WHAT THE EXPERTS SAY ABOUT NORTHWESTERN ENERGY'S PROPOSED PURCHASE OF COLSTRIP UNIT 4[1]

NorthWestern seeks approval from the Montana Public Service Commission to purchase 92.5 megawatts (MW) of Puget Sound Energy's interest in Colstrip Unit 4, which, if approved, would mean that NorthWestern's customers are forced to pay the costs associated with the purchase. MEIC submitted expert testimony on NorthWestern's Application demonstrating that the acquisition would be bad policy and more costly for NorthWestern's customers than NorthWestern has acknowledged. The Montana Consumer Counsel, which was constitutionally created to advocate on behalf of the interests of Montana consumers, agrees with MEIC's experts that NorthWestern's Application is a bad deal for Montanans. The key takeaways from MEIC's expert testimony are summarized below.

1. **NorthWestern collects excessive revenues from its customers for its existing interest in Colstrip Unit 4. These windfall profits make it difficult for NorthWestern to make unbiased decisions about the future of Colstrip Unit 4, even in the face of reasonable alternatives.**
2. **NorthWestern's Application is inconsistent with long-standing Montana policies requiring the consideration of new resources in a robust planning process in which alternatives are fully considered.**
3. **NorthWestern has not fairly evaluated available, cost-effective alternatives to the Colstrip acquisition.**
4. **NorthWestern's acquisition of an additional interest in Colstrip Unit 4 would unreasonably increase rates for NorthWestern customers.**
    a. **Pre-2025 if NorthWestern had properly performed its analysis related to the power purchase agreement, it would have reached the opposite conclusion than it did in its Application and, instead, projected that customers would likely lose money on the agreement.**
    b. **Post-2025 NorthWestern's flawed analysis failed to demonstrate that acquiring additional interest in Colstrip Unit 4 is in the public interest in the post-2025 period**
5. **The Montana Consumer Counsel Opposes the Deal[2]**

An explanation of each point is provided below.

1. **NorthWestern collects excessive revenues from its customers for its existing interest in Colstrip Unit 4. These windfall profits make it difficult for NorthWestern to make**

[1] This document is based on expert testimony on behalf of MEIC that was submitted in PSC Docket 2019.12.101. To view the actual testimony of each expert, click on their name: Michael Milligan, Anna Sommers, and Thomas Schneider.

[2] The Montana Consumer Counsel Expert testimony can be found here.

<u>unbiased decisions about the future of Colstrip Unit 4, even in the face of reasonable alternatives.</u>

- In 2008, the Montana Public Service Commission authorized NorthWestern to charge customers for the company's 30% stake in Colstrip Unit 4 (222 MW) based on a valuation far above what NorthWestern paid for its share of the plant a year earlier. Over the 12+ years since that decision, NorthWestern customers have not only been paying for the inflated price of Colstrip Unit 4, but also paying NorthWestern a rate of return on the inflated value (less depreciation).
- NorthWestern's ongoing windfall profits from its existing share of Colstrip Unit 4 likely impairs NorthWestern's ability to make an unbiased decision about the future of Colstrip Unit 4.
- As other owners of Colstrip pull away from Colstrip based on its increasing costs and the changing political and legal landscapes which disfavor coal generation, NorthWestern fails to even take a close look at its ownership of Colstrip Unit 4.
- In the more than a decade since the Commission rate-based NorthWestern's interest in Colstrip Unit 4, NorthWestern has failed to analyze the remaining economic life of the plant, instead maintaining that customers will continue to pay for the plant until NorthWestern earns the full amount rate-based by the Commission. This will not occur until 2042. NorthWestern's failure to analyze the remaining economic life of the plant creates significant risk that further investment in the plant will later prove to be imprudent if the plant closes before 2042.
- The uncertainties about the future of Colstrip make NorthWestern's additional investment in the plant unreasonable and raises the specter of history repeating itself with the addition of another extremely costly asset for NorthWestern's customers.

2. **<u>NorthWestern's Application is inconsistent with long-standing Montana policies requiring the consideration of new resources in a robust planning process in which alternatives are fully considered.</u>**

- State policies favor long-term planning and competitive resource acquisitions, in lieu of single source resource acquisitions, to ensure any risks are appropriately identified and mitigated and that the utility is not foregoing lower-cost, lower-risk resources.
- NorthWestern attempts to side-step the consumer protections adopted by the Legislature and Commission by inaccurately characterizing the Colstrip acquisition as an "opportunity resource," which exists as a narrow exception to the planning requirements only for resources that were "unknown as to its availability for purchase until an opportunity to purchase ar[ose]." MCA § 69-3-1207(5). NorthWestern's pursuit of the Colstrip Unit 4 acquisition does not meet this definition because NorthWestern pursued the purchase throughout 2019, well <u>before</u> NorthWestern finalized and submitted its final 2019 Resource Procurement Plan. Accordingly, there was no compelling reason for NorthWestern to omit the acquisition from its normal planning process and the Commission should not approve it as an "opportunity resource."

3. **<u>NorthWestern has not fairly evaluated available, cost-effective alternatives to the Colstrip acquisition.</u>**

- Leading up to its Application in this docket, NorthWestern did not compare the value of the proposed Colstrip acquisition to other alternatives. In the only analysis NorthWestern did conduct for its 2019 Plan, NorthWestern unreasonably:
    - Used assumptions about the value of wind and solar resources to NorthWestern's portfolio that the Montana Supreme Court has rejected as unreasonable;
    - Failed to account for battery storage options that make wind and solar resources even more valuable;
    - Did not consider NorthWestern's ability to meet its capacity needs through long-term market contracts; and
    - Failed to consider low-cost energy efficiency and demand response options as alternative capacity resources.
- NorthWestern's failure to appropriately evaluate the Colstrip acquisition or fairly evaluate alternatives under the applicable standards unjustly deprives the Commission and NorthWestern's customers of essential information about the costs, benefits, and trade-offs associated with the acquisition.

4. **<u>NorthWestern's acquisition of an additional interest in Colstrip Unit 4 would unreasonably increase rates for NorthWestern customers.</u>**

- NorthWestern overstated both the need for and the value of the acquisition in its Application because the company used a flawed methodology that relies on multiple assumptions that are overly optimistic and inconsistent with its own modeling.
- NorthWestern's economic justification for the acquisition is based entirely on short-term revenues from a power purchase agreement with Puget through 2025. Under the agreement, Puget would buy-back a portion of the energy generated from the interest in Colstrip Puget sells to NorthWestern. NorthWestern projected modest revenues from the power purchase agreement through 2025, but conceded that its new interest in Colstrip would have a negative value for NorthWestern's customers after the power purchase agreement expires. MEIC's expert analyses showed that NorthWestern overstated the value of the power purchase agreement through 2025, which will likely result in <u>costs</u> rather than <u>savings</u> for NorthWestern's customers, and that the acquisition would be even costlier to NorthWestern's customers after 2025.
- **Pre-2025**: NorthWestern overestimated the revenue from the power purchase agreement because of a number of flaws in its analysis, including:
    - <u>NorthWestern overstated the percentage of time it projects Colstrip to operate given market conditions.</u> While NorthWestern justifies the acquisition based on an assumption that Colstrip Unit 4 would operate 87% of the time, the company's own economic-dispatch modeling estimates that Colstrip Unit 4 will actually only be economical to operate 49% of the time in future years. NorthWestern's unrealistic assumption is significant because it glosses over the reality that more than half of the time it will be less costly for NorthWestern to buy energy on the

market than to operate Colstrip, leaving customers paying to maintain an aging plant that will sit idle during most of the year.
    - NorthWestern failed to include future capital expenditures to maintain and repair the plant. NorthWestern intends to recoup these costs from its customers, so evaluation of Colstrip Unit 4 from the customers' perspective should account for those expenditures.
    - NorthWestern assumed that Colstrip Unit 3 would retire in 2025, despite evidence that Unit 3 might close even earlier. Importantly, an early retirement of Colstrip Unit 3 would force the owners of Unit 4, including NorthWestern, to pay a greater share of the common costs associated with operating the plant as a whole.

  MEIC's experts concluded that if NorthWestern had properly performed its analysis related to the power purchase agreement, it would have reached the opposite conclusion than it did in its Application and, instead, projected that customers would likely lose money on the agreement.

- **Post-2025**: Expert analysis shows that NorthWestern's evaluation of the overall benefit of acquiring an additional interest in Colstrip Unit 4 after the power purchase agreement ends is similarly flawed.
    - NorthWestern failed to appropriately analyze the future economic viability of Colstrip Unit 4 which is affected by increasing costs of coal to fuel the plant.
    - NorthWestern failed to account for declining market energy prices that frequently make it cheaper for NorthWestern to buy power on the market than to operate Colstrip.
    - NorthWestern failed to account for the benefits of NorthWestern's participation in the regional energy market starting in 2021, including a reduction in the need for flexibility in NorthWestern's portfolio, an increase in NorthWestern's ability to sell excess energy on the market, more efficient regional use of renewable energy, and increased reliability of energy delivery through enhanced operational visibility and transmission management capabilities.

  MEIC's experts concluded that NorthWestern's flawed analysis failed to demonstrate that acquiring additional interest in Colstrip Unit 4 is in the public interest in the post-2025 period.
- In addition to being costly, Colstrip Unit 4 does not have the attributes NorthWestern has claimed are essential to its portfolio. NorthWestern has emphasized the need for flexible resources that can quickly increase or decrease the amount of energy they generate in response to changes, in customer demand or market prices. Because of Colstrip's slow start time and inability to operate below minimum levels, it cannot satisfy this claimed need.

Ultimately, given these central flaws in NorthWestern's analysis, a Commission decision approving NorthWestern's Application to acquire an additional interest in Colstrip Unit 4 would not yield just and reasonable rates because the deal has not been fully and fairly evaluated and, in any event, would come at an unreasonably high cost to NorthWestern's customers.

5. The Montana Consumer Counsel Opposes the Deal

The Montana Consumer Counsel's expert concluded the following:

> "I recommend the Commission reject the Company's CU4 capacity acquisition preapproval request since NorthWestern has neither shown that the proposed acquisition is in the public interest nor that the Company's proposal would result in rates that are reasonable and just. The Company has not shown that the proposed capacity acquisition is both needed and the least cost resource available in the market. The Company has not compared this proposed resource to the results of a competitive bidding process. The purported benefits of the capacity acquisition proposal are tied to a set of highly speculative claims that, in turn, are tied to unreasonable assumptions about CU4's operating costs and the outlook for regional power markets. The Company's supporting analyses do not include the costs of any capital additions for which the Company is likely to seek recovery from Montana ratepayers, thereby understating the capacity acquisition costs. Further, close to half of the proposed capacity acquisition is tied to a PPA with PSE. The Company's request simply asks Montana ratepayers to provide a regulatory backstop for additional CU4 capacity that, in turn, will be marketed to Washington electricity customers. For these reasons, the Commission should reject this proposal."
> *Testimony of David Dismukes, submitted by the Montana Consumer Counsel to the PSC on Sept. 25, 2010. P. 52 of 54 (pdf P. 125)*