



Questions & Answers Summary

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This document summarizes the findings of policy and economic Question and Answers report by Headwaters Economics as part of the MSTI Review Project - an independent, transparent analysis of the proposed MSTI transmission line that leads to better planning outcomes from a variety of perspectives. The full, detailed report is posted at www.mstireviewproject.org.

The purpose of this document is to help clarify points of confusion identified by county commissioners about MSTI in a question and answer format. The focus is on concise answers, supported by references to credible sources of detailed information. It was first released in May 2011 and updated in October 2011. This report was updated again this spring to reflect new information and policy developments.

To produce this report, Headwaters Economics has consulted key policy documents, published literature, and energy industry experts. Peer review was also provided by technical experts.

Summary: Questions Concerning the Proposed MSTI Line

1. What Type of Energy Will MSTI Carry?
2. Rate Impacts: Who Pays for a \$1 Billion Transmission Line?
3. What is the Role of Mill Creek in the MSTI Siting Process?

A brief summary of answers to the questions guiding this report is offered on this and the following page. The reader is likely to notice that the summary answers suggest some uncertainties associated with each of the issues being considered. For a fuller discussion of the range of ways to approach and consider these questions, please see the full document.

What Type of Energy Will MSTI Carry?

NorthWestern Energy's plans to market transmission on MSTI to wind generation facilities reflect the profile of energy markets at the time MSTI was officially proposed (2008). While there is more uncertainty facing the wind industry today than at that time, there is still strong demand for new, large-scale generation from renewable resources. To meet existing state quotas, the Western Electricity Coordinating Council estimates that the U.S. West will need to double the volume of electricity generated from renewable resources in the region over the course of just ten years. Wind developers banking on the opportunity for Montana's wind resources to play a role in that build out have been and remain the majority (currently about 90%) of the requests for interconnection with NorthWestern Energy's transmission network.

In January 2012, Northwestern Energy announced a Memorandum of Understanding with the Bonneville Power Authority (BPA). The Memorandum of Understanding lays out the terms for exploring the possibility that MSTI could play a role in helping the BPA meet transmission service requirements for its "Southeast Idaho Service Area" which

includes parts of western Wyoming and southern Montana. This could represent demand for up to 550 MW of service. The BPA is also exploring options to utilize the Boardman to Hemingway project for its Southeast Idaho service demand.

If BPA were to become a partner or “anchor tenant” on the MSTI line, this would be a major step forward in securing a customer base for the project. The generation resources would reflect a mix of BPA assets, primarily but not only hydroelectric facilities. The results of the economic and engineering studies on the feasibility of this option for the BPA are expected in August 2012.

While the physical realities of the electric grid mean that all types of electrons will travel on MSTI regardless of generation source, MSTI's eventual construction depends on the market for new generation resources. For a variety of reasons, expansion of coal-burning generation facilities is highly unlikely. Nationwide, many utilities are looking to natural gas as a future generation resource, but in Montana, wind remains the most likely resource for near-term development.

Rate Impacts: Who Pays for a \$1 Billion Transmission Line?

So long as MSTI's product and marketing methods remain consistent with NorthWestern Energy's plan, the project should not significantly increase the transmission portion of retail electricity rates in Montana.

NorthWestern Energy utility proposes to recover the costs of building the MSTI line through a “participant funding” model. This means that all of the costs of constructing the line would be rolled into the price of transmission access on the line and not into Montana rates.

Ongoing federal policy efforts, including FERC's recently issued Order 1000, are focused on establishing processes for determining fair and relevant strategies to address cost allocation for transmission expansion. At this time, it is too early to predict the full implications for remote regions (like Montana and Wyoming) with regards to the costs of infrastructure designed to export electricity to distant markets.

The policies and strategies for complying with the order may differ significantly from other parts of the country where Regional Transmission Organizations predominate. In the West, FERC Order 1000 compliance is being undertaken by subregional transmission groups. While Order 1000 does introduce the possibility of regional cost allocation for transmission developments based on a beneficiary pays principle, it does not impose regional cost allocation on all projects and provides the option for developers to use participant funding as a cost recovery approach.

What is the Role of Mill Creek in the MSTI Siting Process?

Mill Creek describes an area south of Anaconda, MT that features a cluster of utility infrastructure. NorthWestern Energy's proposed route for MSTI, submitted with its original permit application to the Montana Department of Environmental Quality, ran west from the Townsend substation through Jefferson County, past Butte, into Anaconda in order to integrate transmission infrastructure around Mill Creek with an eye on future development.

The cooperating agencies drafting the 2010 Draft EIS observed that integration with the Mill Creek system was not technically critical to the construction of MSTI as an export facility and thus opted for a shorter route with fewer cumulative impacts—the route via western Madison County along the Jefferson and Beaverhead Rivers. However, NorthWestern Energy has repeatedly observed that there are significant benefits to incorporating Mill Creek into the route for MSTI, particularly related to long-range transmission expansion planning. A second look at Mill Creek's relationship to route alternatives in the revised EIS process is likely.