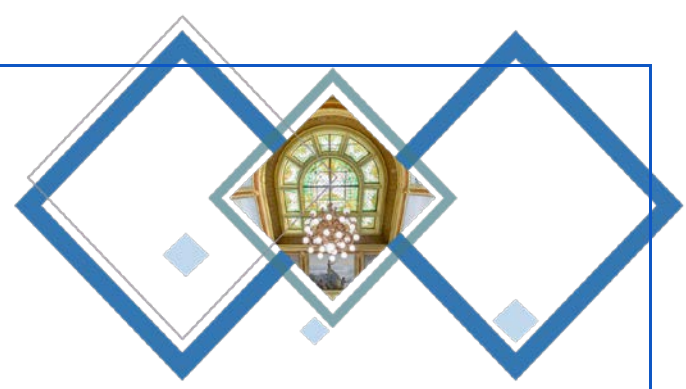


December 20, 2017

Energy and Telecommunications Interim Committee
Sonja Nowakowski



QUALIFYING FACILITIES PART II

Public Service Commission Reconsideration

The Public Service Commission on October 5 reconsidered its June 22 order to establish standard rates and contract terms for qualifying facilities (QFs), sticking with much of its original decision but voting to increase the maximum contract terms for QFs from 10 years to 15 years.

The commission discussed and acted on multiple motions for reconsideration of both final orders – the first for NorthWestern Energy’s application for approval of avoided cost tariff schedule QF-1 (Final Order 7500c) and the second for the petition of MTSUN, LLC to set terms and conditions for a qualifying small power production facility (Final Order 7535a). The PSC Orders on Reconsideration are attached.

Docket D2016.5.39 NorthWestern’s Application for Approval of Avoided Cost Tariff QF-1, Motions for Reconsideration

Final Order 7500c reduced the maximum contract length available under the QF-1 tariff from 25 years to 10 years, and required a rate adjustment to reflect then-current tariff rates at the five-year point in a contract. The approved rates did not incorporate avoided carbon regulation costs, but allowed QFs to separately negotiate for the sale of renewable energy credits (RECs). The order established a separate on-peak rate for solar QFs based on an analysis of the capacity contributed by solar projects according to a methodology adopted by the Southwest Power Pool (SPP). The order used a proxy method based on a blend of market prices and combined cycle combustion turbine costs to estimate long-run avoided costs. The order applied the bright-line test established in Whitehall Wind to determine existence of a legally enforceable obligation (LEO). The order also imposed on NorthWestern a 10-year non-QF resource cost-effectiveness constraint.

- Motion for Reconsideration on Contract Length. As discussed above, the PSC voted 4-1 to set the contract length requirement at 15 years. There is no look-back provision. However, at the end of the 15-year contract term, if PURPA remains in effect, the utility continues purchasing electricity from the QF, but at an updated rate, which reflects the utilities avoided cost at that time.
- Motion for Reconsideration of Solar Capacity Contribution. The PSC did not reconsider its action or modify the 6.1% capacity contribution in Order 7500c.
- Motion for Reconsideration of Carbon Adjustment. The PSC did not reconsider its action and, as outlined in the final order, will not include a carbon dioxide emissions adjustment to the avoided cost estimates used to set QF-1 rates.
- Motion for Reconsideration of Proxy Method. The PSC did not reconsider its decision to apply a modified proxy method to estimate NorthWestern’s avoided costs.
- Motion for Reconsideration of General Tariff Changes. The PSC formally incorporated the proposed general tariff changes into the order.

AUGUST 1, 2017

Title of Whitepaper

Name of Interim Committee

Name of Researcher

- Motion for Reconsideration of “Symmetrical Treatment” Finding. The PSC affirmed its decision and voted 4-to-1 that the limitation applies to all new NorthWestern generation, regardless of ownership or resource type. However, the limit is placed at 15 years to match the small production contract lengths.
- Motion for Limited Reconsideration of Legally Enforceable Obligation (LEO). The PSC did not initiate an informal rulemaking to receive input on potentially adopting a new LEO rule.

Docket D2016.12.103 MTSUN Petition for QF Contract Terms and Conditions, Motions for Reconsideration

Final Order 7535a established contract terms and conditions for sales of energy and capacity from MTSUN’s 80 MW solar QF to NorthWestern Energy pursuant to 69-3-603, MCA.

- LEO Issue. In its Motion for Reconsideration, MTSUN argued that the PSC’s determination that MTSUN did not incur a LEO was erroneous. The PSC did not reconsider its action and did not vote to initiate an informal rulemaking to receive input on potentially adopting a new LEO rule.
- Contract Length. MTSUN argued that the PSC’s decision to set a contract length of 10 years was unlawful, contrary to precedent, and not supported by evidence in the record. The PSC reconsidered its action and established a maximum contract length of 15 years.
- Avoided Energy Cost. MTSUN contended that avoided costs should be estimated based on information available at the time a QF files its petition with the Commission requesting a rate determination. The PSC estimated avoided energy costs based upon a projection of wholesale electricity market prices using a Mid-C forward price strip from March 2, 2017. The commission did not reconsider its action.
- Avoided Capacity Cost. MTSUN asserted that the PSC’s reliance on an aero-derivative combustion turbine (AERO) to estimate capacity cost violates PURPA because the facility is not NorthWestern’s next planned generation unit. The commission did not reconsider its action.
- Carbon Pricing. The PSC did not reconsider its action to exclude carbon costs from the avoided cost calculation.

CI0099 7352slxa.docx