

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

IN THE MATTER OF NORTHWESTERN )  
ENERGY, Annual Application for Approval of ) REGULATORY DIVISION  
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 ) REGULATORY DIVISION  
Balance and Projected Gas Cost; and (2) Gas ) DOCKET NO. D2010.5.49  
Transportation Adjustment Clause Balance )

**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 \_\_\_\_ day of December, 2010, by a vote of \_\_ to \_\_.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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GREG JERGESON, Chairman

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KEN TOOLE, Vice Chairman

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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 38.2.4806, ARM.