

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. D2008.5.45  
Deferred Cost Account Balance and Projected )  
Electric Supply Cost ) ORDER NO. 6921

**INTERIM ORDER**

Findings

Background

1. On May 30, 2008, 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, 2008 and the projected electric load, supply and related costs for the twelve month period July 1, 2008 through June 30, 2009; 2) a request to recover costs and related lost revenues associated with Demand Side Management (DSM) programs.

2. The prior period amount was an under collection of \$360,501. The current Electric Supply Deferred Cost Account balance for the 12-month period ending June 30, 2008 was an over collection of (\$16,244,834). The net of the current and prior period Electric Supply Deferred Cost Account balance is (\$15,884,333) at the end of June 30, 2008. This over collection will be refunded to customers beginning with this Interim Order and over the remainder of the tracking period ending June 30, 2009.

3. On June 9, 2008 a Notice of Application and Intervention Deadline was issued.

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

5. Electric Supply includes the following elements: 1) A 325 Megawatt (MW) peak and 175 MW off-peak contract with PPL Montana, LLC that is supplied seven days per week, 24 hours per day, irrespective of the operating performance of any specific electric generating facility. This contract expires on June 30, 2014; 2) 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; 3) Approximately 135 MW of unit contingent energy from the Judith Gap Energy, LLC wind turbine facility. This contract expires on December 31, 2026; 4) Approximately 90 MW of unit contingent energy from Montana Generation, LLC. This contract expires on December 31, 2018; 5) an additional 21 MW of unit contingent energy from Montana Generation, LLC is included; 6) Approximately 50 MW of dispatchable energy from Basin Creek Equity Partner LLC. This contract will expire on July 1, 2026, unless extended for a 5-year term in accordance with the contract; 7) Approximately 6 MW of unit contingent energy that comes from Tiber Montana, L.L.C. This contract expires on June 1, 2024; 8) Approximately 50 MW of Sunday and North American Electric Reliability Council (NERC) Holiday firm energy from J.P. Morgan Ventures secured through the November 14, 2006 pilot auction. This contract expires June 30, 2010; 9) Approximately 25 MW of off-peak firm energy from Powerex Coop. secured through the November 14, 2006 pilot auction. This contract expires June 30, 2010; 10) Short, medium and long term power purchases and sales with various suppliers that NWE transacts in the 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 2007/2008 default supply tracking period net short-term transactions made up 27.08 percent (1,730,198 MWhs) of total default supply resources; 11) Expenses related to wind integration and other wind cost incurred to fully incorporate the wind supply contracts into the portfolio and to meet balancing authority area minimum operating reserve requirements for wind integration that are independent of the transmission and distribution system integration charges; 12) 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; 13) Demand Side Management (DSM) program implementation costs

and transmission and distribution lost revenue included as expenses directly involved with DSM programs and projects.

6. 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.

7. Administrative Support contains incremental administrative and general costs of \$3,116,978 (or approximately 0.97% of total 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.

8. For the 2008/2009 tracking year, NWE forecasted total supply requirements, including distribution losses, of 6,415,497 MWhs, which reflected a .40 percent increase from the prior tracking period. Projected normalized billed sales were expected to be 3,400 MWh less in 2008/2009 than in 2007/2008.

9. The 2008/2009 projection includes approximately \$6,109,428 of DSM program costs and corresponding lost revenues.

#### COMMISSION ANALYSIS AND DISCUSSION

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

10. NWE included in its filing \$6,109,428 million of DSM program costs and corresponding lost revenues. In the 2007/2008 tracking year, the target savings from DSM was 5.00 aMW. The reported savings for that tracking period was 5.02 aMW. For 2008/2009 the target savings are 5.00 aMW.

11. 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.

12. In Order Nos. 6496f and 6574e the Commission authorized NWE to recover transmission and distribution revenue that is lost due to NWE's acquisition of demand-side resources. But for the acquisition of demand-side resources, NWE as the default supplier would not lose this revenue. At a properly noticed, open work session on June 3, 2008, the PSC decided that because NWE's projected savings have been falling short of actual savings NWE must discontinue the practice of projecting energy savings-related lost revenues. Therefore, Commission does not approve NWE's proposal to include \$1,192,287 for lost transmission and distribution revenue (T&D revenues).

#### Monthly Tracker

13. NWE is to continue using a monthly tracker. The monthly tracker is a 12 month rolling average tracker. The monthly tracker adjustment remains 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 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 \$320,677,950 to \$379,745,594 an increase of \$59,067,644 over present rates. The revenue increase is also decreased due to an over collection of \$15,884,333 at the end of June 2008. This results in a net increase of \$43,183,311 for the 2008/2009 tracking period.

2. NorthWestern Energy is to continue the use of a monthly electric tracker 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 July 1, 2008.

DONE IN OPEN SESSION at Helena, Montana on this 24th day of June, by a vote of 4 to 1.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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GREG JERGESON, Chairman

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DOUG MOOD, Vice Chairman

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BRAD MOLNAR, Commissioner, Voting  
to Dissent

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ROBERT H. RANEY, Commissioner

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KEN TOOLE, 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.