

Service Date: December 22, 2010

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

IN THE MATTER OF NORTHWESTERN) REGULATORY DIVISION
ENERGY, Annual Application for Approval of)
Monthly Gas Cost Tracker True-up, Projected) DOCKET NO. D2009.5.63 ✓
Gas Costs, and Gas Transportation Balance) ORDER NO. 7004c

IN THE MATTER OF NORTHWESTERN) REGULATORY DIVISION
ENERGY, Annual Application for Approval of)
Unreflected Gas Cost Account Balance, Projected) DOCKET NO. D2010.5.49
Gas Cost and Gas Transportation Adjustment) ORDER NO. 7089a

FINAL ORDER

Findings of Fact

Introduction

1. This Order addresses NorthWestern Energy's (NWE's) 2009 and 2010 annual natural gas tracking applications. NWE purchases wholesale natural gas from producers and passes the cost directly to consumers without markup. NWE annually estimates how much it will cost to purchase natural gas for the upcoming annual tracker period, and this estimate is updated each month within the tracking period. At the same time, the difference between revenue resulting from the estimated natural gas cost and the actual gas cost for the prior tracker period is computed.

2. In Docket D2009.5.63, filed on June 2, 2009, and in Docket D2010.5.49, filed on May 28, 2010, NWE requested approval of rate changes: (a) reflecting rate treatment for unreflected gas costs for the 12-month periods ending June 30, 2009, and June 30, 2010, respectively; (b) reflecting gas cost projections for the 12-month period ending June 30, 2010, and June 30, 2011, respectively; (c) reflecting rate treatment for amortization of the gas transportation adjustment clause (GTAC) balance as of April 30, 2009, and April 30, 2010, respectively; and (d) extinguishing the unit amortizations in the current rate schedules.

3. On November 3, 2010, NWE and the Montana Consumer Counsel (MCC) submitted a Stipulation and Settlement Agreement (Stipulation) as a proposed resolution of both dockets. On December 3, 2010, the Montana Public Service Commission (PSC) issued a Notice of Opportunity to Comment and Request a Hearing. No comments or requests for hearing were received.

Docket D2009.5.63 Background and Procedural History

4. In its application, NWE projected the natural gas price for the fiscal year starting in July 2009 to be \$5.7562 per dekatherm (dkt) as compared with the price during the preceding 12-month period of \$10.6309 per dkt, and the June 2009 price of \$5.1227 per dkt. NWE estimated the resulting rate increase for a typical residential customer using 10 dkt per month to be \$6.99 per month, or a 7.47 percent increase on a typical monthly bill.

5. NWE requested approval to extinguish the Unreflected Gas Cost Account (UGCA) balance amortization and to reflect the UGCA balance of \$(4,238) for the 12-month period ending June 30, 2009. NWE also requested that the remaining UGCA balance of \$24,363 approved in Docket No. D2008.5.44 be included in the UGCA balance. The estimated total UGCA balance at the end of June 2009 was \$20,125, but because that amount was considered immaterial, NWE proposed to set the associated rate at zero.

6. NWE asked for approval to extinguish the current GTAC balance amortization and to reflect the GTAC balance as of April 30, 2009, in rates. The proposed GTAC balance was (\$218,363), which NWE sought to reflect in rates over the 12-month period ending June 30, 2010.

7. NWE requested approval to continue to reflect accounting treatment through the GTAC mechanism for certain expansions that generate Interruptible Transportation revenues or Interruptible and Firm Transportation revenues.

8. NWE requested interim approval of the rates and changes in its application. On June 23, 2009, the PSC granted NWE's interim request (Interim Order No. 7004).

9. The PSC issued a Notice of Application and Intervention Deadline on June 17, 2009. Montana Consumer Counsel (MCC) was the sole intervenor.

10. The PSC issued Procedural Order No.7004a on April 19, 2010.

11. MCC did not submit testimony and no hearing was held.

Docket D2010.5.49 Background and Procedural History

12. In its application, NWE projected that the natural gas price for the 12-month period starting July 2010 was \$5.6916 per dkt as compared with the preceding 12-month period price of \$5.7562 per dkt.

13. NWE requested approval to extinguish the UGCA balance amortization and to reflect the UGCA Balance of (\$98,478) for the 12-month period ending June 30, 2010. NWE requested that the remaining UGCA balance of (\$189) approved in Interim Order No. 7004 be included in the UGCA balance. The estimated total UGCA balance at the end of June 2010 was (\$98,667), but because that amount was considered immaterial, NWE proposed to set the associated rate at zero.

14. NWE requested approval to extinguish the current GTAC balance amortization and to reflect the GTAC balance as of April 30, 2010, in supply rates. The proposed GTAC balance was \$6,169, which NWE sought to reflect in rates over the 12-month period ending June 30, 2011.

15. NWE requested approval to continue to reflect accounting treatment through the GTAC mechanism for certain expansions that generate Interruptible Transportation revenues or Interruptible and Firm Transportation revenues.

16. The PSC issued a Notice of Application and Intervention Deadline on June 16, 2010. MCC was the sole intervenor.

17. NWE requested interim approval of its application. On June 29, 2010, the PSC granted NWE's interim request (Interim Order 7089).

18. No procedural order was issued in this docket.

Stipulation & Settlement Agreement

19. NWE and MCC proposed the Stipulation as a resolution to the issues presented in these two dockets as well as those associated with Docket N2008.12.132, NWE's current natural gas procurement plan. The Stipulation generally establishes a target volume of fixed price swap transactions of 2 million dkt per year for the 2011/2012, 2012/2013 and 2013/2014 tracking periods, requires swaps be made only for the heating season months of November to March, prohibits NWE from entering into swaps when the fixed price exceeds \$7.00/dkt (unless the parties agree to modify the cap), and requires NWE examine its own and other utilities' gas

procurement strategies, including conducting a study on the use of call options versus fixed price swaps that the PSC may use to decide whether NWE should include call options as an additional available hedging tool under NWE's 2012 gas procurement plan.

Commission decision

20. MCC was the only intervenor in these dockets and submitted no testimony. The PSC received no requests for hearing. Based on the PSC's review of the applications in these dockets and of the NWE/MCC Stipulation, the PSC finds the Stipulation provides a reasonable resolution to the dockets. Importantly, the Stipulation includes limits agreed to by MCC and NWE on NWE's use of fixed-price swaps to mitigate gas price volatility and requires NWE to investigate the possibility of using natural gas call options as an alternative hedging tool as MCC has advocated in other PSC proceedings.

21. The PSC approves the NWE/MCC Stipulation, which, according to the terms of the Stipulation, also results in approval of the two tracker applications as filed and updated to reflect actual data for the covered time periods. The PSC finds that NWE's natural gas costs for the time periods covered by the two applications were prudently incurred.

Conclusions of Law

1. 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 Final Order are incorporated herein as conclusions of law.

2. The PSC is the Montana administrative agency whose duty it is to supervise and regulate public utilities. § 69-1-102 MCA.

3. NWE is a public utility providing natural gas service in the State of Montana. § 69-3-101, MCA.

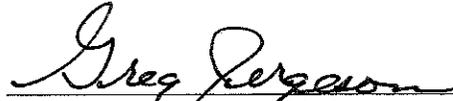
4. The PSC's regulation of NWE principally involves the rates charged for services and the quality of service provided. *See e.g., §69-3-201, MCA (utilities shall provide reasonably adequate service at just and reasonable rates)*. The rates approved in the Final Order are just and reasonable.

Order

1. The natural gas supply expenses NWE incurred to provide gas supply service as filed and updated to reflect actual costs in Docket Nos. D2009.5.63 and D2010.5.49 were prudently incurred.
2. The Stipulation between NWE and MCC included in the Order as Attachment A is approved.
3. NWE must file tariffs in compliance with this Order within 30 days of the service date.

DONE AND DATED this 21st day of December 2010 by a vote of 5 to 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION


GREG JERGESON, Chairman


KEN TOOLE, Vice Chairman


GAIL GUTSCHE, Commissioner


BRAD MOLNAR, Commissioner


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 38.2.4806, ARM.

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

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PUBLIC SERVICE
COMMISSION

IN THE MATTER OF NORTHWESTERN) UTILITY DIVISION
ENERGY, Annual Application for Approval)
of Monthly Gas Cost Tracker True-Up, Projected) DOCKET NO. D2009.5.63
Gas Costs, and Gas Transportation Balance)

In the Matter of NorthWestern Energy's)
Application For: (1) Unreflected Gas Cost Account) DOCKET NO. D2010.5.49
Balance and Projected Gas Cost; and (2) Gas)
Transportation Adjustment Clause Balance)

**STIPULATION AND SETTLEMENT AGREEMENT OF NORTHWESTERN
ENERGY AND THE MONTANA CONSUMER COUNSEL**

NorthWestern Corporation d/b/a NorthWestern Energy ("NorthWestern" or "NWE"), Applicant in the above-captioned Dockets, and the Montana Consumer Counsel ("MCC") hereby submit to the Montana Public Service Commission ("Commission") this Stipulation and Settlement Agreement ("Stipulation") as a proposed resolution of all issues presented within these Dockets. NorthWestern and MCC, referred to herein individually as "Party" and collectively as the "Parties", desire to settle their disputes in these contested case proceedings as set-forth herein.

I. Background

In Docket No. N2008.12.138 NorthWestern filed with the Commission its Natural Gas Biennial Procurement Plan on December 12, 2008.

On February 2, 2009, NorthWestern and MCC filed a Joint Motion to vacate the hearing in Docket D2008.5.44 which was NWE's 2008 Annual Application for Approval of Monthly Gas Cost Tracker True-up, Projected Gas Costs, and Gas Transportation Balance. The agreement to vacate the Gas Tracking Case Hearing was based on the following agreements:

1. NWE would prepare exhibits updating the calculation of fixed price variance versus index price variance through December 2008 and

estimates for the period January through June 2009 to reflect actual data and these updated exhibits were to become part of the record in Docket D2008.5.44.

2. NWE and MCC would engage in meaningful discussions relating to the volumes of fixed price purchases for the biennial procurement plan to be implemented for 2010 through 2012.
3. The procedural schedule in Docket No. N2008.12.138 would be amended to allow the MCC the time it required to prepare comments that reflect its position and the outcome of the discussions between itself and NWE regarding fixed price purchases.
4. The procedural schedule in Docket No. N2008.12.138 would also be revised to include a hearing, not to be conducted as a contested case hearing pursuant to Mont. Code Ann §2-4-101 et seq., where NWE, the MCC, and other interested persons who have filed comments and the public may offer comments to the Commission, subject to any reasonable limitations imposed by the Commission.

On May 26, 2010, a public hearing was held in Docket N2008.12.138 at the Public Service Commission building in Helena, MT. Both NorthWestern and MCC offered comments after having filed written comments prior to the hearing. Major topics at that hearing were fixed price versus index pricing, as well as the possible use of Natural Gas Call Options as an alternative hedging tool for gas supply price volatility mitigation.

Since the procurement plan hearing, MCC and NorthWestern have continued to discuss the index versus fixed price issue, and the possible use of Natural Gas Call Options, as an alternative hedging tool for gas supply price volatility mitigation. The parties have reached a settlement that would assist the Commission in finalizing its comments in Docket No. N2008.12.138. This settlement and the Commission comments will be utilized by NWE in preparation of its 2010 Biennial Procurement Plan.

Both NorthWestern and the MCC also intend and request that Docket No. D2009.5.63 and Docket No. D2010.5.49 be settled and resolved as set forth below.

II. STIPULATION AND AGREEMENT

The Parties agree as follows:

1. NorthWestern will reduce its fixed price swap activity to a maximum of 2 million Dkt per year. For the time period covered by the 2010 natural gas biennial procurement plan, additional swaps will only be done for the heating season months of November to March. The transition will be handled in the following manner:
 - a. No additional swaps will be entered into for the 2010/2011 tracking period;
 - b. For the 2011/2012 tracking period, in order to reach a heating season swaps quantity of 2 million Dkt, additional November - March swaps will be necessary, unless otherwise limited, in the amount of 2,275 Dkt/day, which would equate to a total volume of 343,525 Dkt. 100% of the 2011/2012 swaps can be acquired any time prior to the 2011/2012 heating season;
 - c. For the 2012/2013 tracking period, in order to reach a heating season swaps quantity of 2 million Dkt, additional November - March swaps will be necessary, unless otherwise limited, in the amount of 7,765 Dkt/day, which would equate to a total volume of 1,172,515 Dkt. 100% of the 2012/2013 swaps can be acquired any time prior to the 2012/2013 heating season; and
 - e. For the 2013/2014 tracking period, 100% of the existing annual swaps will be expired prior to the heating season. Therefore, the entire 2 million Dkt will need to be acquired for that November - March time period. This will result, unless otherwise limited, to a total daily volume of fixed price swaps equal to 13,245 Dkt/day for the period November through March of each year.
2. NorthWestern will not enter into fixed price swaps when the fixed price is greater than \$7.00/Dkt. If fixed price swaps prices rise above \$7.00 per Dt, NWE's future November - March swaps may not reach the 2 million Dkt target quantity. The parties to this stipulation can agree to modify this price cap.
3. NorthWestern will document its analysis and decision making process associated with the timing and execution of the fixed price swaps. This documentation will include fundamental analysis of market conditions, trends, weather, and other relevant factors, but it must be noted that this analysis in no way assures that the transaction(s) being contemplated will result in overall lower costs to ratepayers. In addition, NWE agrees during the first year of its 2010 biennial natural gas procurement plan it will survey other U.S. local distribution companies to determine the extent of their hedging activity and the types of hedges that are utilized. NorthWestern will

use this information in the development and the presentation of the 2012 natural gas procurement plans.

4. To date, fixed price swaps, in addition to the use of storage, are the primary hedging tool that NorthWestern has included in its natural gas procurement plans and implemented on an annual basis. NWE and the MCC agree that when gas supply prices are relatively low, the mark-to-market risk of fixed price swaps is also relatively low, in comparison with periods when gas supply prices are relatively high. NWE and the MCC also agree that when gas supply prices are relatively high, mark-to-market risk increases, but the higher level of mark-to-market risk can be mitigated by the use of natural gas call options as an alternative to swaps as a hedge against gas supply price volatility.
5. NWE concurs, consistent with MCC representations in recent regulatory proceedings, that in an unexpected downward price moving natural gas market, a natural gas call options hedging strategy will tend to provide lower gas supply costs, compared to an equivalent quantity strategy using fixed price swaps. The parties also agree that in an unexpected upward price moving natural gas market, a natural gas call options hedging strategy will tend to provide higher gas supply costs compared to an equivalent quantity strategy using fixed price swaps.
6. A recent study prepared by and provided to NWE by a counter party indicates that natural gas call options would have cost less than fixed price swaps during the period of time covered by NWE's fixed price swaps transactions. Accordingly, the fixed price swaps entered into by NWE in accordance with its Natural Gas Procurement Plan have resulted in increased cost. This occurred because NWE's swaps were done at relatively high expected fixed price levels, with corresponding high levels of mark-to-market risk, and actual gas supply market prices declined to unexpected lower levels. NWE and MCC agree that during periods of high expected gas supply prices a natural gas call options strategy has less mark-to-market risk than a gas price swaps strategy.
7. When NorthWestern files its 2010 Biennial Natural Gas Procurement Plan it shall include a detailed plan for a two-year study on the use of natural gas call options versus fixed price swaps. This study will be intended to analyze all areas that the Commission would need to consider to make the decision whether or not NWE should include natural gas call options as an additional available hedging tool under the 2012 Biennial Natural Gas Procurement Plan.

8. NorthWestern has an ongoing real-time obligation to evaluate the natural gas procurement plan in light of fundamental changes in the natural gas marketplace, both locally and globally, and changes to external metrics that might impact the natural gas marketplace. NWE understands that it needs to remain vigilant and flexible in regard to execution and modification of the Plan.
9. The Parties agree that NorthWestern's Tracker Applications in Docket No. D2009.5.63 and Docket No. D2010.5.49 should be approved as filed with the Commission and as updated to reflect actual data for all twelve months in both dockets.
10. The Parties agree that this Stipulation shall become effective upon issuance of a final order by the Commission in both Docket No. D2009.5.63, and Docket No. D2010.5.49.
11. The Parties' entry into this Stipulation shall not be deemed to constitute acknowledgement by either Party of the validity of any particular regulatory theory or ratemaking principle. Furthermore, neither Party shall be deemed to be bound by any position asserted by any other Party, and no finding of fact or conclusion of law, other than those agreed to herein, shall be deemed to be implicit in this Stipulation.
12. The entry of an order by the Commission approving this Stipulation shall not be deemed to work as any estoppel upon either Party or to otherwise establish or create any limitation on or precedent of the Commission.
13. This Stipulation shall not become effective and binding upon the Parties and shall be of no force and effect unless and until accepted and approved by the Commission as to all of the terms and conditions contained herein. If the Commission fails to approve this Stipulation as agreed to herein by the Parties, either in whole or in part, or if the Commission adds or removes any terms or conditions not agreeable by the Parties, either Party shall, at its sole option, have the right to withdraw from this Stipulation with all of its rights reserved.
14. The Parties hereby acknowledge that this Stipulation is the result of a voluntary, negotiated settlement between the Parties pursuant to ARM § 38.2.3001, and agree that this Stipulation, inclusive of the compromises and settlements contained herein, is in the public interest.

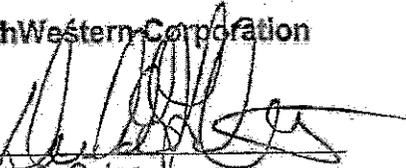
15. This Stipulation may be executed in one or more counterparts and each counterpart shall have the same force and effect as an original document, fully executed by the Parties. Any signature page of this Stipulation may be detached from any counterpart of this Stipulation without impairing the legal effect of any signatures thereon, and may be attached to another counterpart of this Stipulation identical in form hereto but having attached to it one or more signatures page(s).

IN WITNESS WHEREOF, the Parties hereto have executed this Stipulation this 29 day of ~~September~~ OCTOBER, 2010.

Montana Consumer Counsel

By: 
Robert Nelson
Montana Consumer Counsel

NorthWestern Corporation

By: 
David G. Gates
Vice President – Wholesale Operations