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# Energy and Telecommunications Interim Committee

## QF Discussion

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*Delivering a Bright Future*



# What is a QF?

## ■ 1978 National Energy Act – 2 Goals:

- » Diversify Utilities' Supply Portfolio – nonutility ownership
- » Stimulate Renewable Resource Development
- » Created Obligation to Buy a Qualifying Facility “QF”
- » QF

## ■ NorthWestern Portfolio

- » Montana has a RPS, NWE exceeding statutory requirements
- » Extremely diversified portfolio - Sold its resources, market

## ■ NWE Current Electric Portfolio

- » 13 Percent in QF
- » 8 Percent in Renewable
- » 13% Colstrip 4, 66% in market based purchases

# QF Detail

- **NEA Section 210:**

- » (b)(2) No such rule prescribed under section (a) shall provide for a rate **which exceeds** the incremental cost to the electric utility of alternative electric energy.
- » (d) DEFINITION. For purposes of this section, the term "**incremental cost** of alternative electric energy" means, with respect to electric energy purchased from a qualifying cogenerator or qualifying small power producer, the cost to the electric utility of the electric energy which, but for the purchase from such cogenerator or qualifying small power producer, such utility would generate or purchase from another source.

# Comparison of Market and Wind Acquisition

<u>Criteria</u>	<u>Market Purchase</u>	<u>Wind</u>
Cost	Market Price less Tx discount	Market Adjusted ??
Firming	No	Yes
Integration	No or minimal	Yes
Forecasting	Not Necessary	Yes
Fuel	N/A	Free
Environmental	Can be significant. Contracts currently don't allow pass thru	Generally minimal. REC have value
Capacity Value	100%	5 to 10%

# Comparison of Wind Resource Types

<b><u>Criteria</u></b>	<b><u>Wind Renewable</u></b>	<b><u>Wind QF</u></b>
<b>Cost</b>	<b>Prevailing Market/Negotiations</b>	<b>Predetermined rate</b>
<b>Renewable Resource</b>	<b>Yes</b>	<b>To date, No</b>
<b>Location: Capacity Factor, Geographical Diversity,</b>	<b>Yes</b>	<b>NWE has no say</b>
<b>Scheduling</b>	<b>Yes</b>	<b>No information provided by project</b>
<b>Availability</b>	<b>Project Informs us. Lowers imbalance costs</b>	<b>No information provided by project</b>
<b>Weather and Output Forecasting</b>	<b>Yes. Lowers costs</b>	<b>No, Can't require</b>
<b>Integration</b>	<b>Yes</b>	<b>Yes</b>

# Illustration of Financial Equivalence

	Mid C Based Market Purchase	Wind QF in Montana
Purchase Price <sup>1</sup>	\$62.40	\$62.40
Integration Costs <sup>1</sup>	\$0.00	(\$8.14)
Liquidated Damage Provision <sup>2</sup>	\$0.00	(\$1.00)
Contingency Reserves <sup>1</sup>	\$0.00	(\$0.50)
Basis Differential <sup>2</sup>	<u>(\$4.00)</u>	<u>(\$4.00)</u>
<b>Net Value</b>	<b>\$58.40</b>	<b>\$48.76</b>

<sup>1</sup> Based on actual or contracted values

<sup>2</sup> Estimate

# Conclusions

- **QF concept is less relevant but,**
  - » Still the law, NWE still provides contracts
  - » Have yet to obtain RECs so not renewable
  - » Many small QFs don't like the price or the fact they need to pay integration costs
  - » NWE argues that the consumer, per the law, should be indifferent. Regarding integration, MPSC has agreed with NWE they should pay their fair share
  
- **Renewables make sense for our customers and we are working to get more – 8% now**
  - » Bought 25 MW wind plant in SD
  - » Recently completed Community RFP – Buy small hydro
  - » 25 – 75 MW RFI currently underway – proposals due soon