

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

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IN THE MATTER of NorthWestern Energy's)	REGULATORY DIVISION
Application for Approval of Electric Supply)	
Deferred Cost Account Balance and Projected)	DOCKET NO. D2011.5.38
Electric Supply Costs)	ORDER NO. 7154

INTERIM ORDER

Findings

1. On June 2, 2011, NorthWestern Energy (NWE) filed its electric supply tracker filing with the Montana Public Service Commission (Commission). In the filing, NWE requests a change in electric supply rates to reflect: (1) amortization of a net over-collection of (\$3,756,820) in the Electric Supply Deferred Costs Account for the 12 months ending June 30, 2011; and (2) projected load, supply, and related electric costs for the 12-month tracker period July 1, 2011, through June 30, 2012. NWE requested that the Commission grant an interim rate adjustment effective July 1, 2011.

2. On June 16, 2011, the Commission issued a Notice of Application and Intervention Deadline.

3. The 2009-2010 prior period deferred account balance was an under-collection of \$8,079,361 for electric supply costs, and an over-collection of (\$7,944,355) for Colstrip Unit 4 (CU4) variable costs/credits. The current deferred account balance for the 12-month period ending June 30, 2011, is an under-collection of \$12,636,140 for electric supply costs, and an over-collection of (\$16,527,966) for CU4 variable costs/credits. The net of the current and prior period deferred account balances is (\$3,756,820) as of June 30, 2011. NWE proposes to amortize this net over-collection balance in rates over the 12-month period ending June 30, 2012.

4. There are four basic cost components of the electric supply portfolio: 1) market-based electricity supply; 2) generation assets, 3) transmission services, and 4) administrative support.

5. Market-based electricity supply costs include NWE's supply contracts; short, medium and long-term market power purchases and sales with various suppliers; wind integration; expenses related to system imbalance adjustments and operating reserves; and demand side management (DSM) programs.

6. Generation assets include generation that is owned by NWE and contributes energy to the supply portfolio. CU4 is an approved electricity supply resource, *see* Order No. 6925f, Docket No. D2008.6.69 (Nov. 13, 2008), at approximately 111 MW of unit contingent energy from July 1, 2010, through December 31, 2010, and approximately 222 MW of unit-contingent energy from January 1, 2011, through June 30, 2011. Generation assets also include the Dave Gates Generation Station (DGGS), which has received interim approval. *See* Order 6943c, Docket No. D2008.8.95 (April 19, 2011). Since January 2011, DGGS has provided 7 MW of base load energy as a result of minimum turndown from generating unit operations. The fixed and variable costs/credits for CU4 and DGGS are treated separately from electricity supply costs, but are included in the overall electric supply rate. In accordance with Order Nos. 6925f and 6943c, NWE tracks CU4 and DGGS variable cost/credits on an annual basis.

7. Transmission services costs are associated with moving electricity off-system via point-to-point transmission service for resource balancing or optimization, as well as other ancillary services required for system integrity and reliability. Costs of the transmission facilities used to transmit and distribute energy to electricity supply customers are included in delivery rates and, as such, no additional revenue is collected for these costs in the tracker. Since January 1, 2011, regulation and frequency response service has been provided by the DGGS.

8. Administrative support expenses are incremental administrative and general costs in excess of those recovered through the last general rate case filing of \$2,050,405, or approximately 0.83% of total electric supply expenses. These costs include outside legal services, scheduling, software, broker costs, real-time transactions, and other incremental expenses directly related to the electric supply function (such as outside consultants to assist with procurement activities).

9. The overall electric supply rate consists of a market-based supply rate, which during the 2011-2012 tracking year is designed to collect electricity supply costs totaling \$220,267,519; the CU4 fixed cost of service totaling \$74,682,544; the CU4 variable cost of service totaling \$22,585,602; the DGGS fixed cost of service totaling \$26,978,165, and the DGGS variable cost

of service totaling \$10,803,501, for a total of \$355,317,331. The total supply revenue at current rates is \$353,464,084. This represents an increase in electric supply costs of \$1,853,247 for the 2011-2012 tracker period.

10. For the 2011-2012 tracker period, NWE's forecasted total supply requirements are estimated at 6,387,316 MWhs.

11. This filing includes a projected cost of \$8,063,519 for DSM programs and labor during the 2011-2012 tracker period. Pursuant to Commission Order 6836c in Docket D2007.5.46, it does not include forecasted DSM lost transmission and distribution revenues.

12. In the 2010-2011 tracker period, the target savings from DSM were 6.00 aMW, and the reported savings were 9.20 aMW. For 2011-2012, the target savings are 6.00 aMW.

13. NWE may continue using a monthly tracker. The monthly tracker is a 12-month rolling average tracker. The monthly tracker adjustment remains subject to an annual review and approval (or disallowance) by the Commission.

Conclusions of Law

1. The Commission regulates the rates and services of public utilities. Mont. Code Ann. § 69-3-102 (2009).

2. NWE is a public utility subject to the jurisdiction of the Commission. *Id.* at § 69-3-101.

3. The annual electric supply tracker is the mechanism by which the Commission allows NWE to fully recover prudently incurred electricity supply costs. *Id.* at § 69-8-210(1).

4. "Electricity supply costs" are the actual costs incurred in providing electricity supply service through power purchase agreements, demand-side management, and energy efficiency programs, including but not limited to:

- (a) capacity costs;
- (b) energy costs;
- (c) fuel costs;
- (d) ancillary service costs;
- (e) transmission costs, including congestion and losses;
- (f) planning and administrative costs;
- (g) any other costs directly related to the purchase of electricity and the management and provision of power purchase agreements.

Id. at § 69-8-103(8).

5. The Commission has authority to temporarily approve increases or decreases in rates pending a hearing or final decision. *Id.* at § 69-3-304.

6. The rate levels approved in this Interim Order are a reasonable means of providing interim relief to NWE. If the final decision is to disapprove the requested increase, the Commission may order a rebate to all consumers for the amount collected retroactive to the date of the temporary approval, including interest. *Id.* at § 69-3-304.

Interim Order

1. NWE shall implement, on an interim basis, supply rates designed to collect electricity supply costs of \$220,267,519, plus the fixed cost of service of CU4 of \$74,682,544, plus the CU4 variable cost of service of \$22,585,602, plus the DGGs fixed cost of service of \$26,978,165, plus the DGGs variable cost of service of \$10,803,501, for a total of \$355,317,331.

2. NWE shall implement, on an interim basis, deferred supply rates designed to recover the under-collection for electricity supply costs of \$20,715,501, and to refund the over-collection for CU4 variable costs/credits of (\$24,472,321).

3. Taken together, NWE's supply rates and deferred supply rates shall be designed to collect a total of \$351,560,511 in revenue, which is a \$1,903,573 overall net decrease in electric supply revenue for the 2011-2012 tracking period.

4. NWE may continue using a monthly electric tracker approved on an interim basis by the Commission.

5. NWE shall file tariffs in order to implement the supply rates and deferred supply rates approved by this Interim Order.

6. Interim approval of any matters in this proceeding should not be viewed as final endorsement by the Commission of any issues, calculations, or methodologies. Nothing in this Interim Order precludes the Commission from adopting a different revenue requirement in its final order from that approved in this Interim Order.

7. Any interest associated with a refund that the Commission may order in this Docket will be computed at 10.25 percent, which is the cost of equity approved by the Commission in Docket No. D2009.9.129.

8. This Interim Order is effective for service rendered on and after July 1, 2011.

DONE IN OPEN SESSION at Helena, Montana, on this 21st day of June 2011 by a vote of 5 to 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

TRAVIS KAVULLA, Chairman

GAIL GUTSCHE, Vice Chair

W. A. GALLAGHER, 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.