Distribution Date: January 5, 2011

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

* * * * * *

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

PREHEARING FACT SHEET

Hearing Date: January 19, 2011

PREPARED BY:

Eric Eck, Chief, Revenue Requirements Bureau
Scott Fabel, Rate Analyst, Revenue Requirements Bureau
Mike Dalton, Rate Analyst, Economics and Rate Design Bureau
Will Rosquist, Chief, Economics and Rate Design Bureau

FOR:

The Montana Public Service Commission
Kate Whitney, Administrator, Regulatory Division
Al Brogan, Administrator, Legal Division
Jason Brown, Attorney

I. Introduction

Prior to a public hearing in a docketed proceeding before the Montana Public Service Commission (PSC), Utility Division staff prepare a Fact Sheet summarizing the record, including information that may become evidence. This Fact Sheet includes background information and summaries of the procedural history and prefiled testimony in this Docket. As necessary to provide a complete description of issues and positions, the Fact Sheet also references certain data responses.

II. Procedural Background

On June 7, 2010, NorthWestern Energy (NWE) filed an electric default supply cost tracker application with the Montana Public Service Commission (PSC) requesting electric rates reflecting: 1) zero balance in the Electric Supply Deferred Costs account for the 12 months ending June 30, 2010; and 2) projected load, supply, and related electric costs for the 12-month tracker period July 1, 2010 through June 30, 2011. NWE also requested an interim rate change.

On June 11, 2010, the PSC issued a Notice of Application and Intervention Deadline.

On June 29, 2010, the PSC issued Interim Order 7093 authorizing rates designed to recover an electricity supply revenue requirement of $254,818,346 plus the fixed cost of CU4 of $72,745,544 plus the CU4 variable cost of service of $(5,528,024) for a total of $322,035,867, resulting in an overall interim increase in jurisdictional electric supply revenues of $5,173,496 for the 2010-11 tracking period. The PSC also allowed NWE to continue making monthly electric rate adjustments on an interim basis.

On July 30, 2010, the PSC issued Procedural Order 7093a setting dates for intervention, discovery, testimony, additional issues process, and a tentative hearing on January 12-13, 2011.

On July 2, 2010, the Montana Consumer Counsel (MCC) petitioned to intervene. No other petitions to intervene were received.

On September 17, 2010, the PSC issued a Protective Order 7093b.

MCC, NWE and the PSC, through its staff, engaged in written discovery.

MCC filed testimony on September 16, 2010.

NWE filed rebuttal testimony on October 28, 2010.

At a noticed work session on December 7, 2010, the PSC changed the hearing date to January 19-20, 2011.

On December 15, 2010, the PSC issued a Notice of Public Hearing.

III. Summary of testimony

<u>NorthWestern Energy Direct Testimony</u>

<u>Dave Fine</u>

Dave Fine, NWE's Director of Energy Supply Planning, prefiled testimony addressing NWE's electricity supply portfolio planning and management activity during the 2009-10 tracking period. Fine reported that during the 2009-10 tracking period NWE: (1) executed a

20-year, 13 MW power purchase agreement with Turnbull Hydro, LLC (power deliveries to begin in May, 2011), (2) initiated a competitive Request for Information (RFI) in August, 2009, for renewable resources with a preference for community renewable energy projects under § 69-3-2003, Montana Code Annotated (MCA) (NWE received 40 responses and is currently negotiating with 2 separate projects), (3) managed the electric supply portfolio and implemented appropriate hedging criteria, (4) worked to expand and diversify its renewable resource portfolio with particular attention on possible biomass resources, (5) managed the QF queue and entered into one short-term QF contract in 2009, (6) satisfied the Renewable Energy Standards under §69-3-2004, MCA in 2009, (7) comprehensively assessed the remaining electric Demand Side Management (DSM) potential in its Montana electric service territory (this assessment informed the DSM acquisition plan in the 2009 electric procurement plan), and (8) initiated and continues to facilitate and support the wind integration working group that is analyzing appropriate wind integration requirements for NWE's system.

Fine also stated that NWE will follow the Action Plan included in the 2007 electric procurement plan until the 2009 plan is released. NWE is evaluating mid to long-term contract power delivery and equity purchase opportunities, working to acquire additional wind resources, exploring the development of biomass resources, and implementing DSM programs that will meet or exceed targets. Fine noted that the omission of a specific resource from the 2007 or 2009 electric procurement plans does not preclude NWE from acquiring it and included it in subsequent tracker cost recovery proceedings.

Fine reported that on or about December 31, 2010, NWE's existing third party regulation services contracts will expire. NWE anticipates that the Mill Creek Generating Station (MCGS) will supply regulation services, and, accordingly, will be the basis for regulation costs in 2011. Fine stated that the 2010-11 tracker cost estimates include third party regulation service costs through the remainder of calendar year 2010, and that beginning January 1, 2011 no regulation costs are included in the tracker cost estimates.

Frank Bennett

Frank Bennett, an electric and natural gas specialist employed by NWE, prefiled testimony on the status of the tracking periods previously filed in Docket No. 2009.5.62, the updated costs of the June 2010 tracker period with ten months of actual numbers and two months of estimated numbers, and forecast costs for the June 2011 tracker period.

The variable cost of service for Colstrip Unit 4 (CU4) includes fuel costs, Puget Sound Energy (Puget) revenue credits, and incremental property taxes. These variable costs are tracked in a manner similar to market-based supply costs. The price stability benefits are being returned to ratepayers over a two-year period and are shown in equal monthly amounts over the tracker period as directed in Order No. 6925f. The 2009-10 tracker period CU4 cost of service is further adjusted by Order No. 7057b with a one-time fixed cost adjustment and a variable cost adjustment related to CU4 property taxes made in this tracker filing.

At pages 5 and 6 of his testimony, Bennett discusses the regulation costs associated with the United Materials wind project near Great Falls.

Bennett explains that four basic cost components make up the Electric Supply portfolio for the 12-month tracker period July 2009 through June 2010: Electric Supply, Transmission Services, Administrative Expenses, and CU4. Electric Supply includes the following cost 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 1999. Only a portion of the costs of these contracts is included in the electric 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 contracts were assumed into the rate based CU4 asset in January 2009.

5) Approximately 50 MW of dispatchable energy from Basin Creek Equity Partners, 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, LLC. 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 expired June 30, 2010.

8) Approximately 25 MW of off-peak firm energy from Powerex Corp. secured through the November 14, 2006, pilot auction. This contract expired 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 2009-10 default supply tracking period, the net non-base transaction purchase requirement was 1,795,535 MWh or 28 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.

Transmission Services-related costs are associated with moving electricity off system through point-to-point transmission service in order to balance or optimize resources, 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. This service is currently provided by NWE’s Transmission Business Unit and represents $6,897,433 of the $7,667,096 stated transmission cost. 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.

Administrative Expenses contains incremental administrative and general costs above those recovered in the last general rate case filing of $2,131,237 or 0.78 percent of total electric supply expenses are also included in electric 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.

CU4 includes the costs and credits that were approved for inclusion under Order 6925f in Docket No. D2008.6.69.

At pages 13 and 14 of his testimony Bennett summarized the results of the 2009-2010 tracking period in two tables.

At pages 15-21 of his testimony Bennett summarized the 2010-11 forecasted electric supply tracker period.

Beginning January, 2011, when the Puget Contract terminates, forecast generation for CU4 increases from 111 MW to 222MW. The CU4 variable cost rate reflects increased fuel costs related to this increase in generation.

At pages 19-20 of his testimony Bennett summarized the June 2011 forecasted tracker period in two tables.

Cheryl Hansen

Ms. Hansen addresses the derivation of the 2010-11 billing statistics, the derivation of deferred supply rates resulting from the over/under collection reflected in the 2009-10 tracker, and the derivation of default supply rates for the forecasted 2010-11 tracker period.

Hansen explains that cyclical usage (sales) reflects customer usage billed throughout a calendar month on each of 21 billing cycles. Each billing cycle covers approximately 30 days of metered usage. Calendar usage, on the other hand, reflects customer usage adjusted as if it were recorded for a calendar month. Bennett uses calendar data to determine energy supply costs, which are incurred on a calendar basis. NWE uses cyclical data to establish rates for billing purposes.

NWE recovers the costs associated with serving Yellowstone Park through a separately negotiated contract rate. As a result, NWE excludes Yellowstone Park's load and contract revenues from PSC jurisdictional rate calculations.

The electric supply cost account balance for the twelve-month period ending June 2010 is an under collection of $6,371,828. The electric supply cost revenues and expenses and the monthly deferred cost activity are summarized for the July 2009 through June 2010 tracking period. The months of May 2010 and June 2010 are estimated and will be trued up as part of next year's filing.

In the annual filing submitted on May 29, 2009, the net deferred account balance for the 2008-09 tracking period was an over collection of $(20,390,683). The rate that went into effect July 1, 2009 was designed to refund the total net amount of $(20,390,683) to customers over the 2009-10 tracking period.

The over recovered ending balance of $(20,390,683) for the 2008-09 tracking period, represented in the 2009 filing became the starting balance. Added to this balance is the prior period true-up for the months of May and June 2009. The resulting actual ending balance of $(16,656,254) is the deferred account beginning balance for the 2009-10 tracking period. This balance is then combined with the current year monthly activity shown on Exhibit_(CAH-2). 10-11, page 1, resulting in a net over refunded balance of $3,246,652 for the 2009-10 tracking period.

Page 2 of Exhibit_(CAH-2) 10-11 showed the monthly detail of the differences between the electric market-based supply cost revenues and expenses, resulting in an under collected amount of $3,125,175 for the 2009-10 tracker period. The months of May and June 2010 are estimated and will be trued up in the next annual filing.

For the twelve-month period ending June 2010 the CU4 variable cost balance was an under refunded amount of $(6,573,172) as presented on pages 3 and 4 of Exhibit_(CAH-2). 10-11. The CU4 variable supply costs and revenues were summarized for the July 2009 through June 2010 tracking period. The months of May and June 2010 are estimated and will be trued-up as part of next year's filing.

In the annual filing submitted on May 29, 2009, the deferred account balance for the 2008-09 tracking period was shown as an estimated current year balance of $(1,732,778). The rate that went into effect July 1, 2009, was designed to return the under refunded amount to customers over the 2009-10 tracking period.

The under refunded ending balance of $(1,732,778) for the 2008-09 tracking period, represented in the 2009 filing became the starting balance. Added to this balance is the prior period true-up for the months of May and June 2009. The resulting actual balance of $(3,368,710) is the CU4 deferred account beginning balance for the 2009-10 tracking period.

This balance is then combined with the current year monthly activity resulting in a net under refunded balance of $(1,407,135) for the 2009-10 tracking period.

Page 4 of Exhibit_(CAH-2) 10-11 showed the monthly detail of the difference between the CU4 variable cost revenues and expenses, including the Puget price stability contract amounts, resulting in an under refunded amount of $(5,166,037) for the 2009-10 tracker period. The months of May and June 2010 are estimated and will be trued-up in the next annual filing.

William Thomas

William Thomas is NWE's Manager of Regulatory Support Services. He prefiled testimony addressing NWE's universal system benefits (USB) and electric supply energy efficiency (DSM) programs and savings. He also presented DSM program costs and estimated lost transmission and distribution revenue due to programmatic energy savings.

Total DSM savings include both USB and energy supply DSM program savings. However, since USB programs are funded by a separate charge, Thomas does not include USB expenses in his default supply DSM budget and expense figures. Table 1 shows NWE's annual DSM savings targets, reported actual savings, budgets and actual expenses for the 2004-05, through 2009-10 tracker years. Thomas explained that the reported program results represent the capability of the installed measures to produce energy savings for a full year.

Table 1. DSM savings and expenses

Tracking year	Target DSM savings (aMW)	Reported DSM savings (aMW)			Default Supply DSM Budget	Default Supply Actual Expenses
		USB	Default	Total		
2004-05	2.60	2.04	0.22	2.26	$1,457,888	$320,389
2005-06	3.70	1.33	2.08	3.41	$2,097,734	$1,596,076
2006-07	5.00	0.36	3.04	3.40	$3,232,080	$2,497,359
2007-08	5.00	0.82	4.55	5.37	$3,631,683	$3,688,745
2008-09	5.00	1.11	5.58	6.69	$4,917,141	$5,504,111
2009-10	5.00	1.16	5.77	6.93	$6,625,192	$7,930,022
2010-11	6.00	-	-	-	$9,148,219	

Table 2 is a portion of Thomas's Exhibit_(WMT-1) for both the 2008-09 and 2009-10 tracker years showing expenses and reported energy savings for each electric default supply

DSM program. Thomas derives reported energy savings using two approaches. First, NWE requires project-specific engineering calculations from participants in programs such as E+ Commercial Lighting and Business Partners programs. NWE's staff reviews these calculations for accuracy. Second, for programs that don't require participants to provide engineering calculations, such as residential lighting, Thomas relies on average measure savings. Reported savings represent the energy savings that would occur if all energy savings measures were in place for 12 months.

Table 2. 2008-09/2009-10 tracker period USB and default supply DSM savings

	2008-09 Default Supply DSM*			**2009-10 Default Supply DSM****		
		Annual Energy Savings			Annual Energy Savings	
Programs	Expenses	kWh	aMW	Expenses	kWh	aMW
General DSM expenses	182,194	-	-	622,084	-	-
E+ Business Partners/Irrigation	1,648,263	3,875,457	0.44	1,595,515	2,017,330	0.23
E+ Commercial Lighting	1,402,865	10,025,790	1.14	2,936,056	13,096,199	1.49
E+ Residential Lighting	1,805,540	21,996,477	2.51	1,753,582	19,028,585	2.17
NW Energy Efficiency Alliance	294,994	12,097,396	1.38	926,826	15,516,074	1.77
E+ New Homes / 80 Plus	31,476	329,459	0.04	21,698	226,574	0.03
E+ Residential Electric Savings	123,794	272,731	0.03	49,073	18,953	0.00
E+ Electric Motor Rebate	14,985	47,806	0.01	14,436	5,280	0.00
Energy Star 80 Plus Program	-	-	-	-	591,318	0.07
Demand Response Program	-	-	-	10,751	-	-
Totals	**5,504,111**	**48,854,078**	**5.58**	**7,930,022**	**50,500,314**	**5.76**

*2008-2009 data is extracted from the Fact Sheet staff prepared for Docket No. D2009.5.62

**2009-2010 data is extracted from William Thomas' Direct Testimony in Docket No. D2010.5.50. The Annualized Energy Savings are based on 9 months (July-March) of actual reported savings and 3months (April-June) estimated. The DSM Program expenses are based on 10 months (July-April) of actual reported expenses and 2 months (May-June) estimated.

A description of each default supply DSM program follows:

<u>E+ Lighting:</u> NWE contracts with KEMA to implement lighting programs for commercial and residential customers.[1/] Through KEMA, NWE offers cash rebates for ENERGY STAR-rated compact fluorescent lights (CFL) and indoor and outdoor fixtures. The E+ lighting programs use

[1/] KEMA is a global energy consulting company. With respect to energy efficiency, KEMA offers utilities technical and management consulting services, including energy efficiency program planning and implementation, program evaluation, project development, and market strategies and analysis. See http://www.kema.com/services/consulting/efficiency/Default.aspx several mechanisms to distribute and encourage use of ENERGY STAR CFLs and fixtures. KEMA auditors install CFLs in residential homes and commercial spaces during energy audits/appraisals. Residential customers receive a free CFL when they complete a mail-in energy audit. Residential and commercial customers can receive rebates for purchasing CFLs, ENERGY STAR fixtures, and energy efficient lighting equipment and controls. In some cases, NWE provides instant rebates through coupons. In both 2008-09 and 2009-10, NWE bought down the retail price of CFLs in all Home Depot stores in NWE's electric service area and participated in the buy down of CFLs at retailers other than Home Depot through the *Change A Light Change The World* campaign facilitated by the Northwest Energy Efficiency Alliance (NEEA). NWE also promotes lighting efficiency at events such as trade shows, fairs and farmers markets. Thomas stated that customers continue to be highly interested in the lighting programs. In the 2008-09 tracker period 297,790 CFLs were distributed to 28,497 residential customers. 500 commercial lighting projects were completed. NWE provided $257,574 toward lighting rebates in 2008-09. In the 2009-10 tracker period 437,745 CFLs were distributed to 34,544 residential customers and 635 commercial customers completed 17,580 lighting projects. NWE provided $215,508 toward its lighting programs in 2009-10.

<u>E+ Business Partners:</u> NWE contracts with the National Center for Appropriate Technology (NCAT) to promote the Business Partners Program.[2/] NCAT markets the program to architect and engineering firms and trade/industry associations, contacts candidate businesses with good DSM potential, surveys and assesses buildings and facilities, provides technical assistance for building owners and assists customers with forms, contracts and other paperwork. In the 2008-09 tracker period NCAT made 1,756 contacts, 475 site visits and prepared 325 project proposals for customers. Ultimately, customers submitted 22 of these proposals. In the 2009-10 tracker period NCAT made 2,145 contacts, 772 site visits, and prepared 512 proposals for customers. Customers submitted 39 of these proposals to NWE for approval. In addition to NCAT's marketing, NWE DSM staff directly contacted industrial supply customers, which resulted in 8 completed projects. There are another 20 projects in development in the large commercial/industrial sector.

[2/] NCAT is a non-profit organization dedicated to promoting small-scale, local energy conservation applications and efficiencies and sustainable energy production methods. See http://www.ncat.org/pdf/NCAT_AR09_WEB.pdf

Northwest Energy Efficiency Alliance: NWE contributes to NEEA along with other regional utilities, public benefits administrators, state governments and public interest groups. NEEA is a non-profit organization that encourages market transformation – the development and adoption of energy efficient products and services – in Montana, Idaho, Oregon and Washington. NEEA's market transformation efforts target the residential, commercial, industrial and agricultural sectors. In the 2008-09 tracking period NEEA market transformation activities produced approximately 1.38 aMW of energy savings. In the 2009-10 tracker period NWE reported 1.8 aMW of savings from NEEA activities. Information on NEEA's projects can be found at www.nwalliance.org

E+ New Homes: NWE markets this program as a combined electric and natural gas energy efficiency program. The program offers a variety of rebates for individual energy efficiency measures in new homes. KEMA administers the rebate portion of the program and also collects data and maintains program records. NWE contracts with NCAT to provide builder/owner education, technical assistance, marketing, and outreach. NWE blends USB and supply funds to promote ENERGY STAR building standards for new homes. NWE uses USB funds to market the program and educate architects, contractors, and customers. NWE uses electric supply funds to provide cash incentives. Thomas states that, separately, NEEA funds some of the infrastructure development of ENERGY STAR Northwest activities. In the 2008-09 tracker period four new electrically heated homes were certified and five new gas-heat homes installed at least 50% ENERGY STAR lighting through this program. In the 2009-10 tracker period two new electrically heated homes were certified and two new natural gas heated homes installed at least 50% ENERGY STAR lighting.

E+ Residential Savings Program: NWE introduced the E+ Residential Savings program in April, 2006. This program provides incentives for customers to install insulation, switch electric space or water heat to natural gas and install energy saving devices like programmable thermostats, low-flow showerheads, faucet aerators and water heater pipe insulation in existing homes. NWE contracts with KEMA to implement the program, and has renewed the contract to operate the program during the 2010-11 period. NWE's website provides information, program guidelines and rebate forms.

<u>E+ Electric Motor Rebate Program:</u> NWE contracts with KEMA to implement this program, which offers cash rebates for purchasing premium efficiency electric motors. Prescriptive rebates are offered for motors rated between 1 and 200 horsepower. Larger motors can qualify with individual, application-specific calculations performed by NWE. In the 2008-09 tracker period NWE processed one rebate application. In the 2009-10 tracking period NWE processed three rebates. Thomas stated that NWE modified the program in 2009 to include rebates for motor rewinding that adheres to NEEA-developed procedures designed to avoid efficiency losses. Thomas says three electric motor service centers in NWE's service territory perform this service. Despite this modification, NWE only processed three motor rebates in the 2009-10 tracker period. Thomas reported during the 2008-09 tracker that NWE was considering eliminating this program, and it has now decided to do so. In the upcoming program period, rather than operating a separate and distinct electric motor efficiency program, NWE will incorporate the National Electrical Manufacturers Association (NEMA) premium efficiency motors and qualified motor rewinds into a new Commercial Electric Rebate Program.

<u>Green Blocks Pilot Program:</u> In 2008, NWE partnered with the City of Missoula on a pilot residential DSM program that combined elements of the E+ Audit, Lighting and Residential Savings programs. Through this pilot program NWE sought to provide energy audits and some energy efficiency measures free of charge to targeted and concentrated groups of program participants in order to achieve cost-effective electric and natural gas savings. The City of Missoula provided marketing, outreach, recruiting and selection of up to 100 program participants. The City of Missoula has secured funds through the 2009 American Recovery and Reinvestment Act (ARRA), and will use some of those funds to partner with NWE in 2010-11 to conduct a second round of Green Blocks, which should expand the program to 300 additional residential dwellings. The City of Missoula and NWE will share costs on an approximate 50/50 basis. In the upcoming period, NWE will conduct an expansion of the Green Blocks pilot program in the City of Helena, with a target of 100 homes. In the Helena program, there are no

ARRA funds available. NWE will provide 100% of the funding and the City of Helena will be responsible for recruiting and soliciting interest in the program.

Bozeman Building Blocks: In 2009, NWE introduced a pilot program aimed at the Bozeman downtown business district, which will provide a commercial energy audit at no direct cost to building owners and/or occupants of commercial buildings along a three block strip in the main downtown area. The audits are completed by experienced personnel from NCAT. Once the audits are complete, meetings are held with the business owners/occupants to discuss the results and identify opportunities where behavioral changes can be made to decrease energy costs. These meetings also help NWE identify where energy savings projects can be pursued through its DSM programs. Post-meeting contacts are made to check on the progress of the recommendations. At the time Thomas filed his testimony, NCAT had completed all of the audits, was compiling reports and data, and planned to submit an interim report to NWE later in the year. NWE will consider expansion of the Bozeman Building Blocks program following its review of NCAT's results.

Additional information about all of these DSM programs is available at NWE's website at http://www.northwesternenergy.com.

Thomas described the many training seminars that NWE's DSM staff and contractors sponsor throughout the year to increase awareness of energy efficiency opportunities in buildings and facilities. NWE blends USB and supply funds to cover the cost of these seminars. Topics the seminars address include: efficient motor management, building operator certification, lighting design lab, ENERGY STAR Northwest verifier training, and ENERGY STAR builder training. Thomas said NWE also promotes energy efficiency throughout its service territory through media events, appearances, meetings, speaking engagements, booth sponsorships, trade fairs and shows, conferences and other special events. He explained that NWE maintains networks of retailers, distributors, and other trade allies and provides a steady stream of information about its energy efficiency programs through print, radio, television, literature, and personal contact. Exhibit_(WMT-4a) to Thomas's testimony is NWE's 2009 USB/DSM Communications Plan. The Communications Plan details the techniques, mechanisms, locations, forms of media and calendar schedule of activities designed to support DSM programs, attract customer participation, and acquire cost-effective DSM resources. He noted that the Plan will change over time as conditions warrant or new knowledge is gained.

Thomas reported that NWE hired NEXANT, Inc., with The CADMUS Group, Inc. as subcontractor, to perform a comprehensive assessment of DSM potential on NWE's system. The assessment is complete, and the results have been incorporated into NWE's resource planning process. Chapter 2 of NWE's 2009 Electric Resource Procurement Plan contains a detailed discussion of the assessment's findings. The DSM assessment identified just over 84 aMW of achievable cost effective DSM potential in NWE's Montana electrical service territory, and NWE has increased its annual DSM acquisition goal from 5.0 aMW to 6.0 aMW. Thomas reported that NWE is taking several steps to achieve this goal. First, NWE has hired two additional professional staff to implement DSM programs. NWE has also issued a Request for Proposal (RFP) for additional outside service providers to develop commercial DSM projects, similar to the work now being performed by NCAT. Finally, NWE is developing a new commercial DSM program that will offer prescriptive rebates for various cost-effective DSM measures that were identified in the NEXANT/CADMUS Assessment.

Montana Consumer Counsel (MCC)

Dr. John Wilson

Dr. John W. Wilson prefiled testimony on behalf of MCC pertaining to NWE's proposed cost recovery in Electric Supply Tracker filings for the period July 1, 2009 through June 30, 2010 and for the forecasted period July 1, 2010 through June 30, 2011. Wilson concluded that the PSC should modify NWE's proposed electric supply cost recovery for the 12-month tracking period ended June 2010.

Wilson observed that on an overall basis the electric supply costs reported by NWE have remained relatively stable over the last three tracker periods. NWE's average electric supply cost in the 2007-08 period was $47.15/Mwh. In the 2008-09 period the average cost increased slightly to $48.15/Mwh. NWE's average electric supply cost in the 2009-10 period then declined to $45.19/Mwh. Despite an increase in CU4 costs, the average cost in the 2009-10 period declined slightly more than expected - due to large decreases in short term market purchase costs.

NWE's Montana Electric Supply and Cost
2007-2011

	2007-2008 (actual)		2008-2009 (actual)		2009-2010 (actual)		2010-2011 (estimated)	
	%	$/Mwh	%	$/Mwh	%	$/Mwh	%	$/Mwh
PP&L Contract	35.41%	45.55	35.13%	47.15	35.32%	48.75	30.44%	50.35
ST Contract Transactions	14.13%	60.33	16.56%	64.66	15.82%	46.62	5.77%	48.59
Spot Market Transactions	12.70%	58.08	10.71%	49.38	12.53%	31.46	17.24%	40.56
CU4	13.18%	36.20	12.75%	49.01	12.64%	57.09	19.41%	56.32
QF Contracts	12.70%	33.89	13.70%	30.40	13.13%	34.83	13.02%	35.49
Judith Gap	7.95%	37.94	7.36%	39.86	6.72%	40.03	7.52%	36.97
Citigroup 08 RFP							3.46%	62.40
Other*	3.91%	77.29	3.79%	59.27	3.84%	56.77	3.13%	78.51
Total	**100.0%**	**47.15**	**100.0%**	**48.15**	**100.0%**	**45.19**	**100.00%**	**48.08**

While the overall cost of electric supply has remained relatively stable over the 4 tracker years, the costs of some of the components have changed substantially. For example, the average cost of CU4 purchases increased by 58%, from $36/Mwh in 2007-08 to $57/Mwh in 2009-10. Wilson stated that the increase in CU4's share of total supply is attributable to less projected outage time for the plant, and the increase in CU4's supply cost in the last two years is largely related to rate basing the plant and terminating previously-existing long-term contracts for about half the plant's output (the PSC approved rate basing CU4 in Docket No. D2008.6.69, Order No. 6925f; CU4 was included in the electric rate base on January 1, 2009).

Wilson observed that NWE estimated $649,709 of CU4-related lost fixed cost revenues in the 2009-10 period, and $1,267,268 for the 2010-11 period, due to successful DSM programs. However, he noted that NWE did not claim that it collected less than the PSC-authorized cost of service revenue requirement of $72,745,544 for CU4, as determined in Order 6925f, Docket D2008.6.69. Wilson asserted that NWE has consistently recovered more than the authorized fixed cost revenue requirement for CU4 in each year since the plant has been in rate base.

Wilson acknowledged that the MPSC has implemented a mechanism to allow NWE to calculate and include in rates revenues it claims it would have received absent DSM activities; however, Wilson stated he does not believe that NWE based its cost recovery calculations on the authorized revenue requirements for CU4. Wilson believes NWE has consistently collected more than the MPSC's allowed CU4 fixed cost requirement because NWE: (1) used a low historic projected sales volume (i.e. the 2007 test year sales volume) to convert the MPSC authorized $72.7 million revenue requirement into a price per kwh, (2) assumed that this converted price per kwh was authorized in Order 6925f, and (3) applied this converted price per kwh to its larger actual sales volumes, thus leading to a larger CU4 revenue total than the $72.7 million that was actually authorized in Order 6925f.

Wilson testified that two fallacies underlie NWE's lost revenue claim. The first is that NWE's actual CU4 revenue in each tracker year has exceeded the MPSC-determined CU4 revenue amount, and since ratepayers have already paid more than the MPSC's determined fixed cost of service, providing additional CU4 revenue would be inappropriate. Second, Wilson stated that although CU4 was added to rate base effective January, 2009, in implementing rates to collect the authorized revenue requirement, NWE went back to its lower 2007 test year sales volumes rather than using actual 2008 or expected 2009 sales. According to Wilson, MPSC Order 6925f did not authorize using 2007 sales and NWE's intent to do so was not addressed in D2008.6.69. Wilson asserted that NWE knew or should have known that using 2007 sales volumes would immediately produce a revenue amount exceeding the fixed cost total which had been allowed by the MPSC.

Wilson said that for these reasons, any CU4 lost revenue adjustment should be based on 2008-09 sales, not lower 2007 test year sales. For these same reasons Wilson also asserted that CU4 charges to ratepayers from July 2009 through June 2010 were excessive, and a tracker adjustment should be made in order to bring 2009-10 tracker revenues back in line with the sales volume expectations that should have been used to calculate CU4 rates.

Wilson testified that MCC previously asked NWE to explain the rationale for using 2007 test period loads to determine CU4 rates (see data request MCC-25, Docket D2009.5.62), and NWE replied that it was because the MPSC-authorized CU4 fixed costs reflected a 2007 CU4 test period revenue requirement. Wilson now disputes NWE's rationale. According to Wilson, the basis for the MPSC-authorized CU4 revenue requirement was not known in 2007, but only emerged in 2008. He pointed out that in Docket D2008.6.69 MCC proposed limiting CU4-related fixed cost revenue requirements to actual 2007 amounts if the PSC approved rate basing the plant. NWE disagreed and argued that the CU4 fixed cost revenue requirement should reflect the plant's much higher "market value." Ultimately, the MPSC agreed with NWE and authorized fixed cost revenues that were unrelated to actual 2007 fixed costs.

Wilson testified that for NWE to now charge excessive CU4 rates based on 2007 test year sales because the MPSC authorized CU4 fixed revenues based on 2007 test year fixed costs is overreaching. Wilson reiterated that authorized CU4 rates do not reflect 2007 CU4 fixed costs at all, but rather a much higher "market value" that did not even exist in 2007.

Wilson testified that two adjustments should be made to 2009-10 tracker revenue in order to properly reflect the MPSC determined CU4 fixed cost revenue requirement of $72,745,544. First, excessive CU4 fixed cost recovery rates, calculated on the basis of 2007 test year sales, were charged throughout tracker year 2009-10 on actual sales during the year of 5,743,422 Mwh. These rates were 2.8% higher than they would have been had they been more properly calculated on the basis of expected 2008-09 sales. Had NWE used expected 2008-09 sales instead of the lower 2007 test year, the average CU4 fixed cost recovery rate would have been $0.012324/kwh, rather than $0.012671/kwh, which NWE used in the tracker. Correcting this overcharge leads to a revenue reduction of $1,992,967 for the 2009-10 tracking year.

Second, Wilson contends that any calculation CU4 revenues lost due to DSM should be based on expected 2008-09 sales, not 2007 test year sales. He stated that this approach reduces total CU4-related lost revenues in tracker year 2009-10 to $631,903 from $649,709. Additionally, total CU4-related lost revenues estimated for tracker year 2010-11 decline to $278,584 from $1,267,268; $34,732 of the reduction is attributable to using expected 2008-09 sales volumes instead of 2007 test year sales to develop CU4 rates, and $953,953 of the reduction is attributable to zeroing out the continuing DSM lost sales balance due to the interim rate increase that became effective July 2010 in Docket D2009.9.129.

Wilson stated that estimated lost revenues, other than CU4 revenues, for the forecasted tracker year 2010-11, should also be modified to zero out ongoing revenue losses as of July 2010 due to the MPSC's approval of interim rates in D2009.9.129. This would reduce NWE's estimated 2010-11 lost revenues from $3,612,263 to $742,567.

NorthWestern Energy Rebuttal Testimony

Patrick Corcoran

Patrick Corcoran is NWE's Vice President of Government and Regulatory Affairs. The purpose of Corcoran's testimony is to rebut portions of Wilson's testimony which recommend adjusting the fixed costs of NWE's interest in CU4. Specifically, Corcoran rebutted Wilson's recommendation to reduce NWE's 2009-10 tracker year revenue by $1,992,967. On page 14 of his testimony, lines 3 through 18, Wilson suggested that "excessive CU4 fixed cost recovery rates, calculated on the basis of 2007 test year sales, were charged throughout tracker year 2009/2010 on actual sales during the year of 5,743,442 Mwh" and that "correcting for this overcharge results in a 2009/2010 tracker year revenue reduction of $1,992,967." Corcoran disagreed with this adjustment.

Corcoran stated that adjustments to the CU4 fixed cost revenue requirement are not part of annual electricity supply tracker filings. He said that in Order No. 6925f, Docket D2008.6.69, the PSC accepted NWE's overall cost of service and revenue requirement as reflected in the final versions of Exhibits NWE-2 and NWE-3. He stated that NWE submitted a PSC-accepted revenue requirement implementing the rate-basing of CU4 as part of its December 2008 Monthly Electric Supply Tracking Filing, which took effect on January 1, 2009. Although the CU4 compliance material was included as part of a monthly electric tracking filing, Corcoran asserted that it was clearly set out and discussed separately and apart from the regular monthly tracking filing material. He contended that this was necessary to develop an "all in" electric supply rate for billing purposes that incorporated both the newly-authorized CU4 generation asset cost of service and the normal electric supply costs.

Corcoran asserted that if MCC had any concerns with NWE's Order 6925f compliance filing, it should have been addressed at that time as part of Docket No. D2008.8.69. Corcoran maintained that it is inappropriate to challenge NWE's compliance filing 21 months later in this Docket and, accordingly, the PSC should disregard Wilson's testimony on this issue.

Corcoran stated that, appropriately, NWE's 2010 Electric Supply Tracker Filing only addresses July 2009 to June 2010 actual Electricity Supply Costs, not the CU4 Generation Asset Cost of Service or the related adjustment proposed by Dr. Wilson. He pointed out that paragraph 45 in Order No. 6925f stated, in part, "The remaining CU4 cost and miscellaneous revenue (after 2010) would be fixed and subject to adjustment only as the result of a future CU4 general rate filing." The Commission determined this was acceptable in paragraphs 257, 260 and 261 on Page 62 of Order No. 6925f. Corcoran concluded that Dr. Wilson's proposed adjustment is untimely and inappropriate, and the Commission should disregard it.

William Thomas

Thomas prefiled rebuttal testimony updating DSM energy savings and lost revenue calculations to reflect one full year of program activity during the 2009-10 tracking period, and to comment on portions of Wilson's testimony.

NWE reports DSM energy savings based on program participation and projects that are completed from July 1 through June 30 of each tracker year. Because many DSM projects are completed in the months of April-May, tabulating reportable energy savings lags the conclusion of the tracker period by a few months. As such, Thomas's direct testimony included estimated DSM energy savings for the months of April, May, and June. For the 2009-10 tracker period, estimated savings for these three months, together with reported energy savings for the first 9 months, produced total energy savings of 6.93 aMW. Using these energy savings, Thomas also calculated electric DSM-related lost revenues in the amount of $3,555,817. NWE has now tabulated DSM energy savings for the full 2009-10 period, and Thomas reported that the amount is 8.33 aMW, which results in an updated DSM lost revenue calculation of $3,778,987.

With all 12 months of data available, Thomas made several other small changes to his lost revenue calculation. First, he made a slight change to the split between residential and commercial percentage contributions to the total lost revenues. His new split is 67% residential and 33% commercial. Second, the increased DSM energy savings also increased the DSM-related lost CU4 revenues compared to the amount in Thomas's prefiled direct testimony, from $649,709 to $716,410. Both of these changes are reflected in the new calculation of DSM Lost Revenues of $3,778,987.

In response to Wilson's testimony, Thomas stated that he used the correct fixed cost rate for CU4 to calculate CU4-related lost revenue. Thomas also disagreed with Wilson that DSM lost revenues, other than those related to CU4, for the forecasted period of 2010-11 should be modified due to the MPSC approval of interim rates in D2009.9.129. Thomas agreed that the rates will need to be reset, but said it is not necessary to do so at this time. Thomas stated that interim rates are temporary, and a final order in D2009.9.129 will approve the final rates to be in effect going forward. NWE is also not authorized to include forecast lost revenues in the tracker and, therefore, forecast lost revenues for 2010-11 are not yet included in electric supply rates. Thomas said NWE intends to propose including actual lost revenues for the 2010-11 tracker period, including a reset that reflects the Final Order in D2009.9.129, in its 2011 tracker filing.