

Service Date: April 12, 2012

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. 7154b

FINAL ORDER

Procedural History

1. On June 2, 2011, NorthWestern Energy (NWE) filed its annual electricity supply tracker filing with the Montana Public Service Commission (Commission). In the filing, NWE requested 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. If approved as filed, NWE estimated the rate impact for a typical residential customer using 750 kWh per month to be a decrease of \$0.24 per month, or \$2.88 per year on the total bill. 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. On June 22, 2011, the Commission issued Interim Order 7154, which authorized NWE to collect on an interim basis a total of \$351,560,511 in revenue, which was a \$1,903,573 overall net decrease in electric supply revenue for the 2011-2012 tracking period.

4. On June 30, 2011, the Commission issued a Notice of Commission Action Requesting Supplemental Information and Testimony and Supplemental Intervention Deadline. The notice directed NWE to supplement its filing by submitting: (1) Forecasted lost revenues that will result from energy savings achieved through its demand-side management (DSM) programs during the 2011-2012 tracker period, as well as the electric supply rates that would

result from including the forecasted lost revenues in the rate calculation; and (2) testimony as to whether the Commission should change its current policy that prohibits NWE from including forecasted DSM lost revenues in the annual electric supply tracker pursuant to Commission Order 6836c in Docket D2007.5.46. The Notice also established a supplemental intervention deadline of August 2, 2011.

5. On July 19, 2011, NWE requested additional time to submit the supplemental information and testimony.

6. On July 20, 2011, the Commission issued a Notice of Staff Action Changing Filing and Intervention Deadlines for Supplemental Information and Testimony.

7. On July 21, 2011, the Commission issued Procedural Order 7154a.

8. On July 22, 2011, the Commission issued a Notice of Staff Action Granting Intervention to Human Resource Council District XI and the Natural Resources Defense Council (HRC/NRDC), and to Montana Consumer Counsel (MCC).

9. On July 29, 2011, NWE filed its Supplemental Information and Testimony.

10. On September 20, 2011, HRC/NRDC filed a Motion for an Extension of Time to file intervenor testimony. The Commission granted the Motion in a Notice of Staff Action Amending Deadline For Intervenor Testimony issued September 30, 2011.

11. On September 26, 2011, HRC/NRDC filed direct testimony, and on September 28, 2011, filed revised direct testimony.

12. The MCC did not file intervenor testimony.

13. On January 27, 2012, NWE, HRC/NRDC and MCC filed their agreement to waive their opportunity for a hearing and to move the Commission to admit all documents filed in the docket into the evidentiary record.

Discussion and Findings of Fact

14. The 2009-2010 prior period deferred account balance was an under-collection of \$8,079,361 for electricity supply costs, and an over-collection of (\$7,944,355) for Colstrip Unit 4 (CU4) variable costs/credits. NWE Elec. Supply Tracker Test. CAH-9 (June 2, 2011); NWE CU4 Generation Asset Test. CAH-3 (June 2, 2011). The current deferred account balance for the 12-month period ending June 30, 2011, is an under-collection of \$12,636,140 for electricity supply costs, and an over-collection of (\$16,527,966) for CU4 variable costs/credits.

NWE Supply Test. at CAH-9; NWE CU4 Test. at Ex. FVB-4, p. 2. The net of the current and prior period deferred account balances is (\$3,756,820) as of June 30, 2011. NWE Supply Test. at CAH-11. NWE proposed to amortize this net over-collection balance in rates over the twelve-month period ending June 30, 2012.

15. The overall electricity 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 Dave Gates Generating Station (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. *Id.* at CAH-13. The total supply revenue at current rates is \$353,464,084, which represents an increase in electric supply costs of \$1,853,247 for the 2011-2012 tracker period. *Id.*

16. For the 2011-2012 tracker period, NWE's forecasted total supply requirements are estimated at 6,387,316 MWhs. *Id.* at FVB-15.

17. This filing includes a projected cost of \$8,063,519 for DSM programs and labor during the 2011-2012 tracker period. *Id.* at WMT-4. Pursuant to Commission Order 6836c in Docket D2007.5.46, NWE does not forecast DSM lost transmission and distribution revenues.

18. In the 2010-2011 tracker period, the savings target for DSM and Universal System Benefits Programs was 6 aMW, and the reported savings was 9.20 aMW. For the 2011-2012 tracker period, the savings target is 6 aMW. *Id.*

19. Neither MCC nor HRC/NRDC contested the prudence of the electricity supply costs included in NWE's application. The Commission finds those costs were prudently incurred and approves them on a final basis.

Compliance with directives in Order 7093c

20. In last year's electricity supply tracker docket, the Commission directed NWE to include in its 2011 tracker filing: (1) A demonstration of how applying a total resource cost (TRC) test exclusively to DSM acquisition, where an 0.9 benefit-cost ratio is considered cost-effective, comports with the Commission's prior direction in Order 6574e, ¶ 188, that DSM acquisition costs shall be treated the same as any other electricity supply resource acquisition costs; (2) a table showing each and every DSM program's performance in the TRC test,

including a numeric presentation of each active DSM program's ratio of benefit-to-cost and a citation to a third-party or in-house work product showing the same; and (3) a comparison of the merits of capitalizing versus expensing DSM acquisitions. *In re NWE's Application for Elec. Supply Deferred Cost Account Balance & Projected Elec. Supply Cost*, Docket D2010.5.50, Ord. 7093c, pp. 18-19 (Mont. Pub. Serv. Commn. Apr. 15, 2011).

21. Regarding the question of how the application of the TRC test with a 0.9 benefit-cost ratio to DSM acquisitions complies with the requirement that DSM acquisition costs be treated the same as other resource acquisition costs, NWE witness Thomas responded that the use of the TRC test as a measure of cost effectiveness is separate from the question of the equal treatment of the costs of electricity supply resources, including DSM. NWE Supply Test. at WMT-36. He said the TRC test is used to screen and evaluate DSM measures, not to give them an advantage over other resource alternatives. *Id.*

22. NWE set its 0.9 TRC minimum value threshold in recognition of the generally accepted principle that DSM mitigates environmental impacts associated with many of the supply side resources that DSM replaces. *Id.* at WMT-31. As precedents for recognition of the environmental benefits of DSM, Thomas cited the 1978 Northwest Power Act and each Power Plan produced by the Northwest Power and Conservation Council (NPCC), all of which have given energy conservation a 10% advantage over supply-side energy resources. *Id.* at WMT-32. NWE adopted its 10% environmental benefit factor after consulting with its DSM working group during development of NWE's 2004 electric supply resource procurement plan. *Id.* at WMT-31. Thomas speculated that lowering the TRC threshold from 1.0 to 0.9 allows perhaps 5 to 8% more DSM measures to qualify. *Id.* at WMT-33. Even with the 10% advantage, he said the average cost of DSM resources is well below the average cost of other resources in the portfolio, and that this result is consistent with the primary goal of least cost resource acquisition. *Id.*

23. NWE recognizes the importance of independent DSM program evaluations and has issued an RFP for a comprehensive DSM program evaluation to be completed in 2012. *Id.* at WMT-34. NWE's average cost of DSM is below the average cost of supply-side resources and contributes to the goal of least cost resource acquisition. *Id.* at WMT-33.

24. Since issuance of Order 6574e in 2005, NWE has interpreted the Commission's direction in ¶ 188 as requiring NWE to treat its DSM costs as electricity supply expenses that are

passed through the tracker mechanism in the same way as all other supply costs. *Id.* at WMT-36. The intervenors in this proceeding did not address this Commission-identified issue.

25. NWE complied with the requirement in Order 7093c that NWE include in this filing a table showing each DSM program's performance in the TRC test. *See id.* at Ex. WMT-3.

Expensing vs. capitalizing DSM costs

26. The Commission last addressed the issue of expensing versus capitalizing DSM costs in combined Dockets D2003.6.77 and D2004.6.90, Orders 6496f and 6574e. In that electric supply tracker proceeding, the Commission determined that costs for DSM investments should continue to be expensed in the year incurred. *In re Application of NWE's Elec. Default Supply Tracker Filing*, Docket D2004.6.90, Ord. 6574e, p. 55 (Mont. Pub. Serv. Commn. Dec. 14, 2005). The Commission's findings supporting its determination included:

(1) Acquisition of DSM resources should be treated the same as any other resource acquisition for NWE's electricity supply customers; and (2) the insignificant effect of DSM costs on customers' rates argued against creating a regulatory asset for DSM costs. *Id.*

27. In this proceeding, both NWE and HRC/NRDC addressed the issue and came to the same conclusion. Thomas summarized the advantages and disadvantages of DSM capitalization versus expensing. NWE Supply Test. at WMT-39. He concluded that, given the many arguments both for and against either method of DSM cost recovery, full consideration of the subject ought to occur outside this docket or in a separate proceeding. *Id.* at WMT-40. HRC/NRDC witness Power disagreed with Thomas's opinion that expensing DSM investments costs ratepayers less. HRC/NRDC Rev. Test. p. 16 (Sept. 28, 2011). He asserted that conventional regulatory principles support capitalizing DSM costs, but he would not recommend the Commission order such treatment until the issue and associated questions and implications are explored in more detail. *Id.* at pp. 15, 17. He suggested a stakeholder group study the issue in order to provide more fully informed testimony to the Commission in a future docket. *Id.* at p. 18.

28. After reviewing the information presented in this case, the Commission finds the record insufficient to change the current practice which calls for NWE to expense its DSM costs. No evidence has been presented that would cause the Commission to change course and, in fact, the parties do not advocate a change. This finding does not foreclose the possibility of revisiting

the issue in a future docket in the event that NWE and stakeholders undertake to study the issue and related questions as recommended by NWE and HRC/NRDC in order that they might develop and present well informed positions on the subject.

Forecasted DSM lost revenues

29. In Order 6836c, the Commission authorized NWE to include in its annual tracker a calculation of lost transmission and distribution revenues based on actual DSM program activity, but prohibited the inclusion of forecasted or estimated future lost transmission and distribution revenue. *In re NWE's Application for Approval of Elec. Supply Deferred Cost Account Balance and Projected Elec. Supply Cost*, Docket D2007.5.46, Ord. 6836c, p. 63 (Mont. Pub. Serv. Commn. June 3, 2008). The Commission cited as reasons for its decision the facts that NWE had consistently fallen short of its actual DSM savings targets and had inaccurately estimated the split between residential and commercial/industrial DSM savings. *Id.* at p. 60.

30. In this tracker case, the Commission requested that NWE supplement its filing with testimony regarding: (1) Forecasted lost revenues that will result from energy savings achieved through its DSM programs during the 2011-2012 tracker period and the rates that would result if they were included in the rate calculation; and (2) whether the Commission should change its current policy pursuant to Order 6836c that prohibits NWE from including forecasted DSM lost revenues in the annual electric supply tracker.

31. According to NWE, the forecasted DSM-related lost revenues for the 2011-2012 tracker period total \$6,192,731 and are based on target energy savings for the period of 6 aMW. NWE Supp. Test. WMT-2 (July 29, 2011).

32. Both NWE and HRC/NRDC recommended that forecasted DSM lost revenues be allowed in the supply tracker costs to better align revenues with expenses and to be consistent with how DSM lost revenue is handled in the natural gas supply tracker. NWE Supp. Test. at CAH-4; HRC/NRDC Rev. Test. at pp. 18-19.

33. The Commission had valid reasons when Order 6836c was issued in June 2008 to discontinue allowing NWE to use projected lost revenues in the calculation of DSM lost revenues. However, since that time, NWE has exceeded its DSM savings goals. For example, NWE reported 8.63 aMW in DSM savings for the 2010-2011 tracker year, which exceeded its target of 6 aMW. NWE Supply Test. at WMT-4. Because of NWE's improved DSM savings

performance, as well as the reasons cited by HRC/NRDC, the Commission authorizes NWE to include forecasted lost DSM revenues in future tracker filings.

Conclusions of Law

1. The Commission regulates the rates and services of public utilities, and NWE is a public utility subject to the jurisdiction of the Commission. Mont. Code Ann. §§ 69-3-101–102 (2011).

2. The Commission has provided adequate public notice of all proceedings, and an opportunity to be heard to all parties in this docket. *See id.* at § 69-3-104.

3. NWE's annual Application for Electric Supply Deferred Cost Account Balance is the mechanism by which NWE recovers its prudently incurred electricity supply costs. *See 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. "As necessary, a utility's periodic electricity supply cost tracking filings should include the information, analyses, and documentation recommended in [procurement planning] guidelines to support its request for cost recovery related to electricity supply cost additions or changes." Admin. R. Mont. 38.5.8226(2) (2012).

6. "A periodic cost tracking filing should document the status of on-going portfolio planning, management, and electricity supply resource procurement activities and include rolling three-year action plans," which "should include a discussion of activities involving transmission and distribution functions and services." *Id.* at 38.5.8226(3).

7. NWE's electricity supply costs incurred from July 2010 through June 2011 were prudent.

Order

1. The Commission grants the parties' joint motion to admit all documents filed in the Docket into the evidentiary record.

2. NWE's electricity supply costs included in this Docket were prudently incurred.

3. The Commission authorizes NWE to include forecasted lost DSM revenues in future tracker filings.

DONE IN OPEN SESSION at Helena, Montana, on the 10th day of April 2012 by a vote of 3 to 1, and one abstention.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

TRAVIS KAVULLA, Chairman

GAIL GUTSCHE, Vice Chair

W. A. GALLAGHER, Commissioner (abstaining)

BRAD MOLNAR, Commissioner (dissenting)

JOHN VINCENT, Commissioner

ATTEST:

Aleisha Solem
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.