

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)	

**NORTHWESTERN ENERGY’S RESPONSE COMMENTS IN THE MATTER OF THE
MONTANA PUBLIC SERVICE COMMISSION’S INVESTIGATION INTO ITS
IMPLEMENTATION OF THE PUBLIC UTILITY REGULATORY POLICIES ACT of
1978 (“PURPA”)**

Pursuant to the Montana Public Service Commission’s (“MPSC” or “Commission”) Notice of Inquiry and Opportunity to Comment dated September 24, 2015, NorthWestern Energy (“NorthWestern” or “NWE”) respectfully submits the following response comments.

I. Response to comments of the Montana Consumer Counsel

In its General Comments section, the Montana Consumer Counsel (“MCC”) reminds the Commission that PURPA has two main requirements, or “legs”. The first leg is that rates for purchases from qualifying facilities (“QFs”) must be just and reasonable to the electricity consumer and in the public interest. This leg is also known as the principle of “consumer indifference.” That is, the consumer must be indifferent to whether power is supplied by the utility or the QF. The second leg is that rates for purchases from QFs must not discriminate against qualifying cogenerators and qualifying small power producers. The MCC asserts that the first leg, consumer indifference, “is too rarely emphasized in discussions of avoided cost determination, when it ought to be foremost in the Commission’s consideration in conducting its inquiry in this proceeding.” NorthWestern agrees with the MCC.

In response to Issue 1, the MCC states that, “When models are not transparent, replicable and easily challenged, they are not reliable in terms of the output derived from them.” NorthWestern does not agree with this assertion. PowerSimm™ is a model that accounts for and resolves the complex interactions between supply portfolio variables including weather, load, resources, renewables, and the market. This is the analysis that must be performed in order to produce results that most correctly calculate avoided costs. The capabilities and complexities of the model do not make the model unreliable. Similarly, just as transparency and ease of use do not make a model reliable, lack of those attributes does not make a model unreliable. The results of PowerSimm™ modeling runs are repeatable and the results can be examined by the Commission and all interested parties, including the MCC, by studying the inputs to the model and analyzing the results for logical consistency.

The MCC first raises the issue of the level of consumer risk associated with QF contract length in its response to Issue 1 and expands upon that issue in response to several Commission questions. NorthWestern's initial comments also discuss consumer risk, but from a different perspective. Underlying both discussions is the demonstrated experience that market price forecasts have generally proven to be an unreliable predictor of market prices over the long run. While true, NorthWestern (and the energy industry in general) must have a basis to plan for the long term, and therefore, NorthWestern must rely upon long-run forecasts of wholesale market prices for electricity and natural gas for these planning purposes. NorthWestern uses a forecast methodology that is market-based, transparent, and easily updated. The same electricity and natural gas price forecast methodology is used by NorthWestern for the Electricity Supply Resource Procurement Plan, determining avoided costs, and for other business-related activities.

It is NorthWestern's experience that QF developers most actively seek QF contracts when high market price forecasts result in high avoided cost rates. Additionally, the administrative process of setting QF rates gives QF developers the ability to assess whether the Commission is likely to increase or decrease standard offer QF rates and allows them the opportunity to act accordingly. This means that QF-1 contracts are typically signed at higher costs – costs that can be above a current measure of NorthWestern's avoided cost. This is why NorthWestern has requested interim rate relief in its most recent avoided cost filings.

NorthWestern agrees with the MCC that if the Commission were to reduce QF contract lengths from 25 years to 5-7 years, it would mitigate a number of issues raised by the Commission in its inquiry.

In response to Issue 1 questions a and b, the MCC states that, "Limiting the availability of standard rates [to QF resources sized 3 MW or less] lowers costs and risks to consumers...." However, the MCC also states that, "there is relatively less harm in using a more generous avoided [cost] calculation methodology to set rates for smaller qualifying facilities" and also states that, "This approach may not produce an unimpeachably accurate calculation of true avoided cost, but limiting its application to small QFs causes relatively little economic harm to consumers." The MCC's logic is inconsistent; earlier it recommends that the Commission elevate consumer interests to a foremost position while conducting this inquiry, but these above-quoted statements indicate that it's acceptable to sacrifice that standard in the case of small QFs. Additionally, the cumulative effect of many small QFs can be as great as one or two large QFs. PURPA is clear on this issue; consumers must be held indifferent. The Commission should follow the MCC's primary recommendation to protect consumer interests and reject its secondary recommendation that "generous" avoided cost rates are acceptable in the case of small QFs.

In response to Issue 1 questions d and e, the MCC recommends that the Commission refrain from evaluating any specific production cost model in this proceeding and states that the appropriate venue for such an evaluation is a contested case proceeding. NorthWestern has stated its intention to use PowerSimm™ to estimate avoided costs in future standard offer QF-1 filings. NorthWestern agrees with the MCC that those contested case proceedings are the appropriate venue for evaluating PowerSimm™.

In response to Issue 2, the MCC states that, “Contract length should not be used to protect QFs or to make them viable.” NorthWestern agrees. The MCC also states that standard rates should not reflect the avoided costs levelized for the length of the contract. NorthWestern typically negotiates QF contracts in which the power purchase prices are levelized. Levelization of prices paid to QFs poses relatively low risk to consumers compared to other risk factors, such as market price forecasts. Finally, NorthWestern also agrees with the MCC when it states, “Generally, the material terms of QF purchase agreements should be negotiated on a case-by-case basis”

In its response to Issue 2 question a, the MCC states that, “Complicating the PURPA procurement process by attempting to differentiate between different types of generating technologies or environmental attributes appears unproductive, in light of Montana’s limited resource needs and areas of PURPA administration in Montana that have more immediate and pressing needs....” There are two ways NorthWestern can interpret this statement.

The first interpretation is that “Montana’s limited resource needs” means that NorthWestern’s purchase of the PPLM Hydro assets has placed NorthWestern in the position of not needing capacity; therefore any future estimates of avoided cost made by NorthWestern should not include a capacity value regardless of QF resource type. Using this interpretation, NorthWestern points out that the MCC’s conclusion relies on NorthWestern’s 2013 Electricity Supply Resource Procurement Plan and its last QF-1 filing. NorthWestern is currently in the process of preparing its 2015 Plan and notes that the MCC’s assumption may not hold true for that Plan. Regardless of the MCC’s assumptions, however, a solar PV or wind QF should not receive an avoided capacity component equivalent to a hydro QF or a non-intermittent QF with a higher capacity contribution. This issue points back to the concept of consumer indifference that the MCC emphasizes in its initial remarks. QFs should be paid a rate which leaves consumers indifferent as to the source of generation. The standard offer should not over-compensate or under-compensate a QF resource for capacity.

The second interpretation is that this issue is made moot by the MCC’s later recommendation in response to Issue 4 question c that the Commission “adopt the Texas solution of limiting variable energy resources to as-available payments.”

In response to Issue 2 questions b, c, d, and e, the MCC states that, “A 25-year standard contract duration imposes unjustifiable financial burdens on consumers in most cases....” NorthWestern agrees with this statement because a 25-year QF contract is likely to be entered into when forecasts of future energy prices are relatively high. For additional information, see NorthWestern’s original response to Issue 2 question c.

II. Response to comments of LEO Wind, LLC and Hydrodynamics

In response to Issue 1 question b, LEO Wind, LLC and Hydrodynamics (“LEO/Hydro”) recognize that much can be ascertained about a model as long as the inputs and results are made available to interested parties. This recognition by LEO/Hydro helps validate assertions NorthWestern made above in its response comments to the MCC.

In response to Issue 2 question c, LEO/Hydro states that, “There is always risk associated with any long-term contract, whether it is a utility owned asset or a power purchase agreement.” LEO/Hydro asserts that there is an asymmetric risk because the utility can always go back and ask the Commission for more money, while the QF cannot. Recent Commission decisions regarding Spion Kop and the Dave Gates Generating Station that imposed conditions on NorthWestern, although opposed by NorthWestern, are specific examples of why this argument is not true. Additionally, unlike NorthWestern, a QF is under no obligation to provide resources for NorthWestern’s customers, let alone provide resources at cost of service.

In response to Issue 2 question h, LEO/Hydro states that performance standards and automatic rate adjustments “would be unlawful and an interference with FERC’s prerogatives....” NorthWestern currently has active QF contracts with both performance standards (and penalties) and automatic adjustments (e.g., QFLT-1 contracts).

In response to Issue 3 question d, LEO/Hydro states that in regard to CO₂ costs, “NWE has taken the position, and the Commission has agreed, that CO₂ costs were too uncertain to be fairly calculated in avoided cost rates and thus ratepayers should not have to pay for avoided CO₂ costs in light of this uncertainty.” LEO/Hydro has mischaracterized NorthWestern’s position. Carbon costs are uncertain but can, and have, been modeled. NorthWestern’s most recent resource acquisitions, including the Hydros, incorporate CO₂ costs. NorthWestern has also calculated avoided costs for larger than standard offer QFs that have included CO₂ costs and has given those QFs the option of selecting a rate that either: 1) excludes CO₂ costs and does not transfer environmental attributes to NorthWestern, or 2) includes CO₂ costs and transfers all environmental benefits (including RECs) to NorthWestern. NorthWestern will address this issue in its next QF-1 Tariff filing and will propose that CO₂ costs be included conditioned on the transfer of all environmental benefits (including RECs) to NorthWestern.

In response to Issue 3 question e, LEO/Hydro states that it believes that, “renewable energy credits (“RECs”) account for different renewable attributes than avoided carbon costs.” The

Commission has not found similar arguments on this issue persuasive in prior avoided cost proceedings (most notably Docket No. D2012.1.3, Order No. 7199d, paragraphs 42-44), and it should reject the arguments of LEO/Hydro on this point.

III. Response to comments of WINData, LLC and Crazy Mountain Wind, LLC

In response to Issue 1 question c, WINData, LLC and Crazy Mountain Wind, LLC (“WIND/CrazyMtn”) state, “The methods used to evaluate QFs should not provide lower values than the methods that were used to evaluate and acquire the PPLM hydroelectric projects (“Hydros”).” First, it is inconceivable that a 439-MW resource could be added to NorthWestern’s resource portfolio without affecting the calculation of avoided costs. Second, as LEO/Hydro acknowledges (in response to Issue 1 question c), the Hydros are no longer avoidable and do not represent NorthWestern’s avoided cost. Third, hydroelectric projects have different attributes than wind projects, including predictability and dispatchability. Finally, the Commission has already spoken to the issue of carbon risk in prior orders and, therefore, should reject WIND/CrazyMtn’s arguments on this issue.

In response to Issue 2 question a, WIND/CrazyMtn recommends that the Commission analyze whether the blended market-CCCT method, used to estimate NorthWestern’s avoided costs in prior avoided cost proceedings, results in a “double discount” to the wind capacity value. NorthWestern has moved away from the blended market-CCCT method and now uses PowerSimmTM to calculate avoided costs using the differential revenue requirements method. If the blended market-CCCT method is proposed in any future avoided cost proceeding, then WIND/CrazyMtn’s assertion of the “double discount” to wind should be examined in the context of that proceeding.

In response to Issue 2 question i, WIND/CrazyMtn claims that NorthWestern includes illegal economic curtailment provisions in its contracts. In the past, several QF contracts contained limited “at will” curtailment provisions to which the contracting parties agreed. More recent and current contracts do not contain limited “at will” curtailment provisions. NorthWestern’s current contracts do contain legal PURPA curtailment provisions that reflect the Commission’s administrative rule regarding curtailment.

CERTIFICATE OF SERVICE

I hereby certify that the original and 10 copies of NorthWestern Energy's Response Comments in the Matter of the Montana Public Service Commission's Investigation into its Implementation of the Public Utility Regulatory Policies Act of 1978 ("PURPA") in Docket No. N2015.9.74 have been hand delivered to the Montana Public Service Commission with three copies to the Montana Consumer Counsel this date. It has also been e-filed on the PSC website.

Date: November 6, 2015



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