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

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IN THE MATTER of NorthWestern	)	UTILITY DIVISION
Energy's December 2005 Electric	)	
Default Supply Procurement Plan	)	DOCKET NO. N2005.12.172

COMMENTS OF NATURAL RESOURCES DEFENSE COUNCIL,
RENEWABLE NORTHWEST PROJECT, AND
MONTANA ENVIRONMENTAL INFORMATION CENTER

INTRODUCTION

The Natural Resources Defense Council (NRDC), the Renewable Northwest Project (RNP), and the Montana Environmental Information Center (MEIC) believe that portfolio management is central to a utility's obligation to provide electric service. In Montana, this obligation is given content by the Commission's default supply guidelines, which recognize that "electricity default supply resource decisions affect the public interest." § 38.5.8201(1) A.R.M.

The guidelines set forth a planning process for the default supplier to follow in assembling a portfolio of resources. Most importantly, the guidelines require the default supplier to assess and balance a variety of considerations to make certain that the resources it is using to provide electric service promote the goals of affordability, economic efficiency, reliability, stability, and environmental responsibility. In addition, and critically in this period of energy price and supply uncertainty, the utility must fully and fairly seek to examine risk and must make resource decisions that mitigate risk.

By their involvement in matters related to Montana electricity policy, NRDC, RNP, and MEIC have sought to advance the public interest. Each of these organizations has advocated for utility acquisition of efficiency, for the development of renewable resources, and for addressing and avoiding the environmental consequences associated with electricity generation from fossil fuels. NRDC, RNP, and MEIC believe that a portfolio that relies heavily on investments in efficiency and renewable resources will produce economic benefits to Montana consumers, in the way of stable, reliable, and affordable electricity supplies. In addition, and just as important, an environmentally responsible portfolio, faithful to the standards and aspirations expressed in Montana's constitution, will advantage the state as a whole both economically and socially.

Unfortunately, NorthWestern Energy's "*December 2005 Electric Default Supply Procurement Plan*" (hereinafter "the 2005 Plan") will not lead to sound resource procurement decisions that will benefit Montanans. The 2005 Plan employs an unreasonable, flawed methodology and is imbalanced in its evaluation, putting Montana consumers at risk of unstable and high electricity prices. In particular, the way the 2005 Plan treats risk is largely uninformative and will not lead to decisions that mitigate risk.

The following comments will focus on the deficiencies in the risk analysis and the failure of the 2005 Plan to conform to the Commission's guidelines. Instances where the 2005 Plan makes statements that are unsupported will be documented. Next, in the context of specific issues, examples will be provided of the 2005 Plan's failure to adequately explain itself. Finally, the comments will conclude by urging the Commission to direct the utility to put in place an aggressive program to acquire all cost-effective conservation.

Since NorthWestern Energy has made plain its intention to procure bridging contracts to fill the gap between the expiration of the PPL contracts and the acquisition of long-term supply and since the utility contemplates no real activity for several years with respect to these longer-term acquisitions, the unsound nature of the 2005 Plan may be of no great import. In its comments, the Commission should either encourage NorthWestern Energy to submit a revised plan that is cured of defects or, alternatively, make clear to the utility that the Commission will not look favorably on resources brought to the Commission for prudence determinations that are in furtherance of the 2005 Plan.

1. <u>The 2005 Plan's Treatment of Risk Is Flawed</u>

The 2005 Plan fails to completely and accurately incorporate risk into its analysis. A significant source of risk, indeed, the greatest source of risk to portfolios that are based around pulverized coal, is future carbon regulation. The 2005 Plan attempts to consider the impacts of a CO_2 tax on its portfolios; however, its chosen methodology is not up to the task.

Briefly, the 2005 Plan does not even consider potential future carbon regulation as a source of risk. Instead, the 2005 Plan brings CO_2 into the analysis by adding costs associated with CO_2 to overall portfolio costs. The effect of this, combined with the scoring system employed by the 2005 Plan, is to: 1)distort how those portfolios most affected by a CO_2 tax will perform and 2)enable the 2005 Plan to side-step full consideration of the risks that various levels of CO_2 taxes would impose on portfolios.

In order to discuss these issues in context, a short discussion of the 2005 Plan and its analysis follows.

Out of the 10 portfolios selected for stochastic analysis, the 2005 Plan identifies 4 portfolios that it characterizes as "best performing." Plan at 60. Each of these preferred portfolios contains a significant amount of pulverized coal. Portfolio 2 contains 600 MW of coal, portfolio 31 contains 400 MW of coal, and portfolios 14 and 18 contain 200 MW of coal. Accordingly, states the 2005 Plan, its analysis "clearly identifies coal resources as an important part of any portfolio of preferred resources," and "[c]oal is an essential piece in helping to hold down future electric customers' costs and risk." Executive Summary at 3.

At the outset, we observe that the Northwest Power and Conservation Council's (NPCC) 5th Power Plan contradicts the 2005 Plan's conclusion that a portfolio relying on pulverized coal has a favorable cost/risk condition. Included among the portfolios considered by the 2005 Plan were two portfolios – 10 and 27 – containing a significant amount of Integrated Gasification Combined Cycle (IGCC) coal generation technology. Accordingly, when the 2005 Plan reached its conclusion regarding the merits of pulverized coal, it did so based on an implicit comparison with IGCC. The 5th Power Plan also considered the relative merits of pulverized coal and IGCC. In contrast to the conclusion of the 2005 Plan, however, it states: "the use of coal-gasification power plants lowers the expected cost and risk compared to the use of conventional coal-generation technology." 5th Power Plan, Executive Summary at 5. The 5th Power Plan's finding is significant in the context of the 2005 Plan because portfolios 10 and 27, even though greatly disadvantaged by the methodology that was used (as will be discussed further below), performed relatively well in the modeling.

The 2005 Plan initially screened 32 candidate portfolios using 3 price forecasts. Ten portfolios were selected for further analysis and stochastic modeling that would score each portfolio according to its price and risk characteristics. As with the intrinsic modeling, the stochastic modeling used 3 price forecasts, with natural gas and electric price volatility added to each. Multiple runs of each portfolio were made, resulting in multiple outcomes, dependent on volatility, dispatch rates, and amount of market purchases. By examining the performance of each portfolio under a range of conditions and circumstances, the 2005 Plan hoped to be able to draw some conclusions regarding the relative merits of the portfolios.

A portfolio's cost was expressed as the mean cost of the portfolio, in net present value terms. A portfolio's risk was measured by subtracting the average cost of the worst, *i.e.*, highest, 10% of the outcomes from the stochastic runs from the mean cost of that portfolio. Cost and risk values were identified for each of the 3 price forecasts. *See e.g.*, Figure 18, at 53. Then, for each portfolio, for each price forecast, the cost and risk numbers were summed, which the 2005 Plan used to establish a "least cost rank." *See* Table 9 at 57, Table 6, Vol. 2, Chap. 5 at 17.

As noted above, the 2005 Plan utilized a CO_2 adder. Utilities, in making procurement decisions, are taking into account the increasing likelihood that emissions of global warming pollution will be regulated. *See* Plan, f.n. 1 at 3 ("effects of various levels of carbon tax are routinely considered by electric utilities in the U.S. when they conduct long term planning"). In this way, consumers and shareholders are protected to some degree from the financial risk associated with likely future regulation. For example, in 2005 the California PUC directed utilities developing long range resource

plans that CO_2 costs were to be factored into the analysis under the following schedule: $5/ton in the near term, $12.50/ton by 2008, and $17.50/ton by 2013.

The 2005 Plan purported to take the eventuality of carbon regulation into account by the use of 2 scenarios: an "expected CO_2" case and a "high" CO_2 case. How this was done was that CO_2 costs became just another cost component of a given portfolio. Thus, as CO_2 costs were added to a portfolio the mean cost of that portfolio increased. For example, the mean cost of portfolio 2 in the medium market forecast went from $2.812 billion (npv) without CO_2 to $3.074 billion (npv) in the "expected" CO_2 case to $3.583 billion (npv) in the high CO_2 case. *See* Table 9 and PSC-006(b) (excel spreadsheet).

Risk, however, did not vary within a given market forecast. To reiterate, CO_2 was only taken into account on the cost side of the equation. In other words, a portfolio received the same risk ranking (within a given market forecast) regardless of whether that portfolio was subject to the CO_2 adder or not and, if it was, regardless of whether the "expected" cost or the high cost CO_2 adder was applied. Again using portfolio 2 as an example, it was given a risk variance number of 0.441 for the medium market forecast. That risk metric did not vary between the 3 CO_2 cases (no CO_2, "expected" CO_2, and high CO_2) within that market forecast. *Compare* Figures 18, 19, and 20, *see also* PSC-004(c).

The failure to factor future regulation of carbon into risk is a glaring defect in the 2005 Plan rendering it of little use in making rational resource decisions. All the risk number is capturing is a particular portfolio's susceptibility to natural gas and electric price variability. To be sure, evaluating market risk is important. But, natural gas and electric price volatility is not the only source of risk for a portfolio. Clearly, the

uncertainty associated with the extent of future carbon regulation also constitutes a risk. Indeed, as pointed out by PSC-004(e), using portfolio 2 in the context of the medium price forecast as an example, the risk that the high CO_2 case will occur is greater, in terms of its cost impact on the portfolio, than the risk to portfolio 2 from volatility.

Hobbling the risk value by not including a key element of risk does two things: first, it greatly limits what the value reveals and, second, it affords that number disproportionate importance. Again using portfolio 2 as an example, in every market forecast that portfolio has the best (lowest) risk value. *See* Table 6, Vol. 2, Chap. 5 at 17. This is logical because portfolio 2, with its 600 MW of pulverized coal, does not need to be in the market much, relative to the other portfolios, and so is not as affected by market variability; and, as discussed above, market volatility is the basis for the risk number.

The problem arises when the 2005 Plan sums the risk score and the cost number to arrive at its least cost ranking. In the case of portfolio 2, because its risk score is quite favorable, the risk score drives the results. The numbers are revealing. In the medium market forecast, without applying a CO_2 adder, portfolio 2 scores first in both cost and risk; thus, its least cost rank is first. *See* Table 9 at 57. When one moves to the "expected" CO_2 case, portfolio 2 drops to 8th overall in costs. *See* PSC-006(a)7(b) (excel spreadsheets). But, because portfolio 2's risk value is so favorable, it, when summed with portfolio 2's no longer favorable costs, still produces the best overall least cost ranking among the 10 portfolios.

Another problem with the approach taken by the 2005 Plan is its treatment of the high CO_2 case. Put simply, the 2005 Plan disregarded the effect of the high CO_2 scenario on the portfolios. In the high CO_2 case the 2005 Plan acknowledges pulverized coal

portfolios "drop from consideration." Plan at 57. Nonetheless, the 2005 Plan ranked 4 pulverized coal portfolios as preferred and concluded that pulverized coal belonged in the portfolio. *See supra* at 4. Evidently, the 2005 Plan concluded that the high CO_2 case was sufficiently unlikely to allow it to make any difference. Indeed, the 2005 Plan states, "while such a high [CO_2] scenario is possible, it is not highly likely." Plan at 56. But, this is precisely the point of identifying risk. By first ignoring the effects of the high CO_2 case on the cost of the pulverized coal portfolios and then by declining to take into account the risk associated with such a scenario, the 2005 Plan renders the high CO_2 case superfluous. It's as if it was not even in the analysis.

The failure to take the risk of carbon regulation into account does not prevent the 2005 Plan from insisting that this is exactly what it did. The 2005 Plan recognizes the importance of risk, stating, "[t]he assessment of key risks is fundamental to developing portfolios that have both low costs and stable rates, which are primary objectives for this Plan." Plan, Vol. 2, Chap. 5 at 1. Shortly after this passage the 2005 Plan identifies "[e]nvironmental regulations and taxes, particularly potential CO_2 tax adders" as a "[k]ey risk affecting the portfolios." *Id.* at 2. Similarly, the response to PSC-009(c) contends that the 2005 Plan "directly analyzed risk for natural gas, market, load and CO_2…." As noted, however, the 2005 Plan did not analyze CO_2 in terms of risk.

The 2005 Plan's decision not to treat potential CO_2 taxes as an element of risk is made even more striking because the Commission's guidelines so clearly require a through analysis of risk. Section 38.5.8213(e) directs the utility to model and analyze "underlying fuel source and associated price volatility and risk, including risks related to future regulatory constraints on environmental impacts such as emissions of carbon

dioxide…." *Accord*, §38.5.8219(1) (identifying "environmental regulations and taxes" as a risk source that the utility is to analyze).

This is the second time NorthWestern Energy has run afoul of the guidelines as they pertain to environmental risk. In its initial default supply procurement plan, NorthWestern Energy's failed to explicitly address environmental risks and costs. In its comments on that plan the Commission admonished the utility that such risks and costs are to be taken into account, noting that "[u]ncertainty about future electricity and natural gas prices did not prevent NWE from modeling portfolio impacts associated with these variables." Docket No. N2004.1.15 at 10 (August 17, 2004). Consequently, it will be necessary for the Commission to, once again, note a failure to comply with the guidelines.

2. <u>The 2005 Plan Makes Inaccurate Statements</u>

In what can only be an effort to burnish the credentials of its preferred portfolios, the 2005 Plan makes statements that are not entirely accurate. This is troubling for a default supply plan should be an objective, impartial document, rather than a document that seeks to defend a position. Indeed, that is the intent of the guidelines, namely to establish a process and a set of criteria that will enable the utility to consider all relevant factors and arrive at a reasoned decision. Some instances of overreaching follow, leaving aside, for the moment, the issue of the validity of the methodology employed by the 2005 Plan.

- The 2005 Plan, characterizing the results displayed by Figure 18 (no CO_2 adder), states (at 55): "Portfolios 14 and 18 mitigate both cost and risk in a more balanced manner than the rest of the portfolios, with the clearest

demonstration of this mitigation shown in the results for the high market price scenario." In actuality, Table 6, which provides the numeric basis for Figure 18 and presents the 2005 Plan's least cost ranking, demonstrates that this is not the case. For the high market forecast, portfolio 27 scores higher than both portfolios 18 and 14 and portfolio 10 scores higher than portfolio 14.

- The 2005 Plan, once again describing Figure 18, states (at 55) that "coal resources [and, 'coal resources' as used here refers to the 4 preferred portfolios] mitigate the risk best …." In fact, again turning to Table 6, while it is true that portfolios 2 and 31 receive favorable risk scores across all 3 market forecasts, portfolios 14 and 18 do not perform particularly well with respect to this metric and are out-preformed by portfolios 10 and 27 5 times out of 6.
- The 2005 Plan, explaining the results of Figure 19 ('expected CO_2 costs included), states (at 56), "[i]t is less clear in this analysis, whether Portfolios 14 and 18 provide risk protection to a greater degree than the remaining portfolios [excluding portfolios 2 and 31]." In fact, it is clear that portfolios 14 and 18 do not provide greater risk protection than some portfolios, specifically, portfolios 10 and 27. As discussed in the previous bullet, portfolios 10 and 27 consistently out perform portfolios 14 and 18 with respect to risk.

3. The 2005 Plan Omits Information Necessary For a Full Understanding and Is Not Transparent

The 2005 Plan is in many important respects incomplete. Information is omitted. Explanations are too often cursory and all together missing. In general, the 2005 Plan lacks transparency and is frequently difficult to understand. This is a violation of the guidelines, which emphasize the importance of a default supply plan that is reasonably understandable and a planning process that is transparent. *See* §38.5.8219(5)(e) (requiring the default supplier in course of managing and mitigating risk to "maintaining a transparent planning and procurement process (i.e., one which produces resource plans that can be reasonably understood by the public and the commission)". *See also* § 38.5.8220. Examples follow of such instances, with additional detail and discussion when warranted.

- The 2005 Plan fails to provide an explanation of the basis for and validity of the least cost scoring system. A justification of the scoring system is necessary for two reasons. First, the least cost ranking method plays an important role. Second, the scoring system's seeming inability to capture or incorporate trade-offs between cost and risk remains an open question. A portfolio can score very well on one side of the cost/risk equation but poorly on the other and still receive a high overall score. Due to that poor score, however, that portfolio may not be a sensible choice.
- As discussed, the 2005 Plan concluded that the 4 pulverized coal portfolios were preferred. It did this based almost entirely on how those portfolios performed in the medium price forecast with no CO_2 adder. *See* Figure 18 and the accompanying discussion at p. 53-55. However, the 2005 Plan did not discuss the

results of Table 6 (Vol. 2, Chap. 5 at 17), which complicates things somewhat. Portfolios 2 and 31 perform well in the high market forecast but not particularly well in the low market forecast. Results for portfolios 14 and 18 are even more mixed. Portfolio 14 is ranked 5th (out of 10) in the low market forecast and 7th in the high market forecast. Portfolio 18 is ranked 8th in the low market forecast and 4th in the high market forecast. The significance of these values is never discussed by the 2005 Plan.

- Presumably, since it is "expected," portfolio performance with the lower of the two CO_2 adders included in the portfolio cost results is of greater significance than portfolio performance in the no CO_2 case (assuming, that is, the validity of the methodology). Numeric results, of the sort supplied in Table 9, should have been presented but were not. Using PSC-006(a)&(b) (excel spreadsheets) and excel spreadsheets prepared by NWE and forwarded by Gerald Mueller to the Technical Advisory Committee on May 2, the the following values were obtained. For the medium price forecast, including the "expected" CO_2 value, portfolios 2, 31, 18, and 14 were ranked highest, in that order. However, the range between the top 7 portfolios was relatively small compared to the ranges in other scenarios: 0.199 billion. For the low market forecast the rankings for the 4 preferred portfolios were as follows: portfolio 2 ranked 9th (out of 10), portfolio 14 ranked 5th, portfolio 18 ranked 6th, and portfolio 31 ranked 8th. For the high market forecast the rankings were: portfolio 2 ranked 1st, portfolio 14 ranked 7th, portfolio 18 ranked 5th, and portfolio 31 ranked 2nd.

- Most at odds with a finding that the 4 pulverized coal portfolios are the best performing are results using the high CO_2 case. Again, the 2005 Plan fails to display this information. The following values were derived from PSC-006(a)&(b) (excel spreadsheets) and the Mueller spreadsheets: For the low market forecast, portfolio 2 ranked 10th (out of 10), portfolio 14 ranked 5th, portfolio 18 ranked 8th, and portfolio 31 ranked 9th. For the medium market forecast, portfolio 2 ranked 10th, portfolio 14 ranked 7th, portfolio 18 ranked 5th, and portfolio 31 ranked 8th. For the high market forecast, portfolio 2 ranked 3rd, portfolio 14 ranked 8th, portfolio 18 ranked 5th, and portfolio 31 ranked 4th.
- It is not clear how the CO_2 values were derived. Apparently, the values had their origin in the NPCC 5th Plan. *See* PSC-004(d), Plan at 47, and Plan, Vol. 2, Chap. 5 at 8. As noted in the answer to PSC 004(d), the 5th Plan stated that there was a 67% chance that a carbon penalty would be imposed by the end of the planning period, and, beginning in 2008 the penalty could be between $0 and $15/ton of CO_2 and beginning in 2016 the penalty could be between $0 and $30/ton of CO_2. The values used by the 2005 Plan for the "expected" case are $6/ton of CO_2 from 2010 to 2017, rising to $14/ton thereafter and for the high case are $18.00/ton of CO_2 from 2010 to 2017, rising to $41.00/ton thereafter. The 2005 Plan states that it "simply assumed the mean numbers from the NPCC analysis." Plan, Vol. 2, Chap. 4, Modeling and Analysis, at 18. But, efforts to reproduce the values used by the 2005 Plan have not been successful. Finally, no explanation is provided as to why the 2005 Plan established a transition year at 2017 when the 5th Plan used 2016.

- During its evaluation of the intrinsic modeling results, the 2005 Plan undertook what it characterized as a sensitivity analysis of the potential for future regulation of carbon. Using its "expected" CO_2 case, the 2005 Plan added CO_2 costs to each portfolio's mean cost as derived from the medium price forecast scenario. *See* Figure 14 at 46 and text accompanying. The 2005 Plan did not apply the values to the portfolio's mean cost as derived from the low and high price forecast scenarios. Nor did the 2005 Plan utilize its high CO_2 values in any manner. No explanation for these decisions was provided.
- The 2005 Plan determined, upon reviewing the results of the intrinsic analysis, to carry forward 10 portfolios for stochastic modeling. *See* Plan at 47. If the 2005 Plan utilized an objective, systematic methodology for determining which portfolios merited further consideration, it is not described or discussed.
- Cost numbers for wind power included a $12.30 mwh charge for integration costs. The response to PSC-007(a) states that this number is based on "NPCC analysis," presumably meaning the 5th Power Plan, which is the source of the 2005 Plan's cost data (*see* Plan at 36). But, the 5th Power Plan appendix (reprinted in Vol. 2, Chap. 4, Sources, at I-42) indicates that "shaping" charges from Montana wind projects are $9.75 mwh. Moreover, integration costs associated with the Judith Gap project are not expected to be anywhere near $12.30 mwh. The 2005 Plan fails to explain how it came up with the $12.30 mwh integration charge. Nor does it justify its use of an integration charge that is so much higher than what the utility has stated will be the cost of integration services at Judith Gap. Using $12.30 for integration costs, instead of a more realistic,

reasonable figure, significantly prejudiced wind resources and the modeling results.

- There appears to be no basis for assuming an on-line date for wind power of 2010. *See* Table 7 at 37. In any event, no explanation was provided. While it is understandable that the utility wishes to obtain a degree of comfort with wind generation and the operation of Judith Gap before committing to more wind power, if that project proves to be as attractive a resource as is anticipated, that should be fairly obvious in about a year. At that time the utility could begin an effort to acquire additional wind power, which could come on-line at the latest in 2009.
- Resource costs used to establish portfolio costs was reportedly derived from information contained in the 5th Power Plan. *See* Plan at 36. Although the 2005 Plan includes an appendix from the 5th Power Plan that discusses each of the resources and provides cost information, the basis for the cost values remains unclear. Table 7 (at 37) displays cost numbers for wind power and for IGCC generation that are nearly identical. But, the cost numbers contained in the 5th Power Plan suggest that these numbers should not be similar. Capital costs for an IGCC facility with sequestration is assigned a value of $1,805/kw. *See* Vol. 2, Chap. 4, Sources at I-17. Wind project capital costs are assigned a value or $1,010/kw. *Id.* at I-41. Even considering the excessive integration cost discussed earlier, it seems strange that wind power would cost basically the same as IGCC generation and so much higher than pulverized coal generation.

- Figure 15 (at 48) indicates that portfolio 27, which was one of the IGCC portfolios, was altered for the stochastic run. Instead of containing 200 MW of wind power, it was reduced to 150 MW. The 2005 Plan does not explain why this was done. Portfolio 27 was constructed so as to compare with portfolio 31. Originally, each contained the same resources, except that portfolio 27 contained 401 MW of IGCC generation and portfolio 31 contained 400 MW of Montana coal. The alteration prevented a direct comparison between the two portfolios and may have adversely impacted the performance of portfolio 27.
- Possibly presaging what is to come, the 2005 Plan begins by omitting vital goals of the Commission's default supply guidelines. The 2005 Plan, quoting from § 38.5.8203, states that the guidelines "are intended to facilitate: the long-term interests of electric Default Supply customers, and NWE's on-going financial health." Plan at 1. In addition, and importantly, the guidelines seek to "promote economic efficiency and environmental responsibility" and to "facilitate a process through which a DSU identifies and cost-effectively manages and mitigates risk…" § 38.5.8203(1)(b)&(d).

4. <u>Efficiency Acquisition Must Be Aggressively Pursued</u>

Consistent with the guidelines and prior Commission directives on the subject, the 2005 Plan commits the utility to maintaining its efforts to acquire efficiency. The utility is to be commended for its demand side management program; it has come a long way since the mid-to-late 1990s when conservation was not pursued, to the detriment of Montana electricity consumers.

Conservation has many, many advantages, only three of which will be mentioned here: first, it is the cheapest form of supply, second, since it has no fuel associated with it, it reduces risks, third, it is the most environmentally benign. A utility must aggressively pursue all cost-effective conservation. In order to accomplish this, sufficient resources must be devoted to the effort. The 2005 Plan suggests that this remains a problem for the utility. According to the 2005 Plan, work on the residential electric homes DSM program was delayed while the contractor and NWE staff worked on a natural gas DSM program. *See* Vol. 2, Chap.2, Conservation, at 4-5. Both programs, of course, are necessary. But, one of these programs should not suffer in order to accomplish the other. A lack of resources has, in the past, been a problem for the utility. In its comments, the Commission should reiterate the importance of acquiring efficiency and should urge the utility to ensure that sufficient resources are available to do the job.

The 2005 Plan notes that since the time of the last DSM assessment avoided costs have increased. This caused the utility to update its DSM assessment. Plan at 14. The assessment concluded that 99.4 aMW of potential savings existed, a reduction from what was found by the previous assessment. It is reasonable to assume that an increase in electricity costs would increase the estimate of available cost-effective efficiency. Accordingly, the finding in the 2005 Plan that total available conservation has diminished is incongruous. Nor does the 2005 Plan elucidate matters.

Finally, a decision on funding for the Northwest Energy Efficiency Alliance (NEEA) remains in limbo. One of the unfortunate aspects of the Commission's decision in the USB docket was to eliminate funding for market transformation, including those programs supported by the Alliance. Information in the USB docket demonstrated that

Alliance activities were highly cost-effective and that Montana electricity consumers were the beneficiaries of a regional effort designed to secure conservation and increase economic development opportunities. The Commission should direct the utility to put NEEA funding in default supply where it belongs so that Montana ratepayers can continue to benefit from Alliance programs.

CONCLUSION

The 2005 Plan is a significant improvement over NorthWestern Energy's 2003 default supply plan. In that earlier plan the utility did not even attempt to consider the risk associated with the future regulation of carbon. Still, as the foregoing indicates, much work needs to be done by the utility with respect to this key factor. Consistency with the Commission's guidelines is necessary. But, the Commission's guidelines are merely the pathway to sound resource decisions; and this is what is at stake here. Montana electricity consumers deserve the best possible electricity supply. We are confident the utility shares this view; now all that the utility, the Commission, and interested parties have to do, working together, is achieve that goal.

Respectfully submitted,

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on behalf of Natural Resources Defense Council, Renewable Northwest Project, and Montana Environmental Information Center

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