commercial operation date of 2016 instead of 2015.[1]

Q. What levelized cost rate is Greycliff proposing in this Docket?

[1] Greycliff responses to NWE-001(a) and PSC-001(d).

A. The levelized rate proposed in its contract is $53.85/MWh, assuming wind integration in the amount of $3.50/MWh. Subtracting out integration, as those costs fall on Greycliff due to it being a Qualifying Facility ("QF")[2], results in an effective contract rate of $50.35/MWh.

Q. What levelized cost rate did Greycliff propose in the CREP Docket?

A. The levelized rate Greycliff proposed in the CREP Docket was $49.02/MWh, excluding integration charges.[3]

Q. What levelized cost rate did the Commission approve in the Greenfield Docket?

A. The rate the Commission approved in the Greenfield Docket was $50.49/MWh, excluding wind integration.[4]

Q. Is the levelized contract rate proposed by Greycliff in this Docket an accurate reflection of utility avoided cost?

A. There is no way for the Commission to actually know if it is or not due to Greycliff's failure to attempt to calculate NWE's avoided cost. All Greycliff did was attempt to show its proposed levelized rate was reasonable because it falls between the rate it and NWE agreed upon in the CREP Docket ($49.02/MWh) and the rate NWE and Greenfield Wind, LLC negotiated

[2] 2015 QF PPA NorthWestern/Greycliff, Section 5.3, *Wind Integration and Contingency Reserves* (found in Exhibit 3 of Greycliff's Petition to the Commission in Docket No. D2015.8.64).
[3] *Application*, Docket No. D2015.2.18, Appendix 1, pp.39.
[4] Order 7347(a), paragraph 28.

and subsequently the Commission approved in the Greenfield Docket ($50.49/MWh). The Commission laid out the framework for a QF to establish a Legally Enforceable Obligation ("LEO") if a utility and a QF fail to come to an agreement on a contract to purchase the QF's output in Order 6444(e) in Docket No. D2002.8.100.[5]

> To establish an LEO, a QF must tender an executed power purchase agreement tothe utility with a price term consistent with the utility's avoided costs...

The rate in the contract Greycliff tendered to NWE is not based on a current avoided cost calculation.

Q. Are there any reasons to believe that NWE's avoided costs have recently changed?

A. Yes, there are. First and foremost would be the Commission's approval of the Company's acquisition of 633 MW[6] of hydroelectric generating capacity in Docket No. D2013.12.85. This acquisition has fundamentally changed NWE's generation profile.

Prior to its acquisition of the hydros, NWE relied heavily on long term contracts and market purchases to satisfy its load obligations. Now with the hydros in its portfolio of resources, the Company has very specific energy and capacity needs. With the 439 MW remaining after the transfer

[5] Paragraph 47.
[6] 194 MW of that capacity, represented by Kerr Dam, has subsequently been transferred to the CSKT.

of Kerr, NWE is slightly long during light load hours and short during heavy load hours.[7] This means the Company specifically needs dispatchable peak power, something that a resource such as Greycliff cannot provide.

Secondly, the price forecast used to calculate avoided cost in the Greenfield Docket came out of NWE's 2013 *Electric Supply Resource Procurement Plan*. Market prices have generally declined since 2013.

Both the acquisition of the hydros and the decline in market prices would indicate that a current avoided cost calculation would likely result in a value below what was estimated in the Greenfield Docket.

Q. What is the issue with the wind integration rate that was used in Greenfield and that Greycliff is currently using?

A. The issue is that it is not representative of NWE's current best estimate of the incremental cost of regulation from the Dave Gates Generating Station ("DGGS"). Further, because of continuing uncertainty about the extent of remaining regulation capacity at DGGS, about the next regulating resource that will be chosen to provide additional regulation capacity and the cost of regulation from that resource, it would be harmful to consumers and violate

[7] Direct testimony of Joseph M. Stimatz, pp.34, Docket No. D2013.12.85.

the intent of PURPA to set any long term fixed regulation charge for Greycliff at this time.

Greycliff states that it used the $3.50/MWh figure that was used in Greenfield because it was close to the $3.81/MWh incremental cost of regulation from DGGS calculated in the CREP Docket.[8] There are two problems with this. First, the $3.81/MWh figure that appears in the Direct Testimony of Bleau LaFave was a typo and should have read $3.61/MWh.[9] This by itself would actually bolster Greycliff's claim that the two regulation figures are close enough to one another. However, after its initial response to MCC-015 in the CREP Docket, NWE discovered a calculation error in MCC-015 and subsequently revised its estimated cost of incremental regulation from DGGS to $4.38/MWh.[10] This corrected regulation rate could be incorporated into a PPA as a temporary placeholder should the Commission find that both a LEO has occurred and that it is an accurate representation of the true cost to regulate Greycliff. However, such a PPA should make clear that the regulation cost will be the current regulation cost set by the Commission during the life of the PPA.

[8] Direct Testimony of Robert Stanton Walker, pp.4-5.
[9] MCC-015, Docket No. D2015.2.18.
[10] Updated MCC-015 Docket No. D2015.2.18.

IV. ANY COMMISSION FINDING OF A LEO SHOULD NOT GUARANTEE COST RECOVERY

Q. What concern do you have if the Commission finds that Greycliff has established a LEO with the Company?

A. If the Commission rules that a LEO has occurred, then the utility may later advance the argument that such a determination supports the recovery of all costs related to Greycliff. That is, it may become more difficult to challenge the recovery of any cost related to Greycliff that may have been imprudently incurred.

Q. Are there any reasons why a Commission determination of a LEO and subsequent cost recovery should be independent of one another?

Yes there are. First, as recognized in Commission questions during oral argument on summary judgment, the terms under which the Commission might find the existence of a LEO are relevant to later recovery of costs. Should the Commission find a LEO as a sanction against the utility for failing to negotiate with the QF, there should be a qualifying finding that the utility's actions cannot be found prudent and are not the basis for cost recovery of the contract price.

Secondly, the burden is always on the utility to justify its rates as just and reasonable. Any later request for cost recovery is not predetermined by the Commission's decision regarding whether a LEO exists, regardless of whether it is as a sanction or otherwise. Otherwise, this could result in a harmful precedent that QFs could use to circumvent the competitive solicitation process and good faith negotiations and instead opt to unilaterally serve utilities signed contracts with unapproved avoided cost numbers and use the Commission to establish that a LEO has occurred. Such an outcome would be punitive to the ratepayers for conduct of the QF and the utility.

Q. Do you have any final thoughts for the Commission?

A. Yes, just one. QFs were established under PURPA to give small merchant generators access to markets to sell their output during a time when organized wholesale markets didn't exist and utilities were biased towards owned generation and the returns it produced. Much has changed over the years, but one thing has not; PURPA requires that ratepayers, the ones who will inevitably foot the bill for QFs, be indifferent between the QF and other alternative sources of energy.[11] This is why rates for QFs need to be set equal to utility avoided cost. If utility avoided cost is overestimated and used to set rates for QFs, ratepayers will overpay for those resources, often for significant periods of time due to the long term lengths of QF contracts.

[11] Section 210(b) of PURPA (16 U.S.C. § 824a-3) requires rates be just and reasonable and in the public interest. Furthermore, it requires that QF rates not exceed the incremental cost of alternative energy.

Q. Does this complete your testimony?

A. Yes.