BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE COMPLAINT BY CONSOLIDATED EDISON DEVELOPMENT, INC. AGAINST NORTHWESTERN CORPORATION DBA NORTHWESTERN ENERGY FOR ESTABLISHING A PURCHASE POWER AGREEMENT	* * * * * * * * * *	**NORTHWESTERN'S RESPONSE TO COMMISSIONER CHRIS NELSON** **EL16-021**

Comes now, NorthWestern Corporation d/b/a NorthWestern Energy (*"NorthWestern"*) and for its responses to Commissioner Chris Nelson, submits as follows:

NORTHWESTERN'S RESPONSE TO COMMISSIONER NESLSON

In response to Commissioner Nelson's request for an avoided costs estimate removing the "Min-gen" hours from the calculation, NorthWestern provides the attached file indicating the original avoided cost for energy and the avoided cost for energy with the Min-gen hours removed.

The avoided cost for energy increases from $29.63/MWh to $30.87/MWh for a total increase of $1.24/MWh for energy that is delivered when NorthWestern is not at Min-gen.

If we understand this alternative correctly, NorthWestern would pay $30.87/MW for all energy delivered to NorthWestern's customer when NorthWestern's portfolio was not in a Min-gen condition. During Min-gen conditions, NorthWestern would sell the delivered power to market at the unit generation Locational Marginal Price (LMP). NorthWestern would then pay the generator the LMP rate for those MWhs minus a broker fee.

Although there are plusses and minuses to this alternative, NorthWestern has several concerns with the actual administration of this process and the costs required to track and administer this option.

Each resource in SPP is assigned to an LMP and will have prices and settlements for both the Day-Ahead (DA) and Real-Time (RT) market.

- Each DA- facility need to bid into the DA with the amount of energy that can be delivered at a price point. For wind resources, the price point would most likely would be negative based on the tax credits. The generation by hour would need to be forecasted. The DA market award would be generated each afternoon. All forecasted generation will be settled at these prices that would include hours that NorthWestern is at Min-gen. This is a beneficial first step because the DA prices are usually higher than the RT prices although the DA has much less volatility.

- Each RT day – Short or long generation is settled at the RT market LMP. For wind resources, any variance from the DA forecast will be settled up or down during the RT market every 5 minutes. There is significant volatility in the RT market that settles every 5 minutes.

The settlement of each of these markets takes 45 days. The process to separate out the "Min-gen" hours between the two markets would be very complex and would need to update through each settlement. In order to administer this process:

- NorthWestern would first need to evaluate the DA market awards and calculate the Min-gen. Any transaction that meets the Min-gen requirement would receive the generator LMP.
- Because of the intermittence of the wind resource, the DA generation is a forecast. The wind facility has no control over the ability to meet the energy that was committed in the DA. The output from the facility will be different from the DA in most hours.
- NorthWestern would then need to net the hourly DA market awards with the RT 5 minute market based on the actual energy that was delivered from the generator versus the forecast.
- Min-gen conditions in the RT 5 minute market, will not in many cases, match the Min-Gen conditions in the DA hourly market for timing or duration.
- Additional questions that would need to be answered would be, does the Min-gen only apply to Min-gen hours identified in the DA or does any variance from the DA market to the RT market get evaluated for Min-gen in the RT market?
    - If Min-gen is only assessed to the DA market several problems occur. Settlement in the RT market may or may not be Min-Gen
        - If the 5 min settlement is not Min-gen for the entire hour, the QF may receive a market price for a high LMP when NorthWestern could have used the energy to serve load
        - If the 5 min settlement is Min-gen in times where the DA market was not and the wind facility is long or short, NorthWestern customers are then paying full contract price for MWh delivered in a Min-gen condition
    - If Min-gen is assessed only to the RT market
        - Most of the energy delivered by the facility will be scheduled and settled in the DA market. The Min-gen conditions and market pricing will not match.
- Settlements and resettlements are over a 45 day period for both markets.

As was discussed in the hearing, the proposed alternative included a brokerage fee to complete the market transactions. Over the 20 year life of the PPA, the model show NorthWestern to be at Min-gen an average estimate of 11,140 MWh per year. Ms. Maini stated that she thought the brokerage fees range from $0.75 to $2.00 per MWh. Using the average, the broker fee would equal $8,335 to $22,280 per year to complete these transactions and calculations. NorthWestern believes that the maximum amount of $22,140 would not cover its costs to complete these tasks. The brokerage rate would need to be much higher.

An additional complicated issue that may not have a solution is the treatment of any additional QFs included in NorthWestern's portfolio. It would be very difficult, if not impossible, to distinguish between the two resources for this type of crediting mechanism.

For these reasons, NorthWestern believes the Commission should not pursue this alternative. The alternative creates a complex set of circumstances, risk, and liability that should not exist for a resource that is forcing the sale of its energy on customers. This is precisely why FERC Order 69 instructs utilities and commissions that the value of QF generation for resale is zero.

Dated this 3rd day of May, 2017.

NORTHWESTERN CORPORATION,
d/b/a NORTHWESTERN ENERGY

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