

ADDITIONAL COMMENTS
COMMISSIONER ROGER KOOPMAN
Docket 2018.02.012

Respectfully, there are two areas of this Order where I have found myself in fundamental disagreement with my commission colleagues. To complete the historical record on this docket, a brief explanation of my contrary views and concerns is appropriate.

Regarding the proposed Fixed Cost Recovery Mechanism (commonly known as decoupling) approved by the commission on a four-year pilot basis, I would posit that commissioners simply did not give this issue serious enough thought and deliberation before the vote. With no other discussion than my own remarks, a ground-breaking decision was passed, 3 to 1.

In my judgment, the regulatory concept of decoupling is seriously flawed in at least two ways. First, it supports the public policy objective of less energy generation and less energy consumption, by compensating a utility – in this case, NorthWestern Energy – in a manner that disconnects the marketed product (electricity) from the volume of product sold. In simple, free market economic terms, rewarding a company for producing and selling less of its product is both counter-intuitive and irrational. Moreover, assigning a positive public interest value to the consumption of less energy is both controversial and highly questionable. This commissioner recognizes that while energy efficiency is a cost-saving benefit to the public, and environmental stewardship is an important public objective, the net decrease in per capita energy consumption and sales is not an inherent positive. Energy usage has a direct correlation to longevity, public prosperity and the general improvement of the human condition. Decoupling creates the incentive for utilities and utilities' customers to move in the exact opposite direction. As the PSC staff memorandum acknowledged, even while generally supporting the FCRM:

“Staff agrees with HRC/NRDC that decoupling may allow NorthWestern to move beyond a business model based purely on kWh sales to one that provides services to address customer needs (services that include energy efficiency, demand response, and distributed generation.”

Secondly, decoupling points future utility regulatory policy in a direction that tends to negate recent initiatives by this and other commissions to put market-based incentives in place, that reward utility monopolies for practices that mimic responses by competitive business to the dynamics of a competitive marketplace. The Montana Consumer Counsel was correct when it voiced concerns over FCRM's net effect of shifting risk from the utility to the ratepayer, not only by normalizing weather impacts, but by otherwise guaranteeing NorthWestern a certain amount of revenues in a given year, regardless of cost control breakdowns or other inefficiencies. This is accomplished through a risk-reducing decoupling surcharge that

effectively blunts the impact of poor cost management and other economic factors normally borne by the utility, not the consumer.

Put simply, decoupling makes monopolies like NorthWestern Energy look more like a monopolies and less like a competitive businesses. Embracing this mechanism was a major mistake on the part of the Montana commission.

One reasonable way of adjusting for some of the risk-shifting inherent in the decoupling mechanism was to acknowledge that the reduced utility risk would inevitably result in a reduced cost of debt. A logical way of addressing this would be through a modest adjustment to NWE's ROE, to be reviewed and adjusted annually. The MCC proposed a 25 basis point reduction. This commissioner lowered that to a 15 basis point adjustment, but could get no support for this consumer protection amendment from any participating commissioners.

The other disappointing commission decision involved how to address the many questions and concerns being voiced by Montana citizens over Colstrip Unit 4. NorthWestern's purchase of 30 percent of CU4, approved by the commission in 2008 was, in hindsight, one of the worst, most anti-ratepayer actions ever conceived by the PSC – resulting in an inflated cost of debt, an inflated rate of return, and a fixed rate base roughly two-and-one-half times what NW actually paid for their interest in the plant. Attitudes and opinions about coal-fired generation aside, there are major questions looming in the plant's future -- along with the likely astronomical costs of decommissioning and environmental remediation when the facility closes in approximately seven years, and the generational inequities attached to ratepayers footing the bill for an asset that doesn't fully depreciate until 2043, yet likely quits providing them any energy in 2027.

It was proposed that the commission begin studying these issues in an official way, through an investigative docket that engaged in intensive research, reporting requirements and a robust process of public input. The argument was made that such action was premature, given the insufficiency of hard facts on the record regarding actual retirement dates, remediation costs, financing mechanisms and other factors.

Common sense dictates that where there is a deficiency of information, a process should commence to secure that information. It's fairly obvious that the commission will not be in a position to take action on any of these CU4-related issues any time soon. But I fail to see the benefit of putting off the fact-finding process, and thus further delaying the commission's ability to address these important issues in an informed manner. Unfortunately, I was the lone commissioner who wanted to proceed with an investigative docket. I truly believe we will come to regret that hasty and short-sighted decision.

SUBMITTED BY ROGER KOOPMAN

COMMISSIONER, PSC DISTRICT 3