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

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IN THE MATTER OF NorthWestern Energy's Application for Interim and Final Approval of Revised Tariff No. QF-1, Qualifying Facility Power Purchase	))))	REGULATORY DIVISION DOCKET NO. D2016.5.39

Additional Issues Testimony
of
Jaime T. Stamatson
on Behalf
of
The Montana Consumer Counsel

November 9, 2016

Q. Please state your name and business address.

A. Jaime T. Stamatson, Montana Consumer Counsel ("MCC"), 111 North Last Chance Gulch, Suite 1B, Helena, MT 59620-1703.

Q. Are you the same Jaime Stamatson that submitted Direct Testimony in this Docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to the Notice of Additional Issues in this Docket. Specifically, the Montana Public Service Commission ("Commission") identified the following additional issues:

1. Maximum contract length. Currently, NorthWestern's Schedule QF-1 provides for contracts up to 25 years.
    a. Does the current 25-year maximum contract length in Schedule QF-1 impose undue forecast risk on consumers? If so, why?
    b. Would a maximum contract length shorter than 25 years be reasonable? If so, what would be a reasonable alternative maximum length and why?
    c. Would it be reasonable to limit the time period in a long-term contract during which fixed rates would be paid, with market index-based payments thereafter? If so, why or why not?

d. What maximum contract lengths are available in other states?

2. Performance standards. Should Schedule QF-1 contain specific performance standards which, if exceeded or not satisfied, would result in specific rate adjustments? If so, please describe any proposed performance standards, why such standards are reasonable, and what specific rate adjustments would be warranted in the event that a QF exceeds or does not satisfy the standards.

I will address each one of these issues.

1. Maximum Contract Length

Q. Does the current 25-year maximum contract length in Schedule QF-1 impose undue forecast risk to consumers?

A. Yes, it does. The current 25-year maximum contract length locks consumers into paying rates based in part on forecasts of fuel and energy prices made when the tariff originally went into effect over the entire 25-year life of the contract. A forecast is supposed to be a current best guess at what the future will be. Long-run commodity prices are driven by market fundamentals, which cannot be adequately captured using a forecast that is just 5-years old, much less one that is 10, 15, or more than 20 years old. The current best practice for forecasting commodity prices is to use forward strip prices up to the point there is no longer sufficient liquidity in the forward market to support the veracity of the particular forward strip prices.

At that point an inflationary escalation factor is used to project further out to the future. The prices reflected in the forward strip have legitimacy because market participants have made actual transactions based on the best information available at the time. The prices derived by using an escalation factor past the point where the forward strip loses liquidity merely escalate the last data point based on actual market transactions by whatever inflationary expectations are at the time of the original forecast. This is essentially basing a forecast on another forecast, compounding the forecast error which increases the likelihood the forecasted values will not materialize the longer the forecast goes out in time. Forecast risk is simply the risk that a forecasted value will not materialize and this risk increases with the length of a forecast. Basing rates that consumers will ultimately pay 25 years in the future on a forecast that will be stale for most of a contract's life is excessively risky.

Q. Would a maximum contract length shorter than 25 years be reasonable? If so, what would be a reasonable alternative maximum contract length and why?

A. Yes, a maximum contract length less than 25 years would be reasonable. Shortening the maximum contract length would decrease the amount of forecast risk that consumers are exposed to. Simultaneously, it would also decrease the amount of forecast risk that QFs are exposed to. Forecast risk

can be detrimental to both consumers and QFs. PURPA rates are supposed to reflect utility avoided cost, provide QFs an opportunity to sell their output at utility avoided cost, and make consumers economically indifferent between sources of supply, all at the same time. The longer the contract length, the greater the probability the rates will deviate from utility avoided cost and thus not be just and reasonable.

The MCC has consistently advocated for shortening the maximum contract length offered in standard rates.[1] Consistent with previous filings, I suggest a maximum contract length of 5 to 7 years, with rates recalculated at least every 3 years.

Q. Would it be reasonable to limit the time period in a long-term contract during which fixed rates would be paid, with market index-based payments thereafter?

A. Depending on the methodology used to calculate avoided cost, it may or may not be reasonable. If avoided cost is calculated according to NorthWestern's current Schedule QF-1 tariff that uses the blended market-combined cycle methodology, then I believe market index-based payments would be more reasonable than the current practice of using a fixed 25-year price forecast resulting in a fixed 25-year avoided energy cost rate. This would reduce some of the forecast risk to both consumers and QFs.

[1] Comments and Additional Comments in Docket No. N2015.9.74, Additional Issues Testimony in Docket No. D2015.7.59.

If avoided cost is calculated using a production cost model in a manner that is similar to NorthWestern's proposal in this Docket, then it most likely would not be reasonable as it is too complex of an exercise to link NorthWestern's avoided cost to market indexes. It would make more sense to periodically re-run the model with updated price forecasts to calculate updated avoided costs rather than mechanically applying an escalation factor.

Q. What maximum contract lengths are available in other states?

A. Due to the exemptions involving access to competitive markets, new QF contracts largely occur in areas that lie outside organized wholesale markets. Today, the bulk of QF activities are in areas of the Western and Southeastern United States that lie outside RTO/ISO footprints. Here are some examples of QF contract lengths used by other states.

Idaho

Idaho has a maximum contract length of 20 years for wind and solar QFs less than 100 kW and non-intermittent QFs under 10 MW. QFs with nameplate capacities greater than these amounts have contracts limited to a term of 2 years.[2]

[2] Idaho PUC Press Release, August 19, 2015.

Wyoming

Wyoming has a maximum contract length for PPAs ("Purchase Power Agreements") with QFs of 20 years. The Wyoming Public Service Commission rejected[3] an application by Rocky Mountain Power to reduce maximum contract lengths from 20 years to 3 years, which the utility claimed would have been consistent with its hedging and trading practices for non-PURPA energy contracts and aligned with its Integrated Resource Planning ("IRP") cycle.[4]

Washington

Washington generally limits contract lengths to 20 years.[5] However, its three regulated utilities all have standard offer contracts with varying contract lengths.

Avista offers QFs fixed Standard Power Rates for a term of 1 to 5 years.[6] Puget Sound Energy requires QFs to enter contracts with the utility for a minimum of 5 years and offers 16 years of fixed energy rates in its tariff.[7] Pacific Power and Light offers 5 years of fixed avoided cost rates. These rates are recalculated every year and applicable to any seller that enters into a PPA with the utility that year.[8]

[3] Order No. 23451, Docket No. 20000-481-EA-15
[4] Notice of Application, Docket No. 20000-481-EA-15.
[5] WAC 480-107-075
[6] Avista Schedule 62.
[7] Puget Sound Energy Schedule 91.
[8] Pacific Power and Light Company, Schedule 37.

Oregon

Oregon provides QFs standard offer contracts for a period of 20 years. Over these 20 years, the first 15 are at a fixed rate, with the remaining 5 years indexed.[9] The type of indexing used after the first 15 years differs by utility. Pacific Power pays monthly On-Peak/Off-Peak prices based on a blending of the ICE Day Ahead Power Price Report at market hubs.[10] Portland General Electric pays prices equal to the Mid-C Index price.[11] Idaho Power requires QFs to choose either its Dead Band Method or its Gas Market method. Both methods utilize an indexed fuel cost that is a weighted average monthly average index price of natural gas at Sumas Hub multiplied by the Heat Rate Conversion Factor in its tariff.[12]

Utah

Utah offers QFs a maximum contract length of 15 years. This is down from the previous maximum length of 20 years, but greater than the 3-year maximum requested by Rocky Mountain Power.[13]

North Carolina

North Carolina offers QFs the option of long-term levelized energy and capacity payments for 5, 10, or 15-year periods under standard offer tariffs. QFs that choose to enter into 10 or 15-year contracts may have their

[9] Order No. 05-584, Docket No. UM 1129.
[10] Pacific Power Oregon Standard Avoided Cost Rate, pp.4.
[11] Portland General Electric Schedule 201, pp. 5.
[12] Idaho Power Schedule 85, pp. 9-10.
[13] Order in Docket No. 15-035-53.

contracts renewed for subsequent terms at the option of the utility on substantially the same terms and conditions at a rate either mutually agreed upon by the parties negotiating in good faith and taking into consideration the utility's then avoided cost rates and other relevant factors, or at a rate set by arbitration.[14]

2. Performance Standards

Q. Should Schedule QF-1 contain specific performance standards which, if exceeded or not satisfied, would result in specific rate adjustments?

A. No, I do not believe such standards are necessary. Due to the way QFs are paid, they are already incentivized to perform. QFs are similar to any other source of supply that NorthWestern contracts with to purchase energy via a PPA. They are paid utility avoided cost multiplied by their volumetric output. They are paid for whatever they produce and if they do not produce they are not paid. They are not added to the Company's supply portfolio through least-cost resource planning. Therefore, it is essential that utility avoided cost be calculated as accurately as possible.

Q. Does this complete your testimony?

A. Yes.

[14] Order Establishing Standard Rates and Contract Terms for Qualifying Facilities, Docket No. E-100, Sub 140, pp.6.