

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

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IN THE MATTER of NORTHWESTERN)	UTILITY DIVISION
ENERGY’S Application for Electric Supply)	DOCKET NO. D2005.5.88
Deferred Cost Account Balance and Projected)	
Electric Supply Cost)	INTERIM ORDER NO. 6682b

INTERIM ORDER

Findings

Background

1. On June 20, 2005, NorthWestern Energy (NWE) filed its electric default supply tracker filing with the Montana Public Service Commission (Commission). NWE filed this application late for the third time in three years. In Docket No. D2001.10.144, Order No. 6382d, the Commission stated: “A filing for approval of interim rates to recover electricity supply costs for the period July 1, 2003 through June 30, 2004 must be made no later than June 1, 2003.” The Commission again reminds NWE that annual electric default supply tracker filings must be filed no less than 30 days prior to the proposed effective date of the rate change (which is normally July 1st). The filing contained the following elements: 1) the electric supply deferred cost account balance for the period ending June 30, 2005 and the projected electric load, supply and related costs for the twelve month period July 1, 2005 through June 30, 2006 and 2) a request to recover costs and related lost revenues associated with Demand Side Management (DSM) programs.

2. In this filing, NWE has not assessed any incremental costs or benefits due to customers leaving or returning to Default Supply. Consistent with Interim Order 6574, any incremental supply expenses due to the return of customers around July 1, 2004 have been

included in rates for all customers. That treatment is accepted by the PSC in order to determine interim relief in this Docket.

3. On June 10, 2005 the Commission issued a Notice of Commission Action which denied without prejudice NWE's Motion for a Protective Order.

4. On July 28, 2005 the Commission issued Procedural Order No. 6682 which established among other deadlines a hearing date in this Docket on January 4, 2006.

5. On August 29, 2005 NWE renewed its Motion for a Protective Order.

6. On September 13, 2005 the Commission approved Protective Order No. 6682a.

7. On October 3, 2005, NWE filed a revision to its Electric Default Supply Tracker which was originally submitted on June 17, 2005. The original filing was delayed because of issues relating to issuance of and compliance with the Protective Order in this Docket. NWE updated its original filing with more recent information. The update reflected actual information for the months of May through August 2005 and the projected electric supply costs based on currently available information.

8. The Electric Supply Deferred Cost Account balances have been updated to reflect actual information for the months of May and June 2005. The prior period amount was an undercollection of \$3,039,846. The updated current Electric Supply Deferred Cost Account balance for the 12-month period ending June 30, 2005 was an overcollection of (\$8,229,069). The net of the current and prior period Electric Supply Deferred Cost Account balance is (\$5,189,223) at the end of June 30, 2005. This overcollection will be refunded to customers beginning with this Interim Order and over the remainder of the tracking period ending June 30, 2006.

9. There are three basic cost components that make up the electric default supply portfolio: 1) Electric Supply; 2) Transmission Services and 3) Administrative Support.

10. Electric Supply includes the following elements: 1) A 300 Megawatt (MW) firm base load contract with PPL Montana that is supplied seven days per week 24 hours per day. This contract expires June 30, 2007; 2) A 150 MW heavy load unit contingent contact with PPL Montana that supplies energy from 8:00 am to 11:00 pm Monday through Saturday, from three dedicated generation resources. This contract expires on June 30, 2007; 3) Approximately 100 MW of unit contingent Qualifying Facility (QF) energy that comes from contracts entered into prior to deregulation. Only the "in market" portion of these contracts,

\$32.75, is charged to electric default supply; 4) Approximately 6 MW of unit contingent energy that comes from Tiber Montana, L.L.C. during the months of November through April of each year. This contract expires on June 1, 2024; 5) Short-term power purchases and sales with various suppliers that NWE transacts in the short-term market to balance variable customer demand and portfolio resources with electricity supply. The magnitude of short-term activity is mostly related to on peak and super peak periods since the PPL and QF resources satisfy most of the base load requirements. The peak and super peak energy requirements vary due to seasonal weather impacts that affect demand. During the projected 2005/2006 default supply tracking period net short-term transactions are expected to be 24.2 percent (1,479,659 MWh); 6) System imbalance adjustments, operating reserves, and real-time transactions, which are hourly energy purchases or sales to maintain supply and demand balance on the electric transmission and distribution system for reliability purposes; 7) Demand Side Management (DSM) program implementation costs. Also included are expenses for an internal incremental NWE position created specifically to administer DSM programs and projects.

11. Transmission Services are related to costs associated with moving electricity off-system in point-to-point transmission for resource balancing or resource optimization benefits, as well as other “ancillary services”, required for system integrity and reliability. Regulation and Frequency Response Service, generally referred to as “load following”, is an ancillary service which provides instantaneous voltage and energy regulation to balance load and resources. Costs of the transmission facilities utilized to transmit and distribute energy to default supply customers are included in delivery rates and as such, no additional revenue is collected for these costs in the tracker.

12. Administrative Support contains incremental administrative and general costs of \$2,809,646 (or approximately 1.26% of total default supply costs) are also included in default supply costs. These costs include outside legal, scheduling, software, broker costs and other incremental expenses directly related to the electric default supply (such as outside consultants to assist with or review procurement activities (RFPs)). Significant administrative expenses during the 2004/2005 tracker period included the advanced approval process for Basin Creek and Judith Gap, as well as the all-source RFP. Administrative expenses do not contain any expenses for internal Company personnel.

13. In the forecast for the 2005/2006 tracking year NWE forecasted total supply requirements, including distribution losses, of 6,120,475 MWhs, which reflected a 2.8 percent increase from the prior tracking period. Load growth and migration to and from default supply was expected to be minimal. NWE performs load-sensitivity analyses, but the initial plan focuses on normal weather conditions. Projected normalized billed sales were expected to be 166,062 MWh more in 2005/2006 than in 2004/2005.

14. The 2005/2006 projection includes approximately \$4,221,452 of Demand Side Management (DSM) program costs and corresponding lost revenues.

15. Because this revised filing is being made in September for rates effective October 15th, adjustments to the original filing need to be made to both the going forward rate and the prior year amortization to account for what has actually occurred in July and August and what is expected to occur in September. The unit electric rate in place in July, August and September 2005 was \$43.8864 per MWh. The October rate of \$47.5824 per MWh was estimated to be roughly the average of \$43.8864 per MWh and the higher going forward rate of \$51.2762 per MWh to better reflect NWE's billing cycle and actual revenue collection. Since the rates collected in the first three months were less than the twelve-month average rate of \$49.11 per MWh, the rate for the estimated months must be increased to collect the same total cost.

Commission Analysis and Discussion

New Default Supply Resources:

16. NWE included two new contracts in the 12-month forecast tracking period ending June 2006. The two contracts are with Basin Creek Equity Partners, L.L.C. (Basin Creek) and Judith Gap Energy, L.L.C. (Judith Gap) and these costs are being included in the tracker for the first time. Basin Creek is a contract for 50 MW generated by simple-cycle reciprocating engines that was reviewed and authorized by the Commission in Docket No. D2004.3.45, Order No. 6557c. Judith Gap is a contract for 135 to 150 MW generated by a multi-unit wind resource reviewed and authorized by the Commission in Docket No. D2005.2.14, Order No. 6633b. These two resources are scheduled to achieve commercial operation during the forecast tracking period and are forecast to provide 5.81 percent of the total annual electric supply requirements for the Default Supply.

17. The Basin Creek facility is forecast to begin generation during November 2005 and will generate energy in various test modes through the remainder of the tracking period ending June 2006. NWE anticipated economically dispatching Basin Creek approximately 64,000 MWhs during the 2005/2006 tracker period at an estimated cost of \$4.3 million for energy and an approximate estimate of \$1 million for fixed capacity costs. (This fixed capacity payment is reduced during the test mode.) NWE is responsible for all fuel and O&M costs are reflected in the above stated estimates. Additionally, Basin Creek will reduce the amount of ancillary services that are purchased from third parties.

18. The Judith Gap facility is forecast to begin generation during October 2005. NWE forecasts total deliveries from Judith Gap during the tracker period ending June 2006 to be in the 291,000 MWh range at an estimated cost of \$6.8 million.

Recovery of DSM Program Costs and Lost Transmission/Distribution Revenues:

19. NWE included in its filing \$4,221,452 million of Demand Side Management (DSM) program costs and corresponding lost revenues. In the 2004/2005 tracking year, the target savings from DSM was 2.6 aMW. The reported savings for that tracking period was 2.64 aMW. For 2005/2006 the target savings are 3.7 aMW. The Commission grants an interim increase for DSM funding costs of \$3,219,437.

20. NWE proposed to include DSM Program Cost Tracking and Lost Revenue Recovery in NWE's annual default supply tracking mechanism to recover the costs related to implementation and operation of DSM programs for Default Supply customers. This annual filing will reflect changes to the Default Supply Rate required as a result of DSM program activity.

21. The primary goal of this proposal to implement this as part of the annual tracking mechanism is to ensure NWE's default supply; transmission and distribution businesses are made financially whole as a result of its DSM expenditures and avoid disincentives to investment in DSM resources that are important to the overall Default Supply Portfolio. Cost-effective DSM is included in the Default Supply Plan to reduce the overall cost and risk of obtaining power for NWE Default Supply customers.

22. In Docket No. D2001.10.144, Order No. 6382d, the PSC found that NWE should consider demand-side and supply-side resources on an equivalent basis when procuring

resources to serve default supply loads and managing the total cost of providing default service. Unless directed otherwise by the Legislature, or modified by the Commission, it is the Commission's policy that energy efficiency and conservation resources are resources that NWE should consider along with more traditional supply-side resources when evaluating alternative default portfolio resources.

23. In Order No. 6382d the PSC went on to say NWE should conduct further analysis of the available, cost-effective, demand-side resources in its service area. The Commission encourages NWE to communicate with interested persons and affected stakeholders during its analysis. Prudently incurred costs related to procuring demand-side resources are fully recoverable in rates. The Commission will evaluate the prudence with which the Company procures demand-side resources, including resources acquired through sub-contractors, consistent with evaluations of supply-side resources. The Commission is open to exploring with the Company and interested persons innovative ways of addressing cost recovery issues related to demand-side resource investments and expenses.

24. In this Docket, NWE has responded to Order No. 6382d. The Commission has supported the acquisition of cost-effective demand-side resources by utilities for many years. Pursuit of these resources should not have an impact on the financial status of NWE. Use of the proposed tracking procedure may be a reasonable method of removing financial disincentives to NWE's full and active pursuit of cost-effective DSM in its service area. However, it is premature to reach that conclusion in this Interim Order. The Commission denies an interim increase of \$1,002,015 for lost transmission and distribution revenues (T&D revenues).

Monthly Tracker:

25. NWE requested that the Company be allowed to continue using a monthly tracker. The monthly tracker is a 12 month rolling average tracker. The Commission approves NWE's request to continue the monthly electric default supply tracker. The monthly tracker adjustments remain subject to an annual review and approval (or disallowance) by the Commission.

Conclusions of Law

1. NorthWestern Energy provides electric service within the State of Montana and as such is a “public utility” within the meaning of § 69-3-101, MCA.
2. The Montana Public Service Commission properly exercises jurisdiction over NorthWestern Energy’s Montana rates, service and operations pursuant to Title 69, Chapter 3, MCA.
3. The Commission may, in its discretion, make temporary approvals of requests pending a hearing or final decision. § 69-3-304, MCA.
4. The rate levels and spread approved in this Order are a reasonable means of providing interim relief to NorthWestern Energy. The rebate provisions of § 69-3-304, MCA, protect ratepayers until there is a final Order in this Docket.

Order

1. NorthWestern Energy shall implement, on an interim basis, rates designed to increase annual jurisdictional electric supply revenues from \$247,417,000 to \$276,773,736 an increase of \$29,356,736 over present rates. The revenue increase excludes the \$1,002,015 allowance for lost T&D revenues and includes the incremental costs of the customers returning to default supply. The revenue increase is reduced by the overcollection of \$5,189,223 at the end of June 2005. This results in a net increase of \$24,167,513 for the 2005/2006 tracking period.
2. NorthWestern Energy’s request to continue the use of a monthly electric tracker is approved on an interim basis by the Commission.
3. NorthWestern Energy shall adhere to and abide by all Findings of Fact in this Interim Order. All rate schedules shall comply with all Commission determinations set forth in this Interim Order.
4. NorthWestern Energy must file tariffs in compliance with the Findings of Fact in this Interim Order.

5. Nothing in this Order precludes the Commission from adopting in its Final Order a revenue requirement different from that contained in this Interim Order.

6. Any interest associated with a refund that may result from the revenue requirement determined in a Final Order in this Docket will be computed at 10.75 percent, the last approved cost of equity approved in Docket No. D2000.8.113, Order No. 6271c.

7. Interim approval of any matters in this proceeding should not be viewed as final endorsement by the Commission of any issues, calculations, or methodologies approved in this Order.

8. This Order is effective for service rendered on and after October 15, 2005.

DONE IN OPEN SESSION at Helena, Montana on this 13th day of October, 2005, by a vote of 4 to 1.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

GREG JERGESON, Chairman

BRAD MOLNAR, Vice Chairman
(Voting to dissent)

DOUG MOOD, Commissioner

ROBERT H. RANEY, Commissioner

THOMAS J. SCHNEIDER, Commissioner

ATTEST:

Connie Jones
Commission Secretary

(SEAL)

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