Service Date: June 5, 2006

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER OF NORTHWESTERN ENERGY, Annual Application for Approval of Monthly Gas Cost Tracker True-Up, Projected Gas Costs, and Gas Transportation Balance	))))	UTILITY DIVISION DOCKET NO. D2005.5.87 ORDER NO. 6685c

FINAL ORDER

Appearances

Applicant NorthWestern Energy:

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Commission Staff:

Dave Burchett, Rate Analyst, Revenue Requirements Bureau; Kim Moran, Rate Analyst, Rate Design Bureau; Eric Eck, Bureau Chief, Revenue Requirements Bureau; Kate Whitney, Administrator, Utility Division; and Martin Jacobson, Staff Attorney.

Commissioners:

GREG JERGESON, Chairman
BRAD MOLNAR, Vice-Chairman
DOUG MOOD, Commissioner
ROBERT H. RANEY, Commissioner
THOMAS J. SCHNEIDER, Commissioner

INTRODUCTION

General

1. On June 1, 2005, NorthWestern Energy (NWE), filed before the Public Service Commission (PSC) an annual application for approval of natural gas rates reflecting: (a) NWE's unreflected gas supply cost account balance for the 12-month period ending June 30, 2005; (b) NWE's projected gas costs for the 12-month period ending June 30, 2006; (c) amortization of NWE's natural gas transportation adjustment clause as of April 30, 2005; and (d) removal of unit amortizations in NWE's current rate schedules. On August 23, 2005, NWE revised its application with updated projected gas cost information.

2. NWE's application, including as amended, has been noticed to the public. The Montana Consumer Counsel (MCC), the state office charged with representing consumer interests in matters before the PSC, has requested and has been granted intervention and is the only active intervenor in this proceeding. Procedures have included prefiled testimony by NWE and MCC and discovery by these parties and the PSC. Public hearing on this matter commenced February 28, 2006, in Helena. Exhibits have been admitted, witnesses have been examined, and post-hearing arguments related to fact, law, and policy have been submitted for the PSC's consideration.

3. The PSC determines NWE's application should be approved. Approval applies to NWE's natural gas default supply activities of record at the close of hearing, including through late-filed exhibits. All remaining NWE default supply activities for the periods included in NWE's application remain subject to review.

Background

4. NWE is primarily a system-oriented public utility. It owns and operates a gas transmission and distribution system. NWE is a natural gas supplier by default, and for all

practical purposes, is the only supplier of natural gas to core residential and small commercial customers served by NWE's natural gas system. In its supply role NWE is referred to as the default supplier -- the supplier agreeing to or obligated to provide natural gas in the event no other competitive suppliers exist, or, if competitive suppliers exist, in the event customers have not chosen a competitive supplier or have not been assigned to a competitive supplier. For the most part NWE is the default supplier on NWE's natural gas transmission and distribution system because competition to supply core customers does not exist. NWE's transportation business unit, distribution business unit, and default supply unit interact, partly governed by tariffs and standards of conduct, to provide natural gas to NWE's default supply customers.

5. NWE's present application is commonly referred to as an annual natural gas cost tracking procedure or annual gas tracker. Cost tracking procedures are common for Montana energy utilities. NWE's gas tracking procedure was established in the early 1980's and has since been modified, including as recently as in NWE's 2003 annual gas tracker filing in which the PSC approved a NWE monthly gas cost tracking and rate change procedure. The present NWE application will be referred to in this order as NWE's 2005 gas tracker.

6. NWE's 2005 gas tracker is the fourth, and the expected last, in a series of related NWE gas trackers. The first in the series is NWE's 2002 gas tracker, PSC Docket No. D2002.11.140, the second is NWE's 2003 gas tracker, PSC Docket No. D2003.6.66, and the third is NWE's 2004 gas tracker, PSC Docket No. D2004.6.88. In NWE's 2002 gas tracker the PSC disallowed recovery of an estimated $12 million in gas costs incurred by NWE. The disallowance was intended to be amortized through NWE rates for two years. NWE challenged the PSC disallowance in court. NWE and the PSC eventually settled the court case. In addition to reducing the $12 million disallowance to approximately $6 million, the settlement included procurement practice agreements that have been effective pending PSC adoption of natural gas procurement guidelines applicable to NWE. The settlement also included PSC approval of a NWE and MCC settlement regarding NWE's 2003 and 2004 gas trackers.

7. The NWE and PSC settlement affects this NWE gas tracker. It also has other

consequences that are important and are being developed in other PSC proceedings. *See PSC Docket No. N2005.6.101 (NWE natural gas procurement guidelines) and PSC Docket No. D2006.2.21 (NWE initial procurement plan).* The settlement provisions that relate directly to this NWE gas tracker primarily pertain to NWE natural gas procurement practices. The PSC and NWE have agreed that, regardless of the differences of opinion that NWE and the PSC might have had regarding NWE's past natural gas procurement practices, NWE's procurement practices applied in the previous three NWE gas trackers are acceptable practices, so long as NWE exercises prudence in administering those practices.

8. This present NWE case is about determining whether NWE has applied procurement practices similar to those NWE has applied in the previous three NWE gas trackers and whether NWE has applied those practices in a prudent manner.

Procedural Issues

9. NWE argues that PSC review of NWE's 2005/2006 heating season procurement practices is premature because the heating season has not ended. NWE argues such review is contrary to the fundamental rationale behind NWE's gas tracking procedure, which contemplates a review limited to activities occurring in the tracker period and heating season immediately preceding the annual filing. NWE argues the only issue ripe for review is NWE's procurement practices for the 2004/2005 heating season, which have been settled. MCC argues PSC review of NWE's procurement practices applying to the 2005/2006 heating season is not premature because current gas costs are a component of current rates. MCC argues that the NWE actions being reviewed have already occurred and are subject to review, although the financial impact of NWE actions are subject to change until the close of the heating season. The PSC determines review of NWE's 2005/2006 heating season procurement practices is appropriate in the present NWE filing. NWE's gas tracker has developed into an annual filing with a number of components, including a projected gas supply cost component. In its 2003 annual gas cost tracker filing NWE proposed a monthly tracking procedure with a related annual filing to balance components such as deferred

cost accruals. NWE's monthly tracker, which was approved by the PSC, allows for monthly rate adjustments, including adjustments based on projected costs. The PSC considers NWE's monthly tracker and annual tracker procedures as allowing PSC review of those projected costs. Until post-hearing arguments in the present tracker the PSC believed NWE to hold the same view, primarily because NWE has talked and acted as if that is the case. As pointed out by MCC, NWE has amended its projected costs in the present docket as if review applies to the prospective period. NWE has previously agreed to a settlement with language indicating its present 2005 filing will include prudence review of the actual period July 1, 2005, through June 30, 2006. NWE argues in briefing that its procurement practices for 2004/2005 have been settled through settlement of NWE's 2004 filing, which means NWE's 2004 filing included review of projections. The PSC determines NWE's annual gas cost tracker includes review of the prior 12-month period and the projected 12-month period. If NWE prefers a different gas tracking procedure, then NWE should apply for a change to the procedure. Other Montana gas utilities have monthly and annual procedures that are different than NWE's. If NWE chooses to apply for a change in its gas cost tracking procedure NWE should reconsider whether its present projected cost procedure, at least to the extent it applies the actual cost of gas in a given month to each of the 12 following months, has any reasonable basis. NWE should also consider a change that allows for monthly adjustment of rates to minimize the deferred gas cost account balance.

10. NWE has also expressed concern regarding its role as the natural gas default supplier on NWE's natural gas system. NWE believes that it is not receiving fair rate treatment from the PSC. NWE suggests it might prefer to decline default supplier status if the regulatory environment does not change. The PSC acknowledges that NWE and the PSC have not agreed on some important matters pertaining to NWE's default supply activities. However, the PSC and NWE have also agreed on some important matters. Yes, the PSC has disallowed recovery of NWE gas costs in the recent past. Yes, NWE disagreed with that disallowance and pursued litigation. But, the litigation was settled. NWE was not forced into settlement by any action of the PSC. NWE voluntarily settled the litigation. If NWE did not think the settlement was

acceptable, NWE should not have settled. NWE should also realize that it has voluntarily accepted the role of default supplier and in doing so has voluntarily accepted the obligations that accompany that role. One of those NWE obligations is to exercise prudent natural gas procurement strategies. The PSC has an obligation to ensure NWE meets that obligation. The PSC does not intend to treat NWE unfairly, but the PSC will fulfill its obligation to ensure that NWE fulfills its obligations.

11. NWE argues in this case that there is a presumption that NWE acted prudently in its procurement activities. The PSC determines that the application of presumptions includes a number of important aspects and factors not discussed by NWE in this case and at best any presumption would be rebuttable. The PSC suggests a more appropriate focus for NWE would be on burdens or prima facie case. If NWE makes a prima facie case for prudent supply acquisition there could be a presumption NWE acted prudently.

12. NWE argues that PSC questions during hearing regarding NWE not entering long-term, fixed price gas supply contracts are contrary to the PSC-approved settlement and have no place in this proceeding. The PSC determines the questions themselves may have had place or a purpose in this proceeding. The PSC agrees with NWE that long-term, fixed-price contracts were not a component of NWE's procurement practices in the previous three NWE tracker periods. The PSC agrees with NWE that the PSC would be in violation of its settlement agreement with NWE if the PSC were to disallow costs based on NWE's procurement practices not including fixed-price, long-term gas supply contracts.

13. NWE argues it is entitled to the same treatment as other PSC-regulated natural gas utilities, particularly Montana-Dakota Utilities Co. (MDU), which enters no long-term, fixed-price contracts. The PSC determines that this other-utilities argument has no basis, as it needs to be preceded by a comprehensive comparison of NWE and other utilities, which has not been done.

Substantive Issue

14. There is one substantive issue in this proceeding -- whether NWE has applied

procurement practices similar to those applied in the previous three annual tracker periods and has administered those procurement practices in a prudent manner. NWE argues that it has based its procurement decisions on knowledge and expertise applied to evaluation of gas markets, employed procurement practices similar to practices that have been settled and approved by the PSC, and such practices are reasonable and prudent. MCC argues NWE did not properly administer its gas storage for the 2005/2006 heating season and as a consequence NWE incurred unnecessarily high gas costs. MCC argues NWE's storage was significantly less than the previous two heating seasons. MCC argues market signals clearly indicated NWE should have had at least as much storage as it had for the previous two heating seasons. MCC agrees gas prices are volatile, but the futures prices for relevant periods were remarkable for consistency in showing increased winter prices, NWE ignored those, and the result is NWE customers paid more than necessary.

FINDINGS OF FACT

General

15. All introductory statements that can properly be considered findings of fact and that should be considered as such to preserve the integrity of this order are incorporated herein as findings of fact.

16. NWE is responsible for maintaining an adequate and reliable supply of natural gas to serve its core default supply customers. NWE provides gas supply to about 166,000 core default supply customers having an estimated annual natural gas default supply requirement of about 20 billion cubic feet (Bcf, volumetric), which is roughly equivalent to 20 million dekatherms (Dkt, heat content). About 67 percent of the estimated NWE annual default supply requirement (about 13.4 million Dkt) occurs during the winter heating season when gas supply prices are typically at their highest. Based on the estimated winter heating season default supply requirement, NWE has determined that it needs about 4.5 million Dkt of working gas storage to meet its default supply reliability requirements.

17. NWE's default supply requirement forecasts are computed utilizing heating degree days (HDD) derived from fifteen years of system related weather data. HDD is a tool that is used to estimate the energy required for heating. One HDD occurs for each degree the daily mean temperature is below 65 degrees (Fahrenheit). The larger the HDD number, the colder the temperature and the higher the supply requirement for heating. Generally, a weather-normalized default supply requirement is forecasted for each natural gas tracking period and later adjusted as weather conditions become more certain. An historical review of past temperature data translates to an estimated annual NWE default supply requirement ranging from about 18.2 million Dkt (a warm year) to about 21.2 million Dkt (an “extremely” cold year). NWE's estimated annual and winter heating season default supply requirements do not fluctuate substantially. NWE's daily default supply requirements are subject to large variations.

18. NWE uses a portfolio approach to procure gas supply from various supply sources to assist in meeting its estimated annual and peak-day default supply requirements. NWE maintains relationships with numerous gas suppliers and has access to flowing gas supply in addition to on-system working gas in storage. NWE has configured its natural gas delivery system to meet its peak-day default supply requirement of about .22 million Dkt per day. In order to meet this winter heating season peak-day default supply requirement, NWE has contracted for winter daily delivery capacity from flowing and callable gas supply sources of about .10 million Dkt per day and firm working gas storage deliverability rights of about .12 million Dkt per day.

19. The access to base-load flowing gas supply provides NWE with the flexibility to effectively manage and administer its working gas storage by scheduling injections of flowing gas in excess of default supply requirements during the injection period (generally April through October) and scheduling withdrawals of storage inventory during the winter heating season (generally November through March). The primary purposes of withdrawals from storage are to ensure peak-day default supply reliability and to provide price mitigation. NWE also utilizes its storage capacity to partially mitigate the impact of its minimum-day default supply requirements by entering into contractual obligations with suppliers to purchase about .06 million Dkt per day.

The daily contractual obligations enable NWE to level or smooth-out the volumes of flowing gas and capture the economic benefits of seasonal price variations. While the terms and conditions of specific NWE gas supply contracts may vary from time to time, the overall composition of gas supply sources and primary receipt points will not vary significantly due to the overall system constraints.

20. The different positions of NWE and MCC in this case relate to NWE's preparation for the 2005/2006 heating season. For all practical purposes the facts are the same, but the conclusions reached by NWE and MCC are different. The principal facts are: NWE had about 7.2 Bcf of natural gas in storage for the 2003/2004 heating season; NWE had about 7.7 Bcf in storage for the 2004/2005 heating season; NWE had about 5.7 Bcf in storage for the 2005/2006 heating season; and so NWE held gas in storage at a level about 1.5 to 2 Bcf less than the previous two years in preparation for the 2005/2006 heating season. NWE justifies the difference through comparison of previous heating season requirements, through explanation of its applied procurement strategy, through incidental related arguments, and concludes that its procurement practices in preparation for the 2005/2006 heating season were prudent. MCC argues that there is no justification for the difference in storage levels, NWE was imprudent regarding injections into storage, as a result customers paid more than necessary, and costs should be disallowed.

NWE's Position

21. In support of its procurement activities NWE notes that about 1.25 Bcf of natural gas remained in storage at the end of the two previous heating seasons. With average withdrawals over those two heating seasons being about 6 Bcf, NWE believed it to be acceptable and prudent to reduce its storage level. NWE argues that at 5 to 6 Bcf in storage NWE was approximately 50 percent hedged for the heating season. At 6 Bcf in storage NWE believed it would have adequate storage and, by not having committed cash to unnecessary storage, it would have cash available to reduce debt and improve its creditworthiness. NWE also pointed out that it takes flowing gas every month and puts it into storage, month by month. In support of its procurement activities NWE also explained that it

delayed gas purchases during the spring and early summer of 2005 because by spring and through early summer of 2005 market fundamentals indicated the existing short-term prices were too high to aggressively add additional storage. These market fundamentals included: national storage levels being 22 percent higher than the five-year average; weather forecasts showing a cooler than normal late spring and early summer (especially in the eastern U.S.); and the expected return of nearly 22,000 megawatts of nuclear generation that would displace natural gas generation. NWE also evaluated a number of other factors before formulating its plan, including a review of information concerning the average price for injection of gas in the previous four winters, the amount of gas NWE's customers used in the previous two heating seasons, NWE's historic market experience, conversations with other experts in the field, and future price indices. NWE's basic strategy was to go into the heating season roughly 50 percent hedged and, if possible, obtain additional gas if market dips occurred. This would put NWE's gas storage level at approximately ninety-five percent of the previous two years' withdrawals. NWE reasoned that with above average supply available downward pressure on prices would result.

22. NWE explains that, along with short-term, fixed-price contracts, NWE uses storage as a tool to help curb price volatility. Physical hedging (*e.g.*, putting natural gas into storage fields for use during the heating season) is the primary way NWE prepares to mitigate price volatility. Other than carry-over gas from the previous heating season there are three primary ways NWE puts natural gas into storage: (1) when an exceptional price for natural gas is available NWE will buy the gas and place it in storage; (2) during the months when consumption is less than the amount of gas flowing through NWE's system, the excess flowing gas is placed into storage, either at a fixed price at the first of the month or at a price based on the month's average price; and (3) gas is placed into storage, sold to a third party at cost, and remains subject to NWE repurchase, which is called a deferred storage agreement.

23. NWE disagrees that throughout the late spring and summer of 2005 it should have known that gas supply prices were expected to be higher during the 2005/2006 working gas storage withdrawal period than they were during the working gas storage injection period. NWE

refers to unforeseeable events such as the significant increase in crude oil prices and the disruption in gas supplies caused by a series of hurricanes in late summer and early fall. NWE states that given the market fundamentals under consideration in the spring and early summer of 2005 it decided to proceed with caution in refilling working gas storage while continuing to monitor market opportunities to acquire low cost supply. NWE claims that it had intended to weight working gas injections toward the back-end of the injection period due to its market analysis that indicated prices may retreat somewhat and provide better purchase opportunities.

24. NWE testified that its working gas storage injection strategy was a conservative approach that layered in volumes and fixed the working gas storage prices on a monthly basis in order to provide a hedge for its default supply customers. NWE stated that it would seem very reasonable, based on recent price volatility, to purchase gas supply evenly throughout the year on a month-to-month basis. NWE asserted that this approach would provide price averaging and result in the injection of reliable levels of gas into working gas storage for withdrawal during the winter heating season. NWE stated that it is difficult to “out-guess” the market, especially in an injection period that is fundamentally different than that experienced in previous years (*e.g.*, priced 66% higher than the previous four winters). NWE testified that it does not know what its core default supply customers risk tolerance is, therefore it has to manage working gas storage in a manner that ensures default supply reliability and winter heating season price mitigation.

25. NWE stated there were obvious risks that prices would be higher if it adopted a back-end injection strategy and there would also be a risk that prices would be lower if it adopted a front-end injection strategy. NWE testified that it did neither, but pursued a portfolio strategy having a layering effect throughout the injection period, and the remaining question was essentially whether NWE would do more or less layering at the front-end or back-end of the injection period. NWE acknowledged that generally, historically speaking, the average supply prices during the withdrawal period or winter heating season are higher than the average prices during the injection period, and that most gas supply analysts would agree with this general view. NWE's first-step threshold (approximately 4.5 million Dkt of working gas storage) is to meet its

default supply reliability by acquiring sufficient working gas storage to maintain an adequate and reliable supply of natural gas to serve its core default supply customers throughout the winter heating season.

MCC Position

26. MCC proposed an $8.9 million disallowance of NWE’s gas costs because of NWE’s failure to place more lower-cost gas in its storage fields from April through October 2005. MCC noted that its proposed disallowance must be re-calculated when actual, not estimated, gas purchase prices are known. (Using actual gas cost purchases prices, NWE has computed the disallowance as of a date near the date of NWE's rebuttal testimony to be about $1.3 million.) MCC argues that NWE was imprudent by not having as much gas in storage going into the current heating season as it did in the previous years. MCC testified that a much greater percentage of NWE’s total winter heating season default supply requirement was hedged by means of storage before entering the two previous winter heating seasons than was the case before the 2005/2006 winter heating season. MCC argues NWE acted imprudently by not purchasing more gas earlier in the injection season. MCC argues NWE simply had to know that gas prices during the heating season were going to be higher than during the injection season. MCC observes that during the storage injection period near term prices demonstrated that prices were going up and that heating season prices would even be higher, NWE viewed that information as wrong, and that NWE view amounts to speculation and gambling. MCC also points out that NWE did all this without an offsetting hedge if it turned out NWE was wrong.

27. MCC states that NWE should have known gas supply prices were expected to be higher during the 2005/2006 gas storage withdrawal period (November through March) than they were during the gas storage injection period (April through October). MCC argues that the 12-month forward gas price indices showed that the market prices were expected to be higher for the upcoming winter heating season. The MCC further noted that during the May through mid-September gas storage injection period gas futures prices for the upcoming winter heating season

rose steadily.

28. MCC suggests that NWE may have underutilized its available working gas storage capacity in an effort to improve cash flow. MCC explained that during the late spring and continuing through the summer of 2005, when prudent management and administration could have and should have been focused on aggressively filling available working gas storage capacity for the upcoming winter heating season, the treasury department of NWE was directing preservation of cash flow by entering into deferred gas supply transactions, including working gas storage sales and deferred gas repurchases (storage transfers). MCC claims that this almost certainly created a mindset in NWE to not pursue traditional gas storage injections.

29. MCC testified that when gas supply markets were deregulated participants began to generally observe significant seasonal price fluctuations and local distribution companies (regulated utilities) began to use working gas storage not only to provide an adequate and reliable supply of natural gas to serve customers, but to use working gas storage as a means to obtain lower average annual gas supply costs. MCC claims that as a result of NWE's injection period strategy NWE did not have enough working gas in storage once the winter heating season arrived or not enough in the event of another extreme situation similar to that experienced in November and December of 2005.

30. MCC concludes that a prudent and cost-effective default supply strategy would have been to manage available working gas storage capacity by aggressively purchasing default supply at the prevailing injection period prices in order to better mitigate the expected higher withdrawal period prices and to stabilize rates. MCC suggests that instead of pursuing this type of management strategy in administering its default supply contracts and available working gas storage capacity, NWE pursued an opposite strategy by actually curtailing storage injections last spring and early summer. MCC argues the result, while gas supply prices began surging upward in the fall of 2005, is that NWE found itself having far too little lower-cost working gas storage available for withdrawal during the winter heating season.

PSC Determinations

31. The PSC determines that both NWE and MCC have presented respectable cases. On balance the PSC determines that it cannot find imprudence in NWE's decisions regarding procurement practices leading up to the 2005/2006 heating season. Under the circumstances that existed at the time, it was reasonable for NWE to set the current heating season storage level in line with its actual storage withdrawal experience from previous years, which was a level that has historically met its default supply needs. Because gas supply levels across the country were high and prices were high last spring and early summer NWE felt economic pressures would lower the price by the end of the injection season. Hurricanes Katrina and Rita topped off an extremely difficult hurricane season which unexpectedly pushed natural gas prices to historic highs in the final months of the injection season. NWE states there is no question that these natural disasters severely restricted the amount of gas available for distribution throughout the country and that this caused prices to rise. Forces beyond any control of NWE resulted in NWE’s plan being wrong. For much of the period of time involved in this NWE application natural gas prices have reached record highs in Montana and nationwide.

32. The PSC observes NWE is making steady progress from recent bankruptcy toward achieving an investment grade rating. A cost disallowance by the PSC at this time could be a catalyst halting progress in that positive direction and is a move the PSC determines is not in the best interest of NWE's customers. Ratepayers should see greater long-term benefits from NWE's investment grade credit rating than would be seen from ordering a disallowance in this case. Investment grade credit ratings can be instrumental in lowering the overall cost of doing business, thus benefiting the customers. The PSC observes that since NWE has emerged from bankruptcy, the company has made steady financial progress. For the year ended December 31, 2005, NWE had consolidated net income of $61.5 million. Excluding the effects of the company’s bankruptcy reorganization items, consolidated net income increased by approximately $55.2 million for 2005 as compared with 2004. NWE has used cash from the sale of noncore assets to reduce debt by more than $100 million since exiting bankruptcy. Recently, NWE refinanced $170 million of Pollution Control Revenue Bonds. The annual interest savings were $1,844,543. This savings increases to $2,080,211 if the non-

investment-grade fee is not imposed. This is a tangible example of the benefits of having a utility with investment grade credit ratings. The PSC has carefully considered the credit rating implications of a disallowance in this case. Unless there is compelling evidence for a disallowance, which there is not in this case, credit rating considerations are important. The PSC determines that there were no adverse effects on ratepayers resulting from NWE's use of deferred storage agreements, third-party forward price contracts, and other cash-flow preserving actions during the tracker period. However, the PSC does not agree with or condone the position that cash flow preservation is a more important consideration than price stabilization and supply adequacy in determining prudent default supply practices.

33. The PSC is engaging in ongoing review of NWE's gas default supply procurement practices. The PSC has recently approved natural gas procurement guidelines applicable to NWE. NWE has filed a natural gas procurement plan for PSC review and comment. Procurement concerns will be addressed and incorporated into that plan to be used as a tool for NWE's consideration in future procurement practices. It is the PSC's intention that ratepayers will see long term economic and supply benefits from NWE's procurement plan procedures.

<u>CONCLUSIONS OF LAW</u>

34. All findings of fact that can properly be considered conclusions of law and that should be considered as such to preserve the integrity of this order are incorporated herein as conclusions of law.

35. NWE is a public utility providing natural gas services in the state of Montana. *§ 69-3-101, MCA (meaning of "public utility")*. The PSC is the Montana administrative agency having the authority and duty to administer Montana laws relating to the economic regulation of public utilities. *§ 69-1-102, MCA*. Montana's regulation of NWE principally involves the rates charged for services and the quality of service provided. *See e.g., § 69-3-201 (utilities shall provide reasonably adequate services at reasonable and just rates)*. The rates approved in this order are just and reasonable.

ORDER

All conclusions of law that can properly be considered an order and that should be considered as such to preserve the integrity of this order are incorporated herein as an order.

All pending objections, motions, and arguments not specifically having been ruled on in this order (if any) shall be deemed denied, to the extent that such denial is consistent with this order.

NWE's 2005 annual natural gas cost tracker is approved as filed. NWE's projected cost component is approved to the extent actual costs were known at the time of hearing and evidence of those costs is of record, including through late-filed exhibits. Previous PSC action pertaining to a particular monthly tracking period remains in effect. The PSC will review NWE's remaining 2005/2006 heating season projected and actual costs in NWE's 2006 annual gas tracker filing.

Done and dated this 23rd day of May, 2006, by a vote of 4-1.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

GREG JERGESON, Chairman

BRAD MOLNAR, Vice-Chairman

DOUG MOOD, Commissioner

ROBERT H. RANEY, Commissioner

THOMAS J. SCHNEIDER, Commissioner
(voting to dissent, written dissent attached)

ATTEST:

Connie Jones
Commission Secretary

(SEAL)

NOTE: Any interested party may request the PSC to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.