

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

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

**PREHEARING MEMORANDUM OF
VOTE SOLAR AND MONTANA ENVIRONMENTAL INFORMATION CENTER**

In accordance with Order No. 7500a, the Procedural Order in this docket, Intervenors Vote Solar and Montana Environmental Information Center (collectively, "Vote Solar") submit this prehearing memorandum.

I. INTRODUCTION

In this docket, NorthWestern Energy ("NWE") seeks to dramatically reduce the rates it pays to qualifying facilities ("QFs") with a capacity of three megawatts ("MW") or less, including a reduction of approximately 50 percent for solar QF generation. NWE's proposed reduction is unreasonable, discriminatory, and unsupported by the evidence. If this Commission were to accept NWE's flawed proposal, it would effectively block market access by solar QFs that would otherwise assist NWE in meeting its substantial energy and capacity deficits.

Under the Public Utilities Regulatory Policy Act of 1978 ("PURPA") and Montana law, NWE is obligated to pay QFs rates that reflect NWE's full avoided costs; are just, reasonable, and in the public interest; and do not discriminate against QFs. 18 C.F.R. § 292.304(a)(1). These

criteria were designed to achieve rates that “make ratepayers indifferent as to whether the utility used more traditional sources of power or the newly encouraged alternatives” under PURPA.

Southern Cal. Edison, San Diego Gas & Elec., 71 FERC ¶ 61,269, at 62,080 (1995).

As the evidence and testimony show, NWE’s proposed methodologies and assumptions for calculating solar QF rates are deeply flawed, yielding proposed rates that fail to meet these standards. While NWE proposes to change the methodology and most of the assumptions underlying its calculation of avoided costs, all of these changes conveniently (for NWE) drive QF-1 standard rates in a single direction—down. Not only are these changes unjustified, they improperly treat QF resources in a fundamentally different manner than NWE treats its own resources, thereby discriminating against QFs.

First, NWE proposes to abandon the “blended market” methodology for determining avoided costs upon which the Commission has consistently relied in establishing the QF-1 Tariff rate. This methodology assumes that the QF allows the utility to delay its next planned generating unit, and estimates avoided costs based on the projected capacity and energy costs of that next planned unit. In the place of this accepted and straight-forward methodology, NWE proposes a new “peaker” method based on: 1) power cost modeling to establish the avoided cost of energy; and 2) an “exceedance” methodology to establish the avoided cost of capacity, giving QFs capacity credit only for the output that they can exceed in 85% of the top 10% on-peak load hours.

Vote Solar’s witness will testify that the Commission should reject NWE’s new approach. The Commission should continue to rely instead on the blended market method, because it is more transparent and accessible, and more closely tied to NWE’s Resource Procurement Plan, which the Montana Supreme Court has affirmed forms the basis for

calculating avoided costs. See Whitehall Wind, LLC v. Montana Pub. Serv. Comm'n, 2010 MT 2, ¶ 21, 355 Mont. 15, 19, 223 P.3d 907, 910.

In any event, whether under the prior, accepted methodology, or NorthWestern's new, "peaker" methodology, NWE's proposed avoided costs for solar QF generation are too low. With respect to avoided energy costs, NWE has selectively identified natural gas price forecasts that reflect low future gas prices, while other forecasts project higher prices. NWE also assigns a value of zero to QF-generated energy in conditions when NWE is long on resources, even while it acknowledges that it sells such energy at market prices in these conditions and recognizes such value for its own resources.

NWE's "peaker" methodology also dramatically underestimates the capacity value of solar QF generation, assigning value based on only 9.6% of the QF's nameplate capacity. NWE's methodology credits solar QFs only for the output that it exceeds 85% of the time, even though NWE concedes that no other regulatory applies such a high threshold. In fact, the one entity that used an 85% exceedance threshold to establish capacity values—the Southwest Power Pool—abandoned it in favor of a more reasonable 60% threshold. NWE's proposed exceedance threshold not only is unreasonable; it is discriminatory. NWE effectively insists that intermittent solar and wind resources meet the level of reliable generation that only NWE's own fossil-fuel resources can meet. Such an unreasonable expectation improperly devalues intermittent generation.

Moreover, NWE's application of the exceedance threshold to individual solar QF projects improperly assumes that the projects are developed in a vacuum. In fact, the evidence shows that solar generation achieves very high capacity levels when evaluated in combination with the storage capacity of hydrologic generation resources. Again, NWE's failure to recognize the co-

optimization benefits of solar + hydro generation discriminates against QFs, where NWE explicitly relied on such benefits for its own resources in the 2015 Resource Procurement Plan. Further, NWE's isolation of individual solar QF projects ignores the synergies associated with combining Montana's winter-peaking wind resource and summer-peaking solar resource. In lieu of NorthWestern's unreasonably low 9.6% capacity value for solar, the evidence demonstrates that a solar capacity value of approximately 38% is appropriate.

Vote Solar respectfully requests that the Commission reject NWE's unreasonable and discriminatory avoided cost rates for solar QFs, and instead establish rates that recognize NWE's full avoided costs.

II. CONTESTED ISSUES

The contested issues in this docket are:

- Whether NWE's proposed avoided cost rates for NWE's QF-1 Tariff reflect NWE's full avoided costs; are just, reasonable, and in the public interest; and are non-discriminatory;
- Whether this Commission should adopt higher avoided cost rates for solar QFs that appropriately reflect NWE's full avoided costs based on either: 1) the blended-market method using NWE's next-planned generation unit from its 2015 Resource Procurement Plan as the proxy resource; or 2) modified assumptions for avoided energy and capacity under the peaker methodology;
- Whether this Commission should order NWE to sign power purchase agreements for certain solar QF projects utilizing the standard rate in existence prior to this Commission's June 16, 2016 suspension of the QF-1 standard rate in accordance

with the FERC Declaratory Order in FERC Docket No. EL17-5-000 (157 FERC ¶ 61,211);

- To the extent the Commission considers the “additional issues” it identified in this proceeding, the contract-term issue also is contested; and
- All other issues contested by any party to this proceeding.

III. UNCONTESTED ISSUES

Vote Solar represents that any issues other than those identified as contested above are uncontested.

IV. WITNESS

Vote Solar will present the testimony of their witness R. Thomas Beach.

V. EXHIBITS AND RESPONSES TO DATA REQUESTS

Vote Solar and Montana Environmental Information Center will offer into evidence the October 14, 2016 direct testimony of R. Thomas Beach as Vote Solar Exhibit 1; the December 21, 2016 Notice of Errata as Vote Solar Exhibit 2; the November 9, 2016 additional issues testimony of R. Thomas Beach as Vote Solar Exhibit 3; and all exhibits attached thereto including evidence relied upon in preparing and compiling the testimony and exhibits, data responses, and any evidence relied upon and referred to in the testimony and exhibits.

Vote Solar intends to offer the following Exhibits into evidence:

- Exhibits 1—3 as referred to above;
- NorthWestern Energy’s 2015 Resource Procurement Plan (entire);
- Northwest Power and Conservation Council’s 7th Power Plan, Ch. 11;
- California Public Utilities Commission, Order Instituting Rulemaking to Consider Annual Revisions to Local Procurement Obligations and Refinements to the Resource

Adequacy Program, Rulemaking 08-01-025, Decision No. 09-06-028 Adopting Local Procurement Obligations for 2010 and Further Refining the Resource Adequacy Program (June 18, 2009);

- Edison Electric Institute, PURPA: Making the Sequel Better than the Original (Dec. 2006);
- Chart of Alberta-NIT forward market gas prices, Feb. 2016 through Jan. 2017;
- Chart of NWE and Vote Solar gas price forecasts;
- Any exhibits necessary for foundation;
- Any exhibits necessary for impeachment or rebuttal; and
- Any exhibits identified, referenced or relied upon in the testimony.

Further, Vote Solar believes it is appropriate for the Commission to rely on any and all responses to data requests as evidence in this proceeding. Vote Solar will move for admission into the record responses and attachments thereto of specific responses to data requests. Vote Solar has conferred with counsel for NWE, who indicated that NWE intends to object to the admission of some, but not all, of the data requests referenced below:

Data Request	Attachment	Witness	Subject
PSC-002	No	NWE Legal Dept.	Suspended Rate Identifications
PSC-005	No	Mueller/Hines	Interconnection Agreements and PPAs
PSC-012	No	Hansen	Portfolio Net Purchase and Sale Positions
PSC-013	No	Hansen	Avoided cost calculation
PSC-016	Yes	Bushnell	Exceedance Model
PSC-017	Yes	Bushnell	Exceedance Model
PSC-027	Yes	Hansen	Valuation of QF-1 Power
PSC-028	Yes	Beach	Electronic files

Data Request	Attachment	Witness	Subject
PSC-029	No	Beach	Methods for Establishing Capacity Contribution
PSC-030	No	Beach	Valuing QF-1 Power under Long Conditions
PSC-031	No	Beach	Valuing QF-1 Power under Long Conditions
PSC-032	No	Beach	Voided Transmission Capacity Costs
PSC-033	No	Beach	Annual Changes to QF Rates
PSC-034	No	Beach	Levelized Costs
PSC-035	No	Beach	Exceedance Parameters
PSC-048	No	LaFave	Contract Term
PSC-051	Yes	All	Electronic Files
PSC-052	No	NWE Legal Dept./Mueller	Transmission Interconnection Procedures
PSC-054	No	Bushnell/ Babineaux	Exceedance Method
PSC-055	Yes	Bushnell	Exceedance Method
PSC-056	No	Bushnell	Regional Peak Capacity Contribution of Montana Wind Resources
PSC-057	No	Hansen	Flexible capacity
VS-001	Yes	N/A	Application Workpapers
VS-002	Yes	N/A	2015 Electricity Supply Resource Procurement Plan Workpapers
VS-005	No	Bushnell	Capacity Contribution of Wind and Solar
VS-006	No	N/A	NWE Generating Resources
VS-007	No	Bushnell	Value of Environmental Benefits
VS-008	No	Hansen	Avoided Costs
VS-011	Yes	N/A	Avoided Transmission and Distribution Costs
VS-013	Yes	N/A	Interconnection
VS-020	Yes	N/A	Natural Gas Price Forecast
VS-026	No	Hansen	Natural Gas Price Forecast
VS-027	No	Hansen	Natural Gas Price Forecast
VS-028	No	Hansen	Long-2 Condition
VS-029	Yes	Hansen	REC Pricing

Data Request	Attachment	Witness	Subject
VS-030	No	Hansen	REC Pricing
VS-032	Yes	Babineaux	SPP Method
VS-033	Yes	Babineaux	SPP Method
VS-034	No	Babineaux	SPP Method
VS-035	No	Babineaux	SPP Method
VS-037	No	Bushnell	Retail Load
VS-038	No	Bushnell	Retail Load
VS-040	No	Bushnell	Peak Loads
VS-042	No	Bushnell	Combined Wind and Solar Capacity
VS-043	Yes	Hansen	Aero Costs
VS-045	No	Bushnell	Aero Costs
MCC-003	No	Bushnell	85% Exceedance Level
MCC-004	Yes	Bushnell	Exhibit JBB-2
MCC-007	No	Cashell	Line Losses
MCC-008	No	Hansen	Levelized Energy Rates
MCC-009	No	Hansen	Carbon Price

VI. SPECIAL SCHEDULING NEEDS

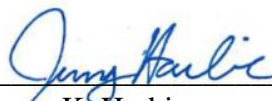
Vote Solar requests that its witness, R. Thomas Beach, be permitted to testify on January 18 or January 19. In the event that the hearing lasts longer than two days, Mr. Beach will not be available to testify on January 20.

VII. OTHER ISSUES

Vote Solar reserves the right to request an opportunity for surrebuttal testimony at the hearing in response to witnesses, information, and/or positions that NWE takes for the first time in rebuttal testimony, data request responses, or at the hearing, and to which Vote Solar has not yet had an opportunity to respond. At this point, Vote Solar intends to request an opportunity for surrebuttal testimony by Mr. Beach on the following issues:

- SPP Method: NorthWestern provided new information and a new witness in response to data requests VS-032 through VS-036 and PSC-054.
- Synergies with wind: NorthWestern provided new information in response to data requests VS-042.
- Natural Gas Price Forecasts: NorthWestern presented a new natural gas price forecast in Luke P. Hansen's pre-filed rebuttal testimony (LPH-3, 4), and new information in response to VS-026.

Respectfully submitted on this 16th day of January, 2017,



Jenny K. Harbine
Aurora Janke
Earthjustice
313 East Main St.
Bozeman, MT 59715
(406) 586-9699
Fax: (406) 586-9695
jharbine@earthjustice.org
ajanke@earthjustice.org

*On behalf of Intervenors Vote Solar and
Montana Environmental Information Center*

CERTIFICATE OF SERVICE

I hereby certify that on the 16th day of January, 2017, I served the foregoing by first-class mail, postage prepaid, and electronic mail on the following:

Will Rosquist
Administrator
Public Service Commission
1701 Prospect Ave.
Helena, MT 59620-2601
(By *Federal Express*)

Michael J. Uda
Uda Law Firm, P.C.
7 West Sixth Avenue
Power Block West, Suite 4H
Helena, MT 59601
michaeluda@udalaw.com

John Alke
NorthWestern Energy
208 N. Montana, Suite 205
Helena, MT 59601
john.alke@northwestern.com

DarAnne Dunning
Luxan & Murfitt, PLLP
P.O. Box 1144
Helena, MT 59624
ddunning@luxanmurfitt.com

Al Brogan
NorthWestern Energy
208 N. Montana, Suite 205
Helena, MT 59601
al.brogan@northwestern.com

Eric Christensen
Cairncross Hempelmann
524 Second Ave., Suite 500
Seattle, WA 98104
echristensen@cairncross.com

Tracy Killoy
NorthWestern Energy
208 N. Montana, Suite 205
Helena, MT 59601
tracy.killoy@northwestern.com

Jeffrey Wagner
Volkswind USA Inc.
205 SE Spokane Street, Ste 306
Portland, OR 97202
Jeffrey.Wagner@volkswind.com

Joe Schwartzenberger
NorthWestern Energy
40 East Broadway
Butte, MT 59701
joe.schwartzenberger@northwestern.com

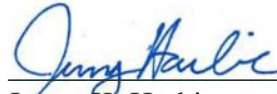
Steven J. Levitas
FLS Energy, Inc.
130 Roberts Street
Asheville, NC 28801
legal@flsenergy.com

Jason Brown
Montana Consumer Council
111 North Last Chance Gulch, Suite 1B
P.O. Box 201703
Helena, MT 59620-1703
jbrown4@mt.gov

Chris Norqual
Cypress Creek Renewables
3250 Ocean Park Blvd.
Suite 355
Santa Monica, CA 90405
norqual@ccrenew.com

Ryan R. Shaffer
MEYER, SHAFFER & STEP ANS, PLLP
305 S. Fourth St. East, Suite 101
Missoula, MT 59801
ryan@mss-lawfirm.com

Ryan N. Meyer
ElGuindy, Meyer & Koegel, PLLP
2990 Lava Ridge Court, Suite 205
Roseville, CA 95661
ryan.meyer@pacificnorthwestsolar.net



Jenny K. Harbine