

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

* * * * *

IN THE MATTER OF NorthWestern Energy's)	REGULATORY DIVISION
Application for Approval of Electric Supply)	
Deferred Cost Account Balance and Projected)	DOCKET NO. D2010.5.50
Electric Supply Cost)	

**MONTANA CONSUMER COUNSEL
RESPONSE BRIEF**

Montana Consumer Counsel (MCC) hereby submits its Response Brief in the above-captioned Docket.

I. INTRODUCTION AND BACKGROUND

On June 7, 2010, NorthWestern Energy (NWE, or the Company) submitted its annual electric default supply tracker filing in this docket. As required in tracker proceedings, NWE's application requested approval of rates to reflect rate treatment for two components: 1) the balance in the Electric Supply Deferred Cost Account for the historical 12-month period ending June 30, 2010, and 2) projected load, supply and electric costs for the subsequent 12-month period ending June 30, 2011. For the typical residential customer, the Company projected a net increase of \$3.49/month (8%) in supply related costs.¹

The Commission issued Interim Order No. 7093 on June 29, 2010, approving an interim increase of \$5,173,496. Procedural Order No. 7093a was issued July 30, 2010.

¹ This representation is somewhat understated due to the fact that NWE removed regulation contract costs from this tracker, to be replaced by Mill Creek regulation costs through separate application. The increase would be greater had these costs remained in the tracker.

On September 16, 2010, MCC submitted its pre-filed direct testimony. MCC witness Dr. John W. Wilson generally observed that NWE's electric supply costs have remained relatively stable as a result of large decreases in short term market costs, offset by large increases in other costs such as Colstrip Unit 4 (CU4). Ex. MCC-1: 5-8. He recommended that the Commission modify NWE's proposed cost recovery for the 12-month tracking period ended June, 2010, to correct an improper calculation of the CU4 component of the tracker.

A hearing was held January 19-20, 2011.

II. THE COMMISSION SHOULD ADJUST NWE'S PROPOSED TRACKER RATES.

A. The CU4 Fixed Cost Unit Rate Component of the Tracker Is Overstated.

Simply put, NWE's proposed tracker cost recovery is excessive because the Company has overstated the Commission approved CU4 fixed cost component of those rates. A \$72,745,544 fixed cost of service revenue requirement for CU4 was established in Order 6925f (as modified for property taxes in Order 7057b). MCC-1, 9:5-7. Order 6925f, however, was silent as to the specific unit rates needed to implement that revenue requirement. Further, nowhere does Order No. 6925f state the sales volumes that should be used to derive unit rates related to CU4's revenue requirement, a critical component of that calculation. The order instead required NWE to make a separate filing to "implement the rate-basing of CU4 for service on and after January 1, 2009." Order No. 6925f, Order ¶ 6.

NWE chose to implement the rate-basing of CU4 through its January 2009 Monthly Electric Supply Cost Rate Adjustment (January Tracker). That monthly tracker filing was submitted December 15, 2008, over a month after issuance of Order 6925f. The filing was clearly captioned and identified by NWE as part of Docket No. D2008.7.75, the electric tracker docket. In that monthly tracker filing, NWE, for the first time, calculated a CU4 unit rate of \$.012671/kwh. To derive that rate, NWE used the \$72.7 million revenue requirement approved by the Commission in Order 6925f, and

divided that by 2007 sales volumes that had been projected at the time of its January 2007 monthly tracker filing.

MCC witness Wilson explained that NWE has consistently collected more than the Commission's allowed CU4 fixed cost revenue requirement because it used unreasonably low sales volumes to convert the authorized \$72.7 million into a per kwh unit price. The 2007 sales volumes that the Company used were lower than sales in tracker years 2008/2009 and 2009/2010 and less than estimated sales in 2010/2011, so the "inevitable end result is a larger CU4 revenue total than the \$72.7 million that was actually authorized in Order 6925f." MCC-1, 10:8-15. This was not the result of natural load growth over time, as explained by Dr. Wilson.

In effect, the Commission made a decision on Colstrip 4, said 72.7. But by taking that number back to the 2007 test year volumes, the company *immediately* gave itself a 3 percent rate increase when it implemented rates for Colstrip 4, over and above was (sic) 72.7, and that's really the objection.

It (CU4) couldn't exist at this rate base level until 2008-2009. And it just would make no sense to take it back to 2007 and tariff it at that old, lower historic number. It would have meant the company was gaining a \$75 million revenue award from the Commission rather than a \$72 million award *right off the bat*.

TR 220:18-23; 223:2-7 (emphasis added).

This immediate boost in CU4 rates and revenues, on day one of their implementation, is unreasonable and unwarranted.

Dr. Wilson recommended that CU4 unit rates included in the tracker should instead be based on expected 2008/2009 sales volumes. MCC-1, 14:12-18. This is the reasonable approach for several reasons. First, the proceeding that resulted in rate basing CU4, Docket No. D2008.6.69, was held in late 2008, and CU4 rate basing became effective in January 2009. MCC-1, 11:8-10. Additionally, using the lower projected 2007 test year sales volumes was not authorized or even discussed in Order 6925f or in

Docket No. D2008.6.69. Finally, the basis for the Commission's approved CU4 fixed costs, the Bicent bid and buyback agreement, did not even exist until 2008. In fact, MCC's request to use the much lower actual 2007 CU4 fixed costs was rejected. The result was that, despite NWE's characterization, authorized fixed cost revenues "were not at all related to CU4's 2007 fixed costs."² MCC-1: 13:1-13. Under these unique circumstances, the sales volumes that NWE expected for 2008/2009 provide a more reasonable basis to calculate unit rates to implement rate basing CU4 beginning January, 2009. Had the CU4 rate component of the tracker been thus properly calculated, it would have been \$0.012324, resulting in a \$1,992,967 reduction for the 2009/2010 tracker year. MCC-1, 14:12-18.

B. Lost Revenues Associated With CU4 Must Also Be Reduced.

There is a necessary additional adjustment to NWE's claimed lost revenues that is related to the unit rate adjustment described above. While MCC witness Wilson did not in this proceeding take issue with NWE's application of the lost revenue adjustment mechanism to CU4 fixed costs, the lower fixed cost unit rate he calculates will necessarily reduce NWE's lost revenue calculation. CU4-related lost revenues for tracker year 2009/2010 would be reduced from \$649,709 to \$631,903. MCC-1, 15:5-7. The CU4-related lost revenues for 2010/2011 would decline from \$1,267,268 to \$278,584. \$34,732 of that reduction relates to the unit rate differential, while \$953,953 relates to zeroing out, or resetting, the sales levels used in the lost revenue calculation at the time new interim base rates from Docket No. D2009.9.129 became effective in July 2010. MCC-1, 15: 9-14.

² As stated below, an examination of NWE-2, Exhibit__(FVB-3)_10-11, p.6, reveals that the vast majority of CU4 fixed costs relate to the Commission's November, 2008, approved plant in service value and depreciation and taxes that flow from that value. These, again, are values that did not exist in 2007; they supplanted 2007 values.

III. NWE'S REBUTTAL ARGUMENTS ARE GROUNDLESS AND SHOULD BE REJECTED.

NWE's rebuttal to Dr. Wilson was baseless and unconvincing.

A. Dr. Wilson Did Not Propose To Adjust CU4 Fixed Costs.

NWE witness Corcoran initially notes that his testimony is intended to rebut the portions of Dr. Wilson's testimony "that recommend adjustments to the fixed costs of NorthWestern's interest in (CU4)". NWE-6, 2: 13-15. He goes on to explain why such fixed cost adjustments would be inappropriate in a tracker filing. This is a classic red herring. Mr. Corcoran's argument confuses CU4 fixed costs (which were set at \$72.7 million by the Commission in Order 6925f, and which Dr. Wilson has not adjusted) with CU4 fixed cost *rates*. In fact, Dr. Wilson recommended no fixed cost adjustments, but rather recommended the correct *rate* to recover Commission-approved CU4 fixed costs. Mr. Corcoran himself actually underscores this point through the testimony of Dr. Wilson that he chooses to quote. That is, the question Dr. Wilson addressed was how to "*properly reflect*" the Commission determined revenue requirement of \$72,745,544, not modifications that should be made to that amount. NWE-6, 2:17-19. Dr. Wilson accepted and used the Commission-approved CU4 revenue requirement. NWE witness Corcoran ultimately admitted this point.

Dr. Wilson is suggesting that there should be a 1 point – roughly \$2 million disallowance. That doesn't change the \$72.8 million figure authorized by the Commission. TR 277:2-5.

As fully described above, it is the CU4 unit *rate* that must be adjusted to more accurately reflect approved fixed costs. Mr. Corcoran cites the revenue requirement portions of Order No. 6925f in an apparent attempt to make it appear that Dr. Wilson is somehow ignoring that Order. That Order, however, provides no basis for the volumes used in NWE's unit rate calculation, and no one has been able to demonstrate otherwise. NWE is therefore clearly wrong when it continues to repeatedly contend that CU4 "fixed

costs *rates* were approved by the Commission in Docket D2008.6.69.” NWE IB:4 and 5 (emphasis added). Revenues are not rates, and rates were not proposed, approved, or even considered in Order 6925f or in the record on which that Order was based.

B. CU4 Unit Cost Rates Are An Appropriate Issue In This Tracker Proceeding.

The bulk of NWE’s rebuttal is actually procedural in nature. The Company argues that the CU4 unit rate arose from a compliance filing related to Docket No. D2008.6.69. It attempts to buttress this position with the an intricate statutory argument that CU4 unit rates can not really be part of a tracker because they technically relate to a “generation asset cost of service” and not an “electric supply cost.” Since the Company deems this asserted “separate” compliance filing to have been made December 15, 2008, it claims that MCC’s proposed adjustment is too late. This creative analysis is seriously flawed.

1. CU4 fixed costs are a component of the tracker.

As noted above, the CU4 unit rate was first filed December 15, 2008, as part of the January 2009, monthly electric tracker filing. It was clearly captioned as a filing in Docket D2008.7.75 (a tracker docket), and *not* Docket No. D2008.6.69 (the CU4 docket):

RE: Docket No. D2008.7.75
January 1, 2009 Monthly Electric Supply Cost Rate
Adjustment
January Tracker, Cover Letter.

The filing explained that NWE was creating “two sections” of the electric supply tracker model. A section is a part of a larger whole, *i.e.*, in this case, part of the tracker. This relationship is apparent in the filing. One new section concerned CU4. That section was further divided into three more “sections,” including the fixed cost section and a variable cost section. NWE certainly cannot claim the CU4 variable cost “section” was

not part of the tracker, since it is intended to be adjusted monthly. In fact, these sections are all parts of the tracker filing, as further evidenced by the attached fact sheet entitled “Electric Supply Tracker *Incorporating* Colstrip Unit 4.” The Fact Sheet clearly describes the “Colstrip Unit 4 Fixed Cost of Service” as a “component” of the tracker, alongside variable cost components. January Tracker, Fact Sheet (Emphasis added.) Again, a component is necessarily part of a whole. These components are indeed all further summed together as part of the specific rate changes proposed in Appendix A of the filing. It is not reasonable for NWE to now claim that the CU4 unit rates, including those related to both fixed and variable costs, should not be viewed as part of the January 2009 monthly tracker filing that the Company itself proposed.

The unreasonableness of this *ad hoc* assertion is further underscored by earlier representations made by the Company. It is clear that the Commission itself anticipated that CU4 costs would be included in the tracker mechanism and reviewed as part of annual true-ups such as this docket. This expectation can be attributed directly to the Company.

NWE proposed to include CU4 cost of service in electric supply rates *as part of its annual supply tracker* in order to develop an all-in electric supply rate.

The PSC disagrees with MCC and believes that the use of a tracker is a reasonable way to recover costs.
Order No. 6925f, ¶¶ 260 and 261 (emphasis added).

NWE makes a very strained argument that actually admits that the CU4 information “was included as part of the December 2008 Monthly Electric Tracker Filing,” but claims it was “clearly set out and discussed separately.” NWE-6, 3:18-20. It is not clear what it could mean to discuss something separately in this context. Clearly, for example, all adjustments in a rate filing are discussed “separately,” but are still part of the rate filing. It is indeed difficult to imagine a different, some kind of holistic, filing that does not delineate and reveal its component parts. In short, the fact that CU4 cost components may have been “discussed” separately does not mean they were not part of the tracker, as described in the tracker itself, and acknowledged as “necessary to develop

an ‘all-in’ electric supply rate.” In fact, NWE itself admits in the very statement of its argument that the CU4 rate information was “part” of the tracker filing. NWE-6, 3:18-20.

Finally, the fact that these costs are indeed appropriate subjects of this tracker is also underscored by Interim Order 7093 in the instant Docket. That Order notes that the “CU4 category includes the costs and credits that were approved for inclusion *in the tracker* by Order 6925f in Docket D2008.6.69.” Order 6925f, ¶ 8 (emphasis added). It further enumerates those components that constitute the “electric supply rate,” including “the CU4 fixed cost of service totaling \$72,745,544.” Order 6925f, ¶ 9.

2. Routine staff approval of monthly tracker tariffs should not and does not preclude review in annual filings.

NWE constructs a similarly unconvincing argument based on staff approval of the so-called “compliance” tariffs submitted as part of the January Tracker filing. This is clearly much too big a stretch. MCC did indeed receive the December 15th filing on December 16th. The tariffs submitted as part of NWE’s rebuttal testimony to support its claims indicate that they were also received by the Commission in the afternoon of December 16, 2008 and were approved by staff on December 17, the next day. Clearly, no review process was contemplated in this time frame, and MCC was given no opportunity to comment on the filing. This routine treatment is not surprising as monthly trackers are subject to annual review and true-up. Also fatally damaging to the Company’s position is the fact that the tariffs themselves note they were approved by staff as part of Docket No. D2008.7.75 (the tracker docket). Absolutely no reference is made to Docket D2008.6.69 as a source of authority for the approved tariff. These notations can be seen in the tariffs, reproduced in NWE-6, Exhibit ___(PRC-01).

3. The electric tracker statute has no bearing on the proposed tracker rate correction.

A distinction between “generation assets cost of service” and “electricity supply costs” has evolved from a brief mention and footnote in NWE’s direct testimony, to a

major element of its cross-examination responses and post-hearing argument. NWE-6, 3:23-25; NWE IB: 3. The distinction between these two cost categories is meaningless in the context of this proceeding. NWE is saying that §69-3-210(1), MCA, requires the Commission to establish an electric cost recovery mechanism (*i.e.*, an electric tracker) that must allow recovery of prudently incurred “electricity supply costs.” The Commission has done that. NWE then says that “electricity supply costs” are defined in §69-8-103(8), MCA, and do not include costs related to a generation facility owned by the utility; those costs are defined elsewhere as “generation assets cost of service” in §69-8-103(13). NWE is correct in its citations, but wrong in its conclusions. While NWE reproduced the entirety of §69-3-210(1) in its Brief, it apparently fails to note the following portion of that subsection: “The commission may include other utility costs and expenses in the cost recovery mechanism if it determines that including additional costs and expenses is reasonable and in the public interest.” Clearly, the fact that the Commission must include certain defined electricity costs in the tracker does not preclude inclusion of other reasonable costs. The statute explicitly says so. MCC, as noted above, opposed inclusion of these CU4 (generation assets) costs in the tracker. That position was rejected at NWE’s urging, and it is too late now for the Company to create a catch-22 by claiming the CU4 unit rate, a part of the tracker, could only be challenged in a non-tracker docket.³ Indeed, if NWE were right, that would mean that no tracker adjustments could have been made to the other CU4 components (fuel, taxes, Puget credit, etc.) because those are *also* defined as “generation assets cost of service” by statute. (“‘Generation assets cost of service’ means ... all costs associated with the ... operation, and maintenance of a plant or equipment owned ... by a public utility....” §69-3-

³ The CU4 costs of service are necessarily included in the D2010.5.50 tracker docket, just as they have been in monthly tracker filings subsumed by this review. See, *e.g.*, NWE-2, Ex. FVB-3_10-11, pp.6 and 7. They are clearly at issue in this proceeding. Additionally, the January 2009 tracker was subsumed in D2009.5.62. Order No. 6921c approved a stipulation between NWE and MCC to resolve that docket. That stipulation provided that “entry of an order by the Commission approving this Stipulation shall not be deemed to work as any estoppels upon either Party or to otherwise establish or create any limitation on or precedent of the Commission.” Stipulation, ¶7. The Commission has thus never ruled on the issues raised here.

103(13), MCA.) NWE has clearly not applied its own statutory interpretation to all components of its tracker.

4. NWE's CU4 unit rate calculation is not required by, or consistent with, the "matching principle."

The "matching principle" was not discussed in NWE's pre-filed rebuttal testimony, but was raised by NWE witness Corcoran during cross-examination. MCC has long been a proponent of the matching principle and is pleased that NWE is also.⁴ Matching is a requirement of test period rate making. When a rate case is filed, a "snapshot" is taken. All related investment, expenses and revenues must arise from the same time period in order to provide a balanced picture, and reasonable rates.⁵ The underlying purpose of the matching principle is actually violated by NWE's CU4 fixed cost rate calculation.

MCC witness Wilson explained that a mismatch occurs by using projected 2007 volumes to derive a CU4 unit rate.

The basis for the Commission's approved CU4 fixed cost revenues was not even known in 2007, and did not come about until 2008. Indeed, the MCC had argued in the CU4 case (Docket No. D2008.6.69) that if CU4 was to be rate based, recoverable fixed cost revenues should be limited to CU4's actual 2007 fixed cost amounts. The Company opposed that position and argued that Commission approved fixed cost revenues for CU4 should not reflect the plant's actual costs at all, but a much higher "market value" for the plant that was, according to NWE, established in 2008 by a "bid" that had been received from another company that wanted to buy the plant. Ultimately, the Commission agreed with the Company and authorized

⁴ One obvious irony here is that cost trackers are themselves a major exception to the matching principle. The lost revenue adjustment mechanism also constitutes a matching principle violation.

⁵ Probably the most recent example of this was the discussion of volume updates to reflect the Stone Container load loss in Docket No. D2009.9.129.

fixed cost revenues that were not at all related to CU4's 2007 fixed costs. MCC-1, 13:2-13.

In fact, the CU4 rates were not implemented until January, 2009.

Moreover, it is strictly a fiction that there was any kind of "rate case" for CU4. It would indeed be an unusual rate case that mentioned no volumes or rates in the filing. Those are the elements that allow parties to know potential issues and outcomes and allow for the routine processing of compliance filings. Indeed, had this truly been a rate case it would have been immediately rejected because it violated the Commission's minimum filing requirements for rate cases, including the required filing of sales volumes and proposed rate schedules. *See, e.g.*, ARM § 38.5.103. This was a CU4 resource preapproval filing, not a rate case. When pressed on the test year concept, the unique nature of the proceeding was ultimately recognized by witness Corcoran.

What's *unique* about Colstrip 4 is that the – it was – its asset value, its plant value was determined – you know, it was part of a – it was a *unique* asset with regard to what was being approved. Because Colstrip 4 has a lot of history. And so in that filing, the asset value was a function of the market value of the asset. *** And so that filing was *unique* in that nature. TR 264:23 – 265:11 (emphasis added).

As noted above, historic 2007 volumes should not have been used to calculate the CU4 unit rate. However, further underscoring the fiction of a "rate case" with a "test year" for the CU4 unit rates is the fact that the 2007 sales volumes used by NWE did not themselves constitute a test year amount at all. The Company's Brief, for example, states that CU4 "fixed cost rates were calculated on the basis of 2007 historic test year sales." NWE IB, 6. This statement is incorrect. To be clear, what the Company used was a 12 month *forecast* made in December 2006, and filed with its January 2007 monthly tracker filing.⁶ See Attachment A. This does not represent 2007 actual amounts as asserted, and

⁶ The January 2009 monthly tracker filing, at page 2 of the "Fact Sheet," incorrectly states that the 2007 loads came from the January 1, 2008 monthly tracker filing. The January 2008 tracker filing, however shows loads of 5,829,803 in Appendix E, p. 3. The

as a “matched” test year filing would require. These rolling 12 month projected volumes used for monthly tracker purposes change from month to month throughout 2007.

Although the Colstrip 4 preapproval filing cannot legitimately be viewed as a rate case, the CU4 fixed rate calculation proposed by Dr. Wilson is actually much more consistent with the matching principle and basic fairness. He divided the approved revenue requirement⁷ by 5,902,371,450 kwh. This is the projected 2008/2009 volume used by NWE itself in its D2008.5.45 tracker filing submitted May 30, 2008, approximately one month prior to the Colstrip 4 preapproval filing.⁸ While this is a unique case as Mr. Corcoran notes, the revaluation of CU4 for rate basing is contemporaneous with the projected 2008 volumes used by Dr. Wilson.

Finally, NWE asserts that its CU4 costs have “grown considerably” from 2007 to 2009. This, of course, in no way detracts from the better matching of the projected 2008/2009 loads to the 2008 rate base revaluation implemented in 2009. Expenses and loads may change over time. If NWE is concerned about CU4 cost increases, it can file a rate case wherein the Commission can review current costs and loads.

5. Miscellaneous issues.

NWE concludes with a catch-all argument that the rate correction recommended by Dr. Wilson in this proceeding is “a violation of the law.” NWE IB, 6. This argument deserves a similarly brief response. As noted above, MCC has not proposed adjusting the

same Appendix E, p. 3, of the January 2007 filing contains projected loads of 5,741,321, the amount used by NWE for the CU4 unit rate calculation.

⁷ It is another incorrect fiction that this “fixed cost” revenue requirement represents 2007 test year costs. First, there really was no rate case test year. More importantly, the plant values did not exist until approved by the Commission to be included in 2009 rates. Exhibit NWE – 2, Exhibit__(FVB-3)_10-11, p. 6, clearly shows that fully 84% of the costs included in the fixed cost rate (60,902,746/72,745,544) relate directly to this plant revaluation.

⁸ Dr. Wilson notes that the actual volumes turned out to be nearly identical to this projected amount. MCC-1, 12:fn1.

authorized CU4 “revenue.” This tracker is indeed “the proper forum” for examining the CU4 cost recovery *rate*. NWE has been given the opportunity to address this rate issue in this docket. There is thus no substantive or procedural due process issue. NWE is not entitled to excessive rates.

IV. CONCLUSION

It is much too late for NWE to claim that the CU4 “sections” and “components” of the electric cost tracker that were intended to allow cost recovery of CU4 fixed costs, and that were submitted and approved in a monthly tracker filing, are not really part of the tracker. They are. When these rates are examined in this tracker, as they should be, it is clear that the unit rate was derived based on a mismatch of costs and volumes.

NWE’s proposed cost recovery in this docket is excessive by about \$2 million. That is because the CU4 unit rate NWE calculated for inclusion in the tracker rates is based on unreasonably low volumes – volumes that relate to a period when the CU4 values accepted by the Commission in November 2008 did not even exist. The effect of this calculation has been a systematic, not coincidental, over-recovery of CU4 costs. The Commission should correct this situation in this tracker.

Respectfully submitted on this 8th day of March, 2011.



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ATTACHMENT A



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December 14, 2006

Ms. Kate Whitney
Administrator
Montana Public Service Commission
1701 Prospect Avenue
PO Box 202601
Helena, MT 59620-2601

RE: Docket No. D2006.8.119
January 1, 2007 Monthly Electric Default Supply Cost Rate Adjustment

Dear Ms. Whitney:

NorthWestern Energy (NWE) submits thirteen copies of its January 1, 2007 Electric Default Supply Cost Rate Adjustment request for approval by the Montana Public Service Commission (MPSC). The 2006/2007 monthly Electric Tracking filings have been assigned Docket No. D2006.8.119.

Appendix A to this letter presents a summary of the current electric supply rates and the proposed rates in this filing, as well as the resulting dollar and percentage changes. Wholesale market prices have increased from last month, increasing the expected average cost per MWh to default supply customers from \$47.98 to \$48.57, or 1.23% for the period January 1, 2007 through December 31, 2007.

Appendix B, which is copyright protected and is being provided to the MPSC and MCC under limited license from the publisher, represents the forward market prices at the Mid-Columbia trading hub, an indicator of Montana electric market supply costs. Appendix C summarizes the forecasted electric loads, supply and supply costs for the next 12-month period, based on current available information. Appendix D provides the detail of the forecasted electric load.

Appendix E presents the rate design and derivation of the proposed electric supply rates. The change in proposed revenue compared to the revenue calculated using current rates applied to the 12-month ended December 2007 forecasted loads is an increase of \$3,396,625.

NWE also filed Tariff Letter No. 126-E simultaneously with this monthly Electric Default Supply Rate Adjustment filing. These rates will become effective for service on and after January 1, 2007.



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December 17, 2007

Ms. Kate Whitney
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Montana Public Service Commission
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Helena, MT 59620-2601

RE: Docket No. D2007.7.80
January 1, 2008 Monthly Electric Default Supply Cost Rate Adjustment

Dear Ms. Whitney:

NorthWestern Energy (NWE) submits an original and ten copies of its January 1, 2008 Electric Default Supply Cost Rate Adjustment request for approval by the Montana Public Service Commission (MPSC). The 2007/2008 monthly Electric Tracking filings have been assigned Docket No. D2007.7.80.

Appendix A to this letter presents a summary of the current electric supply rates and the proposed rates in this filing, as well as the resulting dollar and percentage changes. Wholesale market prices have decreased from last month, decreasing the expected average cost per MWh to default supply customers from \$55.83 to \$55.66, or 0.31% for the period January 1, 2008 through December 31, 2008.

Appendix B, which is copyright protected and is being provided to the MPSC and MCC under a limited license from the publisher, represents the forward market prices at the Mid-Columbia trading hub, an indicator of Montana electric market supply costs. Appendix C summarizes the forecasted electric loads, supply and supply costs for the next 12-month period, based on current available information. In this filing, NWE updates its forecast to reflect increased transmission regulation costs provided by the control area operator (NWE Transmission) and updated administration expenses. Appendix D provides the detail of the forecasted electric load. In this filing, NWE also updates the forecasted load to reflect the movement of customers from default supply to choice.

Appendix E presents the rate design and derivation of the proposed electric supply rates. The change in proposed revenue compared to the revenue calculated using current rates applied to the 12-month ended December 2008 forecasted loads is an decrease of \$996,729.00.

	A	B	C	D	E	F	G	H	I
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2						Appendix E - 01/01/08 Rate Change			
3								Page 3 of 4	
4						NorthWestern Energy			
5						Default Supply Derivation of Rates			
6						Default Supply Revenue at Current Rates			
7						12 Months Ended December 2008			
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