

MONTANA-DAKOTA UTILITIES CO.
A Division of MDU Resources Group, Inc.

Before the Public Service Commission of North Dakota

Case No. PU-10-124

Rebuttal Testimony
of
Andrea L. Stomberg

1 Q. **Would you please state your name and business address?**

2 A. Yes. My name is Andrea L. Stomberg, and my business address is
3 400 North Fourth Street, Bismarck, North Dakota 58501.

4 Q. **What is your position with Montana-Dakota Utilities Co.?**

5 A. I am the Vice President of Electric Supply for Montana-Dakota
6 Utilities Co. (Montana-Dakota), a Division of MDU Resources Group, Inc.

7 Q. **Are you the same Andrea L. Stomberg that submitted Direct
8 Testimony in this proceeding?**

9 A. Yes, I am.

10 Q. **Have you read the pre-filed Direct Testimony of staff witness Mr.
11 George Mathai?**

12 A. Yes, I have.

13 Q. **Are you familiar with Mr. Mathai's recommended treatment of
14 Montana-Dakota's investment in the Diamond Willow and Cedar Hills
15 wind projects?**

16 A. Yes I am. I understand that Mr. Mathai has recommended that the
17 Diamond Willow wind projects located in Montana be excluded from

1 consideration in determining the Company's revenue requirement
2 because of his belief that they were built to meet Montana's Renewable
3 Portfolio Standard and are more expensive than the Cedar Hills wind
4 project located in North Dakota.

5 Mr. Mathai also recommends that the Cedar Hills project be
6 excluded from consideration because of his belief that Montana-Dakota
7 failed to show a need or usefulness for the project. Mr. Mathai suggests,
8 without a concrete proposal, that to implement his recommendations the
9 Company's other legacy generation resources be reallocated among
10 Montana-Dakota's integrated system customers.

11 **Q. Do you agree with Mr. Mathai's recommendations to disallow**
12 **recovery of Montana-Dakota's investment in wind resources?**

13 A. No, I do not.

14 **Q. Would you please describe generally the factors that have gone into**
15 **Montana-Dakota's decision to add wind generation to its integrated**
16 **system?**

17 A. Montana-Dakota's decision to add wind generation to its system
18 was the result of many considerations.

19 Montana-Dakota has a need for additional generation resources
20 which has been demonstrated in its Integrated Resource Plan (IRP) filings
21 with this Commission, in its filing for an Advanced Determination of
22 Prudence for the Big Stone II Plant and as evidenced by the increased
23 energy purchased from the Midwest Independent System Operator

1 (Midwest ISO) required upon expiration of a long-term baseload contract
2 (AVS-II) and increased customer demand. The energy from Montana-
3 Dakota's wind generation provided an offset to historic high market prices
4 as described in more detail by Mr. Neigum and will serve to minimize
5 volatility associated with the market into the future.

6 In addition, the Midwest ISO currently accredits capacity for
7 intermittent generation at eight percent of installed capacity, based on
8 their Effective Load Carrying Capability studies. The capacity credits for
9 the wind facilities are included in MISO's determination of Montana-
10 Dakota's ability to meet its total projected load within MISO, which
11 includes Montana-Dakota's integrated system.

12 Montana-Dakota seeks to have a diversified generation portfolio,
13 including baseload coal with various boiler types as well as diverse fuel
14 and fuel suppliers, gas peaking plants at several locations, and purchased
15 power. The addition of a small amount (less than ten percent of its system
16 installed capacity) of wind generation assists in further diversification of
17 the Company's electric supply. Including a reasonable amount of no-
18 carbon renewable generation in Montana-Dakota's generation portfolio
19 makes sense given social interest in renewable energy and a very
20 uncertain environmental regulatory situation for fossil fuel generation.

21 Finally, the three states that are served by Montana-Dakota's
22 integrated system each have state renewable energy standards or
23 objectives, enacted by their state legislatures. The passage of these

1 standards and objectives are clear evidence that the states in which the
2 Company provides retail electric service have adopted public policies that
3 electric utilities providing service within their jurisdictions should have
4 some of their electric supply generated by renewable resources.

5 **Q. Were the two wind projects built to meet the Montana renewable**
6 **energy standard?**

7 A. First and foremost, Montana-Dakota built these facilities to help
8 meet the generation needs for its integrated system customers. As a
9 MISO participant, all of Montana-Dakota's generation, including wind, is
10 offered into the MISO market and in essence repurchased from that same
11 market under the MISO's real-time and day-ahead markets for the benefit
12 of Montana-Dakota's entire integrated system. The energy from Montana-
13 Dakota's wind generation cannot be physically segregated to serve any
14 particular state. While Montana-Dakota built the first wind project at
15 Diamond Willow with the intent to utilize the renewable energy certificates
16 (RECs) from Diamond Willow toward the Montana requirement, it was
17 always intended that the energy would be delivered into the MISO system
18 for the benefit of Montana-Dakota's entire integrated system. Moreover,
19 the decision to pursue the Diamond Willow project was made at the time
20 that the North Dakota Legislature was in the process of adopting its
21 renewable energy objective "that ten percent of all electricity sold at retail
22 within the state by the year 2015 be obtained from renewable and
23 recycled energy sources". The energy and renewable energy certificates

1 from Diamond Willow I as well as Diamond Willow II and Cedar Hills will
2 go toward meeting the Montana renewable energy standard as well as the
3 North Dakota and South Dakota renewable energy objectives.

4 **Q. Do you agree with Mr. Mathai that Montana-Dakota did not meet a**
5 **burden of proof as the need or usefulness of the Cedar Hills wind**
6 **facility?**

7 A. No. Montana-Dakota filed an Application with this Commission for
8 a Certificate of Public Convenience and Necessity (CPCN) for the Cedar
9 Hills facility in Case No. PU-08-942. The Commission issued an order
10 granting the certificate which specifically referenced that Montana-
11 Dakota's application indicates the Cedar Hills project is needed to provide
12 reliable and economic renewable energy to its customers. Based on that
13 application and the subsequent informal hearing, the Commission
14 determined in its Order that "public convenience and necessity will be
15 served by the construction and ownership of the facilities". The certificate
16 issued by the Commission states "that public convenience and necessity
17 require" Montana-Dakota to "construct, own and operate" the Cedar Hills
18 project.

19 **Q. Did Montana-Dakota apply for a CPCN for the Diamond Willow**
20 **projects?**

21 A. No. It is my understanding that the requirements for a CPCN
22 applies to facilities built within the State of North Dakota. Diamond Willow
23 is located in Montana and, therefore there was no similar requirement for

1 Montana-Dakota to file a CPCN for that facility.

2 With regard to the usefulness of the Cedar Hills project, it has been
3 generating electricity for the benefit of North Dakota and other customers
4 of Montana-Dakota's integrated system since the project commenced
5 commercial operation June 6, 2010. The electricity from all three wind
6 projects have been included in the Company's fuel adjustment clause
7 filings filed monthly with the Commission.

8 **Q. Why didn't Montana-Dakota apply for an Advanced Determination of**
9 **Prudence (ADP) for the Cedar Hills and Diamond Willow projects?**

10 A. As I understand, the CPCN essentially has the same effect as an
11 ADP for smaller North Dakota projects. The ADP provides the certainty
12 desired for access to capital for larger projects; but that was not a large
13 concern for the small Cedar Hills project. Montana-Dakota further
14 understands that NDAC 49-05-16 (6) bestows a rebuttable presumption
15 that a renewable energy facility located in the state of North Dakota is
16 prudent regardless of whether an ADP application is filed. Certainly, when
17 the Commission granted the CPCN for Cedar Hills, it affirmed its view of
18 the prudence of that investment. While the Company could have pursued
19 an ADP for the Diamond Willow projects, there is no mandate that a utility
20 file for an ADP and given the need for resources as presented in the
21 Company's IRPs, the state's support for renewable energy, as evidenced
22 by the North Dakota renewable objective, and a desire on the part of
23 Montana-Dakota to further diversify its generation portfolio, Montana-

1 Dakota believes the investment was prudent.

2 **Q. Why is available transmission capability particularly important?**

3 A. There are potential wind projects totaling 2,768 MW seeking
4 interconnection to Montana-Dakota's transmission system, including 320
5 MW in the vicinity of Cedar Hills and Diamond Willow. As the
6 transmission system becomes more fully utilized to serve Montana-Dakota
7 load growth, as well as by others who seek to interconnect, system
8 upgrades to accommodate new generation become more expensive. In
9 2008, \$4 million of network upgrades were required for a wind facility
10 interconnection (Tatanka) with Montana-Dakota's transmission line in
11 southeastern North Dakota. The enXco Merricourt wind project
12 interconnection, scheduled for 2011, on that same southeastern North
13 Dakota line is expected to cost more than \$20 million for needed network
14 transmission upgrades.

15 One advantage Montana-Dakota has with its two discrete, smaller
16 wind developments is that the resources fit within the available capacity of
17 the existing transmission system, with virtually no upgrades required. As
18 more and more generators take advantage of open access to Montana-
19 Dakota's transmission, locations where upgrades are not required will
20 become scarcer. By finding niches within the system where transmission
21 capability was available, and by building before others used that same
22 capability, Montana-Dakota was able to avoid costs that would likely apply
23 to projects located elsewhere or later in time that would need to be passed

1 on to customers.

2 **Q. Can you comment on Mr. Mathai's suggestion that other generation**
3 **resources be reallocated among the jurisdictions of Montana-**
4 **Dakota's integrated system?**

5 A. I credit Mr. Mathai for recognizing these generation resources
6 cannot simply be removed from consideration for rate making purposes
7 without considering replacement sources of energy and capacity to serve
8 Montana-Dakota's North Dakota customers. Mr. Mathai's suggestion
9 recognizes that the wind projects are being used to serve North Dakota
10 customers as part of the integrated system. Of course, replacement
11 supply sources have associated costs which will offset and possibly
12 exceed the cost of the wind projects in the long term. However, those
13 costs are not reflected as offsets to Mr. Mathai's recommendations. I
14 certainly don't believe it is appropriate, as suggested by Mr. Mathai, to
15 reallocate a greater share of Montana-Dakota's legacy generation simply
16 because it is currently less expensive than the cost of newer wind
17 generation that is being used to supply North Dakota customers. This
18 could create bad regulatory precedent in which costs for an integrated
19 system would be assigned to the jurisdiction where they were incurred
20 rather than to the customers benefitted by the resource. In actuality, any
21 attempt to allocate between jurisdictions based on generation source,
22 cost, and benefits of energy that is delivered into the MISO market to
23 serve an integrated system is not realistic.

1 **Q. Can you provide any examples of differing state-specific**
2 **requirements that increase costs which are paid for by all of**
3 **Montana-Dakota's customers?**

4 A. Yes. There are many other examples of state-specific
5 requirements that are included in rates charged customers throughout the
6 integrated system.

7 For instance, coal ash disposal requirements in North Dakota are
8 much more stringent than those in Montana, but since power from North
9 Dakota coal plants with ash disposal facilities flows to all states, these
10 costs are collected from all customers. Similarly, pollution control
11 requirements can vary state by state, as they do within Montana-Dakota's
12 system. North Dakota's coal reclamation laws are noteworthy in their
13 stringency, which impacts the cost of lignite fuel from North Dakota mines.
14 All integrated system costs have historically been shared by all customers
15 of the entire integrated system, without regard to the location of the
16 generation source.

17 **Q. Does the North Dakota renewable energy objective require that**
18 **renewable generation be least cost as implied by Mr. Mathai's**
19 **testimony?**

20 A. Montana-Dakota seeks to provide its customers with the best value,
21 given the many parameters that need to be considered when selecting
22 generation. In recognizing these many parameters, NDCC 49-02-32
23 requires an "...economic evaluation to determine if the use of new

1 renewable and recycled energy is cost-effective considering other
2 electricity alternatives” and then goes on to state that after this evaluation
3 is complete, the retail provider “may use the electricity alternative that best
4 meets its resource or customer needs”. Clearly, the intent of the writers
5 was to ensure that both economics as well as other salient factors were
6 considered in a decision to build a renewable source.

7 **Q. In your opinion, is it appropriate for Montana-Dakota to consider a**
8 **resource that is not the least cost source of power to be a**
9 **reasonable addition to its resource portfolio?**

10 A. Certainly. As Montana-Dakota states in its 2009 IRP, and as noted
11 by Mr. Mathai on page 13, in seeking the overall best choice for meeting
12 the long-term energy requirements of its customers, Montana-Dakota may
13 consider resources which may not be least cost competitive, but which
14 have other perceived social or regulatory attributes. Further, decisions are
15 made at a point in time, based on the best information available at that
16 time. This can include reasonable analysis about future social and
17 regulatory environments.

18 And Montana-Dakota has shown that the cost of the generation for
19 which we seek recovery is reasonable. The capital costs are well within
20 the costs of other new generation resources available to us, and the
21 energy costs are much lower. Mr. Darcy Neigum will step through the
22 Company’s decision process in his rebuttal testimony.

23 **Q. Do other investor owned utilities have wind generation in their North**

1 **Dakota rates?**

2 A. Absolutely. This Commission has approved rate recovery for wind
3 resources for both Otter Tail Power Company and Xcel Energy. My
4 understanding of the reasons for the development of wind resources by
5 each of these electric utilities is similar to Montana-Dakota's reasons and
6 in fact both companies currently have a higher percentage of wind as part
7 of the resource portfolios than Montana-Dakota based on my review of
8 recent integrated resource plans for each company.

9 Mr. Mathai's recommendations are arbitrary and inconsistent with
10 the regulatory precedent in North Dakota for treatment of other utilities and
11 wind generation resources.

12 **Q. Do you have any comment on Mr. Mathai's suggestion that any rate**
13 **recovery of wind generation costs be handled through a renewable**
14 **rider?**

15 A. Montana-Dakota has no objection to that recommendation.

16 **Q. Does this conclude your rebuttal testimony?**

17 A. Yes, it does.