

**Procurement of Default Supply of Electricity**  
**A Presentation by the**  
**NorthWestern Technical Advisory Committee**  
**To the Energy and Telecommunications Interim Committee**  
**January 29, 2004**

**I. PSC Directive** - The Default Electric Supplier Procurement Guidelines provide in section 38.5.8225: "The DSU (default supply utility) should maintain a broad-based advisory committee to review, evaluate, and make recommendations on technical, economic and policy issues related to a DSU's default supply portfolio planning, management and resource development process.

**II. NorthWestern Energy Technical Advisory Committee**

**A. Members**

- |                       |  |
|-----------------------|--|
| 1. John Bushnell      | Northwest Power Planning Council         |
| 2. Paul Cartwright    | Montana DEQ                              |
| 3. Pat Corcoran       | NorthWestern Energy (NWE)                |
| 4. Ann Gravatt        | Renewable Northwest Project (RNP)        |
| 5. Pat Judge          | Montana Environmental Information Center |
| 6. Dennis Lopach      | NWE                                      |
| 7. Chuck Magraw       | Natural Resource Defense Council and RNP |
| 8. Larry Nordell      | Montana Consumer Counsel                 |
| 9. Tom Power          | HRC District XI                          |
| 10. Joe Schwartzenber | NWE                                      |
| 11. Mark Thompson     | NWE                                      |
| 12. Will Rosquist     | Montana PSC                              |

**B. Purpose** - The purpose of the NorthWestern Advisory Committee is to provide advice to NorthWestern Energy about the acquisition of an electricity supply for its default customers.

**C. Decision Rule** - The Committee strives to provide advice to NWE by consensus, that is all members are able to live with the advice. When consensus is not possible, the nature of the disagreement is to be noted.

**D. Committee Role**

1. Provide NWE a non-regulatory opportunity to explain its default supply electricity supply plan, how the plan was developed and how it is to be implemented.
2. Offer concerns and advice about the plan, including development and implementation. Members will attempt to provide the same advice on these topics to NWE as they would to the principals of the organizations they serve.
3. Not to offer advice regarding the selection of specific suppliers, such as bidders in the wind request-for-proposals.
4. Not to offer a comprehensive review of the price, terms and conditions of specific contracts.
5. Committee member advice will not bind the represented organizations in rate or other regulatory proceedings.

**E. Committee Process**

1. The Committee has met 15 times in the 16 months since its formation.

2. Meetings have largely addressed topics about which NWE has solicited Committee advice.
3. The Committee has three subcommittees formed to focus on the technical details of wind and demand-side (DSM) resource acquisitions and the resource portfolio modeling.
4. NWE retained an independent contractor chosen by the Committee to evaluate NWE's planning models and procedures.

### **III. Committee Advice**

- A. NWE decided to contract with the Thompson River, Tiber, Montana First Megawatt (MFM), and Basin Creek projects before the Committee was formed.
- B. MFM Advice
  1. Because of the potential value that the MFM contract affords to the default supply, the Committee agreed that NWE should not abandon the MFM power purchase contract, nor should Northwestern Corporation abandon the MFM project, nor should others act to cause the MFM project to fail.
  2. The Committee has taken no position about ultimate rate treatment for the MFM contract.
  3. The Committee supports protection of the Montana Public Service Commission's ability to review the MFM contract for rate treatment.
- C. Wind Advice
  1. The Committee recommended a process and procedure for evaluating avian impacts of wind proposals.
  2. The first NWE wind acquisition should not be controversial, and no wind site would be better than a bad site.
- D. Demand-Side Resource Advice
  1. DSM subcommittee members reviewed and commented on NWE's DSM contractor selection, scope of work and work products.
  2. DSM subcommittee members provided advice about policy issues such as the definition of cost-effectiveness and the goal of acquiring all cost-effective conservation.
- E. Demand Forecasting Advice
  1. NWE should include econometric techniques and price elasticity in its longer term forecasts.
  2. NWE should bench mark its forecasting activities with those of other northwest utilities and the Northwest Power Planning Council.
  3. The longer term forecast should be developed in the context of the resource planning and risk analysis for 10 to 20 years out.
- F. Resource Portfolio Modeling Advice
  1. All portfolio alternatives should include the PURPA, Tiber, Thompson River, and demand-side resources and the PPL Montana contracts.
  2. The modeling should test a broad range of different resources, including: gas-fired dispatchable and wind resources, coal resources, contract(s) for long-term resources, and opportunity purchases to determine how to fill load shapes with generic resources.
  3. NWE should analyze how a portfolio with substantial gas and wind resources would perform relative to coal-fired resources and market purchases in a high cost gas environment.

- G. The default supply plan should be implemented using an all-source request for resources against which the plan results can be tested.

#### **IV. Committee General Observations**

- A. Through the Committee, NWE has been able to communicate directly with the stakeholders represented on the Committee. The quality of the communication has improved with time and experience.
- B. NWE has made significant attempts to comply with the PSC direction to develop and implement a transparent resource planning, management, and procurement processes. Subgroups and the full Committee have reviewed and advised NWE on its DSM and wind resource acquisition issues and on its primary resource planning tool, the PCI computer model. NWE has also briefed the Committee on its forecast and risk assessment methodologies and the status of its gas and electricity acquisitions and planning activities.
- C. NWE does not have adequate staffing to implement its default supply role and make optimum use of the Committee.
- D. Particularly at the beginning of its work with the Committee, NWE saw its default supply role as that of an unpaid aggregator. NWE was supposed to go to the market and arrange for an electricity supply for its default supply customers. Because this role is uncompensated, NWE did not understand that it should be assigned substantial risk in carrying it out. At the Committee's initial meeting, Pat Corcoran explained that because NWE must acquire resources via the market, it may not have the same luxury of time as the historic regulated environment. The lack of the time luxury affected how NWE chose to involve the Committee in its default supply role. In several instances, including the MFM contract and potential acquisition of power from Colstrip Unit 3 & 4, NWE sought the Committee's reaction to its proposals within short time periods rather than involve it in the development of the proposals themselves. Several months passed before NWE involved the Committee in the development of a work plan leading to a default supply resource plan. PSC regulatory decisions and its financial difficulties finally convinced NWE of the efficacy of an approach allowing for more deliberation with the Committee.
- E. Because of staff constraints and perceived time limitations, NWE was not able to review its resource portfolio modeling results, risk mitigation, and the three year action plan with the Committee prior to release of its default supply plan.

#### **V. Future Committee Activities**

- A. The Committee intends to review and provide advice about the NWE Default Supply Plan and its implementation.