EXHIBIT 13
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SB SB 415

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Greg Jergeson, Chairman
District 1

April 14, 2005

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Representatives:

At Monday's hearing on SB 415, NorthWestern Energy lobbyist John Fitzpatrick stooped to an uncalled-for *ad hominem* attack on the PSC when he likened the PSC's establishment of independent power producer (QF) rates in the 1980s to the actions of a drunken sailor. The PSC expects to encounter honest and forthright differences of opinion over proposed legislation. However, we strongly object to Mr. Fitzpatrick's outlandish and misinformed comments and take this opportunity to set the record straight.

Mr. Fitzpatrick's selective and inflammatory comments mischaracterized the history in regard to QF rates. (Attached is a brief summary of that MPC-specific history.) Neither the PSC nor Montana Power Company (now NWE) had perfect knowledge as these decisions were reached over the past decades, but the QF decisions were based on federal and state law and a record of evidence in contested cases and, like all PSC decisions, were subject to legal challenge. Notably, not one of the PSC's orders setting QF rates were challenged, although that right resided with MPC and other participants.

It is unfortunate that Mr. Fitzpatrick chose, both in the tenor and content of his remarks, to attack the PSC rather than to engage in serious and informative debate on the issue at hand.

Sincerely,

Greg Jergeson

Greg Jergeson
Chairman

Attachment

BRIEF QF SUMMARY

The federal Public Utility Regulatory Policies Act (PURPA) of 1978 requires the PSC to set prices that utilities, such as MPC (now NWE) and MDU, must pay to qualifying (renewable/cogeneration) facilities (QFs) for the electric power that they generate and sell to . The Commission initiated three contested cases in the early to mid-1980s, each of which served to establish appropriate policies and prices that these utilities must pay for the power that QFs produce. Every major Montana utility participated in those contested cases. In addition, the Montana Consumer Counsel, DNRC and others participated in one or more of these three cases. The federal and state standard for QF rates was that they reflect the utilities' "avoided cost." Avoided cost is defined as "the incremental costs to an electric utility of electric energy or capacity or both which, but for the purchase from the qualifying facility or qualifying facilities, such utility would generate itself or purchase from another source."

The PSC based QF decisions directly upon the federal and state PURPA standards and the record evidence in contested cases. The PURPA QF rates established by the PSC were virtually identical to and based upon MPC's forecasted resource costs to serve customer needs based on its coal plant strategy. QF rates were equivalent to MPC's "avoided cost"—just as PURPA required.

In the early 1980s MPC was completing construction of its Colstrip Units 3 and 4 and at costs exceedingly higher than the prices that MPC was willing to offer QFs. Additionally, in the 1981 time frame MPC had numerous **additional** resource acquisitions planned for the 1984 to 1999 time period. In the 1983-1984 time frame MPC estimated the cost per kwh of Colstrip Unit 3 about $.065/kwh on a fully levelized basis, exclusive of transmission costs, a level that dramatically exceeded the average cost of generation on MPC's system at the same time. However, in 1983 MPC was only willing to pay QFs $.0338/kwh for the power they generated. And, based on MPC's 1982 Projection of Electric Loads and Resources, the MPC Salem coal plant (previously known as "Resource 89") was scheduled to produce power beginning in 1991-1992 (there were actually two Salem plants in MPC's 1984 projection). MPC estimated the cost for the Salem plant at $1.85 billion dollars. MPC's updated 1985 projection planned to meet energy deficiencies beginning in 1989 with increasing amounts of purchased power amounting to 429 MWa by 2007.

In 1991 the Commission ordered MPC to pay to a QF cogenerator, Billings Generation Inc, in levelized terms, $0.05853/kwh as compared to $.05597/kwh that MPC voluntarily estimated and agreed to pay the same QF. The actual annual prices started lower and escalate over the duration of a contract.