

October 21, 2016

## MEMORANDUM

TO: The Public Service Commission  
FROM: Will Rosquist  
SUBJECT: Additional issues - Docket D2016.5.39, NorthWestern QF-1 tariff update

### PURPOSE

This memo identifies issues related to implementing standard rates for small QFs that have not been addressed in prefiled testimony submitted by NorthWestern or intervening parties. This Commission should consider whether to formally identify these issues as Additional Issues pursuant to Procedural Order 7500a.

### BACKGROUND

In September 2015 the Commission initiated an inquiry into its implementation of the Public Utility Regulatory Policies Act (PURPA). *See* Docket N2015.9.74. The Commission sought input from interested parties on: (1) Methods for estimating avoided costs; (2) standard rate design, including technology-specific rates, contract length, levelization, performance-based rate adjustments, and standard contracts; (3) market price forecasting methods; (4) resource capacity values; and (5) requirements for creating legally enforceable obligations (LEOs).

In May 2016, in Docket D2016.5.39, NorthWestern filed an application to change the rates and terms of its Tariff Schedule QF-1. The Commission issued Procedural Order 7500a on September 2, 2016. The Procedural Order set October 26, 2016, as the deadline for the Commission to identify additional issues.

Based on its review of the prefiled testimony of NorthWestern and intervening parties in Docket D2016.5.39 regarding NorthWestern's update to Tariff Schedule QF-1, it appears that the parties are addressing several of PURPA implementation areas the Commission inquired about in N2015.9.74. For example, the parties have addressed methods for estimating avoided costs, market price forecasts, rate designs for various types of QFs, and resource capacity values.

### ANALYSIS

Based on a comparison of the items the Commission inquired about in Docket N2015.9.74 and the scope of prefiled testimony in Docket D2016.5.39, staff has identified several issues that have not been addressed by parties in Docket D2016.5.39. The Commission should consider asking the parties to address these issues through prefiled additional issues testimony.

1. Contract length – currently, NorthWestern's QF-1 tariff allows QFs to enter into fixed price contracts up to 25 years long. In Docket N2015.9.74, the Commission inquired into whether 25 year standard rate QF contracts impose undue forecast risk on customers and whether shorter contract lengths would enable viable QFs to obtain financing.

2. Annual updates of QF-1 rates – participants in the Commission’s June 1, 2016 roundtable in Docket N2015.9.74 discussed the pros and cons of annually updating standard rates between contested cases in order to update market price forecasts.
3. Performance standards – another issue the Commission raised in Docket N2015.9.74 was whether standard rates should include specific performance standards and mandatory rate adjustments for failure to meet the standards.
4. Levelization – the Commission also inquired whether to continue the current practice of setting standard rates based on estimated avoided costs levelized over the length of the contract.

#### STAFF RECOMMENDATION

Staff is sensitive to the Commission’s desire to complete this proceeding expeditiously. The procedural schedule in Order 7500a does not include dates for additional issues testimony by NorthWestern or intervenors. The process of injecting an additional issues procedure into an established schedule can sometimes lead to delays in the schedule. Of the four potential additional issue candidates listed above, staff recommends that the Commission request prefiled testimony on contract length, including knowledge by the parties of standard rate contract lengths offered in other states. Staff believes the discovery process may provide sufficient information regarding the viability/reasonableness of annual updates. Of the other two candidate issues, staff would prioritize performance standards over levelization.

In order to minimize the chance of procedural delays, staff suggests limiting the additional issues to contract length and performance standards.