From: PUC
Sent: Thursday, October 08, 2015 5:47 PM
To: 'gregghubner@gmail.com'
Subject: EL14-106

Mr. Hubner:

This email is in response to your email to Commissioners Gary Hanson and Kristie Fiegen on Oct. 7, 2015, regarding NorthWestern Energy's purchase of the Beethoven Wind Farm and rate increase request, docket EL14-106. Since the NorthWestern Energy rate case is an open docket that commissioners have not yet acted or voted on, the commissioners forwarded your email to the PUC staff for response.

As you are already aware, NorthWestern Energy recently purchased the Beethoven Wind Farm from BayWa r.e. Wind, LLC, and NorthWestern Energy and PUC staff have agreed to include the costs associated with the Beethoven Wind Farm in the utility's base rates as part of their rate increase request currently being reviewed by the commission. In your Letter to the Editor attached to your email, you state that NorthWestern Energy is going to get a rate increase of $20.2 million dollars annually and an additional $9 million dollars a year for the purchase of the Beethoven Wind Farm. This proposed increase is correct, however, there is one more key piece of information to consider when determining the total net impact customers will see on their bill. That is the savings customers will see in the Delivered Cost of Fuel adjustment.

The Public Utility Regulatory Policies Act of 1978 (PURPA) is a federal rule that <u>requires</u> utilities to buy power from small power production facilities such as wind farms and cogeneration facilities meeting certain requirements. These facilities are called qualifying facilities (QFs) under PURPA. Thus, NorthWestern Energy was already required to purchase the power produced by the Beethoven Wind Farm and NorthWestern's customers were obligated to pay for this power through the Delivered Cost of Fuel adjustment since Beethoven was a PURPA QF selling its output to NorthWestern pursuant to two QF contracts in which NorthWestern was legally obligated to enter.

Since NorthWestern was required by federal law to purchase the power pursuant to the QF contracts, NorthWestern's customers began paying for the Beethoven Wind Farm through the Delivered Cost of Fuel adjustment when the Beethoven Wind Farm became operational earlier this year. Since NorthWestern has purchased the Beethoven Wind Farm, it can no longer charge customers for the QF costs under the Delivered Cost of Fuel adjustment. Beethoven is now an owned generation facility that NorthWestern can only recover through its base rates upon approval of a rate increase request the utility submitted to the PUC. Including Beethoven in base rates results in a shift of cost recovery from one item on customers' bills to another.

PUC staff analyzing EL14-106 and NorthWestern representatives evaluated the impact the purchase of Beethoven will have on customer bills. My fellow PUC analysts and I estimate that NorthWestern's customers will save approximately $44 million over the next 20 years as compared to continuing to purchase under the existing QF contracts. It is important to recognize the savings customers will receive on their bills by no longer paying for the Beethoven Wind Farm through the Delivered Cost of Fuel adjustment. Customers would have paid approximately $8.3 million for the Beethoven Wind Farm during its first full year of operation under the QF contracts. According to the QF contracts, this price would have quickly escalated over the years. When the $8.3 million savings to the Delivered Cost of Fuel adjustment is recognized, the total rate increase NorthWestern and PUC staff have agreed to is approximately $20.9 million, or 15.4 percent. This is summarized in the table below. Please note these numbers include some estimates that will be adjusted to actual costs when known as is standard practice with rate cases such as this. Thus the ultimate increase may be slightly more or less than the amounts shown below, however, the changes will not be material.

	NWE SD Electric	***Beethoven***	***Total***
Base Rate Increase	20,196,654	20,472,104	40,668,758
Beethoven Alternative Annual Wind Tax (collected through tracker)	-	386,085	386,085
Beethoven production tax credits (passed through tracker)	-	(11,839,372)	(11,839,372)
Stipulated Revenue Deficiency	20,196,654	9,018,817	29,215,471
Existing Beethoven QF contracts cost to be eliminated		(8,314,709)	(8,314,709)
Net impact to customers	20,196,654	704,108	20,900,762
Revenue at Present Rates	*127,053,893*	*8,314,709*	*135,368,602*
Increase to Present Rates	*15.9%*	*8.5%*	*15.4%*

I will also note that the settlement agreement must be approved by the commissioners and my comments to you are staff's views. PUC staff believes the settlement and the purchase of the Beethoven Wind Farm are in the best interests of NorthWestern's customers. We believe the settlement rates allow NorthWestern a reasonable opportunity to earn a return that is adequate to enable it to continue providing safe, adequate, and reliable service to its South Dakota retail customers, at the lowest reasonable costs. We anticipate the commissioners will consider staff's request for approval of the settlement agreement at the end of October. I encourage you to follow along on our website and watch for additional information that will be posted in the docket in the coming weeks. Here is a link to this docket: http://www.puc.sd.gov/Dockets/Electric/2014/el14-106.aspx

Thank you for your comments. I hope I have helped explain the Beethoven Wind Farm purchase and the impact it will have on customers' bills if the settlement agreement is approved by the commissioners.

Brittany Mehlhaff
Utility Analyst
South Dakota Public Utilities Commission
500 E. Capitol Avenue
Pierre, SD 57501
www.puc.sd.gov