Montana Public Service Commission

Myth vs. Fact

Setting the record straight on the PSC's solar contract decision

Background: On June 22, 2017 The Montana Public Service Commission voted to reduce the standard rate and contract length available to small renewable energy projects up to 3 Megawatts in size known as Qualifying Facilities (QFs). The Commission initially reduced the contract term from 25-years to a maximum of 10 years, voting to apply the same standards to the monopoly utility as well as independent developers. On reconsideration, the Commission voted to extend the contract term to 15-years, while retaining symmetrical treatment for utility owned resources

Standard rates and contract terms for Qualifying Solar Facilities up to 3 megawatts:

Old Rate est. August 2013	$66 per Megawatt/Hour	25-year contract term
New Rate est. October 2017	$31 per Megawatt Hour	15-year contract term

Myth: The PSC's shorter energy contracts are an attempt to kill renewable development in Montana.

> **Fact:** Shorter contracts protect both ratepayers and QF developers by ensuring that rates reflect the actual cost of generating electricity. Fixed price, long term contracts require the commission to calculate a rate based in part on assumptions about what the cost of electricity and natural gas will be in the future. The longer the contract, the less accurate these predictions become and the greater the likelihood that consumers will wind up paying QFs a rate that is different than the actual cost of alternative power. This is the exact point that the state consumer advocate, the Montana Consumer Counsel, made when it testified that the old 25-year contracts were "excessively risky for ratepayers."[1] The MCC argued that basing rates that

[1] Add'l Issues Test. Jaime Stamatson at 4:12, Dkt. D2016.5.39 (Nov. 9, 2016), available online at: http://psc.mt.gov/Docs/ElectronicDocuments/pdfFiles/D2016-5-39IN16110945293TE.PDF (accessed November 30, 2017).

customers pay for electricity on 25-year price forecasts shifts all of the risk to consumers and not investors in power projects. This risk applies equally to QFs, as well as long-term resources owned by NorthWestern Energy, which is why the PSC's order applies to both.

Myth: 15-year contracts are too short to allow developers to build renewable energy projects.

Fact: 15-year contracts protect ratepayers while giving developers the certainty that they need to finance energy projects. The 15-year contract term was supported by expert witnesses sponsored Vote Solar-Montana Environmental Information Center. Asked whether he had an opinion on the appropriate contract term to attract reasonable financing Vote Solar- Montana Environmental Information Center witness Thomas Beech said "development of renewable QFs has only occurred when states have provided access to long-term contracts with terms of 15-30 years."[2] Developers are also guaranteed a customer for their power at the end of the 15-year term because federal law requires NorthWestern Energy to renegotiate a new contract with the QF at an updated rate.

Myth: 15-year contracts unfairly discriminate against wind and solar producers.

Fact: The PSC is committed to creating a level playing field that allows the monopoly utility and independent power producers to compete for the right to serve customers. The PSC's order applies equally to QFs, as well as the utility, by imposing a 15-year cost-effectiveness test on all future resource acquisitions by the utility.[3]

Myth: 15-year contracts hurt consumers by exposing them to higher prices.

Fact: It's true that long-term contracts and supply arrangements insulate regulated customers from price volatility, however there is no evidence that long-term contracts guarantee lower rates. NorthWestern Energy customers today pay nearly three times the market price for electricity in part due to long-term QF contracts, as well as resource acquisitions by the utility such as Colstrip and the Hydros that are baked into customer rates. [See Attachment A.]

Myth: As a result of the PSC's order, Montana now has the most unfavorable renewable energy incentives in the region.

Fact: Many other states are taking steps to protect consumers from the risk associated with excessively long QF contracts. Notably, North Carolina, a state that is experiencing substantial

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[2] Add'l Issues Test. Thomas Beech on behalf of Vote Solar- MEIC at 3:3, Dkt. D2016.5.39 (Nov. 9 2016), available online at: http://www.psc.mt.gov/Docs/ElectronicDocuments/pdfFiles/D2016-5-39IN16110955998TE.PDF (accessed November30, 2017).

[3] *In the Matter of NorthWestern Energy's Application for Interim and Final Approval of Revised Tariff No. QF-1, Qualifying Facility Power Purchase*, Dkt. D2016.5.39, Order 7500d (Oct. 5, 2017), available online at: http://www.psc.mt.gov/Docs/ElectronicDocuments/pdfFiles/D2016539ReconOrder7500d.pdf (accessed November 30, 2017)

solar development and that operates under a similar statutory framework to Montana, recently reduced contract lengths for QFs to a maximum of 15-years.[4]

Myth: The PSC discriminated against solar producers by setting an artificially low rate.

Fact: The low rates established by the PSC for QFs reflect a market for electricity that is oversupplied in the west, as well as low natural gas prices from new production techniques, i.e., hydraulic fracturing. The PSC is obligated under the Public Utilities Regulatory Policy Act (PURPA) to ensure that consumers pay no more for power from independent producers than they would otherwise pay for power generated by the utility or purchased on the open market. The West is awash in low cost electricity and that trend is expected to continue. In some instances, power from wind and solar are so plentiful that states are actually experiencing negative energy prices during certain periods of the day. In this environment of extreme oversupply and corresponding low electricity prices, it simply might not be economical to build any energy project whether wind, solar, or gas.

Myth: The PSC did not give renewable QFs credit for their environmental attributes.

Fact: The PSC's order allows QFs to negotiate separately for the sale or transfer of Renewable Energy Credits (RECS). The PSC did not, however, include a carbon price adder in the rates customers pay for electricity from QFs. Following news of the EPA's decision to scrap the Clean Power Plan, carbon regulations and a corresponding price on emissions is more unlikely now than ever. It does not serve ratepayers to charge them for costs that do not currently exist and may never exist in the future.

Myth: The PSC's 15-year limit will prevent NorthWestern Energy from building power plants to serve customers or dramatically raise the costs of those plants.

Fact: NorthWestern shareholders earn a return by buying and building power plants. The PSC's 15-year limit ensures that shareholders share some of the risk associated with this activity. If NorthWestern can prove that a power plant will provide a clear benefit to consumers over a 15-year period, then it may be permitted to recover the costs of constructing a new plant from ratepayers. However, if it's not clear that a plant will provide a clear benefit to ratepayers in the next 15-years, then the company's shareholders should bear some of the risk associated with this investment.

[4] *In the Matter of Biennial Determination of Avoided Cost Rates for Electric Utility purchases from Qualifying Facilities – 2014, Order Setting Avoided Cost Input Parameters*, 20 (North Carolina Pub. Utilities Comm'n, Dec. 31, 2014)

Myth: The PSC's actions are hurting NorthWestern's stock price.

Fact: NorthWestern's financial performance is sound. The company's stock has doubled in value over the last 6-years and it remains near record levels. There is no evidence that the PSC's recent orders have impaired the actual performance of NorthWestern's stock. Furthermore, a utility's stock price is not a good barometer for regulatory effectiveness. For example, NorthWestern's stock may rise on news that poor management decisions have been passed on to customers, but this does not mean that it would be the right decision. The Commission is charged with striking a balance between the interests of shareholders and those of the ratepayer.

Myth: A 15-year contract will harm ratepayers by leaving them dependent on a volatile market for electricity.

Fact: NorthWestern joined the state ratepayer advocate, The Montana Consumer Counsel in advocating for shorter renewable energy contracts. In testimony before the Commission, NorthWestern witness Bleau LaFave argued that long-term, 25-year QF contracts impose undue risk on customers, advocating for a shorter term of 10 years.[5] The same risks associated with excessively long renewable energy contracts also apply to generation owned by the utility. NorthWestern knows this, however, now that the 15-year limit is being applied to their own resources, they are reversing their position by arguing that shorter contracts will expose customers to price volatility.

Myth: The PSC is pursuing deregulation, a policy that left Montana in ruins in the 1990s

Fact: This characterization is patently false. Deregulation is a policy in which utilities are prohibited from building or owning power plants, and consumers have freedom of choice in selecting a competitive electricity supplier. This situation is radically different than the one NorthWestern finds itself in today. Today, NorthWestern, owns enough generation to serve 68 percent of its load. It also has a captive set of customers from which it is legally permitted to recover prudently incurred costs. Nothing in the PSC's order prevents NorthWestern from owning power plants, rather it suggests that NorthWestern exercise caution in determining how to supply the remaining one-third of customers' needs. Much like an individual's stock portfolio, a utility's portfolio of energy supply resources should have a mix of shorter and longer arrangements, as well as a diverse mix of fuels. NorthWestern, meanwhile, appears to be arguing that it should supply customers' needs exclusively through long-term arrangements by owning and building power plants, for which its shareholders earn a return.

[5] Add'l Issues Test. Bleau LaFave at 3:18, Dkt. D2016.5.39 (Nov. 9, 2016), available online at: http://psc.mt.gov/Docs/ElectronicDocuments/pdfFiles/D2016-5-39IN16110948801TE.PDF (accessed November 30, 2017).

To view the Commission's full order on reconsideration, visit:
http://www.psc.mt.gov/Docs/ElectronicDocuments/pdfFiles/D2016539ReconOrder7500d.pdf

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Disclaimer: This document is a communication from PSC Chairman Brad Johnson and Vice-Chairman Travis Kavulla. PSC staff contributed objective information to this report.

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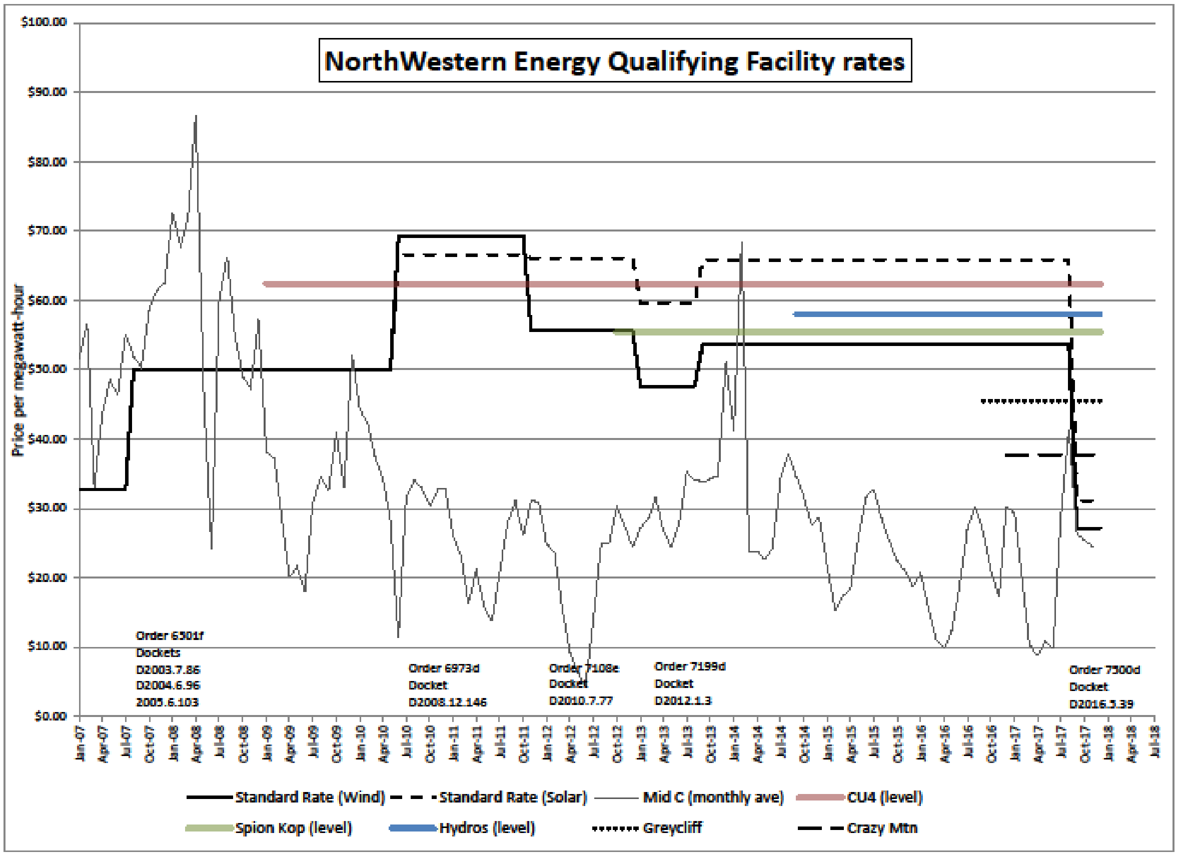
Attachment A



**Price/ cost information for utility owned resources (CU4, Spion Kop, Hydros) are based on levelized revenue requirements over the life of the resource at the time of Commission preapproval. The lines do not reflect actual costs since preapproval.*

**Standard rates for wind and solar reflect actual tariffed rates in Schedule QF-1. The rates for wind and hydro are the same until Order 6973d (April 2010), which is when the Commission established a separate rate for wind resources. The rates shown in the chart reflect the average rate based on typical energy production from wind and hydro resources. Wind rates are net of wind integration costs.*