

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

IN THE MATTER OF Inquiry by the)	REGULATORY DIVISION
Montana Public Service Commission into)	
Its Implementation of the Public Utility)	DOCKET NO. N2015.9.74
Regulatory Policies Act of 1978)	

The NW Energy Coalition (Coalition) respectfully submits the following comments in response to the Public Service Commission’s (Commission) request for comment regarding its Implementation of the Public Utility and Regulatory Policies Act of 1978.

1) Methods for estimating avoided costs

a) What methods are reasonable for the Commission to use to estimate NWEs long-term avoided costs and set rates for small and large QFs? Why are these methods preferred?

The Coalition believes that the market-resource modification to the proxy method, using a CCCT as the proxy resource, is reasonable in establishing avoided costs for NWE. This methodology is the simplest of the generally used methodologies and would provide consistency in calculating avoided costs going forward. Furthermore, due to its simplicity, developers can more easily get a sense of potential revenue during planning stages of development, which may come prior to the setting of biennial avoided costs, and more easily seek financing during that time. With regard to market prices, the Commission should be sure to include a range of market prices and include a risk analysis for future projections. This analysis should include regulatory risks, fuel cost risk and system diversity.

Alternatively, the “differential revenue requirements method” can also provide a more accurate avoided cost calculation. However, this methodology should only be used if truly using a “double run” of the computer model whereby QFs are included in one run, and excluded in a second run. The use of a single run computer model whereby a QF displaces the highest cost resource does not accurately reflect costs and benefits to the entire system and should be not be used. Furthermore, the Commission should ensure that any computer model based methodology is transparent and the utility must provide access to the model and underlying assumptions, free of charge, to appropriate stakeholders.

b) What methods should the Commission refrain from using to estimate NWE's long-term avoided costs and set rates for small and large QFs? Why should those methods be avoided?

As mentioned above, the Commission should avoid the “component/peaker” methodology due to its inability to capture impacts to the system as a whole. For example, the use of this methodology could result in the model displacing the highest cost resource at a time when this resource would be profitably sold into the market. So instead of calculating the benefits of being “in the money,” the model simply displaces this highest cost resource and replaces it with a QF. This leads to an avoided cost rate that is too low and could stifle QF development.

d) Is NWE's PowerSimm planning model suitable for applying differential revenue requirements and component/peaker methods? What, if any, concerns would you have with using PowerSimm to estimate avoided costs using these methods?

The Coalition cannot comment directly to PowerSimm’s capability in applying these methodologies. It is assumed, based on NWEs use of the model in acquiring the hydroelectric resources and in the development of the 2013 Resource Procurement Plan, that PowerSimm has the capability to be used in these computer-based methodologies. The concerns, rather, lie in transparency and cost with the use of any computer model method to estimate avoided costs. PowerSimm, and any other computer model, must not be a black box available only to the utility. Any computer model should be made available to the Commission and stakeholders, without cost, in order to replicate and/or challenge inputs and assumptions.

2) Standard Rates

a) Should the Commission set separate standard rates for small solar, hydroelectric, and/or other eligible generating technologies that reflect the specific generating characteristics of those technologies?

Yes, the Commission should use separate standard rates to encourage diversity in power production, providing more stability to NWE’s system and potentially reducing costs. For example, though there exists significant solar resource in much of central and eastern Montana, NWE currently does not have any solar QF contracts. The Commission should consider the unique attributes of solar in the setting of standard rates in order to encourage development of this resource.

b) What contract length is sufficient to enable a viable QF project to obtain financing?

At an absolute minimum, the Coalition believes that a contract length of 10-15 years would allow a QF project to obtain financing. While there is no exact answer, there is little to no financing available for contract lengths shorter than 10 years, especially considering the currently low natural gas prices and subsequent avoided cost rates.

c) Does a 25 year standard contract length impose undue forecast risk on consumers? If so, why?

At this current time, with natural gas and market prices remaining historically low, there exists little forecast risk for a 25 year standard contract for consumers. Indeed the opposite is more likely true. Current projections show natural gas prices remaining incredibly low for the foreseeable future. As a result, the likelihood of natural gas prices being lower than projected is small to none as there is little room for downward movement. However, projections are merely speculative and a sharp increase in natural gas prices could occur at any time. Therefore, QF projects risk higher prices in the future based on avoided costs that include higher energy costs if natural gas prices were to rise. For these reasons, the Commission should keep the 25 year standard contract length.

d) Comment on the reasonableness of shortening the maximum contract length in NWEs standard QF tariff schedules.

Considering there is little risk on consumers as stated above, it does not seem reasonable to shorten the maximum contract length of standard offer tariffs. Longer contract lengths lead to more easily financeable projects and provide stability in NWEs future resource procurement.

f) Should standard rates reflect avoided costs levelized for the length of the contract? Why or why not?

Levelized rates provide QF projects consistent revenue projections for the duration of the contract, making financing more attractive to investors. At the very least, the Commission should allow levelized and non-levelized rates, as is done in other states, including Idaho. Should the Commission chose to offer technology-specific rates, at the very least the offering of levelized rates for solar should be included in order to encourage development of this virtually untapped resource in Montana.

4. Resource capacity values

a) Is the current practice of setting standard rates for wind QFs based on an assumed five percent capacity value reasonable? If not, why?

Using a five percent capacity value for wind seems reasonable only as the minimum likely value as a placeholder until a true determination of the capacity value can be achieved. Capacity values range throughout the country, however, with the Electric Reliability Council of Texas (ERCOT) recently assigning a 14.2% capacity value for non-coastal wind. Montana's wind and solar resources have a unique profile, however, and the Commission should take on determining the capacity value of wind using one of various methods that exist. The Commission should also be sure to include factors such as drought and wind's contribution during low-snowpack years considering NWEs hydroelectric acquisition and the high possibility of lower energy production during drought/low-snowpack years (as is projected for winter 2015/2016).

b) Can the Commission set reasonable standard rates without calculating technology-specific capacity values using estimation methods such as effective load carrying capability or exceedance? If so, how? Are there reputable sources of estimates of average capacity values for various generating technologies that, although not specific to NWE's system, could be used for setting standard rates?

The Commission should calculate technology-specific capacity values in order to adequately measure wind and solar's contribution to peak in Montana. Technology-specific capacity values could encourage further development of solar QF projects, a largely untapped resource in Montana. Using generic capacity values in setting standard rates could lead to overpayment, and thus overproduction, of wind projects, and conversely underpayment, and thus underproduction, of solar energy projects.

The NW Energy Coalition appreciates the opportunity to comment.
Submitted this 23rd day of October, 2015.



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