

NorthWestern Energy plans to buy bigger stake in Colstrip power plant for \$1

By TOM LUTEY tlutey@billingsgazette.com

Dec 10, 2019



In this file photo from January, the Colstrip power plant stands over the town of Colstrip. Colstrip's four utility owners from the Pacific Northwest face deadlines to stop delivering coal-fired power to their 3 million customers within the next decade.

ADAM FONDREN, Billings Gazette

NorthWestern Energy plans to increase its share in Colstrip Unit 4 by buying out another power plant owner who recently revealed the coal-fired unit needs \$20 million in repairs.

Montana's largest monopoly utility said Tuesday that it will buy out Puget Sound Energy for \$1. The price is identical to what NorthWestern pitched to the 2019 Montana Legislature 10 months ago. Lawmakers rejected the deal, with several expressing worry the utility's customers would face hidden debts associated with repairs and future environmental cleanup costs. In the Legislature, NorthWestern never identified which of Colstrip's five other owners was offering shares.

NorthWestern currently has a 30% share in Unit 4, for which its customers owe \$300 million. Puget's share would boost NorthWestern's stake to 55%. In a separate deal, NorthWestern would buy Puget's capacity on Colstrip's transmission lines for \$2.5 million to \$3.7 million.

The utility has the ability to buy Puget's assets without government approval, but if its customers are to shoulder costs associated with maintenance, operation, taxes and environmental cleanup, the Public Service Commission will have to sign off. NorthWestern indicated it will seek PSC approval early next year.

The Montana Consumer Counsel, the official legal advocate for utility customers, ranks NorthWestern's Colstrip Unit 4 power as the most expensive electricity in the utility's Montana portfolio. Based in South Dakota, NorthWestern has 370,000 Montana customers.

The Colstrip purchase is one of many planned by NorthWestern in the coming years, compelled by what NorthWestern Vice President John Hines described as looming energy shortage in the west brought about by retiring power plants.

"We are 45% short of our peaking capacity. In other words, 24-by-7 power that we can turn on and off," Hines said. "No other utility in the region is that short, but in addition the region is growing shorter."

Hines, who manages government affairs for the utility, said the Northwest Power and Conservation Council recently elevated the odds of a blackout somewhere in the region to 26%.

The NPCC, which forecasts whether the northwest has adequate power supply, announced in September that by 2021 a supply shortfall estimated to be about 7.5% would exist based on existing resources, planned resources that have been sited and licensed, as well as planned energy efficiency. The supply shortfall climbs to 17% by 2026. NPCC cautions that its forecast does not include regional utilities' plans to replace power. There are several utilities with plans for replacement power as current power plants, including Colstrip, close.

For Puget Sound Energy, the sale would leave Colstrip power plant's most dominant owner with just 25% of Colstrip Unit 3. The Washington-based utility owns half of Colstrip Units 1 and 2, with Pennsylvania-based Talen Energy owning the other half. The two companies announced in June that those units were no longer economical and would be shut down. Units 1 and 2 will stop operating in a few weeks.

In November, Puget told regulators in Washington that the superheated section of Colstrip Unit 4 was badly damaged and needed \$20 million in repairs. It said each owner of Unit 4 faced with exiting the Colstrip in less than a decade would have to consider whether shutting down the plant made more sense than fixing it.

The “superheat section in Unit 4 is starting to show signs of metallurgical wear and degradation,” Puget Sound’s Ron Roberts told Washington regulators. The comments were included in a redacted portion of staff recommendations regarding Colstrip. “Mr. Roberts goes on to say, '[e]ach of the Colstrip owners, including PSE, must consider if an investment of this size is prudent across the useful life of the facility, especially considering other external factors that may mandate PSE remove coal generation for its portfolio by a date certain.'”

The company also told Washington’s Utilities and Transportation Commission that the next coal contract to feed the power plant would come with a significant increase in price. That contract was signed last week with the owner of Rosebud Mine, Westmoreland Coal Mining LLC.

Hines characterized the \$20 million in repairs differently from how Puget had described it to regulators. In a Tuesday press call he said the \$20 million in repairs were small in the grand scheme of Colstrip operating and maintenance. He also said the repairs were expected by all Colstrip owners.

“There seems to be a representation that this superheater issue at Colstrip Unit 4 is either a unique issue that we're not addressing, or that we're somehow hiding that issue,” Hines said. “First of all NorthWestern, in its financial analysis, (the repair costs) will be provided when we make our regulatory filing.”

Hines said NorthWestern always knew the \$20 million for repairs was needed and that they weren't trying to hide the repairs.

The Unit 4 repairs and the fact that Colstrip owners would consider shutting down the unit instead of making the repairs was made public by The Gazette on Nov. 27. And until Hines responded to news accounts of the \$20 million in boiler repairs, no Colstrip owner had acknowledged publicly that there were concerns.

The Gazette posed several questions about the repairs to NorthWestern on Nov. 27, which the utility chose not to answer and instead said Colstrip Power Plant operator Talen Energy was the only source for such information. In turn, Talen did not respond to requests about the needed repairs to Colstrip Unit 4.

The \$20 million in needed repairs to Unit 4 wasn't disclosed by NorthWestern or Puget in their Tuesday press releases about their proposed \$1 sale.

Ten days after The Gazette first reported on the documents and two business days before NorthWestern and Puget revealed their \$1 deal, The Gazette was contacted by an attorney for the Washington Utilities and Transportation Commission asking that The Gazette remove all redacted information from its Nov. 27 report.

The Gazette declined to remove the details, as did other Lee Montana publications that had published the Nov. 27 article. Editors of the Lee Montana newspapers concluded the public needed to see the information, which hadn't been disclosed. The U.S. Supreme Court has recognized the First Amendment right of the press to share confidential documents for 48 years.

Likewise, the deal announced Tuesday between NorthWestern and Puget Sound Energy hadn't been disclosed. After NorthWestern's unsuccessful attempt to acquire the Legislature's approval for a larger share of Colstrip, the staff for the Montana Public Service Commission asked the utility to perform a cost-benefit analysis of buying more of Unit 4.

PSC staff made the request as part of NorthWestern's general rate case. The \$6.5 million rate increase is expected to receive a final order from the PSC later this month.

NorthWestern didn't provide the cost-benefit analysis, telling the PSC that after the failed legislative attempt, the utility was no longer interested in acquiring more of Colstrip.

Hines said Tuesday that keeping confidential the company's negotiations with Puget was the reason the analysis wasn't agreed to.

"We couldn't respond in the rate case with analysis of a transaction that we were negotiating. That would have been improper to say the least, as well as violating numerous confidentiality agreements," Hines said. "Two, this transaction is fundamentally different than what we proposed during the legislative process. As I've already talked about, first and foremost, the PSC has oversight."

In the 2019 Legislature, lawmakers were asked to approve the purchase with the Public Service Commission limited to dealing the details of the outcome afterward. Normally, the approval would have to come from the PSC.

NorthWestern, in a press release, said the maintenance and property tax costs associated with the increased share would be about \$15 million a year. Those costs are typically passed on to customers, but for five years Puget would pay for half. NorthWestern said it plans to sell Puget Sound Energy coal power for another five years.

"We are stating upfront that there will be zero increase in customers' rates this first year," Hines said.

Puget has to stop using coal power under Washington law by the end of 2025. Other Colstrip owners are also making exit plans. Spokane-based Avista Corp. told The Billings Gazette last week that plans are being made to exit in 2025, although currently it plans to exit by 2027. PacifiCorp plans to exit in 2027. Portland General Electric plans to exit no later than 2035, although it plans to pay off its Colstrip debt by 2030 and taper off of coal power over time.

NorthWestern's announcement comes one day after ratepayers protested its 20-year energy plan outside the Public Service Commission offices in Helena. Inside, customers lined up for hours to tell the commission NorthWestern needed to invest in renewable energy, get out of Colstrip and avoid investments in new power plants fueled with natural gas.

The hearing started with a presentation about the plan by a NorthWestern Energy employee who made no mention of the utility's plan to buy out Puget, but emphasized that the most economical way to meet future generation needs was by investing in power plants fired with natural gas.

There's still a need for the new natural gas plants, Hines said. But buying Puget Sound Energy's share of Unit 4 would take care of 185 megawatts, or 25% of NorthWestern's projected need for more generation.

In NorthWestern's press release, the company also said it would reduce the carbon pollution in its portfolio to 90% by 2045. Colstrip is the biggest polluter in the utility's portfolio. The company has been adamant the plant will run through 2042.

"Nothing is more important to the people of NorthWestern than safely providing Montanans with the affordable and reliable energy we all need while also protecting our environment," said NorthWestern Energy President and CEO Bob Rowe in the press release. "We take that dual responsibility seriously, and right now our state faces an urgent capacity shortage — energy that's available 24 hours a day, 365 days a year, regardless of the weather."

Most of the planned reduction in carbon pollution would come through attrition, as Unit 4 shut down and two other fossil fuel plants from which NorthWestern buys power as well.

While NorthWestern proclaimed buying a bigger stake in Colstrip was good move, Puget was declaring its hasty exit is in customers' best interest. Handing the shares to NorthWestern will clear nearly half of the coal power from Puget's portfolio and years ahead of 2025, when Washington's Clean Energy Transformation Act would require Puget to get out of coal.

“This is what our customers have been asking for, and we have been on a path to for years,” said David Mills, senior vice president of Policy and Energy Supply for Puget. “We’re excited to take this major step forward in creating a better energy future for our customers and the state of Washington.”

MORE INFORMATION



Gazette opinion: PSC needs to spend more time listening to public