

Colstrip Units 1 and 2 will close in 2019

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The Colstrip power plant, including units 1 and 2, is shown in January. Plant owner Talen Energy recently announced that units 1 and 2 will be shut down some time in 2019.

ADAM FONDREN, Billings Gazette file photo

Colstrip Units 1 and 2 will close at year's end, Talen Energy announced Tuesday in a press release.

Talen says the units, previously scheduled to run as late as 2022, aren't economically viable. The Pennsylvania-base company splits ownership of the units with Puget Sound Energy, of Washington state. Puget must stop using coal power by the end of 2025 under Washington law.

Colstrip's other two units, 3 and 4, will remain in operation. Currently, Colstrip is one of the largest coal-fired power plants in the West. This is the second Montana closure announced this year. In February, Montana Dakota Utilities announced that it would shutter the Lewis and Clark Generating Station in 2020, explaining that the aging power plant near Sidney was uneconomical.

"The decision to retire Colstrip Units 1 and 2 comes after extensive review and exhaustive efforts over the last few years to address the financial challenges that these units face," said Dale Lebsack, Talen Montana president, in a press release. Lebsack continued, "The plant team has done a great job of responding to the challenges faced by Units 1 and 2, but we have been unsuccessful in making the units economically viable."

Colstrip Mayor John Williams said Tuesday's announcement was unexpected, especially because all four Colstrip units were in full operation for several weeks of January and February when extremely cold weather increased demand for coal power.

"I don't know where this is going to head. It's surprising that they're taking this approach," Williams said. "My understanding is it's the financials, which surprises me because I feel the units made money when the price was up to \$700 per megawatt a few months ago."

"I'm concerned about the impact to the employees, who are working in the community, who are working at the power plant," Williams said.

The City of Colstrip has about \$10 million in pledged transition funds from Puget Sound Energy to help it into a post power-plant existence. At least one other power plant owner has shown interest in contributing to the fund.

The financial challenges facing Talen include competition on the open market from natural gas and renewable energy sources, both of which are more affordably priced. Talen is a merchant power generator. It sells electricity on the open market, unlike Colstrip's other five owners, which are regulated utilities that have captive customers and protected rates of return.

The power plant owners have also been in prolonged contract negotiations for future coal for Colstrip. Its current contract with Rosebud Mine expires at year's end. Any increase in coal price would make the units less economical.

Units 1 and 2, which produce 617 megawatts of electricity, burn about 2 million tons of coal per year, according to Talen. That's 2 million fewer tons from Rosebud Mine, which is within walking distance of the power plant and employs about 300 people.

The mine is owned by Westmoreland Mining LLC, which is comprised of creditors of Westmoreland Coal Co., which went bankrupt earlier this year. The creditors in January indicated they wouldn't honor the bankrupt company's contract with the power plant, which prompted threats of immediate closure of all four units by the six Colstrip owners.

The creditors then agreed to see the contract to expiration this December.

Talen said workers from Units 1 and 2 would be assigned to cleanup or transferred to the power plant's other two units. More than 300 people work at the four-unit power plant.

For several years, Colstrip owners have suggested that some jobs would be phased out through attrition, while others transitioned to Units 3 and 4.

Previously, the most discussed closure date for Units 1 and 2 was December 2022. That date was tied to a July 2016 legal settlement in which Colstrip owners agreed to shutter the units "no later than" 2022. The settlement was between the unit owners, the Sierra Club and The Montana Environmental Information Center. The lawsuit centered on air pollution.

Units 1 and 2 were built in the mid-1970s. The economics of the oldest units have been troubled for years. In 2016, Talen gave the other five owners of the power plant two years' notice that it would cease operating the plant by mid-2018. Talen at the time said it was losing millions of dollars per quarter at Colstrip.

Later, Talen reconsidered and continued to operate the plant. The power plant's other owners — Oregon utilities PacifiCorp and Portland General Electric; Washington utilities Puget Sound Energy and Avista Corp.; and South Dakota-based NorthWestern Energy — weren't interested in running the power plant's daily operations.

The closure will speed development of new energy sources, particularly for Puget Sound Energy, which owns half the output from Units 1 and 2. The largest Colstrip stakeholder has been making plans for replacement energy, including contracts with proposed renewable energy projects in Montana. But those plans didn't assume closure during the next six months.

"Capacity-wise, we'll be able to go to the open market and grab some power to replace 1 and 2," said Ron Roberts, Puget's director of thermal resources. "At the same time we have an all-source request for proposals out for power that was originally targeted for the middle of '22 when 1 and 2 were looking to close via the settlement. Obviously we're evaluating those options and bids that we've received to try and look and see if there are any that may be able to accelerate."

Roberts said replacement power doesn't have to be "baseload" power, a term used to describe the kind of non-fluctuating energy delivery fossil fuels can offer.

Colstrip Units 1 and 2 haven't been continuously operating. They're the first units at the power plant to dial down in order to accommodate electricity from Pacific Northwest dams in the spring, as well as wind energy.

The units are in economic shutdown, Roberts said.

"They're not running currently," Roberts said. "They haven't in the entire second quarter, and that's primarily due to economics and the abundance of supply of power."

Federal records show the units were offline for the same period last year, as well.

Montana renewable energy developers have had 2022 circled on their calendars for the launch of wind and solar projects once Units 1 and 2 is closed. Developers needed capacity on the power lines serving Colstrip in order to transmit to the Pacific Northwest

That transmission capacity freeing up in early 2020 changes things, said Jeff Fox of Renewable Northwest.

"I think this is a big opportunity to get Montana renewables into northwest markets, which we've been trying to do for a long time," Fox said. "I think the economics that drive the shutdown are the same economics that should be working in favor of renewable resource power."

Puget Sound Energy in particular, because it owns transmission capacity related to Units 1 and 2, can play a big role in Montana renewable energy development, Fox said, either by contracting with Montana renewable projects or making its capacity available to others for moving energy to Oregon and Washington.

There will be costs spread across four Colstrip units that will have to be shouldered to Units 3 and 4 moving forward. Customers of the Colstrip owners will have to cover an increased share of those expenses.

Moving forward, Units 3 and 4 will face the challenges of coal supply agreements. The coal contracts for those units also expire at year's end.

"Obviously going forward, coal supply costs for Units 3 and 4 is a big issue as well," Roberts said. "If the price is too high, what it does is it pushes the dispatch numbers down on numbers 3 and 4, which means you have all the costs spread over fewer megawatts, which means the price goes up, and if the price goes up you run it less, and it starts that kind of vicious circle."

NorthWestern Energy, which has 370,000 customers in Montana, said in an email that the economics of Units 3 and 4 are better than the economics of Units 1 and 2.

"Colstrip Units 3 and 4 are a decade newer, are substantially more efficient and therefore more cost effective to operate than Colstrip Units 1 and 2. A new, reasonably priced fuel contract with Westmoreland Rosebud Mining is also needed for the successful long-term operation of Colstrip Units 3 and 4," said John Hines, NorthWestern Energy Vice President of Energy Supply and Government Relations.

NorthWestern's customers are committed to paying the company \$407 million at 8.25% interest for its 20% ownership of Unit 4. Those payments are slated to continue until 2042. The company has said it's committed to keeping the power plant running to that date.

Four of the other owners of Units 3 and 4 face deadlines in their states to get out of coal power. Washington is banning coal power by the end of 2025. Oregon is imposing a ban on PacifiCorp in 2030 and Portland General Electric in 2035. Those four owners have more than 3 million customers collectively.

News of the 2019 closure of Units 1 and 2 prompted press releases of outrage from Montana politicians.

“This is a sad day for Montana, the Colstrip community and our energy security,” said U.S. Sen. Steve Daines, a Republican. “Today’s news is yet another example of the devastating impacts of extreme environmental regulations, fringe litigation and partisan politics. I worked hard to find a solution, and it’s truly disheartening to see Units 1 and 2 be forced to close. All Montanans need to come together to preserve Units 3 and 4 as a part of Montana’s energy portfolio for decades to come. I stand with the Colstrip community and will continue my fight in Washington, D.C.”

U.S. Rep. Greg Gianforte said: “Colstrip has long provided affordable, reliable electricity to Montanans, but the war on coal has jeopardized Colstrip and good-paying jobs for hardworking Montanans. I’ll continue working to keep Units 3 and 4 operating, protect Colstrip and Montana jobs, and provide affordable electricity to all Montanans.”

The two congressmen will be in Billings on Wednesday with Vice President Mike Pence. In a 2017 visit to Absaloka Mine, Pence said the war on coal is over. The Trump administration has struggled to prevent coal power plants from closing.

Sen. Jon Tester said in a press release: “This news is surprising, and I’ll be working to make sure Talen isn’t leaving workers out to dry and is keeping the community and employees informed about what they can expect in this process. And I’ll be holding them accountable for a thorough cleanup of the site.”

Gov. Steve Bullock, on the presidential campaign trail in Iowa, told Lee Montana newspapers that he had heard from the president of Talen Energy on Tuesday.

"We'll do everything we can to help that community," Bullock said.