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	SOUTH DAKOTA PUBLIC
1	UTILITIES COMMISSION THE PUBLIC UTILITIES COMMISSION
2	OF THE STATE OF SOUTH DAKOTA
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44	IN THE MATTER OF THE COMPLAINT EL11-006 BY OAK TREE ENERGY, LLC, AGAINST
5 6	NORTHWESTERN ENERGY FOR REFUSING TO ENTER INTO A PURCHASE POWER
	AGREEMENT
7	
8	Transcript of Proceedings ORIGINAL May 2, 2012
9	
10	BEFORE THE PUBLIC UTILITIES COMMISSION,
11	CHRIS NELSON, CHAIRMAN KRISTIE FIEGEN, VICE CHAIRMAN
12	GARY HANSON, COMMISSIONER
13	COMMISSION STAFF John Smith
14	Kara Semmler Ryan Soye
15	Greg Rislov Chris Daugaard
16	Brian Rounds Demaris Axthelm
17	APPEARANCES
18	Michael Uda, Oak Tree Al Brogan, NorthWestern Energy (by telephone)
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22	Reported By Cheri McComsey Wittler, RPR, CRR
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	TRANSCRIPT OF PROCEEDINGS, held in the
	above-entitled matter, at the South Dakota State
	Capitol Building, Room 413, 500 East Capitol Avenue,
	Pierre, South Dakota, on the 2nd day of May, 2012,
	commencing at 10 o'clock a.m.
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CHAIRMAN NELSON: I will call the meeting to order. We are gathered once again on EL11-006 in the matter of the Complaint by Oak Tree Energy, LLC against NorthWestern Energy for refusing to enter into a purchase power agreement.

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The questions that were posted for today's agenda are how shall the Commission rule on Oak Tree's Complaint or how shall the Commission proceed?

I would like to begin, first of all, by thanking both parties for their responses by 5 o'clock on Monday. I will simply say from my perspective to Oak Tree I understand the rationale of your counteroffer, as it were, but I am not prepared to go there. I was not prepared to go anything above the number that I had calculated.

And so while I understand where you're coming from, I'm not prepared to pursue that avenue today but do thank you for your time and looking at that very seriously.

With that, this may be fairly free flowing. I know there's Commissioners that probably have some motions on how to proceed. But I know the one thing that I would like to do is ask Bleau LaFave some questions based on some of the additional research that I've done.

But I'd turn to other Commissioners if they have

questions that they'd like to ask of anybody at this point.

COMMISSIONER FIEGEN: Nope. Go ahead.

CHAIRMAN NELSON: No other questions there.

5 | Bleau, are you still with us?

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MR. LAFAVE: Yes, I am, Commissioner.

CHAIRMAN NELSON: Thank you. I've spent some time looking at Mr. Lewis's Exhibit 9 where he has his energy forecast. And I've spent some time looking at your Exhibit 3. And perhaps in this whole process I should have picked this up someplace along the line, but I just haven't so I need you to explain to me.

And I want to ask some questions, first of all.

And ultimately what I need to have explained is how

NorthWestern arrived at the \$35 figure, given the inputs
that I see on your Exhibit 3.

And, obviously, I'm not seeing the formulas that are on this spreadsheet, and if I could, that might have explained it to me. But since I can't see those, you might have to walk me through it.

The first question that I've got for you in the third column we've got NorthWestern on peak avoided cost, and then the off peak avoided costs in the fourth column. Those don't match perfectly the numbers that Mr. Lewis came up with so where did these particular sets of

1 | numbers come from?

MS. LAFAVE: Okay. This is described in my

testimony. I don't know exactly right off the top of my

head now how the calculation came up with the avoided

cost of 35, but I'll try to go through it where these particular numbers come from.

If you look at --

CHAIRMAN NELSON: And, Bleau, if I can just tell you, I've read your testimony a number of times and I'm still not grasping it and so that's why I'm asking. I appreciate your patience.

MR. LAFAVE: No. Not a problem. Not a problem. The third column over that says on peak and the fourth column over that says off peak, 2013 to 2016 is what we filed in 2011 as recorded in our avoided cost filing that fall. So those numbers come directly from that avoided cost filing.

Then the numbers starting in 2023 you'll see the \$49 and the \$30. Those two numbers are directly from Steve Lewis's forecast that he filed that you were referring to earlier, and they continue on down through 2032. So that's where those two sets of numbers came from.

The numbers in between those two sets and have been discussed a couple of different times, because we

did not have the avoided cost calculation -- it's a complicated calculation we're working on trying to get something that we can automate it and do it quicker, but it's a very lengthy calculation.

So what I did, as I described, was I just did a straight line between that last avoided cost filing, which was in 2016, and the 2023 number, which is 100 percent on the market as using Steve Lewis's numbers. And I took that time frame, just did a straight line divide to come up with the numbers in between those two years.

And then to do the overall, the 35, the light load hours represents X number of hours in a year. The heavy load are the other hours. And you average those two together for the respective hours, and you come up with the \$35.

CHAIRMAN NELSON: Okay. And I want to -- and I appreciate the answer as to where the numbers came from in the third and fourth column. I need to ask some other questions between that point and your \$35 point.

Looking at the 2023 time period where we're looking at making purchases 100 percent of the time, so at that point are you utilizing the high load numbers or the low load numbers or some combination of those?

MR. LAFAVE: For Steve Lewis's --

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CHAIRMAN NELSON: And my presumption would be that if you're making a purchase 100 percent of the time, you're going to be using the high load numbers, but I need to know exactly how you did that.

MR. LAFAVE: The high load numbers we've got to be very careful with the terminology. The heavy load numbers are the ones there in the third column. The light load numbers are the ones in the fourth column.

CHAIRMAN NELSON: Correct.

MR. LAFAVE: So we've got on peak, off peak. So you have heavy load in the third column and light load in the fourth column. And then there are X number of heavy load hours in a given year, X number of light load hours in a given year. So if you want to annual blend them, then you blend the two together with the respective hours.

CHAIRMAN NELSON: So that blend, and I see your 46 and 44 number, did you use that blend for every one of these years, or did that change as you went to a higher and higher percentage of needing to purchase?

MR. BLEAU LAFAVE: No. That's two different blends. When I'm talking about the blend between the heavy and the light load, that doesn't change. Your heavy load hours and your light load hours stay the same regardless of what year you're in. It's just a number of

1 hours in a given year.

The blend as far as how much generation is included in the avoided cost calculation versus market purchases after the year 2023 we assumed that we were

5 | 100 percent in the market.

CHAIRMAN NELSON: Okay. That, I think, answers my question. I think --

MR. LAFAVE: The percentage that's in the second column is the percentage that's representing the amount of generation versus the amount of -- and it's strictly an estimate because of, you know, forecasting. The light load and heavy load are not going to progress in the future the same as far as how much generation versus purchasing.

We just roughly took an estimate based on our load balancing curve. And in 2023 that's where that number will -- we'll be 100 percent in the market for at least 1 megawatt hours. In likelihood we probably won't be there in light load hours. We had to make an estimate someplace.

CHAIRMAN NELSON: Just so I'm clear, in the year 2023, you would have been using this \$49.54 number for the entire --

MR. LAFAVE: We would have used the 49.54 for heavy load hours and 30.25 for the light load hours.

CHAIRMAN NELSON: Okay.

MR. LAFAVE: Heavy load hours are typically between 6 o'clock and 10 o'clock, and light load hours are between -- or the remaining hours of a given day, with the exception of weekends and holidays.

So depending on the year it also does change on the holidays. But if you add up all the hours in any given year, that will tell you how many hours you have light load, how many hours you have heavy load, and that's the split you use between those two columns.

CHAIRMAN NELSON: So, I mean, what's the likelihood that you'd actually be making purchases in those light load hours even in those out years?

MR. LAFAVE: If we had time to go through an entire model -- and, like I said, we're working on it. We'll build it as we go. It just takes a lot of time. We have some programmers working on it right now.

But I'm guessing even in my career it would be unlikely that we're making purchases every hour with our current unless we get a significant load on our system. But, again, we had to pick a point at some point in time what we knew at the time we did this study.

We've looked a little bit more -- some of the internal people I'm talking to saying within the next 20 years we still won't be purchasing all hours on the

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light load. But it gets smaller and smaller every year.
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              CHAIRMAN NELSON: Okay. Bleau, thank you for
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     walking me through that. I think that's the answers that
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     I need for today.
              With that, questions from other Commissioners?
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              COMMISSIONER FIEGEN: I don't have questions,
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     but I'll have comments. When you're ready.
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              CHAIRMAN NELSON: Yep. I'm seeing Commissioner
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 9
     Hanson.
              COMMISSIONER HANSON: Mr. Chairman, I'll have
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     questions when we have a motion.
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              CHAIRMAN NELSON: Commissioner Fiegen, should we
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     try and see if Commissioner Hanson has a motion, or do
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     you want to make some comments first?
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              COMMISSIONER FIEGEN: I'll make some comments
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     first.
16
                                Okay. Commissioner Fiegen.
              CHAIRMAN NELSON:
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              COMMISSIONER FIEGEN: Thank you, Chairman
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19
     Nelson.
              First of all, I want to thank all three parties
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     for your hard work, and you guys have spent hundreds and
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    hundreds of hours trying to give us information that we
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    can evaluate and come up with a decision as a Commission.
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              First of all, I am most comfortable as a
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    Commissioner when the three parties negotiate and then
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1 actually the Commission makes a decision or a ruling on those negotiations.

We've learned a lot, and we have learned that there are all sorts of different points of view. As I

Commissioner, I believe that Staff is on the right track of using the hybrid method and using the hybrid method with NorthWestern because NorthWestern is a vertically integrated system, which they generate most of their power most of the time right now on their own.

So the market price method is interesting, and, of course, we use that. I don't think that's the right method for this docket.

There are all sorts of other things that we need to talk about, and I know Commissioner Hanson will be talking about it and Commissioner Nelson. I also believe that NorthWestern needs to put in a carbon cost. And actually there is testimony in their briefings that talks about a \$5, \$10, \$15 carbon cost, which I do believe would be appropriate.

Because, of course, Oak Tree has brought that, has a carbon cost, but NorthWestern has given us information on one, but has left it out.

Also we need to look at the natural gas, and we need to realize that we need to look probably at current market price and look at the issues that are surrounding

natural gas today and not two years ago or 18 months ago. 1 2 So we have to kind of reevaluate natural gas and use that 3 of what we see today. Because as a Commissioner I want to make sure we 5 make a ruling that is as fair as possible. And when we have new information on natural gas today, as a 6 Commissioner, I believe we have to use that. 7 So there are all sorts of different issues. 8 9 There are more points that I will certainly add to the motion, but those are the points I wanted to make in an 10 opening statement. 11 CHAIRMAN NELSON: Thank vou. 12 13 Commissioner Hanson, would you like to proceed? 14 COMMISSIONER HANSON: Thank you, Mr. Chairman. 15 I do have a motion, and it occurs to me I can ask one of 16 the questions I have ahead of time, if that's all right. 17 CHAIRMAN NELSON: Certainly. COMMISSIONER HANSON: I'm curious from the 18 parties -- well, primarily from NorthWestern at this 19 juncture -- I think I know what Oak Tree's position would 20 be on the answer -- of using either the Titan 1 project 21 22 or the MISO method in calculating the capacity credit for 23 the facility's output.

MR. BROGAN: Commissioner Hanson, this is

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Could I hear from NorthWestern?

Al Brogan. And I'm on a speaker phone so if I'm not coming over well enough, please let me know, and I'll pick up the handset.

_CHAIRMAN_NELSON: __It_sounds_very_good.

MR. BROGAN: Thank you.

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With respect to determining the capacity credits for a wind farm, I think we need to recognize three things. First, although not all of us, and that includes NorthWestern and Western Area Power Administration, WAPA, are members of MISO, to a very big extent MISO is the big dog in the room.

Secondly, we need to recognize that MISO has established a method by which wind facilities get their initial capacity calculation, as you will, by using the system average, and then after the first year of operation that capacity credit changes every year based on the wind farm's actual output at the hours of peak.

So long as MISO and MRO, Midwest Reliability Organization, are working together to enforce reliability standards, I think it's incumbent on NorthWestern to follow what MISO does.

With respect to Titan, I'm a little unclear as to the question. If the question was should we use the same method that is used for Titan, well, that's essentially what's being done is the MISO method.

If the question is should we use the Titan 1 2 contract, again, as we've said previously in our briefs and in testimony, the Titan contract was entered into 3 when markets were substantially different, and it does 5 not represent a part of NorthWestern's avoidable cost. We're going to pay for Titan for what it 6 delivers regardless of whether we purchase from Oak Tree 7 So there's no avoidable cost associated with or not. 9 Titan. I may have misinterpreted the question. If so, 1.0 11 Commissioner Hanson, I apologize. COMMISSIONER HANSON: No, you did not. 12 13 answered it. I appreciate your answer. I thought there was a difference between Titan 1 method and the MISO 14 15 method. I'm curious if any of the Staff have anything to 16 17 add to that. If not, if everyone believes that they are 18 similar --CHAIRMAN NELSON: Mr. Rounds. 19 COMMISSIONER HANSON: I'm debating and trying to 20 21 come up with whether I'm totally comfortable with using Titan 1 or whether I use the MISO method. 22 MR. ROUNDS: Yeah. I guess it's my 23 understanding that Titan 1 uses the MISO method. 24

COMMISSIONER HANSON: So if I say Titan 1, then

I'm safe? 1 2 MR. ROUNDS: Correct. COMMISSIONER HANSON: I've heard it from three 3 parties now so I appreciate that. Mr. Chairman, if I may -- I asked questions. 5 Ι didn't necessarily make comments. 6 7 CHAIRMAN NELSON: You may proceed. COMMISSIONER HANSON: I have a number of 8 motions. I'm wondering whether I should, I suspect, make 9 them individually or all in one. 10 CHAIRMAN NELSON: I would be comfortable with 11 one singular motion, and then if we have issues, we can 12 move to amend various portions. 1.3 COMMISSIONER HANSON: All right. In 14 Docket EL11-006, Oak Tree versus NorthWestern, I move 15 that the Commission find and conclude in general 16 agreement with Staff's conclusions in its Posthearing 17 Brief, number 1, that given NorthWestern's status as a 18 vertically integrated utility with predominant reliance 19 on its own internal generation at this time, the hybrid 20 method is the proper method to operate avoided costs for 21 22 NorthWestern's South Dakota system. Secondly, that NorthWestern did not, however, 23 incorporate projected carbon cost inputs into its use of 24

this method and also may have utilized natural gas inputs

and electric market inputs, and as a result the

Commission did not reliably determine the proper avoided

cost with the data and analysis currently in the record.

Number three, that the carbon emission cost

values of \$5 per ton starting in 2015 and shifting to \$10 a ton starting in 2020 and rising to \$15 a ton in 2025 as estimated by Lands Energy are reasonable carbon emission cost estimates in the present environment and are the appropriate carbon emissions cost values to be included in the parties' respective hybrid method analysis of avoided cost.

Fourth, that NorthWestern is obligated to purchase Oak Tree's output because a legally enforceable obligation, an LEO, was created by Oak Tree on February 25, 2011.

Fifth, that Oak Tree is entitled to capacity credit for the facility's output commencing in 2012 with the capacity contribution to be determined and adjusted in accordance with the method NorthWestern is using for the Titan 1 project, and such capacity credit shall be incorporated into the hybrid method beginning in 2012.

Sixth, that the proper avoided cost contract term is 20 years.

I further move that on or before June 1, 2012 the parties shall file with the Commission such

additional analysis employing a hybrid method and such additional prefiled testimony as they deem necessary to enable a Commission to determine the following:

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1, the proper application of the hybrid method;

2, the proper natural gas inputs to use in the hybrid method based on current market conditions and projections; 3, the proper electric market rates that the parties may deem warranted to reflect current market conditions and projections taking into consideration the carbon emission costs previously approved -- excuse me. They haven't been previously approved, but they appear in the previous comments. And any adjustments to gas prices; 4, the proper capacity contribution and resulting capacity credits to be included in the avoided cost and added into the hybrid method under the Titan 1 method; 5, NorthWestern's avoided cost levelized over a 20-year period. The parties may file rebuttal testimony on or before June 13, 2012.

I further move that the Commission shall schedule this matter for further hearing on June 19, 2012 with the hearing to begin following adjournment of the Commission's regular meeting scheduled for that date.

I further move that the Commission direct Staff to open a rule making docket for the purpose of considering on a statewide basis the proper standards

that should govern avoided cost determinations in the future in this state including, but not limited to, the requirements for creation of a legally enforceable obligation, the acceptable method or methodologies for determination of avoided cost, and the appropriateness of particular methods in specified circumstances, appropriate contract terms, and the standards for determination of when capacity credits shall be allowed, and the appropriate methods for computing the magnitude and duration of such credits.

Mr. Chairman, that's the complete motion, and I am concerned a bit with time lines at this point. And I'd be interested in hearing from the parties and certainly turn it over to you because you're in charge, and you will determine whether the Commissioners speak first or whether we go with questions.

Based on the motion, I do have some questions for the parties. And maybe the best would be for us to ask our questions of the parties, and then we can proceed with our discussion.

But, Commissioner Hanson, I'd let you go first with your questions.

COMMISSIONER HANSON: Thank you. I struggle a bit with whether I would include the carbon emission cost values as I did. It's very challenging to look at

Congress and try and figure out exactly what they're going to be doing.

hand we're saying that we're making this motion to proceed under these circumstances, and yet we're asking Staff to help to work through a analysis in order to -- a rule making process as well in order to determine really what should be done with this type of a docket.

And granted there's some real challenges in

And so it's kind of a strange animal to go ahead -- to proceed with it and then to go through the process on determining how to go -- how to proceed with it.

So it's a challenge from that standpoint. It does set a precedent. But I think under the circumstances we need to proceed under that process.

So what I'm really curious about is something somewhat benign, and that is time lines. And I think those can actually be worked out. I don't think I need to ask the question. We don't need to go through a process on that. I think that that can be worked out by Staff.

So at this juncture I would just say that I echo the comments of Commissioner Fiegen and the statements that you made earlier. I sincerely appreciate the amount

of time and effort that the parties have gone into with this and the tremendous amount of work that Staff did in guiding us through this process.

Thank you, Mr. Chair.

CHAIRMAN NELSON: Other questions of the parties.

Seeing none, I do have one. And I guess, as you heard the motion, there was significant emphasis on utilizing current market conditions and projections. And I would compare that to utilizing the market projections and conditions that were in place in February of 2011 when the LEO was created.

And I guess I'd like to hear from both parties maybe some argument if you could at this point, and if not, certainly in, you know, whatever you'll be filing from here on as to whether we should be reliant upon current conditions and current projections or those that were in place in February of 2011.

Mr. Uda, since you're in the room, I'll turn to you first if you'd like to comment on that question.

MR. UDA: I believe that the -- necessarily based on the way that the FERC rules are written and the case law on this subject matter that the determination of avoided cost as of the date of the LEO is necessarily a prospective determination.

I think it would be inappropriate to look at current market conditions, well, for a couple of reasons, I think. The first is because current market conditions can be misleading. And what I mean by that is, you know,

it wasn't so long ago that, you know, we were experiencing a situation where, you know, I had clients who were buying power in the market at market rates and they thought that was a pretty good deal, and then all of a sudden in the Western Interconnect we had the California energy crisis of 2000 and 2001 and all the sudden they were paying \$150 a megawatt hour or more for their contracts and they couldn't operate.

Some utilities got caught in the same situation, and that spawned years of litigation. So looking at the, you know, kind of short-term situation can be misleading.

And I also think that when you look at -- when you say current -- it depends on what you mean by current market conditions. I think it's appropriate to look at current market conditions as of February 25, 2011, because that was the time frame which we had to try to, you know, figure out exactly the financing for this proposal and retain experts and have them look at those kind of things.

And, you know, there's a lot of ways in which,

you know, utility planning is done similarly in a sense that, you know, the utility values that the project that it makes a proposal to State Commissions, and as long as those costs are prudently incurred and the project is built, typically speaking there's not a retrospective look at whether or not this was substantially above

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market.

I would like to add another war story, if you will. I represented a project before the Montana Commission in 2002. And it came in and said, you know, we'd like to sell our output to NorthWestern at \$32.75 for 20 years. And that would look like a real bargain now.

And my point is that the future is not always going to be lower. There's a certain tendency to think that whatever's going on right now is what will go on in the future.

And, you know, I think that, you know, one thing that we've talked about with these forecasts is, you know, they're all going to be wrong. And so the real question is, you know, what sort of acceptable range is there in terms of risk of being wrong and what sort of risk does it pose?

So I guess that's a long answer, and I apologize for that. But what I would say is that I think it's most

appropriate based on PURPA policy and regulations and to
the extent we have case law to look at this as a
prospective determination as of February 25, 2011 as
opposed to let's look at what's going on in the market

right now, that can change on a daily basis.

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CHAIRMAN NELSON: You mentioned case law twice.

Can you cite any cases for us that would direct us to the need to use February 2011 numbers?

MR. UDA: Well, yeah. There are a couple of cases, and I can't remember them right off the top of my head. But I think one of them is actually a New York case, Saranac Power Partners. And I believe that the court there pointed out that QFs are allowed to lock in their rate.

I would also point you to two recent FERC decisions. One is the JD Wind 1 case and also the Cedar Creek Wind case in which the Commission made it very clear that -- Cedar Creek Wind, I think it's particularly illustrative of this point. Because what had happened in that case was the qualifying facility had signed a contract and sent it back to the utility. And the utility knew that a new avoided cost rate was going to go into effect, and they waited until after the deadline to sign the contract so that the new lower rate would go into effect.

And FERC said that's exactly why we have the legally enforceable obligation situation is to avoid this kind of situation where you have a utility that just simply holds on to a contract so a lower rate applies.

So I think what the Commission is saying at that point is the point in which the legally enforceable obligation is created, that's the rate that applies. So the rate has to necessarily be the rate on the date the LEO applies, and I think you can't really base a rate, you know, on present information if you're really trying to lock it in as of the date of February 25, 2011. I think it has to be based on information at that time.

CHAIRMAN NELSON: Thank you.

Mr. Brogan, a response.

MR. BROGAN: Chairman Nelson, I'd like to respond maybe in reverse order.

First I would say that I believe that the characterization of the Cedar Wind case is not entirely in line with the details of that case. I think we need to keep in mind that that's based out of Idaho, that in Idaho QFs at that time up to 10 megawatts were entitled to what are called standard offer rates.

There was a published standard offer rate. The Idaho PUC had announced that as of December 14 of the applicable year wind and solar QFs would not be eligible

for a standard offer rate if they were larger than 2 100 kW.

The question wasn't the rate but whether or not the QF was entitled to the published rate. And as

Mr. Uda correctly stated, FERC determined that when everything had been agreed upon, the utility could not just refuse to sign the contract or fail to sign the contract and then put the QF in a position where it had to compete for basically a slot in selling to the utility.

Whether or not this Commission is obligated to look at only information that is -- that was available on February 25 of 2011 I believe is a debatable point.

I think that's especially the case whereas here the Commission is deciding that a legally enforceable obligation was created even though the QF had not committed to sell power at an avoided cost.

I would also comment that I think the Saranac case is not comparable to this issue. In Saranac the issue was whether or not after QFs had entered into contracts, long-term contracts, at the New York Commission's mandated rate, and it turned out that that mandated rate was too high, you know, 20/20 hindsight, I guess, whether or not the utilities had some method of reforming or lowering those contract rates. And I think

we all know the answer to that is no. 1. But I don't think that case stands for anything 2 about the information that the Commission may look at. 3 <u> MR. UDA: Mr. Chairman, might I just have a</u> brief --5 May I finish? 6 MR. BROGAN: MR. UDA: Oh, I apologize, Mr. Brogan. I didn't 7 realize you weren't done. 8 CHAIRMAN NELSON: Go ahead, Mr. Brogan. 9 MR. BROGAN: Given that, as NorthWestern has 10 argued throughout the case, we believe that the 11 Commission has discretion to go either way. 12 Certainly if it picks the date of February 25, 13 2011, and only wants to look at what was known or should 14 have been known then, I anticipate there will be a lot of 15 arguments about what was really known then. You know, we 16 can look at what the market was, but we can't look at 17 what was in everybody's mind then. 18 19 at some point in here in this whole process we have to 20

And then the final thing I would suggest is that at some point in here in this whole process we have to keep in mind its the people of South Dakota that are going to be footing the bill. And we need to have a methodology that makes sure that those people,

NorthWestern South Dakota rate payers, are financially indifferent. And somebody has to speak for the interests

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1 of those consumers.

2 Thank you, Mr. Chairman.

CHAIRMAN NELSON: Thank you.

Mr. Uda.

MR. UDA: Well, at the outset I want to apologize to Mr. Brogan. I took his pause as him being finished, and I didn't intend for that to happen. I'm sorry, Al.

At any rate, just a couple of things. First of all, I don't want to get too bogged down in the details of Saranac and Cedar Creek Wind. NorthWestern's position makes no sense.

I mean, this is one of the problems that I've had with the number of arguments that they've made. And this is why the position makes no sense:

If the FERC's point in Cedar Creek Wind, regardless of whether it was because the standard offer rate didn't apply and you would have to go in the cue or whatever else, the point that FERC has consistently made is that by refusing to sign a contract, you cannot change the avoided cost. Because that interferes with the reasonable investment backed expectations.

FERC in Order 69 could not have been clearer that the purpose of this was to promote the development of new technologies and that in order to do that, there

1 | had to be some certainty.

So the date -- and the Saranac case, I didn't quote it because I think it's particularly apropos on its facts in this situation. I quoted it because it uses the phrase "locked in."

QFs have the right to lock in a rate. That is how the legally enforceable obligation works. At the date at which it's created, it locks in the rate. Now whatever that rate is is what we're debating here.

And so my point would be I think, you know, the interpretation -- those cases speak for themselves. You know, I don't need to argue about them too much. By I just want to say I think that the appropriate look is -- and Mr. Brogan's making a good point.

I don't think he's wrong to say, well, you know, we're going to have to go back and look at what people would have known. That's been kind of what our effort has been here from the beginning.

Mr. Lauckhart's point is, you know, when he was relying on the Black & Veatch Energy Market Perspective it only gets done twice a year. His obligation -- he consulted with people at Black & Veatch -- was to say, you know, there's movement in the gas market. Is this a temporary change, or is this a long-term fundamental change that's going to change the way we do our

1 forecast.

These are the kind of things Black & Veatch does an enormous amount of resources in. So I agree with him to a certain extent, but that's kind of been the whole

5 exercise from our standpoint.

What I'm saying bottom line is I think it would be substantial error -- that's as distinguished from a minor error -- for the Commission to say, well, let's look at, you know, the situation now and then sort of go back to February 25, 2011. I think you have to try to make this determination as of what the parties knew or reasonably should have known as of February 25, 2011.

CHAIRMAN NELSON: Thank you.

Other questions from the Commission?

I guess maybe the only -- and I do want to follow up on where Commissioner Hanson was going in regard to the dates that we've put in here to further this proceeding.

Are there any objections from either of the parties as to the states that we've selected?

Mr. Uda?

MR. UDA: Well, let me just say -- and I haven't had a chance to confer with my clients really on this.

You know, obviously we would prefer as short of deadline as we possibly could.

Because, I mean, you know, the real issue for us is we're facing a situation where the production tax credits are expiring and the potential for being able to use bonus depreciation is expiring as of the end of this year and there's a substantial risk that the product tax credit will not be renewed. We'd like it to be as short of a time frame as possible. We understand that the Commission has limited resources and you have other things that you have to do.

And I think at least from my experience basically a six- to seven-week process is, you know, I know from your perspective extraordinarily fast. So, you know, I think, you know, one of the things that we would have to consider is, you know, basically, you know, two separate filings consistent with the Order.

One would be with the production tax credit and one without, if it doesn't get renewed. Because I think that substantially effects, you know, what price we would be able to produce.

CHAIRMAN NELSON: But if I might, and obviously I'm the -- the Commission has been pretty sensitive to your time line, but the production tax credit whether it's there or not doesn't affect the avoided cost number.

MR. UDA: No. I acknowledge that.

CHAIRMAN NELSON: That's what we're here to

| find.

MR. UDA: No. I understand. You're absolutely correct, Chairman Nelson. The only point I was making is that, you know, as we move through time, I mean, the fact is, you know, we're not going to -- we're not going to claim that the production tax credit is part of the avoided cost.

We may just want to make you aware of the difference of what you're looking at. Not that it would be critical to your determination of the actual avoided cost.

CHAIRMAN NELSON: Thank you.

Mr. Brogan, your comments on the proposed time frame?

MR. BROGAN: Chairman Nelson, I understand the need for an accelerated schedule. However, the initial June 1 deadline is going to be very difficult, at least as I see it. And I may be analyzing it wrong.

But at this point it appears to me that we will need -- NorthWestern will need to apparently find a new expert with respect to electric and natural gas prices as the Commission doesn't seem to accept Lands Energy's forecast, though it does for carbon.

Secondly, NorthWestern is in the process of making three filings before the Montana Public Service

Commission that it has to have done before the end of May. And then, third, I have a prior commitment that I cannot get out of without substantial personal expense that has me unavailable to work on any of this matter from Saturday, May 19 through Saturday, May 26. And it

rrom Saturday, May 19 through Saturday, May 20. And it's not a commitment for a vacation, incidentally. It is a working commitment.

That said, you know, we will do whatever we -you know, whatever needs to be done to fit the
Commission's schedule. I just would emphasize that we're
concerned about basically such a short time to develop
the initial analysis by June 1 of 2012.

I guess the last thing I would say is that for this to work at all I think we have to be sure that we're not going to be engaging in discovery between the initial testimony on June 1 or whatever date is set and the rebuttal testimony.

If we have discovery that we have to develop and, more importantly, respond to during that period, the turn around I think would be impossible for us.

Thank you.

CHAIRMAN NELSON: If you'll give us just a minute, I'm conferring with Commission counsel.

Staff, do you have an opinion on the schedule?
MS. SEMMLER: Certainly it's hard for Staff to

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comment on the parties' various schedules. But I would start by saying I don't necessarily know why they would need to find a new witness. Lands Energy doesn't have to necessarily agree with your Order to follow the Order and

5 | to insert the numbers as you've ordered.

And, second of all, I don't know what discovery would need to be done. Again, you're ordering particular numbers or ordering a particular mode so -- a mode of action. So I don't know why discovery would be necessary either.

CHAIRMAN NELSON: Thank you. Just give us a minute while I confer with Commission counsel.

(Pause)

CHAIRMAN NELSON: Mr. Brogan, one of the things that we've just kicked around here, Mr. Smith and myself, is pushing back that June 1 date, you know, perhaps -- I'm going to pull up a calendar here. Pushing that back just a bit to try to accommodate that week that you're unavailable to work on the project.

MR. BROGAN: Chairman Nelson, I would really appreciate that accommodation.

CHAIRMAN NELSON: If we push that back to June 6, would that help? And then keep any rebuttal testimony to June 13?

MR. BROGAN: That would be very helpful, the

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June 6 date. And we have turned around and provided testimony in a week before, you know, in a week's time period in other stages of this docket. I think we could do it again. It's not easy, but it can be done.

CHAIRMAN NELSON: I understand. I appreciate your flexibility. And that allows us to try to move this along as quickly as possible.

With that, discussion from the Commission on the motion.

I think the only comment -- Commissioner

Hanson, I intend to support your motion. I appreciate

your putting this together for us and bringing this to

us.

The only question I've got -- and it was something you hinted at -- was the last paragraph about opening the rule making proceeding. And it does seem to me maybe a little bit disjointed that we open that proceeding before we finish this particular docket, that there may be questions raised in that that then all the sudden people are saying, well, why aren't you applying that in this docket. And to me that seems like it may muddy the waters as we try to wrap this docket up as quickly as possible.

COMMISSIONER HANSON: Yes. That's one of the reasons that I expressed what I did. It's a situation

where you're going to go out and tell people how to drive a car and then later on you're going to learn how to drive it yourself. And it's an interesting situation.

But if we have further requests that come before

us, obviously all three of us, well, all of us who participated in this recognize that we need to have a variety of things established. And in order to do that, we have to go through this process that's recommended at the very end.

And so it's a matter of they both need to get done, and they both need to get done pretty soon.

Obviously, the Staff's directive would take place not concurrently with this but consecutively. It would take place afterwards.

So if you're comfortable in taking those in two different motions, that's fine. But I really think we need to get started with both of them.

CHAIRMAN NELSON: I would be comfortable if it would be the understanding that, frankly, that the docket be opened but that nothing be done with the docket until we've concluded EL11-006. Because I agree with you that we certainly need to do the rule making.

But so far as making anything publicly available or proposed rules or anything like that, I'd be very uncomfortable doing that before we wrap this one

1 up.

COMMISSIONER HANSON: I think Staff would appreciate knowing that they don't have to be doing both of them at the same time as well.

CHAIRMAN NELSON: So if that would be kind of just the understanding all the way around, then I'm certainly on board.

COMMISSIONER FIEGEN: Just to make it clear, do we just amend the motion that says the docket opens after the conclusion of this complaint?

COMMISSIONER HANSON: I think we can just -- we just basically told Staff right now, and the Chairman has that prerogative of moving forward in that directive, I believe.

COMMISSIONER FIEGEN: So it will reflect in the minutes.

CHAIRMAN NELSON: Mr. Smith.

MR. SMITH: Just a comment too. I mean, the opening of a docket to say that's going to be a policy thing that we're going to pursue, I mean, a docket like that's probably going to be -- it's probably a yearlong process. This is not going to be a simple thing, you know, something like that.

So just opening it, it opens it, and it makes some commitment on our part to move it along and proceed,

1	but I wouldn't perceive significant activity happening					
2	necessarily immediately. So I don't know that there's					
3	actually any time conflict or conflict that would happen					
4	there.					
5	I think what I think what Commissioner					
6	Hanson's motion is attempting to do and following on					
7	Staff's recommendation is that at some point here, given					
8	what we've experienced throughout this whole docket					
9	process, this Oak Tree docket, is, you know, the					
10	Commission at some point it would be useful to take a					
11	broad-based look at this in terms of figuring out how do					
12	we want to run the avoided cost and the QF rights process					
13	going forward and put some direction into it on a					
14	prospective basis.					
15	But just comments. Thank you.					
16	CHAIRMAN NELSON: Thank you.					
17	Further discussion on the motion?					
18	Seeing none, all those in favor vote aye. Those					
19	opposed nay.					
20	Commissioner Hanson.					
21	COMMISSIONER HANSON: Aye.					
22	CHAIRMAN NELSON: Commissioner Fiegen.					
23	COMMISSIONER FIEGEN: Fiegen votes aye.					
24	CHAIRMAN NELSON: And Nelson votes aye. Motion					
25	carries.					

I do have one additional request. Mr. LaFave, 1 2 going back to my questioning on your Exhibit 3, would it be possible for me to get -- and I'm guessing it's going 3 to end up having to be part of the record but your actual 5 spreadsheet so I can see the formulas? MR. LAFAVE: I'm sure it can be part of that. 6 7 Our intention hopefully will be to have a full blown one hopefully built by June 6. 8 Okay. Then you and I, we're 9 CHAIRMAN NELSON: tracking identically on where we need to go with this. 10 And I appreciate that. But in the meantime if you could 1] 12 provide me with, you know, just what's behind that Exhibit 3, I would appreciate that. 13 14 MR. LAFAVE: Okay. 15 CHAIRMAN NELSON: Excellent. Thank you. 16 Mr. Smith. Anything else for the good of the order? 17 18 Mr. Rislov. 19 MR. RISLOV: And I'm following up on Chairman Nelson's request of Mr. LaFave. I would like to ask both 20 21 parties -- not to throw harpoons at this point, but I 22 would like a little better sourcing and a little better formula, derivation, just a list so that we can replicate 23

those exhibits, I can replicate those exhibits.

I'm not privy to all the material that Staff

25

24

gets. And the one thing I've been a stickler about with the Staff I've worked with over 35 years is you should be able to look at a exhibit and be able to follow it through without playing hide and seek and a guessing game.

So I would ask both parties to more fully source and point out where the derivation comes from on those exhibits.

MR. UDA: On that point -- this goes to the issue of discovery, I think -- you know, I was prodded by my expert on the phone, by e-mail, that, you know, the very process that you just went through with NorthWestern is the reason that if there isn't sufficient transparency, you may need discovery just to be able to better understand somebody's exhibits.

And I'm not saying we need to have that in this schedule because obviously we're trying to get this done as soon as possible. But it may become an issue if we need to find out just, I mean, somebody's math. You know, make sure that there was appropriate multiplication, subtraction, you know, division.

So, you know, with that, you know, we're comfortable with the schedule, but, you know, it may -- as Mr. Rislov points out, you know, there's less than perfect clarity. There may need to be some limited

1	opportunity for discovery at least to understand better
2	the exhibits.
3	CHAIRMAN NELSON: I appreciate that. Mr. Smith
4	has just had a suggestion that may help in this regard.
5	And that would be our request that as any of these
6	spreadsheet type documents are submitted to us that we
7	get the actual live spreadsheets also so that we can see
8	the math, that we can see the formulas and know how those
9	are operating.
10	And so if that would be an understanding, that
11	would move this along.
12	MR. UDA: We would be happy to provide that.
13	CHAIRMAN NELSON: Thank you.
14	MR. BROGAN: NorthWestern is comfortable with
15	that also.
16	CHAIRMAN NELSON: Thank you.
17	Any other comments?
18	Seeing none, is there a motion?
19	COMMISSIONER FIEGEN: Motion to adjourn.
20	CHAIRMAN NELSON: Motion to adjourn. Those in
21	favor vote aye.
22	Commissioner Hanson.
23	COMMISSIONER HANSON: Aye.
24	CHAIRMAN NELSON: Commissioner Fiegen.
25	COMMISSIONER FIEGEN: Fiegen votes aye.

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	1	CHAIRMAN NELSON: Nelson votes aye. Motion
	2	carries. We are adjourned.
	3	(The hearing is adjourned at 10:55 a.m.)
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1	STATE OF SOUTH DAKOTA)
2	:SS CERTIFICATE
3	COUNTY OF SULLY)
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5	I, CHERI MCCOMSEY WITTLER, a Registered
6	Professional Reporter, Certified Realtime Reporter and
7	Notary Public in and for the State of South Dakota:
8	DO HEREBY CERTIFY that as the duly-appointed
9	shorthand reporter, I took in shorthand the proceedings
10	had in the above-entitled matter on the 2nd day of May,
11	2012, and that the attached is a true and correct
12	transcription of the proceedings so taken.
13	Dated at Onida, South Dakota this 16th day of
14	May, 2012.
15	
16	
17	Chim, business
18	Cheri McComsey Wittler, Notary Public and
19	Registered Professional Reporter Certified Realtime Reporter
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\$	23:3, 24:11, 25:13,	30:24	applicable [1] - 24:25	balancing [1] - 8:16 1
Ψ	26:13, 29:10, 29:12	action [1] - 33:9	application [1] - 17:4	bargain [1] - 22:12
	26 [1] - 32:5	activity [1] - 37:1	applies [3] - 24:4,	base [1] - 24:9
\$10 [2] - 11 :18, 16:6	2nd [2] - 2:4, 42:10	actual [4] - 13:17,	24:7, 24:9	based [10] - 3:24,
\$15 [2] - 11:18, 16:6		31:10, 38:4, 40:7	apply [1] - 27:18	8:15, 13:16, 17:6,
\$150 [1] - 21:11	3	add [4] - 9:7, 12:9,	applying [1] - 34:20	18:17, 20:22, 23:1,
\$30 [1] - 5:19		14:17, 22:8	appointed [1] - 42:8	24:12, 24:20, 37:11
\$32.75 [1] - 22:11		added [1] - 17:15	appreciate [12] - 5:11,	basis [3] - 17:25, 23:5,
\$35 _[3] - 4:15, 6:16,	3 [5] - 4:10, 4:16, 17:7,	additional [4] - 3:24,	6:18, 14:13, 15:4,	37:14
6:20	38:2, 38:13	17:1, 17:2, 38:1	19:25, 33:21, 34:5,	become [1] - 39:18
\$49 _[1] - 5:19	30.25 [1] - 8:25	adjourn [2] - 40:19,	34:11, 36:3, 38:11,	BEFORE [1] - 1:10
\$49.54(1) - 8:22	35 (3) - 5:5, 6:12, 39:2	40:20	38:13, 40:3	begin [2] - 3:9, 17:21
\$49.54(1) - 0.22		adjourned [2] - 41:2,	appropriate [8] -	
1	4			beginning [2] - 16:21,
		41:3	11:19, 16:9, 18:7,	28:18
		adjournment [1] -	18:9, 21:19, 23:1,	behind [1] - 38:12
1 (16) - 8:18, 12:21,	4 [1] - 17:13	17:21	28:13, 39:20	believes [1] - 14:17
14:14, 14:22, 14:24,	413 [1] - 2:3	adjusted [1] - 16:18	appropriateness [1] -	benign [1] - 19:18
14:25, 15:18, 16:20,	44 [1] - 7:18	adjustments [1] -	18:5	best [1] - 18:18
16:24, 17:4, 17:15,	46 [1] - 7:18	17:12	approved [2] - 17:10,	better[4] - 38:22,
23:16, 31:17, 32:12,	49.54 [1] - 8:24	Administration [1] -	17:11	39:15, 40:1
32:16, 33:16		13:9	apropos [1] - 28:3	between [10] - 5:24,
10 [3] - 2:5, 9:3, 24:21	5	affect [1] - 30:23	Area [1] - 13:9	6:6, 6:10, 6:20, 7:22,
100 [6] - 6:8, 6:22, 7:2,		afterwards [1] - 35:14	argue [1] - 28:12	9:3, 9:4, 9:10, 14:14,
8:5, 8:17, 25:2		AGAINST [1] - 1:4	argued [1] - 26:11	32:15
10:55[1] - 41:3	5 [4] - 3:10, 11:18,	agenda [1] - 3:7	argument [1] - 20:14	big [2] - 13:10
13 (2) - 17:18, 33:24	16:5, 17:15	ago [3] - 12:1, 21:5	arguments [2] - 26:16,	bill [1] - 26:22
14 [1] - 24:24	500 [1] - 2:3	agree [3] - 29:3, 33:4,	27:14	bit [5] - 9:23, 18:12,
16th [1] - 42:13		35:21	arrived [1] - 4:15	18:24, 33:18, 34:17
	6	agreed [1] - 25:6	associated [1] - 14:8	Black [3] - 28:20,
18[1] - 12:1		AGREEMENT [1] - 1:6	assumed [1] - 8:4	28:22, 29:2
19 [2] - 17:20, 32:5	0.0000000000000000000000000000000000000	agreement [2] - 3:5,	attached [1] - 42:11	Bleau [4] - 3:23, 4:5,
	6 [4] - 9:3, 33:23, 34:1,	15:17	attempting [1] - 37:6	5:8, 10:2
2	38:8	ahead [4] - 4:3, 12:16,	automate [1] - 6:3	BLEAU [1] - 7:21
	69 [1] - 27:23	19:11, 26:9	available [2] - 25:12,	blend [6] - 7:14, 7:15,
2[2] - 1:8, 17:5		AI [3] - 1:18, 13:1, 27:8	35:24	7:17, 7:18, 7:22, 8:2
20 [3] - 9:25, 16:23,	9	allowed [2] - 18:8,	avenue [1] - 3:17	blends [1] - 7:22
22:12		23:13	Avenue [1] - 2:3	blown [1] - 38:7
20-year[1] - 17:16	9 [1] - 4:8	allows [1] - 34:6	average [2] - 6:14,	board [1] - 36:7
20/20[1] - 25:23	01.3	amend [2] - 15:13,	13:15	bogged [1] - 27:10
2000 [1] - 21:10	Α	36:9	avoid [1] - 24:2	bonus [1] - 30:4
2001 [1] - 21:10		amount [5] - 8:9, 8:10,	avoidable [2] - 14:5,	bottom [1] - 29:6
2007 [1] - 21:10		19:25, 20:2, 29:3	14:8	Brian (1) - 1:16
2002 [1] - 22.10 2011 [12] - 5:15, 16:15,	a.m [2] - 2:5, 41:3	analysis [5] - 16:3,	avoided [24] - 4:22,	brief [2] - 15:18, 26:5
1	able [5] - 30:3, 30:19,	16:11, 17:1, 19:7,	4:23, 5:4, 5:15, 5:16,	briefings [1] - 11:17
20:11, 20:18, 21:20,	39:3, 39:14	32:12	6:1, 6:6, 8:3, 15:21,	briefs [1] - 14:2
23:3, 23:8, 24:11,	above-entitled [2] -	analyzing [1] - 31:18	16:2, 16:11, 16:22,	bringing [1] - 34:12
25:13, 26:14, 29:10,	2:2, 42:10	animal [1] - 19:10	17:14, 17:16, 18:1,	broad [1] - 37:11
29:12	absolutely [1] - 31:2	announced [1] - 24:24	18:5, 20:24, 23:22,	broad [1] = 37.11
2012 [10] - 1:8, 2:4,	accelerated [1] -	annual [1] - 7:14	25:17, 27:21, 30:23,	I
16:17, 16:21, 16:24,	31:16	1	31:7, 31:10, 37:12	37:11
17:18, 17:20, 32:12,	accept [1] - 31:22	answer [5] - 6:18,	aware [1] - 31:8	Brogan [8] - 1:18,
42:11, 42:14	acceptable [2] - 18:4,	12:21, 14:13, 22:24,	Axthelm [1] - 1:16	13:1, 24:14, 26:7,
2013 [1] - 5:14	22:21	26:1	aye [8] - 37:18, 37:21,	26:9, 27:6, 31:13,
2015 [1] - 16:5	accommodate [1] -	answered [1] - 14:13	37:23, 37:24, 40:21,	33:14
2016 [2] - 5:14, 6:7	33:18	answers [2] - 8:6, 10:3	i	BROGAN [9] - 12:25,
2020 [1] - 16:6	accommodation (1) -	anticipate [1] - 26:15	40:23, 40:25, 41:1	13:5, 24:15, 26:6,
2023 [6] - 5:18, 6:7,	33:21	apologize [4] - 14:11,	р	26:10, 31:15, 33:20,
6:21, 8:4, 8:16, 8:22		22:24, 26:7, 27:6	В	33:25, 40:14
2025 [1] - 16:7	accordance [1] -	appear[1] - 17:11		Brogan's [1] - 28:14
2032 [1] - 5:22	16:19	APPEARANCES [1] -	backed [1] - 27:22	brought [1] - 11:20
25 [8] - 16:15, 21:20,	acknowledge[1] -	1:17		build (1) - 9:16
1				

Building [1] - 2:3	CHAIRMAN [52] -	comments [9] - 10:7,	concluded [1] - 35:21	11:20
	1:11, 1:11, 3:1, 4:4,	10:14, 10:15, 15:6,	conclusion [1] - 36:10	court [1] - 23:13
built [2] - 22:5, 38:8			conclusions [1] -	created [5] - 16:14,
buying [1] - 21:7	4:7, 5:8, 6:17, 7:1,	17:12, 19:24, 31:13,	1 ''	
BY [1] - 1:4	7:9, 7:17, 8:6, 8:21,	37:15, 40:17	15:17	20:12, 24:7, 25:16,
	9:1, 9:11, 10:2, 10:8,	COMMISSION [3] -	concurrently [1] -	28:8
С	10:12, 10:17, 12:12,	1:1, 1:10, 1:13	35:13	creation [1] - 18:3
	12:17, 13:4, 14:19,	Commission [27] -	conditions [9] - 17:6,	credit [8] - 12:22,
	15:7, 15:11, 20:5,	3:7, 3:8, 10:23, 11:1,	17:9, 20:9, 20:11,	13:16, 16:17, 16:20
calculated [1] - 3:15	23:6, 24:13, 26:9,	15:16, 16:2, 16:25,	20:17, 21:2, 21:3,	30:6, 30:16, 30:22,
calculating [1] - 12:22	27:3, 29:13, 30:20,	17:3, 17:19, 17:23,	21:19, 21:20	31:6
calculation [6] - 5:4,	30:25, 31:12, 32:22,	22:10, 23:17, 24:5,	confer [2] - 29:23,	credits [5] - 13:6,
6:1, 6:2, 6:4, 8:3,	33:11, 33:14, 33:22,	25:11, 25:15, 26:3,	33:12	17:14, 18:8, 18:10,
13:14		1		30:3
	34:5, 35:18, 36:5,	26:12, 29:8, 29:14,	conferring [1] - 32:23	
calendar [1] - 33:17	36:17, 37:16, 37:22,	30:8, 30:21, 31:22,	conflict [2] - 37:3	Creek [4] - 23:17,
California [1] - 21:10	37:24, 38:9, 38:15,	32:1, 32:23, 33:12,	Congress [1] - 19:1	23:18, 27:11, 27:16
cannot [2] - 27:20,	40:3, 40:13, 40:16,	34:8, 37:10	consecutively [1] -	crisis [1] - 21:10
32:3	40:20, 40:24, 41:1	Commission's [3] -	35:13	critical [1] - 31:10
capacity [10] - 12:22,	challenge [1] - 19:14	17:22, 25:22, 32:10	consider[1] - 30:14	CRR [1] - 1:22
13:6, 13:14, 13:16,	challenges [1] - 19:3	Commissioner (23) -	consideration [1] -	cue [1] - 27:18
16:16, 16:18, 16:20,	challenging [1] -	4:6, 10:8, 10:12,	17:9	curious [3] - 12:18,
17:13, 17:14, 18:8		10:13, 10:17, 10:25,	1	
	18:25	1	considering [1] -	14:16, 19:17
Capitol [2] - 2:3	chance [1] - 29:23	11:5, 11:14, 11:15,	17:25	current [12] - 9:20,
car[1] - 35:2	change [8] - 7:19,	12:4, 12:7, 12:13,	consistent [1] - 30:15	11:24, 17:6, 17:8,
carbon [10] - 11:16,	7:23, 9:6, 23:5,	12:25, 14:11, 18:21,	consistently [1] -	20:9, 20:17, 21:2,
11:18, 11:21, 15:24,	27:20, 28:24, 28:25	19:24, 29:16, 34:10,	27:19	21:3, 21:18, 21:20
16:4, 16:7, 16:9,	changes [1] - 13:16	37:5, 37:20, 37:22,	consulted [1] - 28:22	curve (1) - 8:16
17:10, 18:24, 31:23	characterization [1]	40:22, 40:24	consumers [1] - 27:1	
career [1] - 9:18	24:18	COMMISSIONER [25]	The state of the s	D
careful [1] - 7:6		- 1:12, 4:3, 10:6,	continue [1] - 5:21	
• • •	charge [1] - 18:14	10:10, 10:15, 10:18,	contract [11] - 14:2,	
carries [2] - 37:25,	CHERI [1] - 42:5	,	14:3, 16:22, 18:7,	daily [1] - 23:5
41:2	Cheri [2] - 1:22, 42:18	12:14, 12:18, 14:12,	23:21, 23:24, 24:4,	DAKOTA [2] - 1:2,
case [14] - 20:23, 23:2,	CHRIS [1] - 1:11	14:20, 14:25, 15:3,	25:7, 25:8, 25:25,	1
23:6, 23:12, 23:16,	chris [1] - 1:15	15:8, 15:14, 18:23,	27:20	42:1
23:17, 23:20, 24:18,	circumstances [3] -	34:24, 36:2, 36:8,	contracts [3] - 21:12,	Dakota [7] - 2:2, 2:4,
24:19, 25:14, 25:19,	18:6, 19:6, 19:16	36:11, 36:15, 37:21,	25:21	15:22, 26:21, 26:24
26:2, 26:11, 28:2	cite [1] - 23:7	37:23, 40:19, 40:23,		42:7, 42:13
cases [3] - 23:7	1	40:25	contribution [2] -	data [1] - 16:3
	claim [1] - 31:6	Commissioners [4] -	16:18, 17:13	date [10] - 17:22,
23:10, 28:11	clarity [1] - 39:25		correct [4] - 7:9, 15:2,	20:24, 24:8, 24:11,
caught [1] - 21:13	clear [3] - 8:21, 23:18,	3:21, 3:25, 10:5,	31:3, 42:11	
Cedar [5] - 23:17,	36:8	18:15	correctly [1] - 25:5	26:13, 28:2, 28:8,
23:18, 24:18, 27:11,	clearer [1] - 27:23	Commissions [1] -	cost [32] - 4:22, 5:5,	32:16, 33:16, 34:1
27:16	clients [2] - 21:6,	22:3	5:15, 5:17, 6:1, 6:6,	Dated [1] - 42:13
certain [2] - 22:15,	29:23	commitment [4] -	8:3, 11:16, 11:18,	dates [1] - 29:17
29:4		32:2, 32:6, 32:7,		Daugaard [1] - 1:15
	column [10] - 4:22,	36:25	11:21, 14:5, 14:8,	deadline [3] - 23:24,
certainly [8] - 12:9,	4:23, 5:13, 5:14,	committed [1] - 25:17	15:24, 16:3, 16:4,	29:24, 31:17
12:17, 18:14, 20:15,	6:19, 7:7, 7:8, 7:11,		16:8, 16:9, 16:11,	deal [1] - 21:8
26:13, 32:25, 35:22,	7:12, 8:9	comparable [1] -	16:22, 17:14, 17:16,	1
36:7	columns [1] - 9:10	25:19	18:1, 18:5, 18:24,	debatable [1] - 25:13
certainty [1] - 28:1	combination [1] - 6:24	compare [1] - 20:10	20:24, 23:22, 25:17,	debating [2] - 14:20,
CERTIFICATE [1] -	comfortable [7] -	compete [1] - 25:9	27:21, 30:23, 31:7,	28:9
42:2	10:24, 14:21, 15:11,	complaint [1] - 36:10	31:11, 37:12	December [1] - 24:24
Certified [2] - 42:6,	•	Complaint [2] - 3:3,	costs [4] - 4:23, 15:21,	deciding [1] - 25:15
42:19	35:15, 35:18, 39:23,	3:8		decision [2] - 10:23,
	40:14	COMPLAINT [1] - 1:4	17:10, 22:4	11:1
CERTIFY [1] - 42:8	coming [2] - 3:16,	1	counsel [2] - 32:23,	decisions (1) - 23:16
chair [1] - 20:4	13:2	complete [1] - 18:11	33:12	
Chairman [13] - 10:10,	commencing [2] - 2:5,	complicated [1] - 6:2	counteroffer[1] - 3:12	deem [2] - 17:2, 17:8
10:18, 12:14, 15:5,	16:17	computing [1] - 18:9	COUNTY [1] - 42:3	delivers [1] - 14:7
18:11, 24:15, 26:4,	comment [5] - 20:20,	concerned [2] - 18:12,	couple [4] - 5:25,	Demaris [1] - 1:16
10.11, 24, 13, 20.4,	Commission - 20.20,	1 ''		depreciation [1] - 30:
	25:40 22:4 24:40	32:11	21·2 22·0 27·0	acpicolacioning oc.
27:2, 31:3, 31:15, 33:20, 36:12, 38:19	25:18, 33:1, 34:10, 36:18	32:11 conclude [1] - 15:16	21:2, 23:9, 27:9 course [2] - 11:11,	derivation [2] - 38:23

39:7	down [2] - 5:21, 27:10	established [2] -	40:21	frame [4] - 6:9, 21:21,
described [2] - 5:2,	drive [2] - 35:1, 35:3	13:13, 35:7	February [11] - 16:15,	30:7, 31:14
6:5	duly [1] - 42:8	estimate [3] - 8:11,	20:11, 20:18, 21:20,	frankly [1] - 35:19
details [2] - 24:19,	duly-appointed [1] -	8:15, 8:19	23:3, 23:8, 24:11,	free [1] - 3:20
27:10	42:8	estimated [1] - 16:7	25:13, 26:13, 29:10,	full [1] - 38:7
			29:12	fully [1] - 39:6
determination [7] -	duration [1] - 18:10	estimates [1] - 16:8	FERC [6] - 20:22,	
18:5, 18:8, 20:23,	during [1] - 32:19	evaluate [1] - 10:23	23:15, 24:1, 25:5,	fundamental [1] -
20:25, 23:3, 29:11,		exactly [5] - 5:3, 7:4,		28:24
31:10	E	19:1, 21:22, 24:1	27:19, 27:23	future [4] - 8:13, 18:2,
determinations [1] -		excellent [1] - 38:15	FERC's [1] - 27:16	22:14, 22:17
18:1	e-mail [1] - 39:11	exception [1] - 9:5	FIEGEN [10] - 1:11,	
determine.[4]16:2,	East [1] - 2:3	excuse [1] - 1.7:1.0	4:3, 10:6, 10:15,	G
17:3, 18:15, 19:8	easy [1] - 34:4	exercise [1] - 29:5	10:18, 36:8, 36:15,	
determined (2) -	echo [1] - 19:23	exhibit [2] - 38:13,	37:23, 40:19, 40:25	game [1] - 39:5
16:18, 25:5		39:3	Fiegen [7] - 10:12,	GARY [1] - 1:12
determining [2] -	effect [2] - 23:23,	Exhibit [4] - 4:8, 4:10,	10:17, 19:24, 37:22,	gas [9] - 11:23, 12:1,
13:6, 19:12	23:25	4:16, 38:2	37:23, 40:24, 40:25	12:2, 12:6, 15:25,
develop [2] - 32:11,	effects [1] - 30:18	exhibits [5] - 38:24,	fifth [1] - 16:16	
32:18	effort [2] - 20:1, 28:17	39:8, 39:15, 40:2	figure [3] - 4:15, 19:1,	17:5, 17:12, 28:23, 31:21
development [1] -	either [4] - 12:21,	expectations [1] -	21:22	
27:24	26:12, 29:19, 33:10	27:22	figuring [1] - 37:11	gathered [1] - 3:2
difference [2] - 14:14,	EL11-006 [4] - 1:4,	expense [1] - 32:3	file [2] - 16:25, 17:17	general (1) - 15:16
31:9	3:2, 15:15, 35:21	experience [1] - 30:10	filed [2] - 5:15, 5:20	generate [1] - 11:8
different [6] - 5:25,	electric [3] - 16:1,	experienced [1] - 37:8	filing [4] - 5:15, 5:17,	generation [4] - 8:2,
7:21, 11:4, 12:8,	17:7, 31:21	experiencing [1] -	6:6, 20:15	8:10, 8:13, 15:20
14:4, 35:16	eligible [1] - 24:25	21:6	filings [2] - 30:15,	given [10] - 4:15, 7:13,
difficult [1] - 31:17	emission [4] - 16:4,	expert [2] - 31:21,	31:25	7:14, 8:1, 9:4, 9:8,
direct [2] - 17:23, 23:7	16:8, 17:10, 18:24	39:11	final [1] - 26:19	11:21, 15:18, 26:10,
direction [1] - 37:13	emissions [1] - 16:9	experts (1) - 21:23	financially [1] - 26:24	37:7
directive [2] - 35:12,	emphasis [1] - 20:8	expiring [2] - 30:3,	financing [1] - 21:22	govern [1] - 18:1
36:13	emphasize [1] - 32:10	30:4	fine [1] - 35:16	granted [1] - 19:3
directly [2] - 5:16,	employing [1] - 17:1	explain [1] - 4:12	finish [2] - 26:6, 34:18	grasping [1] - 5:10
5:19	enable [1] - 17:3	explained [2] - 4:14,	finished [1] - 27:7	Greg [1] - 1:15
discovery [7] - 32:15,	end [4] - 30:4, 32:1,	4:19	first [15] - 3:9, 4:13,	guess [7] - 14:23,
32:18, 33:6, 33:9,	35:9, 38:4	expressed (1) - 34:25	4:21, 10:14, 10:16,	20:7, 20:13, 22:24,
39:10, 39:14, 40:1	energy [3] - 4:9,	extent [3] - 13:10,	10:20, 10:24, 13:8,	25:24, 29:15, 32:13
discretion [1] - 26:12	21:10, 28:20		13:15, 18:16, 18:21,	guessing [3] - 9:18,
discussed [1] - 5:25	Energy [5] - 1:18, 3:3,	23:2, 29:4	20:20, 21:3, 24:17,	38:3, 39:4
discussion [3] -	3:4, 16:7, 33:3	extraordinarily [1] -	27:9	guiding [1] - 20:3
	ENERGY [2] - 1:4, 1:5	30:12	fit [1] - 32:9	guys [1] - 10:21
18:20, 34:8, 37:17	Energy's [1] - 31:22		flexibility (1) - 34:6	
disjointed [1] - 34:17	enforce [1] - 13:19	F	- flowing [1] - 3:20	Н
distinguished [1] -	enforceable [6] -		follow[4] - 13:21,	
29:7	16:13, 18:3, 24:2,	facilities [1] - 13:13	29:16, 33:4, 39:3	
divide [1] - 6:10	24:6, 25:15, 28:7	facility [1] - 23:20	· ·	hand [1] - 19:5
division [1] - 39:21	engaging [1] - 32:15	facility's [2] - 12:23,	following [4] - 17:3,	handset [1] - 13:3
DO [1] - 42:8		16:17	17:21, 37:6, 38:19	HANSON [16] - 1:12,
Docket [1] - 15:15	enormous [1] - 29:3	facing [1] - 30:2	footing [1] - 26:22	10:10, 12:14, 12:18,
docket [14] - 11:12,	ENTER [1] - 1:5	fact [1] - 31:4	FOR[1] - 1:5	14:12, 14:20, 14:25,
17:24, 19:9, 34:3,	enter [1] - 3:4		forecast [4] - 4:9,	15:3, 15:8, 15:14,
34:18, 34:21, 34:22,	entered [2] - 14:3,	facts [1] - 28:4	5:20, 29:1, 31:23	18:23, 34:24, 36:2,
35:19, 35:20, 36:9,	25:20	fail [1] - 25:7	forecasting [1] - 8:11	36:11, 37:21, 40:23
36:19, 36:20, 37:8,	entire [2] - 8:23, 9:15	fair (1) - 12:5	forecasts [1] - 22:19	Hanson [11] - 10:9,
37:9	entirely [1] - 24:18	fairly (1) - 3:20	formula [1] - 38:23	10:13, 11:14, 12:13,
documents [1] - 40:6	entitled [5] - 2:2,	fall (1) - 5:16	formulas [3] - 4:17,	12:25, 14:11, 18:21,
dog [1] - 13:11	16:16, 24:21, 25:4,	far [3] - 8:2, 8:13,	38:5, 40:8	29:16, 34:11, 37:20,
done [14] - 3:24,	42:10	35:23	forward [2] - 36:13,	40:22
13:25, 19:9, 22:1,	environment [1] - 16:8	farm [1] - 13:7	37:13	Hanson's [1] - 37:6
26:8, 28:21, 32:1,	error [2] - 29:7, 29:8	farm's (1) - 13:17	fourth [6] - 4:23, 5:13,	happy [1] - 40:12
32:9, 33:7, 34:4,	especially [1] - 25:14	fast [1] - 30:12	6:19, 7:8, 7:12,	hard [2] - 10:21, 32:25
35:11, 35:20, 39:17	essentially [1] - 13:25	favor [2] - 37:18,	16:12	
	1			

			<u> </u>	
harpoons [1] - 38:21	incorporated [1] -	kicked [1] - 33:15	litigation [1] - 21:14	21:18, 27:13, 30:1, 4
head [2] - 5:4, 23:11	16:21	kind [9] - 12:2, 19:10,	live [1] - 40:7	31:4, 36:18, 36:20,
hear [2] - 12:24, 20:13	incumbent [1] - 13:20	21:15, 21:24, 24:3,	LLC _[2] - 1:4, 3:3	39:19
heard [2] - 15:3, 20:8	incurred [1] - 22:4	28:17, 29:2, 29:4,	load (28) - 6:13, 6:14,	meantime [1] - 38:11
hearing [4] - 17:20,	indifferent [1] - 26:25	36:5	6:23, 6:24, 7:3, 7:5,	meeting [2] ~ 3:1,
17:21, 18:13, 41:3	individually [1] -	knowing [1] - 36:3	7:6, 7:8, 7:11, 7:13,	17:22
	15:10	known [5] ~ 26:14,	7:23, 7:24, 8:12,	megawatt [2] - 8:18,
heavy [10] - 6:14, 7:6,		26:15, 26:16, 28:17,	8:16, 8:19, 8:25, 9:2,	21:11
7:11, 7:12, 7:23,	information [7] -	29:12		megawatts [1] - 24:21
7:24, 8:12, 8:25, 9:2,	10:22, 11:22, 12:6,		9:3, 9:9, 9:13, 9:20, 10:1	
9:9	24:10, 24:12, 25:12,	KRISTIE [1] - 1:11	· ·	members [1] - 13:10
held [1] - 2:1	26:3	kW [1] - 25:2	lock [3] - 23:13, 24:11,	mentioned [1] - 23:6
help.[3] - 19:7, 33:23,	initial [4] - 13:14,			method [25] - 11;6,
40:4	31:16, 32:12, 32:15	L	locked [1] - 28:5	11:10, 11:12, 12:22,
helpful [1] - 33:25	inputs [5] - 4:15,		locks [1] - 28:8	13:13, 13:24, 13:25,
HEREBY [1] - 42:8	15:24, 15:25, 16:1,	LaFave [3] - 3:23,	long-term [2] - 25:21,	14:14, 14:15, 14:22,
hide [1] - 39:4	17:5	38:1, 38:20	28:24	14:24, 15:21, 15:25,
high [4] - 6:23, 7:3,	insert[1] - 33:5	LAFAVE [13] - 4:6,	look (23) - 5:7, 11:23,	16:10, 16:19, 16:21,
7:5, 25:23	integrated [2] - 11:8,	5:2, 5:12, 6:25, 7:5,	11:24, 11:25, 18:25,	17:1, 17:4, 17:6,
higher [2] - 7:19, 7:20	15:19	7:10, 7:21, 8:8, 8:24,	21:1, 21:17, 21:19,	17:15, 18:4, 25:24
hindsight [1] - 25:23	intend [2] - 27:7,	9:2, 9:14, 38:6,	21:23, 22:6, 22:12,	methodologies [1] -
hinted (1) - 34:15	34:11	38:14	23:2, 23:4, 25:12,	18:4
holds [1] - 24:4	intention [1] - 38:7	Lands [3] - 16:7,	26:3, 26:14, 26:17,	methodology [1] -
holidays [2] - 9:5, 9:7	Interconnect [1] -	31:22, 33:3	28:13, 28:16, 29:9,	26:23
hopefully [2] - 38:7,	21:9	larger [1] - 25:1	37:11, 39:3	methods [2] - 18:6,
38:8	interested [1] - 18:13	last [3] - 6:6, 32:13,	looked [1] - 9:23	18:9
hour [2] - 9:19, 21:11	interesting [2] - 11:10,	34:15	looking [7] - 3:18, 4:8,	Michael [1] - 1:18
hours [24] - 6:13, 6:14,	35:3	Lauckhart's [1] -	4:9, 6:21, 6:22,	Midwest [1] - 13:18
6:15, 7:13, 7:16,	interests [1] - 26:25	28:19	21:15, 31:9	might [4] - 4:18, 4:20,
7:24, 8:1, 8:18, 8:19,	interferes [1] - 27:21	law [3] - 20:23, 23:2,	low [1] - 6:24	26:4, 30:20
8:25, 9:2, 9:3, 9:4,	internal [2] - 9:24,	23:6	lower[3] - 22:15,	mind [3] - 24:20,
9:7, 9:8, 9:9, 9:13,	15:20	learn [1] - 35:2	23:24, 24:4	26:18, 26:21
9:25, 10:22, 13:17	interpretation [1] -	learned [2] - 11:3	lowering [1] - 25:25	minor (1) - 29:8
hundreds [2] - 10:21,	28:11	least [4] - 8:18, 30:10,	8.5	minute [2] - 32:23,
10:22	INTO [1] - 1:5	31:17, 40:1	M	33:12
hybrid [9] - 11:6,	investment [1] - 27:22	left [1] - 11:22		minutes (1) - 36:16
15:20, 16:10, 16:21,	issue [5] - 25:19,	legally (6) - 16:13,	magnitude [1] - 18:9	misinterpreted [1] -
17:1, 17:4, 17:5,	25:20, 30:1, 39:10,	18:3, 24:2, 24:6,	mail [1] - 39:11	14:10
17:15	39:18	25:15, 28:7	mandated [2] - 25:22,	misleading [2] - 21:4,
_	issues [3] - 11:25,	lengthy [1] - 6:4	25:23	21:16
į į	12:8, 15:12	LEO [4] - 16:14, 20:12,	market [23] - 6:8, 8:3,	MISO [10] - 12:22,
		20:24, 24:9	8:5, 8:17, 11:10,	13:10, 13:12, 13:18,
Idaho [3] - 24:20,	J	less [1] - 39:24	11:25, 16:1, 17:6,	13:21, 13:25, 14:14,
24:21, 24:24		levelized [1] - 17:16	17:7, 17:8, 20:9,	14:22, 14:24
identically [1] - 38:10	JD [1] - 23:16	Lewis [1] - 4:24	20:10, 21:2, 21:3,	mode [2] - 33:8
illustrative [1] - 23:19	John [1] - 1:13	Lewis's [4] - 4:8, 5:20,	21:7, 21:19, 21:20,	model [1] - 9:15
immediately [1] - 37:2	juncture [2] - 12:20,	6:8, 6:25	22:7, 23:4, 26:17,	Monday [1] - 3:10
importantly [1] - 32:19	19:23	light [13] - 6:12, 7:8,	28:20, 28:23	Montana (2) - 22:9,
		7:11, 7:13, 7:23,	markets [1] - 14:4	31:25
impossible [1] - 32:20	June [11] - 16:24,	7:24, 8:11, 8:19,	match [1] - 4:24	months [1] - 12:1
IN [1] ~ 1:4	17:18, 17:20, 31:17, 32:12, 32:16, 33:16,	8:25, 9:3, 9:9, 9:13,	material [1] - 38:25	most [4] - 10:24, 11:8,
inappropriate [1] - 21:1	33:23, 33:24, 34:1,	10:1	math [2] - 39:19, 40:8	11:9, 22:25
•	38:8	likelihood 2] - 8:18,	MATTER [1] - 1:4	Motion [1] - 41:1
incidentally [1] - 32:6	JU.0	9:12	matter [7] - 2:2, 3:3,	motion [18] - 10:11,
include [1] - 18:24	L/	limited [3] - 18:2,	17:20, 20:23, 32:4,	10:13, 12:10, 12:15,
included [3] - 8:3,	K	1	35:10, 42:10	15:12, 18:11, 18:17,
16:10, 17:14		30:8, 39:25	MCCOMSEY [1] - 42:5	19:5, 20:8, 34:9,
includes [1] - 13:8	Kara [1] - 1:14	line [6] - 4:11, 6:6, 6:9,	McComsey [2] - 1:22,	34:11, 36:9, 37:6,
including [1] - 18:2	keep [3] - 24:20,	24:19, 29:6, 30:22	42:18	37:17, 37:24, 40:18,
incorporate [1] -	26:21, 33:23	lines [2] - 18:12, 19:18	mean [9] - 9:11, 21:4,	40:19, 40:20
15:24		list [1] - 38:23		motions [3] - 3:22,
	1	f		

15:9, 35:16 15:11, 20:5, 23:6, move [9] - 15:13, 15:15, 16:24, 17:19, 17:23, 31:4, 34:6, 36:25, 40:11 movement [1] - 28:23 moving [1] - 36:13 MR [35] - 4:6, 5:12, 6:25, 7:5, 7:10, 7:21, 8:8, 8:24, 9:2, 9:14, <u>12:25, 13:5, 14:23,</u> 15:2, 20:21, 23:9, 24:15, 26:4, 26:6, 41:1 26:7, 26:10, 27:5, 29:22, 30:24, 31:2, 31:15, 33:20, 33:25, 36:18, 38:6, 38:14, 38:19, 39:9, 40:12, 40:14 33:3 MRO [1] - 13:18 MS [2] - 5:2, 32:25 muddy [1] - 34:22 multiplication [1] -39:21 - 1:5 Ν

natural [7] - 11:23, 12:1, 12:2, 12:6, 15:25, 17:5, 31:21 nature [1] - 19:4 nay [1] - 37:19 necessarily [7] - 15:6, 20:21, 20:24, 24:8, 33:2, 33:4, 37:2 necessary [2] - 17:2, 33:9 need [33] - 4:12, 4:14, 6:19, 7:4, 10:4, 11:13, 11:23, 11:24, 13:7, 13:12, 19:16, 19:19, 19:20, 23:8, 24:19, 26:22, 28:12, 31:16, 31:20, 33:3, 33:7, 35:6, 35:10, 35:11, 35:17, 35:22, 38:10, 39:14, 39:16, 39:19, 39:25 needing [1] - 7:20 needs [2] - 11:16, 32:9 negotiate [1] - 10:25 negotiations [1] - 11:2 NELSON [51] - 1:11, 3:1, 4:4, 4:7, 5:8, 6:17, 7:1, 7:9, 7:17, 8:6, 8:21, 9:1, 9:11, 10:2, 10:8, 10:12, 10:17, 12:12, 12:17, 13:4, 14:19, 15:7,

24:13, 26:9, 27:3, 29:13, 30:20, 30:25, 31:12, 32:22, 33:11, 33:14, 33:22, 34:5, 35:18, 36:5, 36:17, 37:16, 37:22, 37:24, 38:9, 38:15, 40:3, 40:13, 40:16, 40:20, 40:24, 41:1 Nelson [8] - 10:19, 11:15, 24:15, 31:3, 31:15, 33:20, 37:24, Nelson's [1] - 38:20 New [2] - 23:11, 25:21 new [6] - 12:6, 23:22, 23:24, 27:25, 31:20, next [1] - 9:24 none [3] - 20:7, 37:18, 40:18 NORTHWESTERN [1] NorthWestern [23] -1:18, 3:4, 4:15, 4:22, 11:7, 11:16, 11:21,

12:19, 12:24, 13:9, 13:20, 15:15, 15:23, 16:12, 16:19, 22:11, 26:10, 26:24, 31:20, 31:24, 39:12, 40:14 NorthWestern's [5] -. 14:5, 15:18, 15:22, 17:16, 27:11 Notary [2] - 42:7, 42:18 nothing [1] - 35:20 number [15] - 3:14, 5:9, 6:7, 6:13, 7:12, 7:13, 7:18, 7:25, 8:17, 8:22, 15:8, 15:18, 16:4, 27:14, 30:23 numbers [20] - 4:24, 5:1, 5:6, 5:16, 5:18, 5:19, 5:22, 5:24, 6:8, 6:10, 6:18, 6:23,

0

6:24, 7:3, 7:5, 7:7,

7:8, 23:8, 33:5, 33:8

o'clock [4] - 2:5, 3:10, 9:3 OAK [1] - 1:4 Oak [12] - 1:18, 3:3, 3:7, 3:11, 11:20, 12:20, 14:7, 15:15, 16:13, 16:14, 16:16,

37:9 objections [1] - 29:19 obligated [2] - 16:12, 25:11 obligation [7] - 16:14, 18:4, 24:2, 24:7, 25:16, 28:7, 28:21 obviously [6] - 4:17, 29:24, 30:20, 35:5, 35:12, 39:17 occurs [1] - 12:15

OF [6] - 1:2, 1:4, 2:1, 42:1, 42:3 offer [4] - 24:22, 24:23, 25:1, 27:17 once [1] - 3:2 one [21] - 3:22, 7:18, 11:22, 12:15, 15:10, 15:12, 19:4, 20:7, 22:18, 23:11, 23:16, 27:13, 30:13, 30:16, 30:17, 33:14, 34:24, 35:25, 38:1, 38:7, 39:1 ones [2] - 7:7, 7:8 Onida [1] - 42:13

open [2] - 17:24, 34:17 opened [1] - 35:20 opening [4] - 12:11, 34:16, 36:19, 36:24 opens [2] - 36:9, 36:24 operate [2] - 15:21, 21:12 operating [1] - 40:9 operation [1] - 13:16

opinion [1] - 32:24 opportunity [1] - 40:1 opposed [2] - 23:4, 37:19 Order [3] - 27:23, 30:15, 33:4 order [8] - 3:2, 19:7, 19:8, 24:16, 27:25, 33:4, 35:7, 38:17 ordered [1] - 33:5 ordering [2] - 33:7, 33:8

13:19 output [5] - 12:23, 13:17, 16:13, 16:17, 22:11 outset [1] - 27:5 overall [1] - 6:12

own [2] - 11:9, 15:20

Organization [1] -

P

paragraph [1] - 34:15 part [5] - 14:5, 31:6, 36:25, 38:4, 38:6 participated [1] - 35:6 particular [6] - 4:25, 5:6, 18:6, 33:7, 33:8, 34:18 particularly [2] -

23:19, 28:3 parties [18] - 3:10, 10:20, 10:25, 12:19, 15:4, 16:25, 17:8, 17:17, 18:13, 18:18, 18:19, 20:1, 20:6, 20:13, 29:11, 29:20, 38:21, 39:6 parties' [2] - 16:10, 33:1 Partners [1] - 23:12

patience [1] - 5:11 Pause [1] - 33:13 pause [1] - 27:6 pay [1] - 14:6 payers [1] - 26:24

paying [1] - 21:11 peak [7] - 4:22, 4:23, 5:13, 5:14, 7:10, 13:17

people [7] - 9:24, 26:21, 26:23, 28:16, 28:22, 34:20, 35:1 per[1] - 16:5 perceive [1] - 37:1

percent [5] - 6:8, 6:22, 7:2, 8:5, 8:17 percentage [3] - 7:20, 8.8, 8:9

perfect [1] - 39:25 perfectly [1] - 4:24 perhaps [2] - 4:10, 33:16 period [4] - 6:21,

17:17, 32:19, 34:3 personal [1] - 32:3 perspective [2] - 3:11, 30:12

Perspective [1] -28:20 phone [2] - 13:1, 39:11

phrase [1] - 28:5 pick [2] - 9:21, 13:3 picked [1] - 4:11 picks [1] - 26:13

Pierre [1] - 2:4 place [4] - 20:11, 20:18, 35:12, 35:14

5 planning [1] - 22:1 playing [1] - 39:4 point [27] - 4:2, 6:20, 6:23, 9:21, 18:12, 20:14, 22:14, 23:15, 23:19, 24:6, 25:13, 26:20, 27:16, 27:19, 28:10, 28:14, 28:19, 31:3, 31:19, 37:7, 37:10, 38:21, 39:7,

39:9 pointed [1] - 23:13 points [4] - 11:4, 12:9, 12:10, 39:24 policy [2] - 23:1, 36:19 portions [1] - 15:13 pose [1] - 22:23 position [4] - 12:20, 25:8, 27:11, 27:15 possible [6] - 12:5, 30:7, 34:7, 34:23,

38:3, 39:18 possibly [1] - 29:25 posted [1] - 3:6 posthearing [1] -

15:17 potential [1] - 30:3 Power [2] - 13:9,

23:12 POWER [1] - 1:5 power [4] - 3:5, 11:9,

21:7, 25:17 precedent [1] - 19:15 predominant[1] -15:19

prefer [1] - 29:24 prefiled [1] - 17:2 prepared [3] - 3:13,

3:14, 3:17 prerogative [1] - 36:13 present [2] - 16:8,

24:10 presumption[1] - 7:1 pretty [3] - 21:8, 30:21, 35:11

previous [1] - 17:12 previously [3] - 14:2, 17:10, 17:11

price [3] - 11:10, 11:25, 30:18 prices [2] - 17:13, 31:21 primarily [1] - 12:19

privy [1] - 38:25 problem [2] - 5:12 problems [1] - 27:13

proceed [10] - 3:8, 3:22, 12:13, 15:7, 18:19, 19:6, 19:11, 19:12, 19:16, 36:25

1					
	proceeding [3] -	9:25	42:19	18:3	12:3, 31:18, 38:5, 6
	29:18, 34:16, 34:18	PURPA [1] - 23:1	reason [1] - 39:13	research [1] - 3:24	40:7, 40:8
		purpose [2] - 17:24,	reasonable [2] - 16:7,	resources [2] - 29:3,	seeing [5] - 4:17, 10:8,
ł	proceedings [2] -		27:22	30:8	20:7, 37:18, 40:18
	42:9, 42:12	27:24		respect [3] - 13:6,	seek [1] - 39:4
	Proceedings [1] - 1:8	pursue [2] - 3:17,	reasonably [1] - 29:12		seem [2] - 31:22,
	PROCEEDINGS [1] -	36:20	reasons [2] - 21:2,	13:22, 31:21	, ,
	2:1	push [1] - 33:22	34:25	respective [3] - 6:15,	34:16
	process [14] - 4:10,	pushing [2] - 33:16,	rebuttal [3] - 17:17,	7:15, 16:10	selected [1] - 29:20
	19:8, 19:12, 19:16,	33:17	32:17, 33:23	respond [2] - 24:16,	sell [2] - 22:11, 25:17
	19:21, 20:3, 26:20,	put (4) - 11:16, 25:8,	recent [1] - 23:15	32:19	selling [1] - 25:9
	30:11, 31:24, 35:8,	29:17, 37:13	recognize [3] - 13:7,	response [1] - 24:14	SEMMLER [1] - 32:25
	36:22, 37:9, 37:12,	_putting [2] = 19:4,	13:12, 35:6	responses [1] - 3:10	Semmler [1] - 1:14
	39:12	34:12	recommendation [1] -	result [1] - 16:1	sense [3] - 22:1,
	prodded [1] - 39:10		37:7	resulting [1] - 17:13	27:12, 27:15
	produce [1] - 30:19	Q	recommended [1] -	retain [1] - 21:23	sensitive [1] - 30:21
	product [1] - 30:5		35:8	retrospective [1] -	sent [1] - 23:21
	production [4] - 30:2,		record [2] - 16:3, 38:4	22:5	separate [1] - 30:15
	30:16, 30:22, 31:6	QF [4] - 25:4, 25:8,	recorded [1] - 5:15	reverse [1] - 24:16	seriously (1) - 3:19
ļ	Professional [2] -	25:16, 37:12	reevaluate [1] - 12:2	rights [1] - 37:12	Service [1] - 31:25
ļ	42:6, 42:19	QFs [5] - 23:13, 24:21,	referring [1] - 5:21	rising [1] - 16:6	set [2] - 19:15, 32:16
İ	programmers [1] -	24:25, 25:20, 28:6	reflect [2] - 17:8,	risk [3] - 22:22, 22:23,	sets [3] - 4:25, 5:22,
	9:17	qualifying [1] - 23:20	36:15	30:5	5:24
	progress [1] - 8:12	questioning [1] - 38:2	reforming [1] - 25:25	RISLOV[1] - 38:19	seven [1] - 30:11
	project [6] - 12:21,	questions [18] - 3:6,	refuse [1] - 25:7	Rislov [3] - 1:15,	seven-week [1] -
	16:20, 22:2, 22:4,	3:23, 4:1, 4:4, 4:13,	refusing [2] - 3:4,	38:18, 39:24	30:11
	22:9, 33:19	6:20, 10:5, 10:6,	27:20	room [2] - 13:11,	shall (6) - 3:7, 3:8,
1	projected [1] - 15:24	10:11, 12:16, 15:5,	REFUSING [1] - 1:5	20:19	16:20, 16:25, 17:19,
		18:16, 18:17, 18:19,	regard [2] - 29:17,	Room [1] - 2:3	18:8
- 1	projections [5] - 17:7,	18:22, 20:5, 29:14,	1egaru [2] - 29.17,	roughly [1] - 8:15	shifting [1] - 16:5
	17:9, 20:9, 20:10,	34:19			short [4] - 21:15,
-	20:17	quicker [1] - 6:3	regardless [3] - 7:25,	Rounds [1] - 1:16	29:24, 30:6, 32:11
- 1	promote [1] - 27:24	quickly [2] - 34:7,	14:7, 27:17	rounds [1] - 14:19	short-term (1) - 21:15
	proper [8] - 15:21,	34:23	Registered [2] - 42:5,	ROUNDS [2] - 14:23,	shorthand [2] - 42:9
	16:2, 16:22, 17:4,	quote [1] - 28:3	42:19	15:2	
	17:5, 17:7, 17:13,	quoted [1] - 28:4	regular [1] - 17:22	RPR[1] - 1:22	sign [4] - 23:24, 25:7,
	17:25		regulations [1] ~ 23:1	rule [5] - 3:7, 17:24,	27:20
	proposal [2] - 21:23,	R	reliability [1] - 13:19	19:8, 34:16, 35:22	signed [1] - 23:21
	22:3		Reliability [1] - 13:18	rules [2] - 20:22,	significant [3] - 9:20,
	proposed [2] - 31:13,		reliably [1] - 16:2	35:24	20:8, 37:1
	35:24	raised [1] - 34:19	reliance [1] - 15:19	ruling [2] - 11:1, 12:5	similar [1] - 14:18
	prospective [3] -	range [1] - 22:21	reliant [1] - 20:16	run (1) - 37:12	similarly [1] - 22:1
	20:25, 23:3, 37:14	rate [20] - 23:14,	relying [1] - 28:20	Ryan [1] - 1:14	simple [1] - 36:22
	provide [2] - 38:12,	23:22, 23:24, 24:4,	remaining (1) - 9:4	<u> </u>	simply [2] - 3:11, 24:4
	40:12	24:7, 24:8, 24:9,	remember [1] - 23:10	S	sincerely [1] - 19:25
	provided [1] - 34:1	24:23, 25:1, 25:3,	renewed [2] - 30:6,		singular [1] - 15:12
	prudently [1] - 22:4	25:4, 25:22, 25:23,	30:17	enform - 15:1	situation [10] - 21:6,
	PUBLIC [2] - 1:1, 1:10	26:24, 27:9, 27:18,	replicate [2] - 38:23,	safe [1] - 15:1	21:14, 21:15, 24:2,
	Public [3] - 31:25,	28:6, 28:8, 28:9	38:24	Saranac [5] - 23:12,	24:3, 28:4, 29:9,
	42:7, 42:18	rates [4] - 17:7, 21:7,	Reported [1] - 1:22	25:18, 25:19, 27:11,	30:2, 34:25, 35:3
	publicly [1] - 35:23	24:22, 25:25	Reporter [4] - 42:6,	28:2	six [1] - 30:11
	published [2] - 24:23,	rationale [1] - 3:12	42:19, 42:19	Saturday [2] - 32:5	sixth [1] - 16:22
	25:4	read [1] - 5:9	reporter [1] - 42:9	schedule [6] - 17:20,	slot [1] - 25:9
	PUC (1) - 24:24	ready [1] - 10:7	represent [1] - 14:5	31:16, 32:10, 32:24,	smaller [2] - 10:1
	pull [1] - 33:17	real [4] - 19:3, 22:12,	represented [1] - 22:9	39:17, 39:23	Smith [5] - 1:13,
	purchase [5] - 3:4,	22:20, 30:1	representing [1] - 8:9	scheduled [1] - 17:22	33:15, 36:17, 38:16,
	7:2, 7:20, 14:7,	realize [2] - 11:24,	represents [1] - 6:13	schedules [1] - 33:1	40:3
	16:13	26:8	request [3] - 38:1,	second [2] - 8:8, 33:6	SMITH [1] - 36:18
	PURCHASE [1] - 1:5	really [8] - 19:8, 19:17,	38:20, 40:5	secondly [3] - 13:12,	solar [1] - 24:25
	purchases [4] - 6:22,	24:9, 24:10, 26:16,	requests [1] - 35:4	15:23, 31:24	someplace [2] - 4:11,
-	8:4, 9:12, 9:19	29:23, 33:20, 35:16	requirements [1] -	see [10] - 4:16, 4:19,	8:20
	purchasing [2] - 8:14,	Realtime [2] - 42:6,	reduitements (i) -	5:18, 7:17, 10:13,	
	haramania (a) a)	realtime [2] - 42.0,			
- 1					

	6:25	16:4, 31:25, 35:5	26:4, 26:7, 27:5,	walk [1] - 4:20
somewhat [1] - 19:18 soon [2] - 35:11,	stickler [1] - 39:1	throughout [2] -	29:22, 30:24, 31:2,	walking [1] - 10:3
		26:11, 37:8	39:9, 40:12	wants [1] - 26:14
39:18	still [3] - 4:5, 5:10, 9:25	throw[1] - 38:21	Uda [5] - 1:18, 20:19,	WAPA [1] - 13:9
sorry [1] - 27:8			25:5, 27:4, 29:21	war [1] - 22:8
sort [3] - 22:21, 22:22,	story [1] - 22:8	Titan [13] - 12:21,	ultimately [1] - 4:14	1
29:9	straight [2] - 6:6, 6:9	13:22, 13:24, 14:1,		warranted [1] - 17:8
sorts [3] - 11:4, 11:13,	strange [1] - 19:10	14:3, 14:6, 14:9,	unavailable [2] - 32:4,	waters [1] - 34:22
12:8	strictly [1] - 8:10	14:14, 14:22, 14:24,	33:19	ways [1] - 21:25
sounds [1] - 13:4	struggle [1] - 18:23	14:25, 16:20, 17:15	unclear[1] - 13:22	week [3] - 30:11,
source [1] - 39:6	study [1] - 9:22	TO [1] - 1:5	uncomfortable [1] -	33:18, 34:2
sourcing [1] - 38:22	subject [1] - 20:23	today [5] - 3:17, 10:4,	35:25	week's [1] - 34:2
South [7]—2 :2, 2:4,	-submitted [1]40:6	12:1, 12:3, 12:6	under(4) - 17:15,	weekends [1] - 9:5
15:22, 26:21, 26:24,	substantial [3] - 29:7,	today's [1] - 3:6	19:6, 19:15, 19:16	Western [2] - 13:9,
42:7, 42:13	30:5, 32:3	together [5] - 6:15,	unless [1] - 9:20	21:9
SOUTH [2] - 1:2, 42:1	substantially [3] -	7:15, 13:19, 19:4,	unlikely [1] - 9:19	whatever's [1] - 22:16
Soye [1] - 1:14	14:4, 22:6, 30:18	34:12	up [16] - 4:11, 4:25,	whereas [1] - 25:14
spawned [1] - 21:14	subtraction [1] -	ton [3] - 16:5, 16:6	5:4, 6:10, 6:15, 9:7,	whole [4] - 4:10,
speaker [1] - 13:1	39:21	took [4] - 6:9, 8:15,	10:23, 13:3, 14:21,	26:20, 29:4, 37:8
speaking [1] - 22:5	sudden [3] - 21:9,	27:6, 42:9	24:21, 29:16, 33:17,	wind (4) - 13:7, 13:13
specified [1] - 18:6	21:11, 34:20	top [2] - 5:3, 23:10	34:22, 36:1, 38:4,	13:17, 24:25
•	sufficient [1] - 39:13	totally [1] - 14:21	38:19	Wind [6] - 23:16,
spent [3] - 4:7, 4:9,	suggest [1] - 26:19	track (1) - 11:5	useful [1] - 37:10	23:17, 23:18, 24:18
10:21	55	tracking [1] - 38:10	uses [2] - 14:24, 28:4	27:11, 27:16
split (1) - 9:10	suggestion [1] - 40:4	Transcript [1] - 1:8	UTILITIES [2] - 1:1,	1
spreadsheet [3] -	SULLY [1] - 42:3		1:10	witness [1] - 33:3
4:18, 38:5, 40:6	support [1] - 34:11	TRANSCRIPT [1] - 2:1	utilities [2] - 21:13,	WITTLER [1] - 42:5
spreadsheets [1] -	surrounding [1] -	transcription [1] -	1	Wittler [2] - 1:22,
40:7	11:25	42:12	25:24	42:18
SS [1] - 42:2	suspect [1] - 15:9	transparency [1] -	utility (8) - 15:19,	wondering [1] - 15:9
Staff [12] - 11:5, 14:16,	system [4] - 9:20,	39:14	22:1, 22:2, 23:21,	works [1] - 28:7
17:23, 19:7, 19:22,	11:8, 13:15, 15:22	TREE [1] - 1:4	23:22, 24:3, 25:6,	wrap [2] - 34:22, 35:2
20:2, 32:24, 32:25,		Tree [9] - 1:18, 3:3,	25:10	written [1] - 20:22
36:2, 36:12, 38:25,	T	3:11, 11:20, 14:7,	utilized [1] - 15:25	
39:2	<u> </u>	15:15, 16:14, 16:16,	utilizing [3] - 6:23,	Y
STAFF [1] - 1:13		37:9	20:9, 20:10	
Staff's [3] - 15:17,	talks [1] - 11:17	Tree's [3] - 3:7, 12:20,		4
35:12, 37:7	tax [5] - 30:2, 30:5,	16:13	V	year [15] - 6:13, 7:13,
stages [1] - 34:3	30:16, 30:22, 31:6	tremendous [1] - 20:2		7:14, 7:25, 8:1, 8:4,
-	technologies [1] -	true [1] - 42:11		8:21, 9:6, 9:8, 10:1,
standard [4] - 24:22,	27:25	try [8] - 5:5, 10:13,	vacation [1] - 32:6	13:15, 13:16, 24:25
24:23, 25:1, 27:17	telephone [1] - 1:18	19:1, 21:21, 29:10,	values [4] - 16:5, 16:9,	28:21, 30:5
standards [3] - 13:20,	temporary [1] - 28:24	33:18, 34:6, 34:22	18:25, 22:2	yearlong [1] - 36:21
17:25, 18:7	tendency [1] - 22:15	1	variety [1] - 35:7	years [9] - 6:11, 7:19,
standpoint (2) - 19:14,	term [4] - 16:23,	trying [5] - 6:2, 10:22,	various [2] - 15:13,	9:13, 9:25, 12:1,
29:5	• •	14:20, 24:10, 39:17	33:1	16:23, 21:14, 22:12
stands [1] - 26:2	21:15, 25:21, 28:24	turn [4] - 3:25, 18:14,	Veatch [3] - 28:20,	39:2
start [1] - 33:2	terminology [1] - 7:6	20:19, 32:20	28:22, 29:2	York [2] - 23:11, 25:2
tarted [1] - 35:17	terms [3] - 18:7,	turned [2] - 25:22,	versus (4) - 8:3, 8:10,	
tarting [3] - 5:18,	22:22, 37:11	34:1	8:13, 15:15	yourself [1] - 35:3
16:5, 16:6	testimony [10] - 5:3,	twice [2] - 23:6, 28:21	vertically [2] - 11:7,	
State [3] - 2:2, 22:3,	5:9, 11:17, 1 4:3,	two [12] - 5:19, 5:22,	1	
42:7	17:2, 17:17, 32:16,	5:24, 6:10, 6:15,	15:19	
state (1) - 18:2	32:17, 33:24, 34:2	7:15, 7:21, 9:10,	VICE[1] - 1:11	
STATE [2] - 1:2, 42:1	thanking [1] - 3:9	12:1, 23:15, 30:14,	view [1] - 11:4	
	THE [5] - 1:1, 1:2, 1:4,	35:15	vote [2] - 37:18, 40:21	
statement [1] - 12:11	1:10	type [2] - 19:9, 40:6	votes [4] - 37:23,	
statements [1] - 19:24	themselves [1] - 28:11	typically [2] - 9:2, 22:5	37:24, 40:25, 41:1	
states [1] - 29:20	they've [1] - 27:14	5 product [2] 0.2. 22.0		
statewide [1] - 17:25	third [6] - 4:22, 5:13,	[]	W	
15:10		U		
status [1] - 15:18				
status [1] = 15.16	6:19, 7:7, 7:11, 32:2 three [7] - 10:20,		waited [1] - 23:23	