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HON. JAMES A. MANLEY 20th Judicial District Court Lake County Courthouse 106 Fourth Avenue East

MONTANA EIGHTH JUDICIAL DISTRICT COURT, CASCADE COUNTY

MONTANA ENVIRONMENTAL INFORMATION CENTER.

Cause No. DDV-18-0640

Plaintiff,

MONTANA PUBLIC SERVICE COMMISSION, MONTANA DEPARTMENT OF PUBLIC SERVICE REGULATION, and NORTHWESTERN CORPORATION d/b/a NORTHWESTERN ENERGY,

ORDER REVERSING MONTANA PUBLIC SERVICE COMMISSION **FINAL ORDER 7578B**

Defendants.

This case is an appeal of Final Order 7578b of the Montana Public Service Commission ("Commission"), which granted NorthWestern Energy's requests to waive compliance with a legal requirement under the Renewable Power Production and Rural Economic Development Act to purchase energy from Community Renewable Energy Projects ("CREP" resources) in 2015 and 2016. See Mont. Code Ann. § 69-3-2004(4)(b).

In adopting the CREP-purchase obligation, the Montana Legislature sought to afford benefits to local communities across Montana from the positive economic and environmental outcomes of renewable energy development. Id. § 69-3-2002. The record shows that, in every

ORDER REVERSING MONTANA PUBLIC SERVICE COMMISSION FINAL ORDER 7578B

year since 2012, when NorthWestern was first required to purchase CREP power, the Commission has waived compliance and declined to assess any administrative penalties. At issue in this case are the Commission's waiver decisions for 2015 and 2016.

For the reasons set forth below, this Court finds that the Commission failed to reasonably evaluate whether NorthWestern took "all reasonable steps" to achieve compliance with the CREP-purchase requirement for 2015, Mont. Code Ann. § 69-3-2004(11)(a), and that the Commission's ultimate conclusion, that NorthWestern met this standard, was arbitrary and clearly erroneous in light of the record evidence.

Accordingly, Final Order 7578b is reversed.

STANDARD OF REVIEW

1. The Commission's Final Order is reviewed under Mont. Code Ann. §§ 69-3-402 and 2-4-704. Under Section 69-3-402, this Court may vacate the Commission's decision if it is "unlawful or unreasonable." Mont. Code Ann. § 69-3-402(1). And under Section 2-4-704 of the Montana Administrative Procedure Act ("MAPA") the court may reverse or modify the Commission's decision if appellant's substantial rights have been prejudiced because the decision is arbitrary, capricious, unlawful, or not supported by substantial evidence. An agency action is arbitrary if it fails to consider "relevant factors" under the statutes the agency administers. *Clark Fork Coal. V. Mont. Dept. of Envtl. Quality*, 2008 MT 407, ¶21, 347 Mont. 197, 197 P.3d 482. While a court is not to substitute its judgment for that of the agency, the agency must examine the relevant data and articulate a satisfactory explanation for its action, including a rational connection between the facts found and the choice made." Id. ¶ 47.

- 2. Under MAPA, a party seeking judicial review of an agency decision is "entitled to have the court's decision based on a review of the complete administrative record." Owens v. Mont. Dep't of Revenue, 2006 MT 36, ¶ 14, 331 Mont. 166, 130 P.3d 1256. While the Court may affirm the Commission's decision based only on "the grounds and reasons set forth in the order," rather than post-hoc rationale supplied by counsel, Montana-Dakota Utilities Co. v. Mont. Dep't of Pub. Serv. Regulation, 223 Mont. 191, 725 P.2d 548 (1986), the Court must nevertheless review the underlying record to determine whether the Commission's decision was clearly erroneous or not based on the relevant factors. See Clark Fork Coal., ¶ 21.
- 3. The contents of the administrative record under MAPA are governed by Mont. Code Ann. § 2-4-614(1), and include:
 - (a) all pleadings, motions, and intermediate rulings;
 - (b) all evidence received or considered, including a stenographic record of oral proceedings when demanded by a party;
 - (c) a statement of matters officially noticed;
 - (d) questions and offers of proof, objections, and rulings on those objections;
 - (e) proposed findings and exceptions;
 - (f) any decision, opinion, or report by the hearings examiner or agency member presiding at the hearing, which must be in writing;
 - (g) all staff memoranda or data submitted to the hearings examiner or members of the agency as evidence in connection with their consideration of the case.

Despite Mont. Code Ann. § 2-4-614(1)(b) and (g), the Commission argues that the administrative record in this case should exclude the transcription of the Commission's September 11, 2018 work session and the August 30, 2018 recommendation memorandum prepared by Commission staff and submitted to the Commission on August 30, 2018. The Commission's argument is inconsistent with this statute. The Commission itself included these documents in the "certified copy of the administrative record" that it filed with the Court on

December 10, 2018. While certain commission members are understandably reluctant to have their transcribed statements considered, or the staff memorandum considered, those are part of the record before the court, and the Court considered the entire record filed by the Commission.

Legal and factual findings

- 4. The Renewable Power Production and Rural Economic Development Act requires public utilities, including NorthWestern, to purchase a certain amount of electricity output from community renewable energy projects, or "CREP" resources. Mont. Code Ann. § 69-3-2004(3)(b), (4)(b). The Act defines a CREP resource as an eligible renewable resource that has no greater than 25 megawatts in total generating capacity, and either "local owners have a controlling interest" or it is "owned by a public utility." Id. § 69-3-2003(4). The Act obligates NorthWestern to purchase electricity from CREP resources if it is "demonstrated through a competitive bidding process that the total cost of electricity from that [CREP resource] ... is less than or equal to bids for the equivalent quantity of power over the equivalent contract term from other electricity suppliers." Id. § 69-3-2007(1).
- 5. From 2012 to 2014, the Act required NorthWestern to obtain 44 megawatts of energy from CREP resources, see id. § 69-3-2004(3)(b) and (c), which amounts to at least two CREP resources, given the generating capacity of any single CREP resource must be 25 megawatts or less. Beginning in January 2015, the amount of energy NorthWestern must acquire from CREP resources rose to 65.4 megawatts. See id. § 69-3-2004(4)(a); see also AR Tab 56, at 3 (table depicting NorthWestern's CREP obligation). The Act's purchase requirements are incremental, affording NorthWestern four years to meet its total obligation of 65.4 megawatts.

- 6. The Act requires the Montana Public Service Commission to impose an administrative penalty on a public utility that fails to meet its statutory obligation to acquire CREP resources in a given year. Mont. Code Ann. § 69-3-2004(10). However, the Commission may grant a "short-term waiver" from the CREP-purchase and penalty provisions if the utility demonstrates that it "has undertaken all reasonable steps" to comply, "but full compliance cannot be achieved ... for other legitimate reasons that are outside the control of the public utility." <u>Id.</u> § 69-3-2004(11)(a); <u>see</u>, <u>also</u>, Admin. R. Mont. 38.5.8301(4) (waiver provision).
- 7. As of the time relevant here, up to 2016, NorthWestern had never met its CREP-purchase obligations under the Act and the Commission had never required NorthWestern to pay a penalty for non-compliance.
- 8. At issue in this case are NorthWestern's waivers from its CREP-purchase obligation for 2015 and 2016, which were consolidated before the Commission and addressed in a single evidentiary hearing and final order.

The 2015 Waiver

9. For the 2015 compliance year, NorthWestern's petition documented that it conducted a Request for Proposals ("RFP") for CREP resources that generated four finalists—two proposals for power-purchase agreements or PPAs (Greycliff and New Colony) and two proposals for build-transfer projects (Tiger Butte and Judith Gap II). AR Tab 5, at SEL-7. NorthWestern's criteria for the RFP required, among other things, that all projects *must be operational by the end of 2015*, AR Tab 5, Ex. SEL-2, at 4, refusing to accommodate longer development timeframes that are typically required to plan, permit, and develop energy projects, including CREP resources. AR Tab 61, at 7 (Commission staff memorandum).

- 10. Both build-transfer finalists had higher viability scores than the two PPA finalists, AR Tab 5, Ex. SEL-3, at 2-8 (projects 5 and 6), and one (Tiger Butte) was the least-cost proposal, id. Ex. SEL-4, at 7 (final column). NorthWestern rejected both in favor the Greycliff and New Colony PPAs. See AR Tab 5, at BJL-13. Before signing agreements with Greycliff and New Colony, NorthWestern did not investigate whether the proposals satisfied the statutory requirement that CREP resources be locally owned. AR Tab 42, at BJL-3 to 5. Subsequently, on May 18, 2015, the Commission found that Greycliff did not satisfy the Act's local-ownership requirement. AR Tab 5, at BJL-13. The developer of Greycliff, as well as New Colony, which had a similar ownership structure to Greycliff, therefore terminated the PPAs. Id.
- 11. After the PPAs were found ineligible, NorthWestern did not pursue further negotiations with either build-transfer project, both of which would have satisfied CREP-ownership requirements (because they would be sold to NorthWestern). Mont. Code Ann. § 69-3-2003(4)(b). Although not discussed in NorthWestern's pre-filed testimony submitted during the Commission proceeding, late in that proceeding NorthWestern asserted that its failure to continue negotiations regarding the Tiger Butte build-transfer project, which NorthWestern's consultant awarded a perfect viability rating, was because of alleged environmental concerns with the site. AR Tab 61, at 9. However, as Commission staff observed, "NorthWestern presented no evidence or documentation" of these concerns. Id.
 - 12. NorthWestern purchased no electricity from CREP resources in 2015.
- 13. Following an evidentiary hearing on April 4, 2018 and post-hearing briefing by the parties, the Commission's staff issued a memorandum in which it recommended that the Commission deny NorthWestern's request for a CREP-compliance waiver for compliance year 2015. See AR Tab 61.

- 14. Despite the recommendation of its staff to deny NorthWestern's waiver request for 2015, the Commission granted it.
- 15. The Commission held a work session on September 11, 2018, during which the Commissioners voted 3-2 to grant NorthWestern's CREP-compliance waivers for 2015 and 2016. See AR Tab 62 (work session transcript). During the work session, Commissioners who voted to grant the waivers asserted that their reason for doing so was their personal opinions that the CREP law itself is unreasonable, and they wished to "send a message" to the State legislature. AR Tab 62 at 7:20-21, 9:9-15. This reason for decision was not carried into or mentioned in the final 3-2 Commission order to grant the waivers.
- 16. The Commission's Final Order, dated September 24, 2018, memorialized its oral decision, though not its oral reasoning or justification. With respect to the 2015 waiver, the Commission identified three steps that it found were reasonable in NorthWestern's attempt to comply with its 2015 CREP-purchase obligation:
 - 1) NorthWestern issued an RFP on June 13, 2014;
 - 2) NorthWestern hired a third-party consultant to administer its RFP; and
 - 3) NorthWestern signed PPAs with two projects. Final Order 7578b ¶¶ 8, 17.

The Commission also found that NorthWestern was prevented from complying based on a factor beyond its control, namely, the Commission's decision that the PPAs' ownership structure did not meet the local-ownership criterion for CREP resources. <u>Id.</u>

17. As Defendants conceded, the Final Order did not address several issues raised by its own staff and intervenors regarding reasonable steps that NorthWestern failed to take to achieve compliance with its 2015 CREP-purchase obligation. This omission itself renders the

Commission's 2015 waiver decision arbitrary because, "[i]t is, of course, the duty of PSC to make explicit findings on material issues raised in the administrative proceedings[,] ... and the findings on material issues should be sufficient to permit a reviewing court to follow the reasoning process of the agency." Montana-Dakota Utilities Co., 223 Mont. at 196 (citing N. Plains Res. Council v. Bd. of Natural Res., 181 Mont. 500, 522-23, 594 P.2d 297, 310 (1979)). The post-hoc rationalizations offered by counsel for the Commission and NorthWestern in this appeal are irrelevant, because the Commission's decision "must be judged on the grounds and reasons set forth in the order, and no other grounds should be considered." Id.

- 18. In addition, the Commission's conclusion that NorthWestern took "<u>all</u> reasonable steps" to comply was arbitrary and clearly erroneous in light of the record, warranting reversal of the Commission's 2015 waiver decision.
- 19. First, the Commission did not rationally consider evidence that NorthWestern failed to reasonably investigate Greycliff's and New Colony's CREP eligibility. NorthWestern took the position that "it is not NorthWestern's responsibility to ensure that projects submitted to it by developers meet the CREP ownership status." AR Tab 20, Response to PSC-005(b). On the contrary, the Commission's rules require utilities to "complete due diligence regarding bid qualifications ... and project feasibility before selecting an offer for the shortlist" in a competitive solicitation such as the CREP RFP. Admin. R. Mont. 38.5.8212(2)(d). The Commission previously cautioned NorthWestern that its consistent failure to investigate CREP ownership structures "may be contributing to NorthWestern's failure to meet its CREP obligations." See In the Matter of NorthWestern Energy's Petition for a Waiver from Full Compliance with the Community Renewable Energy Project Purchase Obligation for Calendar

Year 2014, Dkt. No. D2015.3.27, Order 7416b ¶ 18 (May 17, 2016). Further, while a CREP waiver is allowed only if "legitimate reasons that are <u>outside the control</u> of the public utility" prevented compliance, Mont. Code Ann. § 69-3-2004(11)(a) (emphasis added), Commission staff specifically found that NorthWestern "<u>had the control</u> to conduct marginal due diligence to ensure that a finding of compliance was plausible," AR Tab 61, at 15 (emphasis added). The Defendants did not point to any contrary record evidence. In light of the NorthWestern's failure to undertake due diligence to ensure the CREP eligibility of the Greycliff and New Colony proposals, the Commission's determination that NorthWestern took all reasonable steps was arbitrary and clearly erroneous.

20. Second, the record evidence shows that NorthWestern failed to accommodate realistic CREP-development timeframes when it required projects submitting proposals for the 2015 compliance year to be operational by the end of that year. AR Tab 61, at 6-7. NorthWestern instead required projects to become operational less than 18 months after submitting bids, even though NorthWestern previously conceded that "moving from competitive resource solicitation to production requires at least 24 months, even without the processing of a petition for Commission approval before entering into a contract." AR Tab 61, at 7 (Staff memorandum quoting NorthWestern's previous testimony); see also Final Order 7578b, Kavulla Dissent, ¶ 2 ("No CREP project has ever been newly constructed in less than two years, much less the 18 months that NorthWestern provided from the issuance of the request for proposals to its self-imposed commercial-operation-date requirement."). This end-of-year deadline was particularly onerous for build-transfer projects, for which NorthWestern also decided to require a lengthy Commission preapproval process that would further delay permitting and construction.

AR Tab 5, Ex. SEL-2, at 7, 21. NorthWestern's consultant even conceded that, "[b]ecause the advanced-approval filing could take up to nine months for approval, a [build-transfer] project sponsor would have little time available after receipt of an order to construct a project and meet a December 31, 2015 commercial operation date." Id., Ex. SEL-3, at 2. Commission staff found that NorthWestern's failure to "adjust its time frame to take advantage of any longer-term opportunities for CREP compliance" amounted to a failure to take all reasonable steps. AR Tab 61, at 14. The Commission's Order arbitrarily failed to consider this issue. Its decision that NorthWestern nonetheless took all reasonable steps was clearly erroneous in light of the record.

- 21. Third, the record shows that NorthWestern did not entertain reasonable negotiations for the Tiger Butte build-transfer project, which had a perfect 10-out-of-10 viability score and the lowest costs of any CREP proposal. Late in the Commission proceeding, NorthWestern attempted to justify this failure by asserting that NorthWestern had concerns about environmental risks with the Tiger Butte site. However, to obtain a waiver, NorthWestern must provide "documentation and evidence showing that the public utility has undertaken all reasonable steps," yet was unable to comply with its purchase obligation because of "documented reasons beyond the public utility's control." Admin. R. Mont. 38.5.8301(4), (4)(d). Based on the record, it appears that Commission staff were correct that "NorthWestern presented no evidence or documentation" of environmental risks associated with Tiger Butte. AR Tab 61, at 9.
- 22. Because the statute allows the Commission to waive compliance with the CREP-purchase obligation only if a utility demonstrates that it took "all reasonable steps," Mont. Code Ann. § 69-3-2004(11)(a), NorthWestern's failure to take these steps rendered it ineligible for a

waiver in 2015. The Commission's failure to evaluate these steps was arbitrary, and its finding that NorthWestern took "all reasonable steps" was clearly erroneous in light of the record evidence (and absence or record evidence therefore). Accordingly, the Commission's 2015 waiver decision is reversed.

The 2016 Waiver

- 23. For the 2016 compliance year, NorthWestern again issued an RFP, requiring previously short-listed projects to start the bidding process anew and again requiring that projects be operational by the end of the compliance year. AR Tab 1, Ex. SEL-2, at 1. Ultimately, NorthWestern rejected all proposals—including the resubmitted Tiger Butte proposal—based on its claim that none of the projects was "cost competitive." Final Order 7578b ¶ 9; AR Tab 1, Ex. SEL-2, at SEL-9; AR Tab 56, at 14-15. NorthWestern thus failed again to comply with its CREP-purchase obligation in 2016.
- As discussed above, the Commission on September 11, 2018, voted 3-2 to grant NorthWestern's CREP-compliance waiver for 2016, as well as 2015, based on two or three Commissioners' dissatisfaction with the CREP law. See AR Tab 62 (work session transcript). The Commission's written Final Order stated, without explanation, that "NorthWestern took all reasonable steps to procure CREP resources in ... 2016, yet documented factors beyond its control prevented NorthWestern from achieving full compliance." Final Order 7578b ¶ 17. And further, "[t]he Commission agrees that the cost analysis performed ... sufficiently determines how the CREP proposals would impact portfolio costs and risks." Id. ¶ 20.

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- 25. The Commission's Final Order did not discuss or make explicit findings on the material issue of whether NorthWestern could have taken the reasonable step of extending its commercial operation deadline in 2015 to accommodate projects that could have become operational in 2016. For this reason, the Commission's finding that NorthWestern took "all reasonable steps" was arbitrary. See Montana-Dakota Utilities Co., 223 Mont. at 196 (Commission order is arbitrary where it omits "explicit findings on material issues raised in the administrative proceeding").
- 26. In addition to being unexplained, the Commission's conclusion on the 2016 compliance waiver was clearly erroneous based on the record evidence. NorthWestern's disqualification of projects that responded to its 2015 RFP on grounds that they could not become operational during that year meant that viable, cost-effective projects proposed for 2015 that could have become operational and contributed to CREP compliance in 2016, were unreasonably disqualified. See AR Tab 38, at FDR-14. In light of this evidence, the Commission's decision that NorthWestern took "all reasonable steps" to achieve CREP compliance in 2016 was arbitrary and clearly erroneous. Mont. Code Ann. § 69-3-2004(11)(a).
- 27. Further, the Commission's determination that NorthWestern reasonably rejected projects that were not "cost competitive," Final Order 7578b ¶ 20, was based on an incorrect interpretation of the governing law. The CREP statute provides that NorthWestern:

is not obligated to take electricity from an eligible renewable resource unless the eligible renewable resource has demonstrated through a competitive bidding process that the total cost of electricity from that eligible resource ... is less than or equal to bids for the equivalent quantity of power over the equivalent contract term from other electricity suppliers.

Mont. Code Ann. § 69-3-2007(1). Stated in the affirmative, NorthWestern <u>is</u> "obligated to take electricity from" a CREP resource if, "through a competitive bidding process," it is demonstrated to have the lowest "bid[]." <u>Id.</u>

- 28. The plain language of the statutory cost-cap provision must govern its interpretation. See Hines v. Topher Realty, LLC, 2018 MT 44, ¶ 15, 390 Mont. 352, 413 P.3d 813 ("We ... will not interpret a statute beyond its plain language if the language is clear and unambiguous.") (citation omitted). By its unambiguous terms, that provision required NorthWestern to purchase power from the CREP project demonstrated to have the lowest total cost, compared with other "bids" in the RFP.
- 29. Contrary to this clear statutory requirement, NorthWestern did not compare CREP proposals to other "bids for the equivalent quantity of power" in its RFP for 2016, Mont. Code Ann. § 69-3-2007(1), and instead rejected CREP proposals that it deemed too costly compared with existing, large generating resources already in NorthWestern's portfolio. The Defendants' arguments that this approach complied with Mont. Code Ann. § 69-3-2007(1), fail to afford any meaning to the statutory terms "competitive bidding process" and "bids." Id. Their interpretation impermissibly renders that statutory language "a nullity" and must be rejected.

 Lund v. State Comp. Mut. Ins. Fund/Garden City Plumbing & Heating, Inc., 263 Mont. 346, 350, 868 P.2d 611, 613 (1994). For this reason, too, the Commission's decision to grant NorthWestern's request for a CREP-compliance waiver in 2016 was unlawful.

¹ The "total cost" of CREP resources "include[s] the associated cost of ancillary services necessary to manage the transmission grid and firm the resource." Mont. Code Ann. § 69-3-2007(1).

ORDER

Based on the foregoing, it is hereby **ORDERED** that:

- 1. The Commission's factual finding that "NorthWestern took all reasonable steps to procure CREP resources in 2015 and 2016, yet documented factors beyond its control prevented NorthWestern from achieving full compliance" was arbitrary and clearly erroneous in light of the administrative record.
- 2. The Commission's legal finding that NorthWestern complied with the statutory cost-cap provision, Mont. Code Ann. § 69-3-2007(1), was based on an incorrect interpretation of the law.
- 3. Commission Final Order 7578b waiving the requirements in § 69-3-2004(4)(b) for NorthWestern to purchase electricity from CREP resources in 2015 and 2016 is therefore reversed.

DATED this 1st day of August, 2019.

JAMES A. MANLEY

JAMES A. MANLEY District Court Judge

cc: Jenny K. Harbine, Attorney for Plaintiff Justin Kraske / Zachary Rogala, Attorneys for Defendant Montana Public Service Commission Sarah Norcott, Attorney for Defendant NorthWestern Energy 08/01/19 cWMc