

NorthWestern Energy
D2012.5.49
Electric Tracker

Data Responses of the Montana Consumer Counsel

NWE Set 1 (001-012)

NWE-001 continued

RESPONSE:

- a. NWE Energy Supply receives regulation service from DGGs as well as 7 MW of base load energy used to serve retail customers.
- b. In his testimony at page MRC-12, NWE's witness Mr. Michael R. Cashell states that the 7 MW base load energy from DGGs for retail customers is priced at a projected Mid-C price of \$32.93 minus \$7/MWH, as approved in Docket No. D2008.8.95.
- c. No.
- d. The energy cost (variable cost) of DGGs for the 7 MW base load energy was set in Docket No. D2008.8.95 and will be adjusted when NWE files an electric general rate case; although, as indicated on page 13 of Mr. Cashell's testimony, NWE is proposing that treatment be changed to an annual true-up. In contrast, the energy cost (variable cost) of the 222 MW of contingent energy from Colstrip is the cost of fuel at current market prices.

Data Responses of the Montana Consumer Counsel

NWE Set 1 (001-012)

NWE-002

Regarding: Hedging
Witness: Donkin

On pages 8-9 of your prefiled direct testimony you discuss hedging and “Hedging Gains and Losses.”

- a. Define the term “hedging.”
- b. Describe your understanding of the purpose of hedging.
- c. Define the term “Hedging Gains and Losses.”
- d. If, instead of entering off-system, fixed-price purchases, NWE had entered on-system, fixed-price purchases at the same volumes and prices, would NWE have incurred “hedging losses”?
- e. If, instead of coupling fixed-price purchases at Mid-Columbia with index-priced or spot market sales at Mid-Columbia, NWE had delivered the energy purchased at Mid-Columbia to its on-system load, would NWE have incurred “hedging losses”?

RESPONSE:

- a. In the context of the “hedging” issue I am addressing in this case, hedging means supply procurement activities that are intended to mitigate supply cost/supply price volatility.
- b. See the response to NWE-002 a., above.
- c. Hedging gains are mark-to-market supply cost reductions resulting from differences between total supply costs with the hedges that were entered into, vs. total supply costs that would have been incurred without the hedges. Hedging losses are mark-to-market supply cost increases resulting from differences between total supply costs with the hedges that were entered into, vs. total supply costs that would have been incurred without the hedges.

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NWE Set 1 (001-012)

NWE-002 continued.

- d. I do not have sufficient actual supply cost information to respond to this data request. See NWE's responses to Data Requests MCC-003 a. and MCC-003 b.
- e. I do not have sufficient actual supply cost information to respond to this data request. See NWE's responses to Data Requests MCC-003 a. and MCC-003 b.

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Data Responses of the Montana Consumer Counsel

NWE Set 1 (001-012)

NWE-003

Regarding: Hedge Tracking
Witness: Donkin

On page 11, lines 5-9 of your prefiled direct testimony, you note you are surprised NWE does not closely follow with detailed calculations on how its electricity supply hedges are performing.

- a. Should both on-system and off-system resources and transactions be included in the calculations you envision?
- b. Should on-system and off-system resources be evaluated differently?
- c. If your answer to part b is yes, please explain why.

RESPONSE:

- a. If they are related to hedging activities, the answer is “yes.”
- b. If they are related to hedging activities, the answer is “no.”
- c. Not applicable.

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Data Responses of the Montana Consumer Counsel

NWE Set 1 (001-012)

NWE-004

Regarding: Hedge Tracking
Witness: Donkin

On page 11, lines 3-14 of your prefiled direct testimony you discuss hedge tracking.

- a. Do you believe the resources and transactions in the NWE Electricity Supply portfolio should be evaluated individually as opposed to collectively?
- b. Would evaluating the resources in the NWE Electricity Supply portfolio individually as opposed to collectively result in more or less risk to customers?

RESPONSE:

- a. With respect to NWE's supply cost hedging activities, they should be evaluated both individually and collectively.
- b. This data request is vague; it is not clear if it refers to supply cost risk, supply availability risk, or both. Assuming it refers to supply cost risk to customers, see first the response to Data Request PSC-004 a., above. In addition, in terms of relative total costs, with or without hedging, the potential for mark-to-market supply cost gains or losses is related to the quantity of hedges, in relation to the total supply requirement.

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Data Responses of the Montana Consumer Counsel

NWE Set 1 (001-012)

NWE- 005

Regarding: NWE Electricity Supply Portfolio
Witness: Donkin

Regarding the NWE Electricity Supply Portfolio for the 2011/2012 tracking period:

- a. Prior to the beginning of the 2011/2012 tracking period, did NWE control all of the necessary supply to meet the projected needs of customers?
- b. If the answer to part a is no, and NWE subsequently purchased additional fixed-price energy, would those transactions have increased or decreased risk to customers?
- c. If the answer to part a is no, and NWE subsequently sold additional fixed-price energy, would those transactions have increased or decreased risk to customers?

RESPONSE:

- a. This data request is vague; it is not clear what is meant by the word “control.” The total supply requirement is not known with certainty in advance; therefore, it is possible that under certain circumstances, energy supplies at levels above those available from the Company’s “rate-based” and “base contract transactions” assets may need to be acquired.
- b. This data request is vague; it is not clear what is meant by the words “risk to customers.” If it refers to mark-to-market supply cost gains or losses, purchasing supplies at fixed prices increases supply cost risk. If it refers to mitigating the effect of an unexpected, large upward spike in supply prices, purchasing supplies at fixed prices decreases supply cost risk, for a limited period of time, given:
 - The short-term duration of unexpected price spikes; in the past they have been followed by declines in supply prices; and
 - The relatively short-terms of financial hedges, that result in relatively short-term mark-to-market gains if unexpected supply price spikes occur.

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NWE Set 1 (001-012)

NWE- 005 continued

- c. See the response to Data Request NWE-005 b., above.

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NWE Set 1 (001-012)

NWE-006

Regarding: Hedging Outcomes
Witness: Donkin

On page 17, lines 5-7 of your prefiled direct testimony you state that NWE is more likely to be the loser over time in its hedging deals with counter parties who really want to win their bets with NWE.

- a. What is the basis or reasoning behind that statement?
- b. What steps can a counter party take to help them win their bets with NWE?
- c. When NWE enters into a hedge by buying fixed-price energy, does it also have the opportunity (recognizing the bid/ask spread) to instead sell a like amount of energy?

RESPONSE:

- a. This statement is based on my interpretation of NWE's 2011 Procurement Plan, its response to Data Request MCC-003 a., and my knowledge of NWE's gas supply price hedging activities.
- b. Highly competent, well-informed counter parties perform detailed analyses of energy markets, including expected future energy prices, in an effort to time their hedges to "beat the market." They can accomplish this by entering into hedging transactions with counter parties whose hedging objective is not to reduce supply cost to "beat the market;" rather, their objective is to obtain more stable prices to be paid by their customers. See also NWE's response to Data Request MCC-003 a.
- c. Presumably, "yes."

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Data Responses of the Montana Consumer Counsel

NWE Set 1 (001-012)

NWE-007

Regarding: Off-System, Fixed-Price Hedging
Witness: Donkin

On page 9, lines 10-12 of your prefiled direct testimony, you state that your expectation is “that NWE’s off-system, fixed-price electric price hedges result from either transactions using brokers, or bi-lateral negotiations.”

- a. What is the basis for this statement?
- b. Has NWE entered into fixed-price, off-system purchases through competitive solicitations?

RESPONSE:

- a. This statement is based on my interpretation of the NWE 2011 Procurement Plan and the testimony in this case of Kevin Markovich.
- b. This data request is vague; there is no element of time associated with the subject matter being addressed. I am not aware that NWE entered into fixed-price, off-system supply purchases through competitive solicitations during the 2011/2012 tracking period.

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NWE Set 1 (001-012)

NWE-008

Regarding: Exhibits JTS-1, JTS-2, JTS-3
Witness: Stamatson

Please provide working electronic copies, with all links intact, of Exhibits JTS-1, JTS-2, and JTS-3 and all other supporting workbooks and work papers.

RESPONSE:

Please see files on the provided CD.

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Data Responses of the Montana Consumer Counsel

NWE Set 1 (001-012)

NWE-009

Regarding: Lost Revenue Calculations
Witness: Stamatson

Please specifically identify, either through color coding or specific worksheet tab and cell references, any and all changes that were made to NorthWestern's lost revenue calculations exhibits, including Exhibit__(WMT-5) or Exhibit__(WMT-3-S) and all supporting workbooks from which their values are derived, to produce Exhibits JTS-1, JTS-2, and JTS-3.

RESPONSE:

Exhibit__(WMT-3-S) UPDATED Electric DSM Lost Revenues 12 mth actual 2010-13 with backup.xls was altered on Tab 3. Res and CI Energy Savings, Cells I17 and I18. Cell I17 was changed from 69.6% to 64.8% and Cell I18 was changed from 30.4% to 35.2% (1- Cell I17).

Exhibit__(WMT-5) Reconciled Electric DSM Lost Revenues 2006-2012.xls was altered on Cells L18, L19, K 22, L22, M22, K24, L24, and M24. Cells L18 and L19 were both changed from \$801,843 to \$781,429. Cell K22 was changed from \$2,985,696 to \$2,963,020. Cell L22 was changed from \$2,194,969 to \$2,194,963. Cell M22 was changed from \$287,845 to \$288,788. Cell K24 was changed from \$4,886,596 to \$4,841,781. Cell L24 was changed from \$2,955,156 to \$2,955,144. Cell M24 was changed from \$589,006 to \$589,001.

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Data Responses of the Montana Consumer Counsel

NWE Set 1 (001-012)

NWE-010

Regarding: Experience
Witness: Stamatson

Describe your experience in Demand-Side Management, estimation of energy savings, and calculation of lost revenue associated with DSM.

RESPONSE:

Prior to my employment with the Montana Consumer Counsel, I was employed for approximately 4 years as a Senior Research Economist at the Kansas Corporation Commission (KCC), the state regulatory agency of the State of Kansas that is responsible for the regulation of investor-owned utilities, certain cooperative utilities, intrastate petroleum pipelines, commercial transportation, and oil and gas drilling and wells. During my employment with the KCC, I worked on two General Investigation Dockets [08-GIMX-441-GIV (the 441 Docket) and 08-GIMX-441-GIV (the 442 Docket)] that laid the framework for how DSM is dealt with in the State of Kansas. I also participated in several Dockets that dealt with utility-sponsored DSM programs and worked with utilities regarding the Evaluation, Measurement, and Verification (EM&V) of existing DSM programs outside of formal Dockets. My work on the 441 and 442 Dockets involved conducting research on Cost-Benefit (C-B) analysis, EM&V, cost recovery, and incentives for DSM programs. My work on Dockets regarding utility-sponsored DSM programs involved C-B analysis, which involved all assumptions that were made regarding the appropriate values of C-B inputs, such as utility avoided cost and program energy/capacity savings. Calculating lost revenues was never an issue in Kansas as none of the Dockets I worked on proposed or had in place a lost revenue recovery mechanism. My experience estimating energy/capacity savings is through the econometric analysis of billing data and the analysis of engineering models.

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Data Responses of the Montana Consumer Counsel

NWE Set 1 (001-012)

NWE-011

Regarding: Lost Revenue Calculations
Witness: Wilson

Please provide your estimate, including all supporting data and calculations, of the electric DSM lost revenues associated with energy savings produced from NorthWestern's facilities.

RESPONSE:

Dr. Wilson is not aware of any information that NorthWestern has provided regarding potential DSM energy savings from its own facilities, and he has made no such "lost revenue" estimates. It should be noted that any such "lost revenues" would be directly offset by reduced costs for NorthWestern, negating any justification for additional lost revenue recovery.

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NWE Set 1 (001-012)

NWE-012

Regarding: Power Turbine Sales Contracts
Witness: Wilson

- a. Please provide any contracts that you are aware of involving the sale of power turbines to a utility that do not include a waiver of consequential damages.
- b. Please admit that it is standard industry practice for turbine manufacturers to require a waiver of consequential damages in their turbine sales contracts.

RESPONSE:

- a. Dr. Wilson does not have contracts involving the sale of power turbines to utilities.
- b. Dr. Wilson is not aware of any such standard industry practice. He does acknowledge that in such transactions it would be natural for sellers to attempt to minimize their post-sale liabilities and for prudent buyers to take steps to limit their financial exposure to post-sale equipment failures. Such matters are subject to negotiation. In this case there may have been post-failure evaluations (legal and/or technical) of these matters conducted by NorthWestern which have not been produced in response to data requests based on protected information claims made by NorthWestern.