

Service Date: July 19, 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
2011-2012 Electricity Supply Tracker	)	DOCKET NO. D2012.5.49
	)	ORDER NO. 7219a

**INTERIM ORDER ON RECONSIDERATION**

**PROCEDURAL HISTORY**

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. On June 26, 2012, the Commission voted to issue Interim Order 7219, which approved the use of a forecast tracker year 2012-2013 on a 12-month rolling average beginning in the July monthly tracker, including approval of the first 12-month rolling average which comprised, on an interim basis, supply rates designed to collect Electricity Supply Costs of \$228,850,106, plus the fixed cost of service of Colstrip Unit 4 (CU4) of \$75,408,426, plus the CU4 variable cost of service of \$24,925,255, plus the Dave Gates Generating Station (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. The Order denied the interim recovery of deferred accounts for Electricity Supply Costs, CU4,

and DGGS because NWE proposed subjecting the various accounts to disparate treatment that the Commission regarded as inequitable. *See* Ord. 7219, Docket D2012.5.49.

4. On July 9, 2012, NWE timely submitted its Motion for and Brief in Support of Reconsideration of Interim Order No. 7219 (Motion), asking specifically the reconsideration and reversal of Finding of Fact paragraph 13 and Ordering paragraphs 21-25.

5. In paragraph 13 of Order 7219, the Commission found:

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.

6. In paragraphs 21-25 of Order 7219, the Commission ordered:

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.

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

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.

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

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.

7. At its July 17, 2012, meeting the Commission voted to grant reconsideration and to issue an Interim Order on Reconsideration.

### FINDINGS OF FACT

8. 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 proposed to set the DGGS variable/credit balance rate at zero and carry forward the DGGS Deferred Account Balance into the 2012-2013 tracker period because it was not material.<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.

9. NWE has implemented, 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.

10. 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.

11. 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.

12. 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.

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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)

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

*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.

13. 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.

14. 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 electricity supply costs. 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).

15. 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 electricity supply costs of \$8,320,649 for the 2012-2013 tracker period.

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

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

18. 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 the 2012-2013 tracker period, the target savings are 6.00 aMW.

19. NWE initially proposed 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.

20. In the Motion for Reconsideration, NWE reiterated its proposal to carry forward the deferred account balance for DGGs and establish a rate of zero because of “special circumstances regarding DGGs.” However, NWE suggested that the Commission “certainly could adjust the net under-collection to account for DGGs.” Mot. n. 1 (July 9, 2012).

21. The Commission already has propounded a number of data requests in this Docket concerning the outage costs of DGGs. *See* PSC-006–008 (July 13, 2012). The proposed DGGs account balance, represented in NorthWestern’s application to be immaterial and thus unworthy of treatment in this tracker, is only immaterial because the cost of replacement contracts is included in and impacts the deferred account balance considerably. Were DGGs outage costs not, in the end, recoverable, the over-recovery of DGGs costs would be material and subject to treatment in the Tracker. In his pre-filed testimony, Michael R. Cashell testified that, “assuming no DGGs outage and no regulation market purchases were made,” the DGGs deferred account would represent an over-collection from customers at a net amount of \$(1,861,161) from January 2011 through June 2012. *See* Test. of Michael R. Cashell p. 10 (June 1, 2012). The Commission finds that adopting this approach, based on DGGs’s expected operations, is reasonable for purposes of interim ratemaking.

22. The Commission finds it reasonable to adjust the Deferred Account Balance to account for the DGGs over-collection on an interim basis. Adjusting the overall Deferred Accounts Balance to reflect this over-collection results in a net under-collection of \$6,641,296. This treatment of all three deferred accounts avoids the problematic disparity that was the motivation of the Commission’s previous interim order.

23. NWE also asked for “reconsideration and reversal” of paragraphs 21 through 25 of Order 7219. The Commission is mystified by the request to reverse paragraph 21 because it has nothing to do with the deferred account balances and, in fact, establishes an Electricity Supply Rate exactly as requested by NWE. The Commission declines to modify this paragraph of the

Order, and reiterates it hereunder. Inasmuch as paragraphs 22 through 25 are impacted by the revision to the deferred accounts related in the above Finding of Facts, the Order is superseded accordingly hereunder.

24. 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

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

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

27. 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).

28. “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).

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

30. 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**

## IT IS HEREBY ORDERED THAT:

31. The rates NorthWestern implemented for July 2012 remain effective.
32. NWE implement, on an interim basis, a Deferred Supply Rate designed to recover the under-collection for Electricity Supply Costs of \$11,496,428, to refund the over-collection for CU4 variable costs/credits of (\$2,993,971), and to refund the over-collection for DGGS variable costs/credits of (\$1,861,161) over the 11-month period ending June 30, 2013.
33. NWE may continue using a monthly electric tracker approved on an interim basis by the Commission.
34. NWE shall file tariffs in order to implement the Electricity Supply Rate and Deferred Supply Rate approved by this Interim Order.
35. 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.
36. Any interest associated with a refund to customers 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.
37. This Interim Order on Reconsideration supersedes Interim Order 7219.
38. This Interim Order on Reconsideration is effective for service beginning August 1, 2012.

DONE IN OPEN SESSION at Helena, Montana, on this 17<sup>th</sup> day of July 2012 by a vote of 4 to 1.

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

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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* Admin. R. Mont. 38.2.4806.