EXHIBIT 10
DATE 4-14-05
SB SB 415

Why is a mandate necessary?
One of the prevalent arguments for SB 415 is that wind is an "attractive resource" and competitively priced with other options.[1] If this is true, wind resources will be selected in the portfolio planning process. Judith Gap is a case in point. The only reason a mandate is necessary is to ensure selection of wind even if it doesn't meet portfolio planning guidelines and rules. This might be a legitimate approach, but only if one has reached the conclusion that there are policy reasons to acquire wind generation regardless of its impact on power costs.[2]

What will the impact be on electricity prices to consumers?
The unsettling response was: "The jury is out" on that. That is the point of the portfolio planning process that has been developed over the past couple of years. Competing resources are evaluated for many factors, including price and future risks. This takes place in exhaustive case-specific analysis and is tested in collaborative committees and commission hearings. A clumsy % mandate seems a less preferable way to address these questions.

There is a bothersome potential impact on price because the mandate would actually limit wholesale competition. It does this by carving out a piece of the market (15%) and saying only wind can compete for that. The wind developers would not have to compete with other types of generation for the best prices. (This is especially a concern for community renewables set-aside, since we don't know how many projects will be competing.) The Legislature should consider if it wants to limit wholesale competition.

The bill seeks to assert a consumer protection by allowing the commission to establish a cost cap. In the recent Judith Gap order, the Commission accepted wind advocates' positions and rejected MCC's proposal to establish a cost cap, concluding that such a cap could unintentionally create a cost floor for integration services.

What would happen to wind development if SB 415 is not passed?
This question was not addressed, although it seems like it should be the starting point. Under the current system, NWE issues all-source RFPs for power requirements. Wind and other renewables are free to submit bids. The bids are evaluated pursuant to PSC planning guidelines that emphasize price impact on the portfolio but also consider other attributes such as diversity and risk-mitigation. The utility's selections are subject to intense scrutiny and PSC approval. Failure to select economic wind bids would subject

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[1] MDU correctly notes that this is a market-price comparison, and doesn't apply to their cost-based resources.

[2] Only one witness (Van Jamison) attempted to address this question. He did this by characterizing the mandate as a "choice" that allows him to "vote with his money." The bill obviously does not create choice. In the old days of traditional regulation of integrated utilities, there might be more rationale for this kind of mandate. Those days and that justification are gone. There is actually more customer involvement in resource planning and selection than there ever has been. NWE has no vested interest in any particular generation project. All-source RFPs are issued pursuant to portfolio plans that are reviewed by the Commission with public input. If renewable projects are bid in, we will all know that and be looking over NWE's shoulder as they make resource selections. The argument that a mandate is needed to force customer involvement belongs in another era.

the utility to potentially significant cost disallowances, so there is overwhelming incentive to select the most economic projects. In other words, wind will be selected if the thorough process with public involvement and PSC oversight establishes that it is the best resource. No one said they had a problem with this process. What does a mandate add?

SB415 requires the default supplier to meet a minimum portion of its needs through renewables (read wind): 5% for 2008 and 2009; 10% for 2010 through 2014, and at least 15% after that. Here's what that would mean for the default supplier: Currently its average load is 650 Average MW. Five percent would be 32.5 average MW; 10 percent would be 65 average MW; abd 15 percent would be 97.5 average MW. If wind projects produce an average of 37 percent of capacity, these numbers translate into total wind capacity of 88 MW; 175 MW; and 264 MW, respectively.

If the default supplier had to meet this standard it would have 264 MW of wind on a system with average loads of 650 average MW. Off peak, loads can be as low as 350-400 MW. At such times the default supply could be relying on wind for upwards of 2/3 of its resources. This is an integration problem that has not been considered. The bill provides for some temporary outs, but puts the burden for them on the Commission in adopting cost caps and on the default supplier for proving it cannot meet the caps.

Also each public utility and each competitive supplier must purchase a minimum of 50 MW (nameplate capacity) from "community renewable energy projects" beginning in 2010. These are defined as locally owned projects not exceeding 5 MW. This requirement may give such suppliers a huge bargaining power, if there are not enough to go around.