

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

In the matter of the amendment of ) REGULATORY DIVISION  
ARM 38.5.1902 pertaining to )  
qualifying facilities ) MAR Notice No. 38-5-214

**COMMENTS OF EXERGY DEVELOPMENT GROUP, LLC**

These comments are provided on behalf of Exergy Development Group, LLC (Exergy). If the Commission develops a service list for this proceeding, the following should be included on the service list:

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Exergy Development Group developed the 9MW Horseshoe Bend wind farm right outside of Great Falls, which has been employing people and adding to the tax base of Cascade County since it went into operation in 2006. This project has been good for the community. The high profile siting of the wind turbines on the Great Falls skyline has increased awareness of the potential to harness the great wind power resource in Cascade County.

When Horseshoe Bend was developed, the Standard Offer maximum capacity in Montana was 3MW. Luckily for the project, Exergy and the project owners were able to obtain a larger QF standard offer contract with an Idaho utility. The proposed new cap on QF standard offer contracts in Montana effectively precludes the building of more projects like Horseshoe Bend and the benefits they bring to communities.

On the basis our company's extensive experience and success, there are several factors at issue with this new proposed rule that will slow or stop small-scale renewable energy generators

because of an inability to secure development financing. Project development financiers require a reasonable degree of confidence that a project can be successfully brought into operation and once in operation to be at a commercially fundable economy of scale. This new rule threatens the future of small generators in two important ways:

1. Economy of scale - *the transaction costs associated with developing a modern community or small scale renewable energy project are high; without a reasonable project size over which to spread the fixed costs, a project is not economically viable, and*
2. Reasonable confidence that the power can be sold at a reasonable price.

One of the goals of PURPA is to ensure fairness for small electricity generators, as well as protect the public interest. The law's purpose is to grant small electrical generators access to transmission and the electricity market when they can sell their power at the avoided cost rate, the rate that would be paid for equivalent energy from any other resource. This creates competition, which is efficient for the marketplace and good for the ratepayer.

The Montana Public Service Commission ruled in 2007 that projects less than 10MW would qualify to use a published avoided cost rate. This ruling allowed projects to reach a viable economy of scale and gave them certainty of access to the market for the power they produced. While the process for determining the published cost rate can be time-consuming, difficult and imperfect, it provides the certainty that is needed to bring small and community scale projects to fruition.

Rescinding access to an established process for obtaining a purchase agreement with utilities without laying out specifics of the process to replace it and allowing for that system to be evaluated and well understood by all interested parties, small and community scale projects will struggle to secure project development financing. The proposed rule change does not address a process for negotiating Power Purchase Agreements that would replace the process currently afforded through the Standard Offer for projects between 2MW and 10MW.

Concerns have been raised about the difficulty of integrating more wind into the grid while retaining performance requirements. The recent Genivar study demonstrated that projects 10MW and under, distributed over a large geographic area, will have negligible impact on NWE's regulation needs. Indeed it would take a large number of these projects to materially impact the system.

The previous decision of the commission to eliminate the Option 3 cost rate has already added a degree of uncertainty in obtaining reasonable integration costs for small community scale projects. A large number of under 10MW wind projects are not going to materialize in the near future that would raise concern about the integrity of the grid.

**Recommendation**

The Commission should **NOT** adopt the proposed rule at this time for the reasons previously discussed.