

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  
2011-2012 Electricity Supply Tracker ) DOCKET NO. D2012.5.49  
) ORDER NO. 7219

**INTERIM ORDER**

**FINDINGS OF FACT**

1. On June 1, 2012, NorthWestern Corporation d/b/a NorthWestern Energy (NWE) filed its 2011-2012 Electricity Supply Tracker filing with the Montana Public Service Commission (Commission). In the filing, NWE requests a change in electricity supply rates to reflect: (1) Amortization of a net under-collection of \$8,502,457 in the Electricity Supply Deferred Costs Account Balance (Deferred Account Balance) for the 12 months ending June 30, 2012; and (2) projected load, supply, and related electric costs for the 12-month tracker period July 1, 2012, through June 30, 2013. NWE requested that the Commission grant an interim rate adjustment effective July 1, 2012.

2. On June 14, 2012, the Commission issued a Notice of Application and Intervention Deadline.

3. The 2010-2011 prior period Deferred Account Balance was an under-collection of \$4,605,171 for Electricity Supply Costs,<sup>1</sup> an over-collection of (\$2,574,686) for Colstrip Unit 4 (CU4) variable costs/credits, and an under-collection of \$1,476,330 for Dave Gates Generation Station (DGGS) variable costs/credits. The current Deferred Account Balance for the 12-month period ending June 30, 2012, is an under-collection of \$6,891,257 for Electricity Supply Costs, an over-collection of (\$419,284) for CU4 variable costs/credits, and an over-collection of (\$1,637,561) for DGGS variable costs/credits. NWE proposes to set the DGGS variable/credit balance rate at zero and carry forward the DGGS Deferred Account Balance into the 2012-2013

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<sup>1</sup> “Electricity Supply Costs” include any electricity supply costs **not** attributable to generation assets owned by NorthWestern (e.g. Colstrip Unit 4 and Dave Gates Generating Station)

true-up period.<sup>2</sup> The net of the current and prior period Deferred Account Balances not including the DGGs is a net under-collection \$8,502,457 as of June 30, 2012. NWE proposes to amortize this net under-collection balance in rates over the 12-month period ending June 30, 2013.

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 power plants that NWE owns. CU4 is an approved electricity supply resource, *see* Ord. 6925f, Docket D2008.6.69 (Nov. 13, 2008), at approximately 222 megawatts (MW) of unit contingent energy from July 1, 2011, through June 30, 2012. Generation assets also include the DGGs, which has received final approval. *See* Ord. 6943e, Docket D2008.8.95 (Mar. 21, 2012). Since July 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 Electricity Supply Rate. In accordance with Orders 6925f and 6943e, NWE tracks CU4 and DGGs variable cost/credits on an annual basis.

7. Transmission service 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. Other than the DGGs, the costs of the transmission facilities used to transmit and distribute energy to default 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 \$1,649,719, or approximately 0.73% of total electric supply expenses. These costs include outside legal services, scheduling, software, broker costs, real-time transactions, and other incremental

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<sup>2</sup> \$1,476,330 - \$1,637,561 = -\$161,231

expenses directly related to the electric supply function (such as outside consultants to assist with procurement activities).

9. The overall Electricity Supply Rate consists of a market-based supply rate, which during the 2012-2013 tracking year is designed to collect Electricity Supply Costs totaling \$228,850,106; the CU4 fixed cost of service totaling \$75,408,426; the CU4 variable cost of service totaling \$24,925,255; the DGGs fixed cost of service totaling \$28,395,511, the DGGs fixed rebate revenue at current rates (\$7,076,400), and the DGGs variable cost of service totaling \$7,503,384, for a total of \$358,006,282. The total supply revenue at current rates is \$349,685,603. This represents an increase in electric supply costs of \$8,320,649 for the 2012-2013 tracker period.

10. For the 2012-2013 tracker period, NWE's forecasted total supply requirements are estimated at 6,469,325 megawatt-hours.

11. This filing includes a projected cost of \$10,441,871 for DSM programs and labor during the 2012-2013 tracker period. Pursuant to Commission Order 7154b in Docket D2011.5.38, it includes forecasted DSM lost transmission and distribution revenues.

12. In the 2011-2012 tracker period, the target savings from DSM were 6.00 average megawatts (aMW), and the reported savings were 7.69 aMW. For 2012-2013, the target savings are 6.00 aMW.

13. NWE proposes to subject the deferred accounts to disparate treatment, carrying forward the DGGs account but recovering the over-collection and under-collection of the deferred accounts for CU4 and Electric Supply, respectively. At this early stage of the proceeding, the Commission declines to implement NWE's proposed Deferred Supply Rate on an interim basis. The Electricity Supply Deferred Costs Account Balance shall be set to zero until a further Order of the Commission.

14. 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**

15. The Commission regulates the rates and services of public utilities. Mont. Code Ann. § 69-3-102 (2011).

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

17. 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).

18. “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).

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

20. 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.

### **ORDER**

21. NWE shall implement, on an interim basis, supply rates designed to collect Electricity Supply Costs of \$228,850,106, plus the fixed cost of service of CU4 of \$75,408,426, plus the CU4 variable cost of service of \$24,925,255, plus the DGGs fixed cost of service of \$28,395,511, less the DGGs fixed rebate revenue at current rates (\$7,076,400), plus the DGGs variable cost of service of \$7,503,384, for a total of \$358,006,282.

22. The Electricity Supply Deferred Costs Account Balance rate shall be set to zero until a further Order of the Commission.

23. Taken together, NWE’s Electricity Supply Rate and Electricity Supply Deferred Costs Account Balance set to zero shall be designed to collect a total of \$358,006,282 in

revenue. This represents a net increase of \$8,320,679 over supply revenue at current rates of \$349,685,603.

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

25. NWE shall file tariffs in order to implement the Electricity Supply Rate designed to collect a total of \$358,006,282 and Electricity Supply Deferred Costs Account Balance Rate of zero approved by this Interim Order.

26. 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.

27. Any interest associated with a refund that the Commission may order in this Docket will be computed at 10.25%, which is the cost of equity approved by the Commission in Docket D2009.9.129.

28. This Interim Order is effective for service rendered on and after July 1, 2012.

DONE IN OPEN SESSION at Helena, Montana, on this 26th day of June 2012 by a vote of 3 to 2.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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TRAVIS KAVULLA, Chairman

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GAIL GUTSCHE, Vice Chair

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W. A. GALLAGHER, Commissioner (dissenting)

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BRAD MOLNAR, Commissioner (dissenting)

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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.

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**CONCURRING OPINION OF  
COMMISSIONER TRAVIS KAVULLA**

Inherent in the concept of a tracker mechanism is that similar accounts be treated similarly and that both revenues and expenses of an unanticipated variety be equally regarded. The proposed treatment in the tracker application at large, and the motion for interim rates in particular, of the Dave Gates Generation Station (DGGS) deferred account differs from the treatment suggested for NorthWestern's other deferred accounts. NorthWestern's suggestion that the DGGS deferred account balance is "immaterial" is only true inasmuch as it ordains a conclusion about the recoverability of the costs that is likely to be contested. Prefiled testimony of Cheryl A. Hansen, Annual Dave Gates Generation Station ("DGGS") True-Up, CAH-4, D2012.5.49. Therefore, the proposal to punt the DGGS account to another tracker entirely does not seem reasonable, nor is it reasonable to exclude it from consideration in interim treatment. That account should be taken up with other like accounts, or none of them should be taken up for consideration in this tracker. I propose, and intend to pursue, a discussion of all the deferred accounts in this docket, because it is and should be the purpose of a tracker to track costs on a monthly and annual basis.

Once intervenor testimony and data requests of the Commission and other parties have the effect of delineating what seem to be the contested issues of the proceeding, both in the deferred accounts and in the far larger category of Electricity Supply Costs, perhaps a Second Interim Order, should its issuance be desirable to parties and the Commission, can contemplate segregating those amounts which are subject to greater scrutiny from the larger numbers which are not. Until then, I believe this approach, while necessarily imprecise because of the early

stage of the proceeding and the resulting paucity of detail and identification of issues, is a fair one.

I CONCUR with the Order,

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Travis Kavulla, Commissioner