

Service Date: August, 1, 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)	UTILITY DIVISION
ENERGY'S Application for Electric Supply)	DOCKET NO. D2006.5.66
Deferred Cost Account Balance and Projected)	
Electric Supply Cost)	INTERIM ORDER NO. 6740a

INTERIM ORDER

Findings

Background

1. On June 1, 2006, NorthWestern Energy (NWE) filed its electric default supply tracker filing with the Montana Public Service Commission (Commission). The filing contained the following elements: 1) the electric supply deferred cost account balance for the period ending June 30, 2006 and the projected electric load, supply and related costs for the twelve month period July 1, 2006 through June 30, 2007, 2) a request to recover costs and related lost revenues associated with Demand Side Management (DSM) programs, and 3) a request to modify the way NWE prepares its tracker for 2006/2007.

2. On May 31, 2006 the Commission approved Protective Order No. 6740 in this Docket.

3. On June 26, 2006, NWE filed a revision to its Electric Default Supply Tracker which was originally submitted on June 1, 2006. NWE updated its original filing with more recent information.

4. On July 27, 2006, NWE filed a second revision to update the deferred under collection balance in its Electric Default Supply Tracker. The update in the deferred under collection balance is the result of several factors. The major items are: 1) removal of the Avista sales and purchases from the tracker per the stipulation between the Montana

Consumer Counsel (MCC) and NWE in Docket D2005.5.88, 2) transmission imbalance, several months of county impact fees and taxes for the Judith Gap project and PCI software license and modeling done for the Default Supply biennial plan; 3) adjustment of April, May, and, June estimated price to actual. The prior period amount was an over collection of (\$2,062,908). The updated current Electric Supply Deferred Cost Account balance for the 12-month period ending June 30, 2006 was an under collection of \$6,577,651. The net of the current and prior period Electric Supply Deferred Cost Account balance is an under collection of \$4,514,743 at the end of June 30, 2006. This under collection will result in an increase for a typical residential customer beginning with this Interim Order and over the remainder of the tracking period ending June 30, 2007.

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

6. 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 7:00 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 a portion of the costs of these contracts is included in the default supply portfolio; 4) Approximately 135 MW of unit contingent energy from the Judith Gap Energy, LLC wind turbine facility. This contract expires on December 31, 2026; 5) Approximately 50MW of dispatchable energy from Basin Creek Equity partner LLC. appears in the 2005/2006 tracking period under test deliveries. The Basin Creek plant is anticipated to be commercially operational during the 2006/2007 tracker period. This contract will expire 20 years from the commercial operation date; 6) Approximately 6 MW of unit contingent energy that comes from Tiber Montana, L.L.C. This contract expires on June 1, 2024; 7) 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 energy requirements vary in part due to customer use and seasonal weather impacts that affect demand. During the 2005/2006 default supply tracking period net short-term transactions made up 25 percent (1,513,752

MWhs) of total default supply resources; 8) 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; 9) DSM program implementation costs and transmission and distribution lost revenue included as expenses directly involved with DSM programs and projects.

7. 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.

8. Administrative Support contains incremental administrative and general costs of \$2,595,158 (or approximately 0.99% 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)). Administrative expenses do not contain any expenses for internal Company personnel.

9. For the 2006/2007 tracking year, NWE forecasted total supply requirements, including distribution losses, of 6,144,246 MWhs, which reflected a 1.03 percent increase from the prior tracking period. Projected normalized billed sales were expected to be 93,134 MWh more in 2006/2007 than in 2005/2006.

10. The 2006/2007 projection includes approximately \$4,556,083 of DSM program costs and corresponding lost revenues.

Commission Analysis and Discussion

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

11. NWE included in its filing \$4,556,083 million of DSM program costs and corresponding lost revenues. In the 2005/2006 tracking year, the target savings from DSM was 3.70 aMW. The reported savings for that tracking period was 3.41 aMW. For 2006/2007 the target savings are 5.00 aMW.

12. 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.

13. In Order Nos. 6496f and 6574e the Commission found that transmission and distribution revenue that is lost due to NWE's acquisition of demand-side resources is a demand-side management or energy efficiency cost. But for the acquisition of demand-side resources, NWE as the default supplier would not lose this revenue. The lost revenue is an actual cost of providing default supply service. The Commission approves an interim increase of \$920,249 for lost transmission and distribution revenue (T&D revenues).

Monthly Tracker

14. NWE proposes to make rate adjustment filing on a monthly basis until the estimated deferred account balance at June 30, 2007, reaches a level approximately one-half of the total deferred account balance estimated to results from rate adjustments implemented monthly for the entire tracker year. The resulting over collection would be paid back to consumers with interest during the 2007/2008 tracker year. There are several reasons for this change. The first reason is the anticipated effect on rates of market pricing of supply acquisitions when the two PPL contracts that expire in June 2007 are replaced. Rates during the 2006/2007 tracker year are likely to be significantly greater than actual costs. These rates would likely result in a significant deferred account over collection balance at the end of this tracker year. A second reason is the significant downward effect on rates during the 2007/2008 tracker period resulting from returning to customers the over collected deferred account balance from the 2006/2007 tracker period plus interest.

15. NWE requested that the Company be allowed to modify monthly tracker for the period 2006/2007. The Company will file regular monthly trackers until the deferred account balance is approximately one half of the total estimated deferred account balance. The Commission approves NWE's request to modify the monthly tracker for the period of 2006/2007. The monthly tracker adjustments remain subject to an annual review and approval (or disapproval) 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 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 \$242,807,000 to \$244,235,135 an increase of \$1,428,135 over present rates. The revenue increase is also increased due to an under collection of \$4,514,743 at the end of June 2006. This results in a net increase of \$5,942,878 for the 2006/2007 tracking period.
2. NorthWestern Energy’s request to modify its monthly electric tracker for the period of 2006/2007 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 August 1, 2006.

DONE IN OPEN SESSION at Helena, Montana on this 1st day of August, 2006, by a vote of 3 to 2.

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
(Voting to dissent on hybrid tracker method)

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.