

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's ) UTILITY DIVISION  
Application for Electric Supply Deferred Cost )  
Account Balance and Projected Electric Supply ) DOCKET NO. D2008.5.45  
Cost ) ORDER NO. 6921a

Consolidated With

IN THE MATTER OF NorthWestern Energy's ) UTILITY DIVISION  
Application for Electric Supply Deferred Cost )  
Account Balance and Projected Electric Supply ) DOCKET NO. D2009.5.62  
Cost ) ORDER NO. 6921a

**INTERIM ORDER**

**Findings**

**Background**

1. On May 29, 2009, 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, 2009 and the projected electric load, supply and related costs for the twelve month period July 1, 2009 through June 30, 2010; 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 \$2,101,615. The current Electric Supply Deferred Cost Account balance for the 12-month period ending June 30, 2009 was an over collection of (\$22,492,299). The 2008/2009 Deferred Colstrip Unit 4 (CU4) variable cost was an over collection of (\$1,732,778). The net of the current and prior period Electric

Supply Deferred Cost Account balance and CU4 variable cost is (\$22,123,462) as of June 30, 2009. This over collection will be refunded to customers beginning with this Interim Order and over the remainder of the tracking period ending June 30, 2010.

3. On June 8, 2009 a Notice of Application and Intervention Deadline was issued.

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

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 111 MW of unit contingent energy from two prior Montana Generation, LLC contract were assumed into the rate based CU4 asset in January 2009. 5) 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. 6) Approximately 6 MW of unit contingent energy that comes from Tiber Montana, L.L.C. This contract expires on June 1, 2024. 7) 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. 8) 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. 9) Short, medium and long term market 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 2008/2009 default supply tracking period the net non-base transaction purchase requirement was 1,878,300 MWh or 28.86 percent of the annual supply. 10) Expenses related to wind

integration and other wind costs 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. 11) System imbalance adjustments and operating reserves. 12) 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 \$2,477,302 (or approximately 0.81% 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. CU 4 includes the costs and credits that were approved for inclusion under Order 6925f in Docket No. D2008.6.69. during the 2009/2010 tracking year total revenue requirement cost of CU4 is \$75,832,029 and the total variable cost of service and design revenue is (\$26,271,515).

9. For the 2009/2010 tracking year, NWE forecasted total supply requirements, including distribution losses, of 6,376,074 MWhs, which reflected a 2.04 percent decrease from the prior tracking period. Projected normalized billed sales were expected to be 127,539 MWh less in 2009/2010 than in 2008/2009.

10. The 2009/2010 projection includes approximately \$6,625,192 of DSM program costs.

### **Commission Analysis and Discussion**

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

11. NWE included in its filing \$6,625,192 million of DSM program costs. In the 2008/2009 tracking year, the target savings from DSM was 5.00 aMW. The reported savings for that tracking period was 6.61 aMW. For 2009/2010 the target savings are 5.00 aMW.

12. NWE proposed to include DSM Program Cost Tracking 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.

#### **Monthly Tracker**

13. The Commission finds it appropriate for NWE 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. All findings of fact that are properly conclusions of law are incorporated herein and adopted as such.
2. The Commission supervises, regulates, and controls public utilities pursuant to Title 69, Chapter 3, MCA. § 69-3-102, MCA.
3. NorthWestern Energy is a public utility subject to the jurisdiction of the Commission. § 69-3-101, MCA.
4. The Commission has authority to temporarily approve increases or decreases in rates pending a hearing or final decision. § 69-3-304, MCA.
5. 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 collect \$267,643,892 plus the fixed cost of CU4 of \$75,832,029 plus CU4 variable cost of service and design revenue of (\$26,271,515) for a total of \$317,204,406. This amount is reduced by an over collection of \$20,390,683 at the end of June 2009 and over collection of CU4 variable cost at the end of June 2009 of \$1,732,778, an adjustment of \$22,123,462, for a total of \$295,080,945 in revenue. This results in an overall net decrease in jurisdictional electric supply revenues of \$16,546,560 for the 20009/2010 tracking period.

2. NorthWestern Energy may 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, 2009.

DONE IN OPEN SESSION at Helena, Montana on this 23rd day of June, by a vote of 5 to 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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GREG JERGESON, Chair

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KEN TOOLE, Vice Chair

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GAIL GUTSCHE, Commissioner

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BRAD MOLNAR, Commissioner

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JOHN VINCENT, Commissioner

ATTEST:

Verna Stewart  
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.