

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

IN THE MATTER OF NorthWestern Energy's)
Application for (1) Approval of Deferred Cost)
Account Balance for Electric Supply, CU4) REGULATORY
DIVISION)
Variable Costs/Credits, and DGGS Variable)
Costs/Credits; and (2) Projected Electricity Supply) DOCKET NO. D2012.5.49
Cost Rates, CU4 Variable Rates and DGGS)
Variable Rates)

Pre-Filed Direct Testimony
of
Jaime Stamatson
on Behalf
of
The Montana Consumer Counsel

March 22, 2013

1 **Q: Please state your name and business address.**

2 A: Jaime T. Stamatson, Montana Consumer Counsel (MCC), 111 North Last
3 Chance Gulch, Suite 1B, Helena, MT 59620-1703.

4 **Q: In what capacity does the MCC employ you?**

5 A: Since October 2012 I have been employed at the MCC as an Economist.
6 My duties include participating in various stakeholder groups representing
7 the interests of Montana utility consumers and providing economic analysis
8 on regulatory issues appearing in Dockets before the Montana Public
9 Service Commission (PSC or Commission).

10 **Q: Please describe your professional qualifications.**

11 A: I earned a Bachelor of Science degree in 2004 and a Master of Arts degree
12 in 2007, both in Economics, from Kansas State University. Prior to my
13 employment at the MCC, I was employed by the Kansas Corporation
14 Commission (KCC) from August 2008 to October 2012 as a Senior
15 Research Economist where my duties included conducting research and
16 providing economic analysis on regulatory issues before the KCC. Prior to
17 this I was employed by Kansas State University's Department of
18 Economics as a Graduate Teaching Assistant where my duties included
19 teaching undergraduate courses in Macroeconomics and conducting
20 research on a variety of Macroeconomic and Microeconomic topics.

21 **Q: What is the purpose of your testimony?**

1 A: The purpose of my testimony is to correct errors in the true-ups of lost
2 revenues for NorthWestern Energy's (NWE's) Electric Demand-Side
3 Management (DSM) programs for tracker years 2010-2011 and 2011-2012.
4 The correction to the true-up for tracker year 2011-2012 will also impact
5 the estimate of lost revenues for tracker year 2012-2013.

6 **Q: What is the overall result of correcting these errors?**

7 A: The overall result is that lost revenues were over-collected by \$192,318
8 instead of \$129,751¹ over the entire 2006-2012 tracker period and can be
9 seen in Exhibit JTS-1.

10 **Q: What are the errors in the true-ups for tracker years 2010-2011 and**
11 **2011-2012?**

12 A: The first error is that there is a discrepancy in the DSM lost revenue
13 amounts for tracker year 2010-2011 in Exhibit_(WMT-5) and
14 Exhibit_WMT-3-S. This is a result of the accumulated gross reported
15 energy savings used for the calculation of lost revenues associated with
16 Colstrip Unit 4 (CU4). Originally the gross reported energy savings were
17 3.34 aMW back in the January-June 2009 period. This value was
18 subsequently updated to 2.98 aMW. This lower reported gross savings

¹ Exhibit_(WMT-5) from the Prefiled Supplemental Testimony of William M. Thomas, attached as Attachment A. It should be noted that the number cited in Mr. Thomas' testimony on pp.10, lines 9-14 is \$129,571 while the number in Exhibit_(WMT-5) is \$129,751. I have chosen to use the number in Exhibit_(WMT-5).

1 translated into a lower reported net savings and thus a lower level of lost
2 revenues related to CU4.²

3 The second error is related to the Residential and Commercial splits
4 of energy savings. As a result of the SBW evaluation of NWE's DSM
5 portfolio, the splits have been updated for program years 2006-2011.
6 Tracker year 2011-2012 was not updated due to the timeline covered by the
7 SBW evaluation being over the period 2006-2011. Instead, NWE used a 5-
8 year average of the splits resulting in a 69.6% Residential, 30.4%
9 Commercial split for tracker year 2011-2012. However, there is more up to
10 date data for the splits in tracker year 2011-2012 contained in
11 Exhibit_(WMT-1). These splits are 64.8% Residential, 35.2% Commercial.
12 It should also be noted that Exhibit_(WMT-1) shows a gross reported
13 energy savings for the 2011-2012 tracker period of 9.32 aMW, the same
14 value listed in Exhibit_WMT-3-S but the 5-year average of the splits is
15 used in
16 Exhibit_WMT-3-S.

17 The third error is related to the correction of the splits for tracker
18 year 2011-2012. Although the projected splits and total annual savings for
19 tracker year 2012-2013 do not change as a result of this, cumulative savings
20 for each Residential and Commercial class change. Therefore, projected

² NWE's response to Data Request MCC-051, attached as Attachment B.

1 lost revenues for tracker year 2012-2013 decrease from \$8,430,758 to
2 \$8,385,926.

3 **Q: What are the individual results of correcting these errors?**

4 A: Lowering the gross reported energy saving for CU4 from 3.34 aMW to 2.98
5 aMW results in lost revenues associated with CU4 declining from \$801,843
6 to \$781,429 for tracker year 2010-2011. This correction increases the
7 amount by which lost revenues were over-collected from \$129,751 to
8 \$170,580 and can be seen in Exhibit JTS-2.

9 Using a 64.8% Residential, 35.2% Commercial split for tracker year
10 2011-2012 instead of the 5-year average of tracker year splits increases the
11 amount lost revenues were over-collected from \$129,751 to \$151,489 and
12 can be seen in Exhibit JTS-3.

13 **Q: What is your recommendation for the Commission?**

14 A: I recommend that the Commission accept the MCC's revisions, which will
15 result in lost revenue over-collection increasing from \$129,751 to \$192,318
16 over the entire 2006-2012 DSM tracker period and reduce projected lost
17 revenues for the 2012-2013 tracker period from \$8,430,758 to \$8,385,926.

18 **Q: Does this complete your testimony?**

19 A: Yes.

Electric DSM Lost Revenue Exhibits in previous Electric Tracker Dockets							Updated Electric DSM Lost Revenues Using Results of 2012 DSM Evaluation by SBW, Inc.				
Time Period	Docket No.	Source file name	Montana T&D	Colstrip Unit #4 ²	Dave Gates Mill Creek Station ³	Total DSM Lost Revenue ⁴	Exhibit	Montana T&D	Colstrip Unit #4	Dave Gates Mill Creek Station	Total DSM Lost Revenue
Tracker 2006-07	D2007.5.46	Exhibit__(WMT-5).07-08 DSM Lost Revenues True-up final.xls	\$ 1,338,798			\$ 1,338,798	Recon-SBW-Exhibit__(WMT-5).07-08 DSM Lost Revenues True-up final.xls	\$ 1,768,647			\$ 1,768,647
Tracker 2007-08	D2008.5.45	2007-08 ElecLostRevs-trued up-NEXANTandRATES RESET.xls	\$ 2,101,858			\$ 2,101,858	Recon-2007-08 ElecLostRevs-trued up-NEXANTandRATES RESET.xls	\$ 1,889,924			\$ 1,889,924
January-June 2008	D2008.5.45	Exhibit__(WMT-3) Electric DSM Lost Revenues UPDATED final orig.xls	\$ 321,790			\$ 321,790	Recon-SBW-Exhibit__(WMT-3) Electric DSM Lost Revenues UPDATED final orig.xls	\$ 335,162			\$ 335,162
Tracker 2008-09	D2009.5.62	Exhibit__(WMT-3) Electric DSM Lost Revenues UPDATED final orig.xls	\$ 1,428,667	\$ 83,021		\$ 1,511,688	Recon-SBW-Exhibit__(WMT-3) Electric DSM Lost Revenues UPDATED final orig.xls	\$ 1,483,367	\$ 83,021		\$ 1,566,388
Tracker 2009-10	D2009.5.62	Exhibit__(WMT-3) Electric DSM Lost Revenues UPDATED final orig.xls	\$ 3,062,576	\$ 716,410		\$ 3,778,987	Recon-SBW-Exhibit__(WMT-3) Electric DSM Lost Revenues UPDATED final orig.xls	\$ 3,182,069	\$ 755,617		\$ 3,937,687
Tracker 2010-11:											
July-December 2010	D2010.5.50	Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 2010-11 with backup.xlsx	\$ 543,454	\$ 762,879		\$ 1,306,332	Recon-SBW-Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 2010-11 with backup.xlsx	\$ 506,637	\$ 801,843		\$ 1,308,480
January-June 2011	D2010.5.50	Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 2010-11 with backup.xlsx	\$ 1,112,639	\$ 762,879	\$ 74,329	\$ 1,949,846	Recon-SBW-Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 2010-11 with backup.xlsx	\$ 1,036,898	\$ 801,843	\$ 69,335	\$ 1,908,077
Tracker 2010-11 Total	D2010.5.50	Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 2010-11 with backup.xlsx	\$ 1,656,092	\$ 1,525,758	\$ 74,329	\$ 3,256,179	Recon-SBW-Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 2010-11 with backup.xlsx	\$ 1,543,535	\$ 1,603,687	\$ 69,335	\$ 3,216,557
Tracker 2011-12	D2011.5.38	Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 12 mth actual 2010-13 with backup.xlsx	\$ 3,325,423	\$ 2,381,708	\$ 296,195	\$ 6,003,326	Recon-SBW-Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 12 mth actual 2010-13 with backup.xlsx	\$ 2,985,696	\$ 2,194,969	\$ 287,845	\$ 5,468,510
Tracker 2012-13	D2012.5.49	Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 12 mth actual 2010-13 with backup.xlsx	\$ 5,138,335	\$ 3,112,713	\$ 597,570	\$ 8,848,617	Recon-SBW-Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 12 mth actual 2010-13 with backup.xlsx	\$ 4,886,596	\$ 2,955,156	\$ 589,006	\$ 8,430,758
Total Lost Revenues (July 1, 2006 through June 30, 2012)						\$ 18,312,625	Total Lost Revenues (July 1, 2006 through June 30, 2012)				\$ 18,182,874
											\$ 129,751
Total Lost Revenues (July 1, 2006 through June 30, 2013)						\$ 27,161,243	Total Lost Revenues (July 1, 2006 through June 30, 2013)				\$ 26,613,633
											\$ 547,610

Notes:

- Electric DSM Lost Revenues were reset Jan. 1, 2008 due to newly established T&D rates
Refer to Electric Default Supply Service D2007.7.80, Tariff 144-E and General Rate Case D2007.7.82 Interim Order No. 6852b, Tariff 145-E
Tracker Period 2010-2011 based on 12+0 energy savings
Electric DSM Lost Revenues were reset again on Jan. 1, 2011 due to newly established T&D rates
Refer to Docket D2009.9.129, Final Order No. 7046h
- MPSC Final Order 6921c authorizes CU-4 related Lost Revenues in the amount of \$83,021 for the 2008-09 period.
There is no "reset" of DSM savings for CU-4 related Lost Revenues, because there were no new rates established.
- DGGS began commercial service on January 1, 2011
- MPSC Final Order 7093c authorizes DSM Lost Revenues in the amount of \$3,778,987 for the 2009-10 period.

NorthWestern Energy
Docket D2012.5.49
Electric Tracker
Montana Consumer Counsel (MCC)

Testimony - Stamatson

Attachment B

Page 1 of 2

MCC Set 3 (046-057)

Data Requests served February 20, 2013

MCC-051 RE: Exhibit__(WMT-5)
Witness: William M. Thomas

Please explain each difference between the updated DSM Lost Revenue amounts shown for Tracker 2009-10 and 2010-11 in Exhibit__(WMT-5) and those shown in Exhibit__(WMT-3-S), page 1 of 21.

RESPONSE:

Exhibit__(WMT-5) is a summary sheet presenting values developed in various other spreadsheet workbooks as noted in columns D and J of this exhibit. Exhibit__(WMT-3-S) contains pasted values for tracker 2009-2010 that originated from a spreadsheet workbook used in Docket No. D2009.5.62.

To explain the differences it is necessary to return to the relevant workbooks (Exhibits) that feed values to Exhibit__(WMT-5) and Exhibit__(WMT-3-S). The attached table presents the values for key inputs used in each of the relevant spreadsheet workbooks for each time period. The differences are shown in bold.

For the 2009-2010 tracker period, the differences in total lost revenues calculated by the spreadsheet workbooks are the result of different Net to Gross Adjustment Factors, changes to the percentage of energy savings attributed to residential and commercial customers (different transmission/distribution rates apply to each customer class), and different reported gross energy savings. These input values contribute to a difference in the net adjusted energy savings that is then used in the final calculation of lost revenues.

In isolation (all other things remaining the same), lower net adjusted energy savings translates to lower lost revenues. Because general service transmission and distribution (T&D) rates for commercial accounts are higher than residential T&D rates, a higher percentage of energy savings attributable to commercial customers will increase lost revenues.

For the 2010-2011 time period, Exhibit__(WMT-5) differs from Exhibit__(WMT-3-S) in accumulated gross reported energy savings used for the calculation of lost revenues associated with CU-4. This difference began back in the January-June 2009 period where the original gross reported energy savings were 3.34 aMW; the updated amount is 2.98 aMW. A lower reported gross savings translates to a lower net adjusted savings and somewhat lower lost revenues for CU-4.

Tracker Period		Exhibit__(WMT-5)			Exhibit__(WMT-3-S)		
		Specific source workbook:			Specific source workbook:		
2009-10		Recon-SBW-Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues UPDATED final orig.xls			Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues UPDATED final orig.xls		
		Worksheet Tab	Cell(s)	Value(s)	Worksheet Tab	Cell(s)	Value(s)
Net-To-Gross Adjustment Factors used							
Residential		6. Adjustment Factors	C9	100%	6. Adjustment Factors	C14	87.2%
Commercial		6. Adjustment Factors	C14	100%	6. Adjustment Factors	C19	82.4%
Residential % of savings		3. Res & CI Energy Savings	I14	63.7%	3. Res & CI Energy Savings	I14	67.4%
Commercial % of savings		3. Res & CI Energy Savings	I15	36.3%	3. Res & CI Energy Savings	I15	32.6%
Gross Reported Savings (incremental aMW)		3. Res & CI Energy Savings	I7	7.59	3. Res & CI Energy Savings	I7	8.33
Net Adjusted Savings (cumulative kwh)		7. Calc Lost Revenues	G110	106,317,594	7. Calc Lost Revenues	G110	101,437,454
2009-10 Lost Revenues		1. DSM LR Summary	B8	\$ 3,937,687	1. DSM LR Summary		\$ 3,778,987
2010-11		Recon-SBW-Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 2010-11 with backup.xlsx			Exhibit__(WMT-3-S) UPDATED Electric DSM Lost Revenues 12 MTH ACTUAL 2010-13 with backup.xlsx		
Net-To-Gross Adjustment Factors used							
Residential		6. Adjustment Factors	C14	100%	6. Adjustment Factors	C9	100%
Commercial		6. Adjustment Factors	C19	100%	6. Adjustment Factors	C14	100%
Residential % of savings		3. Res & CI Energy Savings	E17, G17	75.3%	3. Res & CI Energy Savings	E17, G17	75.3%
Commercial % of savings		3. Res & CI Energy Savings	E18, G18	24.7%	3. Res & CI Energy Savings	E18, G18	24.7%
Gross Reported Savings (incremental aMW)							
July-Dec 2010		3. Res & CI Energy Savings	E7	3.38	3. Res & CI Energy Savings	E6	3.38
Jan-June 2011		3. Res & CI Energy Savings	G7	3.44	3. Res & CI Energy Savings	G6	3.44
2010-11 total				6.82			6.82
CU-4 Related Cumulative Gross Reported Savings 2010-11 total (cumulative aMW)		8. CU-4 Related LRs	H8	17.82	8. CU-4 Related LRs	H7	17.45
2010-11 Lost Revenues							
July-Dec 2010							
Montana T&D		1. DSM LR Summary	B7	\$ 506,637	1. DSM LR Summary	B6	\$ 506,637
Colstrip Unit #4		1. DSM LR Summary	C7	\$ 801,843	1. DSM LR Summary	C6	\$ 781,429
Dave Gates Mill Creek Station		1. DSM LR Summary	D7	\$ -	1. DSM LR Summary	D6	\$ -
Total		1. DSM LR Summary	E7	\$ 1,308,480	1. DSM LR Summary	E6	\$ 1,288,066
Jan-June 2011							
Montana T&D		1. DSM LR Summary	B8	\$ 1,036,898	1. DSM LR Summary	B7	\$ 1,036,898
Colstrip Unit #4		1. DSM LR Summary	C8	\$ 801,843	1. DSM LR Summary	C7	\$ 781,429
Dave Gates Mill Creek Station		1. DSM LR Summary	D8	\$ 69,335	1. DSM LR Summary	D7	\$ 69,335
Total		1. DSM LR Summary	E8	\$ 1,908,077	1. DSM LR Summary	E7	\$ 1,887,662
2010-11 total				\$ 3,216,557			\$ 3,175,728

Electric DSM Lost Revenue Exhibits in previous Electric Tracker Dockets							Updated Electric DSM Lost Revenues Using Results of 2012 DSM Evaluation by SBW, Inc.						
Time Period	Docket No.	Source file name	Montana T&D	Colstrip Unit #4 ²	Dave Gates Mill Creek Station ³	Total DSM Lost Revenue ⁴	Exhibit	Montana T&D	Colstrip Unit #4	Dave Gates Mill Creek Station	Total DSM Lost Revenue		
Tracker 2006-07	D2007.5.46	Exhibit__(WMT-5).07-08 DSM Lost Revenues True-up final.xls	\$ 1,338,798			\$ 1,338,798	Recon-SBW-Exhibit__(WMT-5).07-08 DSM Lost Revenues True-up final.xls	\$ 1,768,647			\$ 1,768,647		
Tracker 2007-08	D2008.5.45	2007-08 ElecLostRevs-trueed up-NEXANTandRATES RESET.xls	\$ 2,101,858			\$ 2,101,858	Recon-2007-08 ElecLostRevs-trueed up-NEXANTandRATES RESET.xls	\$ 1,889,924			\$ 1,889,924		
January-June 2008	D2008.5.45	Exhibit__(WMT-3) Electric DSM Lost Revenues UPDATED final orig.xls	\$ 321,790			\$ 321,790	Recon-SBW-Exhibit__(WMT-3) Electric DSM Lost Revenues UPDATED final orig.xls	\$ 335,162			\$ 335,162		
Tracker 2008-09	D2009.5.62	Exhibit__(WMT-3) Electric DSM Lost Revenues UPDATED final orig.xls	\$ 1,428,667	\$ 83,021		\$ 1,511,688	Recon-SBW-Exhibit__(WMT-3) Electric DSM Lost Revenues UPDATED final orig.xls	\$ 1,483,367	\$ 83,021		\$ 1,566,388		
Tracker 2009-10	D2009.5.62	Exhibit__(WMT-3) Electric DSM Lost Revenues UPDATED final orig.xls	\$ 3,062,576	\$ 716,410		\$ 3,778,987	Recon-SBW-Exhibit__(WMT-3) Electric DSM Lost Revenues UPDATED final orig.xls	\$ 3,182,069	\$ 755,617		\$ 3,937,687		
Tracker 2010-11:													
July-December 2010	D2010.5.50	Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 2010-11 with backup.xlsx	\$ 543,454	\$ 762,879		\$ 1,306,332	Recon-SBW-Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 2010-11 with backup.xlsx	\$ 506,637	\$ 781,429		\$ 1,288,066		
January-June 2011	D2010.5.50	Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 2010-11 with backup.xlsx	\$ 1,112,639	\$ 762,879	\$ 74,329	\$ 1,949,846	Recon-SBW-Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 2010-11 with backup.xlsx	\$ 1,036,898	\$ 781,429	\$ 69,335	\$ 1,887,662		
Tracker 2010-11 Total	D2010.5.50	Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 2010-11 with backup.xlsx	\$ 1,656,092	\$ 1,525,758	\$ 74,329	\$ 3,256,179	Recon-SBW-Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 2010-11 with backup.xlsx	\$ 1,543,535	\$ 1,562,858	\$ 69,335	\$ 3,175,728		
Tracker 2011-12	D2011.5.38	Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 12 mth actual 2010-13 with backup.xlsx	\$ 3,325,423	\$ 2,381,708	\$ 296,195	\$ 6,003,326	Recon-SBW-Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 12 mth actual 2010-13 with backup.xlsx	\$ 2,963,020	\$ 2,194,963	\$ 288,788	\$ 5,446,772		
Tracker 2012-13	D2012.5.49	Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 12 mth actual 2010-13 with backup.xlsx	\$ 5,138,335	\$ 3,112,713	\$ 597,570	\$ 8,848,617	Recon-SBW-Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 12 mth actual 2010-13 with backup.xlsx	\$ 4,841,781	\$ 2,955,144	\$ 589,001	\$ 8,385,926		
Total Lost Revenues (July 1, 2006 through June 30, 2012)						\$ 18,312,625	Total Lost Revenues (July 1, 2006 through June 30, 2012)						\$ 18,120,307
													\$ 192,318
Total Lost Revenues (July 1, 2006 through June 30, 2013)						\$ 27,161,243	Total Lost Revenues (July 1, 2006 through June 30, 2013)						\$ 26,506,234
													\$ 655,009

Notes:

- Electric DSM Lost Revenues were reset Jan. 1, 2008 due to newly established T&D rates
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 There is no "reset" of DSM savings for CU-4 related Lost Revenues, because there were no new rates established.
- DGGS began commercial service on January 1, 2011
- MPSC Final Order 7093c authorizes DSM Lost Revenues in the amount of \$3,778,987 for the 2009-10 period.

True up of Electric DSM Lost Revenues												
using results of 2012 DSM Evaluation by SBW, Inc.												
Electric DSM Lost Revenue Exhibits in previous Electric Tracker Dockets							Updated Electric DSM Lost Revenues Using Results of 2012 DSM Evaluation by SBW, Inc.					
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Total Lost Revenues (July 1, 2006 through June 30, 2012)						\$ 18,312,625	Total Lost Revenues (July 1, 2006 through June 30, 2012)					
							\$ 18,142,046					
							\$ 170,580					
Total Lost Revenues (July 1, 2006 through June 30, 2013)						\$ 27,161,243	Total Lost Revenues (July 1, 2006 through June 30, 2013)					
							\$ 26,572,804					
							\$ 588,439					

Notes:

1. Electric DSM Lost Revenues were reset Jan. 1, 2008 due to newly established T&D rates
Refer to Electric Default Supply Service D2007.7.80, Tariff 144-E and General Rate Case D2007.7.82 Interim Order No. 6852b, Tariff 145-E
2. MPSC Final Order 6921c authorizes CU-4 related Lost Revenues in the amount of \$83,021 for the 2008-09 period.
There is no "reset" of DSM savings for CU-4 related Lost Revenues, because there were no new rates established.
3. DGS began commercial service on January 1, 2011
Refer to Docket D2009.9.129, Final Order No. 7046h
4. MPSC Final Order 7093c authorizes DSM Lost Revenues in the amount of \$3,778,987 for the 2009-10 period.

Electric DSM Lost Revenue Exhibits in previous Electric Tracker Dockets							Updated Electric DSM Lost Revenues Using Results of 2012 DSM Evaluation by SBW, Inc.				
Time Period	Docket No.	Source file name	Montana T&D	Colstrip Unit #4 ²	Dave Gates Mill Creek Station ³	Total DSM Lost Revenue ⁴	Exhibit	Montana T&D	Colstrip Unit #4	Dave Gates Mill Creek Station	Total DSM Lost Revenue
Tracker 2006-07	D2007.5.46	Exhibit__(WMT-5).07-08 DSM Lost Revenues True-up final.xls	\$ 1,338,798			\$ 1,338,798	Recon-SBW-Exhibit__(WMT-5).07-08 DSM Lost Revenues True-up final.xls	\$ 1,768,647			\$ 1,768,647
Tracker 2007-08	D2008.5.45	2007-08 ElecLostRevs-true-up-NEXANTandRATES RESET.xls	\$ 2,101,858			\$ 2,101,858	Recon-2007-08 ElecLostRevs-true-up-NEXANTandRATES RESET.xls	\$ 1,889,924			\$ 1,889,924
January-June 2008	D2008.5.45	Exhibit__(WMT-3) Electric DSM Lost Revenues UPDATED final orig.xls	\$ 321,790			\$ 321,790	Recon-SBW-Exhibit__(WMT-3) Electric DSM Lost Revenues UPDATED final orig.xls	\$ 335,162			\$ 335,162
Tracker 2008-09	D2009.5.62	Exhibit__(WMT-3) Electric DSM Lost Revenues UPDATED final orig.xls	\$ 1,428,667	\$ 83,021		\$ 1,511,688	Recon-SBW-Exhibit__(WMT-3) Electric DSM Lost Revenues UPDATED final orig.xls	\$ 1,483,367	\$ 83,021		\$ 1,566,388
Tracker 2009-10	D2009.5.62	Exhibit__(WMT-3) Electric DSM Lost Revenues UPDATED final orig.xls	\$ 3,062,576	\$ 716,410		\$ 3,778,987	Recon-SBW-Exhibit__(WMT-3) Electric DSM Lost Revenues UPDATED final orig.xls	\$ 3,182,069	\$ 755,617		\$ 3,937,687
Tracker 2010-11:											
July-December 2010	D2010.5.50	Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 2010-11 with backup.xlsx	\$ 543,454	\$ 762,879		\$ 1,306,332	Recon-SBW-Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 2010-11 with backup.xlsx	\$ 506,637	\$ 801,843		\$ 1,308,480
January-June 2011	D2010.5.50	Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 2010-11 with backup.xlsx	\$ 1,112,639	\$ 762,879	\$ 74,329	\$ 1,949,846	Recon-SBW-Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 2010-11 with backup.xlsx	\$ 1,036,898	\$ 801,843	\$ 69,335	\$ 1,908,077
Tracker 2010-11 Total	D2010.5.50	Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 2010-11 with backup.xlsx	\$ 1,656,092	\$ 1,525,758	\$ 74,329	\$ 3,256,179	Recon-SBW-Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 2010-11 with backup.xlsx	\$ 1,543,535	\$ 1,603,687	\$ 69,335	\$ 3,216,557
Tracker 2011-12	D2011.5.38	Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 12 mth actual 2010-13 with backup.xlsx	\$ 3,325,423	\$ 2,381,708	\$ 296,195	\$ 6,003,326	Recon-SBW-Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 12 mth actual 2010-13 with backup.xlsx	\$ 2,963,020	\$ 2,194,963	\$ 288,788	\$ 5,446,772
Tracker 2012-13	D2012.5.49	Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 12 mth actual 2010-13 with backup.xlsx	\$ 5,138,335	\$ 3,112,713	\$ 597,570	\$ 8,848,617	Recon-SBW-Exhibit__(WMT-3-Rev) Electric DSM Lost Revenues 12 mth actual 2010-13 with backup.xlsx	\$ 4,841,781	\$ 2,955,144	\$ 589,001	\$ 8,385,926
Total Lost Revenues (July 1, 2006 through June 30, 2012)						\$ 18,312,625	Total Lost Revenues (July 1, 2006 through June 30, 2012)				\$ 18,161,136
											\$ 151,489
Total Lost Revenues (July 1, 2006 through June 30, 2013)						\$ 27,161,243	Total Lost Revenues (July 1, 2006 through June 30, 2013)				\$ 26,547,063
											\$ 614,180

Notes:

- Electric DSM Lost Revenues were reset Jan. 1, 2008 due to newly established T&D rates
Refer to Electric Default Supply Service D2007.7.80, Tariff 144-E and General Rate Case D2007.7.82 Interim Order No. 6852b, Tariff 145-E
- Tracker Period 2010-2011 based on 12+0 energy savings
Electric DSM Lost Revenues were reset again on Jan. 1, 2011 due to newly established T&D rates
Refer to Docket D2009.9.129, Final Order No. 7046h
- MPSC Final Order 6921c authorizes CU-4 related Lost Revenues in the amount of \$83,021 for the 2008-09 period.
There is no "reset" of DSM savings for CU-4 related Lost Revenues, because there were no new rates established.
- DGGS began commercial service on January 1, 2011
- MPSC Final Order 7093c authorizes DSM Lost Revenues in the amount of \$3,778,987 for the 2009-10 period.

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

IN THE MATTER OF NorthWestern Energy's)
Application for (1) Approval of Deferred Cost)
Account Balance for Electric Supply, CU4) REGULATORY DIVISION
Variable Costs/Credits, and DGGS Variable)
Costs/Credits; and (2) Projected Electricity Supply) DOCKET NO. D2012.5.49
Cost Rates, CU4 Variable Rates and DGGS)
Variable Rates)

Pre-Filed Direct Testimony
of
George L. Donkin
on Behalf
of
The Montana Consumer Counsel

March 22, 2013

J. W. Wilson & Associates, Inc.
Economic Counsel
1601 North Kent Street • Rosslyn Plaza C • Suite 1104 Arlington, VA 22209

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1 **I. QUALIFICATIONS OF WITNESS AND INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS**
3 **ADDRESS.**

4 A. My name is George L. Donkin. I am an economist employed by J.W.
5 Wilson & Associates, Inc. (JWWA). My business address is 1601 North
6 Kent Street, Arlington, VA, 22209.

7 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS**
8 **PROCEEDING?**

9 A. My appearance in this case is on behalf of the Montana Consumer Counsel
10 (MCC).

11 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND**
12 **PROFESSIONAL BACKGROUND?**

13 A. I hold B.A. and M.A. degrees in economics from the University of
14 Maryland, where my major fields of study were economic theory, industrial
15 organization, and antitrust economics. I am a consulting economist
16 specializing in energy economics and public policy toward business. I have
17 more than forty years of experience in energy-related and public utility
18 work, both as a consultant and as a staff economist at the Federal Power

1 Commission, the predecessor of the Federal Energy Regulatory
2 Commission (FERC). Since 1974, I have been employed as a consulting
3 economist representing various clients, including federal agencies, state
4 regulatory commissions, state consumer advocate offices, public and
5 private utility companies, industrial firms, natural gas producers, gas
6 pipelines, gas distribution companies, gas marketers, and non-profit
7 organizations. My professional work has pertained to a wide range of
8 issues concerning the natural gas and petroleum industries, public utility
9 regulation, energy policy, antitrust issues, and economic research and
10 analysis. A special focus of my professional work has been the study of
11 natural gas markets generally, and the analysis of price formation in both
12 the regulated and unregulated sectors of the natural gas industry, in
13 particular. For more than the past decade a significant part of my work has
14 involved the analysis of how firms in the energy industries can use hedging
15 strategies to assist in mitigating energy price volatility.

16

1 **Q. HAVE YOU PREVIOUSLY PRESENTED EXPERT TESTIMONY IN**
2 **PROCEEDINGS INVOLVING THE NATURAL GAS AND**
3 **ELECTRIC UTILITY INDUSTRIES?**

4 A. Yes. I have presented expert testimony on natural gas and electric utility
5 industry topics in more than one hundred-fifty proceedings before
6 numerous state and federal courts, before the FERC, before the Surface
7 Transportation Board, and before various state public utility commissions.
8 I have also testified as a natural gas expert in arbitration proceedings in
9 Louisiana, New Mexico and Texas, before a Mediator in Ohio, and in
10 Federal tax and bankruptcy courts. Attachment A contains a listing of my
11 prior expert testimony.

12 **Q. HAVE YOU PREVIOUSLY PRESENTED EXPERT TESTIMONY**
13 **BEFORE THE MONTANA PUBLIC SERVICE COMMISSION?**

14 A. Yes. As is shown in Attachment A, I have presented expert testimony
15 before this Commission in numerous proceedings, many of which involved
16 NorthWestern Energy (NWE, or the Company), or its predecessor, the
17 Montana Power Company (MPC).

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

2 A. The MCC has asked me to review the Company's May 31, 2012 annual
3 electricity supply tracker filing, with a particular focus on NWE's electric
4 supply cost hedging activities.

5 **Q. DID YOUR REVIEW INCLUDE A COMPARISON OF NWE'S**
6 **ELECTRIC SUPPLY COST HEDGING ACTIVITIES WITH THE**
7 **COMPANY'S NATURAL GAS SUPPLY PRICE HEDGING**
8 **ACTIVITIES?**

9 A. Yes.

10 **Q. WHAT TIME PERIOD IS COVERED BY YOUR REVIEW OF**
11 **NWE'S ELECTRIC SUPPLY COST HEDGING ACTIVITIES?**

12 A. My review of NWE's electric supply cost hedging activities covered the
13 actual annual period July 2011 through June 2012, and the projected annual
14 period July 2012 through June 2013.

1 **II. NWE'S ELECTRIC SUPPLY COST HEDGING**

2 **Q. PLEASE DESCRIBE HOW NWE OBTAINS ELECTRIC SUPPLIES**
3 **TO MEET ITS MONTANA CUSTOMERS' REQUIREMENTS.**

4 A. NWE obtains the electric supply requirements for its Montana market from
5 a variety of sources. They include:

- 6 • Ownership of electric generation resources, with full cost
7 recovery in rates. At present these resources are represented
8 by Colstrip Unit 4 and the Dave Gates Generating Station
9 (DGGS). Because much of the total cost of service of these
10 resources is fixed (78.4% for Colstrip Unit 4, and 73.0% for
11 DGGS), the power supply costs from these resources is
12 expected to be much more stable over time than power supply
13 costs that are purchased at short-term energy market prices.
- 14 • The physical purchase of fixed-price energy for future
15 delivery into the Company's Montana system. These are
16 medium and long-term deals at fixed prices. See NWE's 2011
17 Procurement Plan.
- 18 • Purchases at market index prices.

1 **Q. WHAT WERE THE RELATIVE PROPORTIONS OF TOTAL**
2 **POWER SUPPLY REQUIREMENTS FOR EACH OF THESE**
3 **SUPPLY CATEGORIES DURING THE 12-MONTHS ENDED JUNE**
4 **2012?**

5 A. The data provided by NWE in response to Data Request MCC-003(d)
6 shows that in the 12-months ended June 30, 2012, NWE's total power
7 supply requirement was met as follows:

- 8 • Colstrip Unit 4 and DGGS – 1,496,959 MWh (22.9%). Nearly all of
9 this was from Colstrip Unit 4.
- 10 • Contracts at Fixed Prices – 4,073,680 MWh (62.4%).
- 11 • Market Price Transactions – 960,254 MWh (14.7%).

12
13
14
15 **Q. YOU JUST NOTED THAT MARKET PRICE TRANSACTIONS**
16 **REPRESENT ONLY ABOUT 15% OF NWE'S TOTAL POWER**
17 **SUPPLY REQUIREMENTS. NEVERTHELESS, DOES THE**
18 **COMPANY ENTER INTO OFF-SYSTEM HEDGES TO MITIGATE**
19 **MARKET PRICE VOLATILITY?**

20 A. Yes. In an effort to hedge against electric supply price volatility, NWE uses
21 a combination of physical, fixed-price forward purchases at the Mid-

1 Columbia trading hub, coupled with physical, index-priced or physical, spot
2 market sales, also taking place at Mid-Columbia. See NWE's 2011
3 Procurement Plan.

4 **Q. HOW ARE PRICES ESTABLISHED IN NWE'S OFF-SYSTEM,**
5 **FIXED-PRICE HEDGING TRANSACTIONS?**

6 A. NWE states in its 2011 Procurement Plan that in the past it has employed
7 Requests for Proposals to procure energy supplies for some periods, and
8 brokers and bi-lateral negotiations for energy for other periods. The
9 Company also states there that the use of brokers and bi-lateral negotiations
10 "may be the most efficient methodology." It is my expectation that NWE's
11 off-system, fixed-price electric price hedges result from either transactions
12 using brokers, or bi-lateral negotiations.

13 **Q. DID MCC REQUEST INFORMATION FROM NWE IN THIS CASE**
14 **REGARDING ITS HEDGING GAINS OR LOSSES IN RECENT**
15 **YEARS?**

16 A. Yes. Data Request MCC-003 (b) asked the following of NWE:

17 "Were annual total supply costs less in 2009, 2010, and 2011 with
18 hedging than they would have been without hedging? Please provide

1 complete analyses (and all underlying data) showing the net cost of
2 hedging (positive or negative) in each of those years.”

3 **Q. WHAT DID NWE SAY IN ITS RESPONSE TO DATA REQUEST**
4 **MCC-003 (b)?**

5 A. NWE’s response to Data Request MCC-003 (b) states the following:

6 “It is impractical to answer this question given the assumptions and
7 interpretations that would need to be made to perform an adequate
8 study. For example, questions such as “is CU4 considered a hedge”
9 or “what would have been the actual market price for all supply
10 needs to replace hedge volumes” would have to be addressed and
11 determined. During the periods in question there were no elongated
12 market spikes (such as occurred during the 2000 California energy
13 crisis) and there was an overall decline in market prices which
14 indicate that the cost of the hedge “insurance” increased total supply
15 costs over what they would have been had no “insurance” been in
16 place.”

1 **Q. WHAT IS YOUR REACTION TO NWE’S RESPONSE TO DATA**
2 **REQUEST MCC-003 (b)?**

3 A. My first reaction is that this response clearly indicates that NWE
4 experienced hedging losses in recent years, including portions if not all of
5 the actual tracker period in this case, July 2011 – June 2012. My second
6 reaction is one of surprise; I am surprised that the Company does not
7 closely follow with detailed calculations how its electric supply hedges are
8 performing, in terms of the impact of hedges on its total power supply
9 costs. Lastly, with respect to off-system, fixed-price hedges, there is
10 nothing “impractical” about calculating how those deals turned out. The
11 Company readily has available in the invoices with counter parties the net
12 payments it made or received each month under its off-system, fixed-price
13 hedges. That information easily could have, and in my view should have
14 been provided in response to Data Request MCC-003 (b).

1 **Q. HAS NWE PROVIDED A PROJECTION OF OFF-SYSTEM, FIXED-**
2 **PRICE HEDGING GAINS OR LOSSES FOR THE PROJECTED**
3 **TRACKER PERIOD JULY 2012 THROUGH JUNE 2013?**

4 A. Yes. My exhibit ___ (GLD-1), which is based on Mr. Bennett's Exhibit ___
5 (FVB-2)12_13, Pages 3 and 4, shows that NWE is projecting off-system
6 hedging losses of \$14,932,708 during July 2012 – June 2013.

7 **Q. HAS NWE EXPERIENCED SIMILAR SUPPLY PRICE HEDGING**
8 **LOSSES ON THE NATURAL GAS SIDE OF ITS MONTANA**
9 **UTILITY OPERATIONS IN RECENT YEARS?**

10 A. Yes; and the losses have been significant.

11 **III. LESSONS LEARNED – GAS COST HEDGING**

12 **Q. WHEN DID NWE NATURAL GAS SUPPLY PRICE HEDGING**
13 **ACTIVITIES BEGIN?**

14 A. Commencing in November of 2005, NWE entered into numerous gas
15 supply price hedging transactions in efforts to mitigate gas supply price
16 volatility on its Montana system.

1 **Q. HAVE YOU CLOSELY FOLLOWED NWE'S GAS SUPPLY PRICE**
2 **HEDGING ACTIVITIES FROM 2005 TO THE PRESENT?**

3 A. Yes. In this connection, I have presented testimony or comments addressing
4 NWE's gas supply hedging activities and hedging performance in several
5 proceedings before this Commission since November of 2005.

6 **Q. WHAT TYPES OF HEDGING STRATEGIES HAVE BEEN**
7 **EMPLOYED BY NWE TO MITIGATE NATURAL GAS SUPPLY**
8 **PRICE VOLATILITY ON ITS MONTANA SYSTEM SINCE**
9 **NOVEMBER OF 2005?**

10 A. Initially NWE entered into a few long-term, fixed-price deals for the
11 physical purchase of gas. However, natural gas price swaps contracts have
12 represented by far most of the Company's gas supply cost hedging
13 activities from November of 2005 through the present.

1 **Q. ARE NWE'S NATURAL GAS PRICE SWAPS HEDGES SIMILAR**
2 **TO THE OFF-SYSTEM FIXED-PRICE DEALS NWE USES TO**
3 **HEDGE A PORTION OF ITS ELECTRIC POWER SUPPLY**
4 **COSTS?**

5 A. Yes. A natural gas price swap involves agreeing to pay a fixed price in the
6 future for a specified quantity of gas, and receiving a market index price in
7 the future for the same month(s) and quantities. No physical quantity of gas
8 is exchanged. Just like NWE's off-system fixed-price hedges, the
9 Company's natural gas price swaps are simply financial transactions.

10 **Q. HOW HAVE NWE'S FINANCIAL HEDGES AFFECTED ITS**
11 **TOTAL GAS SUPPLY COSTS SINCE ITS HEDGING ACTIVITIES**
12 **COMMENCED IN NOVEMBER 2005?**

13 A. In April of 2010, in Comments submitted in Docket No. N2008.12.138, I
14 estimated that NWE's past and then-existing fixed-price hedging deals
15 would produce cumulative hedging losses through March of 2013 of
16 approximately \$80.9 million. Because actual gas supply market prices since
17 April 2010 to present have turned out to be significantly lower than was
18 expected in the Spring of 2010, NWE's actual hedging losses on its fixed-
19 price deals to the present are now greater than \$80.9 million.

1 **Q. HAS NWE CUT BACK ITS USE OF NATURAL GAS PRICE SWAPS**
2 **TO HEDGE ITS GAS SUPPLY COSTS IN RECENT YEARS?**

3 A. Yes. In its *2012 Natural Gas Supply Procurement Plan*, the Company
4 states that it has not entered into any fixed price swaps in more than two
5 years.

6 **VI. CONCLUDING COMMENTS AND RECOMMENDATION**

7 **Q. DO YOU HAVE ANY CONCLUDING COMMENTS REGARDING**
8 **NWE'S ELECTRIC SUPPLY COST HEDGING ACTIVITIES, AND**
9 **THE COMPANY'S STATED OBJECTIVES ASSOCIATED WITH**
10 **THOSE HEDGING ACTIVITIES?**

11 A. I do. Given the plan objectives the Company has adopted to implement its
12 hedging activities, I see a potentially serious problem regarding NWE's
13 electric supply cost hedging plan and related hedging activities.

14 **Q. PLEASE EXPLAIN.**

15 A. NWE's off-system hedging deals are made with counter parties that are
16 betting that the fixed prices being negotiated turn out to be greater than the
17 short-term electric power supply market prices that will prevail in the future
18 when settlements are made on the applicable hedging transactions. It

1 therefore seems clear that the counter parties to these transactions have a
2 significant incentive to “beat the market” and win the bets in their hedging
3 deals with NWE. Moreover, their incentive to do so may very well be
4 greater than NWE’s.

5 **Q. WHY IS THAT?**

6 A. NWE’s hedging goals are different. The Company hedges to mitigate
7 supply price volatility, to promote supply price stability, and to improve its
8 chances for supply cost recovery. It specifically states in its 2011
9 Procurement Plan that its approach to hedging “will result in a set of
10 resources that may not contain either the lowest or highest possible cost,
11 but rather a blended value derived from market conditions over a wide time
12 spectrum.” Even more significant is the Company’s response to Data
13 Request MCC-003 (a), which states:

14 “Reducing the cost of supply is not an objective of hedging
15 because hedging is intended to reduce risk, not increase it.
16 Using the risk and reward tradeoff, an objective to reduce the
17 total cost of supply would increase risk to levels beyond what
18 NWE believes ratepayers and the Commission desire.”

1 In other words, unlike its counter parties, NWE does not seek to realize
2 gains from its off-system hedging contracts; those hedges are only used to
3 promote greater price stability, with the specific recognition that the end
4 result may produce greater costs than would obtain had its supplies been
5 purchased at prevailing market prices. Under these circumstances, NWE is
6 more likely to be the loser over time in its hedging deals with counter
7 parties who really want to win their bets with NWE. In my judgment this
8 represents a serious flaw in NWE's electric supply hedging plan.

9 **Q. IS THERE AN ADDITIONAL CONSIDERATION THAT MAY**
10 **AFFECT THE RELATIVE INCENTIVES OF NWE AND ITS**
11 **COUNTER PARTIES WHEN THEY ARE NEGOTIATING THEIR**
12 **LONGER-TERM, FIXED-PRICE HEDGING CONTRACTS?**

13 A. Yes. The counter parties in NWE's longer-term, fixed-price hedging deals
14 are putting their own money at risk, with hedging gains and hedging losses
15 flowing straight through to the bottom line on their income statements. This
16 is not the case with NWE. NWE's hedging losses or gains flow straight
17 through to its ratepayers in its electric supply cost tracker filings. This
18 consideration also suggests that the counter parties to the Company's

1 hedging deals may have a greater incentive to win their hedging bets with
2 NWE.

3 **Q. DO YOU HAVE A RECOMMENDATION TO THE COMMISSION**
4 **REGARDING NWE'S OFF-SYSTEM ELECTRIC SUPPLY PRICE**
5 **HEDGING ACTIVITIES?**

6 A. Yes. I recommend that the Commission direct NWE to terminate its off-
7 system fixed-price electric hedges. I do so for the following reasons:

- 8 • Given the small percentage (about 15%) of total electric supplies
9 that is subject to supply price volatility, there is no compelling need
10 or justification for NWE to pursue off-system fixed-price electric
11 hedges.
- 12 • These transactions look too much like the natural gas price swaps
13 hedges that have produced such huge hedging losses for the
14 Company's natural gas ratepayers;
- 15 • In comparison with the counter parties to NWE's off-system electric
16 supply price hedges, the Company's lack of incentives to produce
17 hedging gains for ratepayers may not be well-suited for this kind of
18 hedging transaction.

1 Q. DOES THIS COMPLETE YOUR PRE-FILED DIRECT
2 TESTIMONY?

3 A. Yes, it does.

4

5

ATTACHMENT A

PRIOR EXPERT TESTIMONY
OF GEORGE L. DONKIN

Item	Jurisdiction	Lead Case/ Docket No.	Case Title	Issue Codes*/
*/ See description of Issue Codes at page 13.				
1.	Federal Court (New York)	CV75C208	Counties of Suffolk, et al. v. Department of Interior	j, k
2.	Federal Court (District of Columbia)	CV79-1633	Energy Action, et al. v. Cecil D. Andrews, et al.	i, j
3.	Federal Court (New Mexico)	MDL403	In Re New Mexico Natural Gas Antitrust Litigation	g, h, i
4.	Federal Court (Colorado)	MDL403	In Re New Mexico Natural Gas Antitrust Litigation	g, h, i
5.	Federal Court (New Mexico)	CV81-036	City of Farmington v. Amoco Gas Company	b, h
6.	Federal Court (Pennsylvania)	CV85-1514	Kentucky West Virginia Gas Co. v. Pennsylvania Public Utility Commission	e, h
7.	Federal Court (New Mexico)	CV85-2550	Sheilah Brewer, et al. v. Consolidated Oil & Gas, Inc.	g, h, i
8.	Federal Court (W. Texas)	MO-87-CA-312	JJ-CC, Limited, et al. v. Transwestern Pipeline Company	b, h
9.	Federal Court (W. Texas)	MO-87-CA-313	Doyle Hartman v. Burlington Northern, Inc., et al.	a, f, h, i, p

10.	Federal Court (N. Texas)	CA-87-0219-D	Southern Union Exploration Co. v. Public Service Co. of New Mexico	g, h, i
11.	Federal Court (New Mexico)	CIV-88-0519-5C	Public Service Co. of New Mexico, et al., v. Meridian Oil Company	g, h, i
12.	Federal Court (New Mexico)	CIV89-02115C	Sunterra Gas Gathering Co. v. El Paso Natural Gas Co.	a, f, h
13.	Federal Court (Kansas)	85-2349	In Re Wyoming Tight Sands Antitrust Cases	a, f, g, h, i
14.	Federal Court (Ohio)	C2-85-1209	Enterprise Energy Corp., et al., v. Columbia Gas Trans- mission Corp.	f, h
15.	Federal Court (Texas)	89-0072	New Bremen Corp. v. Columbia Gas Trans- mission Corp.	f, h
16.	Federal Court (Wyoming)	86-0172	Amoco Rocmount Co., et al. v. The Anschutz Corp.	e, g
17.	Federal Court (N. Oklahoma)	92-C-649E	Windward Energy & Marketing Co. v. El Paso Natural Gas Co. et al.	i, j, p
18.	Federal Court (N. Dis. WV)	93-0009-W(S)	Cameron Gas Co., et al., v. Allegheny & Western Resources Corp., et al.	i, j
19.	Federal Court (N. Dis. CA)	C94-0911 VRW	Norcen Energy Resources Ltd., et al. v. Pacific Gas and Electric Co., et al.	c, e, d, p
20.	Federal Court (New Mexico)	95-0012-JC/WWD	Doris Feerer, et al., v. Amoco Prod. Co., et al.	b, e, i, p
21.	Federal Court (Texas)	CA-H97-2126	EPEC Gas Latin America, Inc., et al. v. Intratec S.A. de C.V., et al.	h, i

22.	Federal Court (Colorado)	96-Z-2451	U.S. Government, et al., v. Shell Oil Co., et al.	a, c, h
23.	Federal Court (Nevada)	MDL No. 1566	Learjet Inc. v. Oneok Inc. et al.	e, i, m
24.	Federal Court (New Mexico)	CIV-06-00624 MCA/RLP	Malcolm Smithson, et al. v. Hess Corp	r
25.	Federal Court (Delaware - Ch. 11)	91-803 & 91-804	Columbia Gas System, Inc. and Columbia Gas Transmission Corp.	h, j
26.	Federal Court (Delaware - Ch. 11)	91-803, 91-804, & M-93-276	Columbia Gas System, Inc. and Columbia Gas Transmission Corp.	e, l, j
27.	Federal Court (Delaware - Ch. 11)	91-804	Columbia Gas Transmission Corp.	h, k
28.	Federal Court (PA - Ch. 11)	05-94-01486	Continental Energy Associates Limited Partnership	a, h, j
29.	Federal Court (Maryland)	DKC 08 CU0967	Washington Gas Light Co. v. PG County	a, h
30.	U.S. Tax Court	5295-91	Pacific Enterprises and Subsidiaries v. IRS	a, b, j, q
31.	New Mexico State Court	SF79-1523	Cotton Petroleum Company v. State of New Mexico	a, h
32.	New Mexico State Court	CV90-759-4	Northern Trust Co. v. El Paso Natural Gas Company	b, g
33.	New Mexico State Court	SF94-1982(C)	Bank One, Texas N.A., et al. v. Meridian Oil, Inc., et al.	h, k, j
34.	New Mexico State Court	D-0101-CV-2000	Ray Powell, Commissioner of Public Lands v. Amoco Production Co., et al.	r, p

35.	New Mexico State Court	D-818-CV-2004-00026	J.Casper Heimann et al.,v. Kinder-Morgan Co ² Company, L.P.	r, p
36.	New Mexico State Court	04-24 CV	Jay D. Heimann, et al., v. Oxy USA, Inc.	r, p
37.	New Mexico State Court	D-0101-CV-2004-01459	Patrick H. Lyons, Commissioner of Public Lands v. Oxy USA, Inc	r, p
38.	New Mexico State Court	CV 2004-26	R.G. Heimann, et al., v. Kinder-Morgan	r
39.	New Mexico State Court	05-48 CV	Marguerite Annie Poling et.al. v. OXY USA, Inc.	r
40.	New Mexico State Court	06-28 CV	Malcolm D. Smithson et al. v. Amerada Hess Corporation	r
41.	Montana State Court	CT-1996-1	Williams Companies, Inc. v. State of Montana, Montana Department of Revenue	q
42.	Montana State Court	DV-02-3223	Encana Energy Resources Company v. State of Montana, Department of Revenue	q
43.	Montana State Court	BVD-2004-288	Omimex Canada, Ltd. v. State of Montana, Department of Revenue	q
44.	Montana State Court	BDV-2010-545	Devon Energy Production Company. v. Montana Department of Revenue	q.
45.	Montana State Tax Appeal Board	MT-2011-1	MCR, LLC vs. MT Dept. of Revenue	h,m,u
46.	Texas State Court	B-37,557	James Burr & Ruth Sutton v. Doyle Hartman v. Burlington Northern, Inc.	h, i

47.	Texas State Court	88V-655	Fred K. Fox, et al. v. Mobil Oil Corp. v. Columbia Gas Transmission Corp.	f, h
48.	Texas State Court	93-039414	Pennzoil Gas Marketing Co. v. Enercor, Inc.	j
49.	Probate Court (Texas)	GC-99-01184	Gary Shores, et al. v. Mobil Oil Corp., et al.	a, c, h, p
50.	Arbitration (Dallas)	N/A	Mesa Petroleum Co. v. Kansas Power & Light Co.	b, h
51.	Arbitration (New Orleans)	N/A	Columbia Gas Transmission Corp. v. Adobe Oil & Gas Co., et al.	f, h
52.	Arbitration (Houston)	N/A	Columbia Gas Transmission Corp. v. New Bremen Corp.	f, h
53.	Arbitration (New Orleans)	N/A	Columbia Gas Transmission Corp. v. Cherokee Resources, Inc.	f, h
54.	Arbitration (Santa Fe)	N/A	San Rio Oil & Gas Co. v. El Paso Natural Gas Company	b, h
55.	FPC	CI73-293	Belco Petroleum Corp., et al.	a
56.	FPC	CP74-192	Florida Gas Transmission Corp.	a, f
57.	FPC	RP75-79	Lehigh Portland Cement Co. v. Florida Gas Transmission Corp.	a, l
58.	FPC	RM77-13	Nationwide Rates for New Wellhead Sales of Natural Gas	b, l
59.	FERC	CP78-391	Great Plains Gasification Associates, et al.	a, k

60.	FERC	OR78-1	Trans-Alaska Pipeline System	i, p
61.	FERC	RP74-41	Texas Eastern Transmission Corp.	b, d
62.	FERC	TA81-1-21	Columbia Gas Transmission Corp.	a, f, g
63.	FERC	GP80-11	Columbia Gas Transmission Corp., et al.	b, h
64.	FERC	RP81-109	Texas Eastern Transmission Corp.	b, d, p
65.	FERC	RP81-83	Columbia Gas Transmission Corp.	b, d, p
66.	FERC	RP81-105	Panhandle Eastern Pipe Line Co.	e, i
67.	FERC	RP81-130	Transwestern Pipeline Co.	d, e, i, p
68.	FERC	RP82-57	United Gas Pipe Line Co.	b, c, d, p
69.	FERC	RP82-80	Michigan-Wisconsin Pipeline Co.	b, c, d, p
70.	FERC	CP65-393	Florida Gas Transmission Corp.	l
71.	FERC	RP83-114	Pacific Gas Transmission Corp., et al.	d, e, i, p
72.	FERC	RP83-93	Trunkline Gas Company	f, g
73.	FERC	TA82-1-21	Columbia Gas Transmission Corp.	a, f, g
74.	FERC	RP85-122	Colorado Interstate Gas Co.	b, c, f
75.	FERC	TA85-1-16	National Fuel Gas Supply Corporation	f, g
76.	FERC	RP81-85	Trunkline LNG Co., et al.	a, f, g
77.	FERC	RP85-203	Panhandle Eastern Pipe	a, f, g

			Line Company	
78.	FERC	RM86-3	Ceiling Prices-Old Gas Pricing Structure	b, k
79.	FERC	TA86-1-29	Transcontinental Gas Pipe Line Corporation	e, f, g
80.	FERC	RP87-15	Trunkline Gas Co.	e, f, g
81.	FERC	RP87-103	Panhandle Eastern Pipe Line Company	b, c, e
82.	FERC	CP82-487	Williston Basin Interstate Pipeline Company	g
83.	FERC	RP86-119	Tennessee Gas Pipeline Co.	e, f, g
84.	FERC	RP86-51	Northwest Pipeline Corp.	a, e, f
85.	FERC	RP87-7	Transcontinental Gas Pipeline Corp.	a, f
86.	FERC	TA87-4-49	Williston Basin Interstate Pipeline Company	d, g
87.	FERC	TA87-4-21	Columbia Gas Transmission Corp.	a, f, g
88.	FERC	GP84-56-007	Williams Natural Gas, et al. Company	a, f, g
89.	FERC	RP90-2	Williston Basin Interstate Pipeline Co.	d
90.	FERC	RP90-104	Texas Gas Transmission, et al. Corp.	d, e, p
91.	FERC	RP90-119	Texas Eastern Transmission Corp.	b, d, p
92.	FERC	91-203, et al.	Tennessee Gas Pipeline Company	b, e, p
93.	FERC	RP94-68-000	Mississippi River Transmission Corp.	b, e, p
94.	FERC	RP94-96, et al.	CNG Transmission Corp.	b, d, p

95.	FERC	RP95-112	Tennessee Gas Pipeline Company	b, d, p
96.	FERC	RP95-364-005	Williston Basin Interstate Pipeline Company	n
97.	Surface Transportation Board	41191	AEP Texas North Co. v. Burlington Northern and Santa Fe Railroad Company	s, t
98.	Surface Transportation Board	42088	Western Fuels Association, Inc., et.al. v. BNSF Railway Company	s, t
99.	Surface Transportation Board	42081	Dyno Nobel, Inc. v. Kaneb Pipe Line Partners, L.P.	s, t
100.	MI PSC	U-5955(I)	Michigan Consolidated Gas Co.	b, c
101.	MI PSC	U-5995(P)	Michigan Consolidated Gas Company	b, c
102.	MI PSC	U-6133	Michigan Consolidated Gas Company	g
103.	MI PSC	U-7298	Michigan Consolidated Gas Company	b, c
104.	MN PSC	GR85-108	Northern States Power Co.	d
105.	OH PUC	79-125	Columbia Gas of Ohio, Inc.	a, l
106.	OH PUC	79-535	East Ohio Gas Co.	b, c, d
107.	OH PUC	80-769	East Ohio Gas Co.	b, c, d
108.	OH PUC	81-1024	Colombia Gas of Ohio, Inc.	d
109.	OH PUC	81-1025	Columbia Gas of Ohio, Inc.	d
110.	OH PUC	84-6	Columbia Gas of Ohio,	f, g

			Inc.	
111.	OH PUC	85-21	Columbia Gas of Ohio, Inc.	f, g
112.	RI PUC	1398	Providence Gas Co.	c, d
113.	PA PUC	R-7909056	National Fuel Gas Distribution Corp.	a, b
114.	PA PUC	R-81160	National Fuel Gas Distribution Corp.	d
115.	PA PUC	R-822133	Equitable Gas Co.	d
116.	PA PUC	R-832469	National Fuel Gas Distribution Corp.	f, g
117.	PA PUC	R-850032	Philadelphia Electric Co.	f, g
118.	PA PUC	R-850041	National Fuel Gas Distribution Corp.	f, g
119.	PA PUC	R-860314	Columbia Gas of Pennsylvania, Inc.	f, g
120.	PA PUC	R-850270	Peoples Natural Gas Co.	b, d
121.	PA PUC	R-860310	Peoples Natural Gas Co.	f, g
122.	PA PUC	R-922324	Pennsylvania Gas & Water Company	b, g, h
123.	PA PUC	R-932676	Pennsylvania Gas & Water Company	a, g
124.	PA PUC	R-942993	Pennsylvania Gas & Water Company	b, e
125.	PA PUC	R-00963612	PG Energy, Inc.	b, d, e
126.	DC PSC	772(PI)	Washington Gas Light Co.	a, b, c
127.	DC PSC	772 (PII)	Washington Gas Light Co.	a, b, c
128.	DC PSC	787	Washington Gas Light Co.	d

129.	DC PSC	F.C. 989	Washington Gas Light Co.	a, d
130.	NV PSC	82-239	Rulemaking on Natural Gas Rate Design	d
131.	NV PSC	93-3003	Southwest Gas Corporation Northern Nevada Division	d, g
132.	NV PSC	93-3004	Southwest Gas Corporation Southern Nevada Division	d, g
133.	OK CC	28331	Public Service Company of Oklahoma	b, c
134.	NM PSC	1982	Public Service Company of New Mexico	f, g
135.	SC PSC	87-530-G	South Carolina Pipeline Corp.	f, g
136.	SC PSC	87-227-G	South Carolina Electric & Gas Company	f, g
137.	SC PSC	87-427-G	Peoples Natural Gas Co.	f, g
138.	TX PUC	5820	Gulf States Utilities Co.	g
139.	TX PUC	16705	Entergy Gulf States, Inc.	f, h, j
140.	WV PSC	87-770-G-C	Cameron Gas Co. v. Hope Gas, Inc.	d, e
141.	WV PSC	05-0304-G-42T	Hope Gas, Inc.	d
142.	WV PSC	04-1595-G-42T	Mountaineer Gas Company	b, d
143.	WV PSC	05-1278-E-PC-PW-42-T	Appalachian Power Co. and Wheeling Power Company	d
144.	WV PSC	08-1281-6-30C	Equitable Gas Company	g, m
145.	WV PSC	11-1103-G-30C	Hope Gas, Inc.	b, g, m, v
146.	MT PSC	90.1.1	Montana Power Co.	a, b, k, o

147.	MT PSC	90.3.20	Great Falls Gas Company	b, d
148.	MT PSC	91.5.18, et al.	Montana-Dakota Utilities Company	b, f, g
149.	MT PSC	91.11.63	Montana-Dakota Utilities Company	b, e
150.	MT PSC	93.4.19, et al.	Montana-Dakota Utilities Company	d, e, h
151.	MT PSC	D95.7.90	Montana-Dakota Utilities Company	b, d, e
152.	MT PSC	D96.2.22	Montana Power Co.	b, d, e, k
153.	MT PSC	D98.3.68	Energy West Montana	d, f, g
154.	MT PSC	D98.9.213	Energy West Montana	f, g
155.	MT PSC	D99.8.176	Montana Power Company	d, e
156.	MT PSC	D96.2.22	Montana Power Co.	o
157.	MT PSC	D99.8.176	Montana Power Co.	d, e
158.	MT PSC	D99.10.243	Energy West Montana	a, f, g
159.	MT PSC	D96.2.22	Montana Power Co.	m, o
160.	MT PSC	D2001.12.156	Montana Power Co.	a, f, g, v
161.	MT PSC	D2002.5.59	Montana Dakota Utilities Company	d, e
162.	MT PSC	D2002.11.140	NorthWestern Energy	a, f, g
163.	MT PSC	D2003.6.75	Energy West Montana	f, g, h
164.	MT PSC	D2004.4.50	Montana Dakota Utilities Company	d, e
165.	MT PSC	D2004.3.46	Energy West Montana	d, e
166.	MT PSC	D2006.5.58	NorthWestern Energy	f, v
167.	MT PSC	D2004.7.120 and D2006.6.80	Energy West Montana	f v
168.	MT PSC	N2005.6.101	NorthWestern Energy	f, v
169.	MT PSC	D2005.5.87	NorthWestern Energy	f, v

170.	MT PSC	D2003.4.49 et al.	Montana-Dakota Utilities Co.	f, v
171.	MT PSC	D2007.5.44	NorthWestern Energy	f, g, v
172.	MT PSC	D2008.3.27	Cut Bank Gas Company	m, o
173.	MT PSC	D2007.7.82	NorthWestern Energy	d, b
174.	MT PSC	N2008.12.138	NorthWestern Energy	a, f, h, v
175.	MT PSC	D2009.9.129	NorthWestern Energy	d, f, h, k, v
176.	MT PSC	D2010.5.55	CenturyLink/Qwest	b, i
177.	MT PSC	D2010.9.90	Energy West Montana	d, m
178.	MT PSC	D2011.5.36	NorthWestern Energy	f, g, v
179.	MT PSC	D2011.6.45	NorthWestern Energy	b, g, v
180.	MT PSC	D2012.3.25	NorthWestern Energy	m, o
181.	MT PSC	D2012.1.3	NorthWestern Energy	b, m
182.	AZ CC	U-1551-92-253	Southwest Gas Corporation Central Arizona Division	d, g
183.	CN DPUC	93-02-04	Connecticut Natural Gas Corporation	b, d, e
184.	MDPSC	9180	Washington Gas Light Company	a, h
185.	DOE/ERA	None	In the Matter of No. 2 (Home Heating) Oil	i
186.	Congress	None	Senate Subcommittee on Antitrust and Monopoly	a
187.	Congress	None	Senate Joint Subcommittee on Antitrust and Monopoly and Government Operations	a, j
188.	Congress	None	House Committee on Small Business	a, j

189.	Congress	None	House Ad Hoc Committee on Outer Continental Shelf	a, j
190.	Congress	None	House Committee on Interstate and Foreign Commerce	a
191.	Congress	None	House Subcommittee on Mines and Mining	a

N/A = Not Available

<u>Issue Codes</u>	<u>Description</u>
a	Gas Supply
b	Utility Rate Levels
c	Utility Sales/Transportation Volumes
d	Utility Rate Design/Cost of Service
e	Utility Tariff Matters
f	Gas Acquisition Practices
g	Purchased Gas Adjustments
h	Gas Supply Contract Matters
i	Competition/Antitrust
j	Oil/Gas Leasing Policy
k	Gas Production Costs
l	Gas Curtailment
m	Natural Gas Markets
n	Cost of Capital
o	Market Value Analysis
p	Pipeline Rates
q	Property Tax Appraisals
r	Royalty Valuation
s	Rail Transportation Rates
t	Petroleum Product Markets
u	Natural Gas Production Tax
v	Energy Price Risk / Hedging Strategies

NWE's Projected Net Off-System Hedging Loss
July 2012 - June 2013

Line No.	Description	MWh	\$ Amount
1	Competitive Solicitations-Purchases	775,700	\$ 35,407,600
2			
3	Competitive Solicitations-Sales	(341,400)	\$ (9,431,706)
4	Term Index Price-Sales	(434,300)	\$ (11,544,038)
5			
6	Term Fixed-Price Purchases	246,400	\$ 7,595,520
7	Spot Sales	(246,400)	\$ (7,094,668)
8			
9	Net Off-System Transactions	-	\$ 14,932,708

Source: NWE Exhibit ____ (FVB-2)12_13, Pages 3 and 4.

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

IN THE MATTER OF NorthWestern Energy's)
Application for (1) Approval of Deferred Cost)
Account Balance for Electric Supply, CU4) REGULATORY DIVISION
Variable Costs/Credits, and DGGS Variable)
Costs/Credits; and (2) Projected Electricity Supply) DOCKET NO. D2012.5.49
Cost Rates, CU4 Variable Rates and DGGS)
Variable Rates)

REDACTED PUBLIC VERSION

Pre-Filed Direct Testimony
of
John W. Wilson
on Behalf
of
The Montana Consumer Counsel

March 22, 2013

J. W. Wilson & Associates, Inc.
Economic Counsel
1601 North Kent Street • Rosslyn Plaza C • Suite 1104 Arlington, VA 22209

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1 **I. QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND ADDRESS.**

3 A. My name is John W. Wilson. I am President of J.W. Wilson & Associates,
4 Inc. Our offices are at 1601 North Kent Street, Suite 1104, Arlington,
5 Virginia, 22209.

6 **Q. PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND.**

7 A. I hold a B.S. degree with senior honors and a Masters Degree in Economics
8 from the University of Wisconsin. I have also received a Ph.D. in
9 Economics from Cornell University. My major fields of study were
10 industrial organization and public regulation of business, and my doctoral
11 dissertation was a study of utility pricing and regulation.

12 **Q. HOW HAVE YOU BEEN EMPLOYED SINCE THAT TIME?**

13 A. After completing my graduate education I was an assistant professor of
14 economics at the United States Military Academy, West Point, New York.
15 In that capacity, I taught courses in both economics and government.
16 While at West Point, I also served as an economic consultant to the
17 Antitrust Division of the United States Department of Justice.

1 After leaving West Point, I was employed by the Federal Power
2 Commission (now known as the Federal Energy Regulatory Commission or
3 “FERC”), first as a staff economist and then as Chief of the Commission's
4 Division of Economic Studies. In that capacity, I was involved in
5 regulatory matters involving most phases of federal regulation of electric
6 utilities and the natural gas industry. Since 1973 I have been employed as
7 an economic consultant by various clients, including federal, state,
8 provincial and local governments, private enterprise and nonprofit
9 organizations. This work has pertained to a wide range of issues
10 concerning public utility regulation, insurance rate regulation, antitrust
11 matters and economic and financial analysis. In 1975 I formed J.W.
12 Wilson & Associates, Inc., a Washington, D.C. corporation.

13 **Q. WOULD YOU PLEASE DESCRIBE SOME OF YOUR**
14 **ADDITIONAL PROFESSIONAL ACTIVITIES?**

15 A. I have authored a variety of articles and monographs, including a number of
16 studies dealing with utility regulation and economic policy. I have
17 consulted on regulatory, financial and competitive market matters with the
18 Federal Communications Commission (“FCC”), the National Academy of
19 Sciences, the Ford Foundation, the National Regulatory Research Institute
20 (“NRRI”), the Electric Power Research Institute (“EPRI”), the National

1 Association of Regulatory Utility Commissioners (“NARUC”), the Edison
2 Electric Institute (“EEI”), The American Public Power Association
3 (“APPA”), the National Rural Electric Cooperative Association
4 (“NRECA”), the U.S. Department of Justice Antitrust Division, the Federal
5 Trade Commission Bureau of Competition, the Commerce Department, the
6 Department of the Interior, the Department of Energy (“DOE”), the Small
7 Business Administration (“SBA”), the Department of Defense (“DOD”),
8 the Tennessee Valley Authority (“TVA”), the Internal Revenue Service
9 (“IRS”), the Federal Energy Administration (FEA”), and numerous state
10 and provincial agencies and legislative bodies in the United States and
11 Canada.

12 Previously, I was a member of the Economics Committee of the U.S. Water
13 Resources Council, the FPC Coordinating Representative for the Task
14 Force on Future Financial Requirements for the National Power Survey, the
15 Advisory Committee to the National Association of Insurance
16 Commissioners (NAIC) Task Force on Profitability and Investment
17 Income, and the NAIC's Advisory Committee on Nuclear Risks.

18 In addition, I have testified as an expert witness in state and federal court
19 proceedings dealing with many economic matters, including utility rates
20 and competition in the electric power industry and on other regulatory

1 matters before more than 50 Federal and State regulatory bodies throughout
2 the United States and Canada. I have also appeared on numerous occasions
3 as an expert witness at the invitation of U.S. Senate and Congressional
4 Committees dealing with antitrust and regulatory legislation. In addition, I
5 have been retained as an expert on regulatory matters by more than 25 State
6 and Federal regulatory agencies. I have also participated as a speaker,
7 panelist, or moderator in many professional conferences and programs
8 dealing with business regulation, financial issues, economic policy and
9 antitrust matters. I am a member of the American Economic Association
10 and an associate member of the American Bar Association and the ABA's
11 Antitrust, Insurance and Regulatory Law Sections.

12 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS**
13 **PROCEEDING?**

14 A. I am presenting testimony in this proceeding on behalf of the Montana
15 Consumer Counsel (MCC). I have been asked by the MCC to review and
16 address NorthWestern Energy's ("NWE" or "the Company") proposed
17 recovery of DGGs replacement regulation service purchase costs and its
18 proposal to include energy conservation savings achieved in its own
19 buildings and facilities in its calculation of "lost revenues."

1 **II. DGGS REPLACEMENT COSTS**

2 **Q. HAVE YOU REVIEWED NWE’S TESTIMONY REGARDING ITS**
3 **PROPOSED RECOVERY OF DGGS REPLACEMENT**
4 **REGULATION SERVICE PURCHASE COSTS?**

5 A. Yes. The Company experienced an unexpected forced outage at DGGS
6 starting on January 31, 2012. This was attributable to damages to the
7 power turbines at each of the plant’s three units. Following that forced
8 outage event, the plant was not fully available to meet NWE’s regulation
9 service needs until May 1, 2012. During that period, NWE negotiated
10 agreements with Powerex and Avista (the Company’s previous regulation
11 service providers) for the purchase of replacement regulation service
12 requirements.

13 **Q. DID THIS OUTAGE AND THE REPLACEMENT REGULATION**
14 **SERVICE PURCHASES INCREASE NWE’S REGULATION**
15 **SERVICE COSTS?**

16 A. Yes. As I understand the Company’s testimony on this matter, the result of
17 the outage and replacement purchases increased NWE’s regulation service

1 costs by approximately \$1.27 million¹ during the outage period. While the
2 replacement regulation service was actually less costly than comparable
3 service from the DGGGS plant, total regulation service costs increased
4 because the fixed costs of the DGGGS plant (e.g., primarily depreciation,
5 return and taxes) continued unabated during the outage. Thus, during the
6 outage, the sum of ongoing fixed DGGGS costs plus replacement purchase
7 costs exceeded DGGGS fixed costs plus the variable DGGGS costs that would
8 have been incurred but for the outage.

9 **Q. WILL THIS COST INCREASE BE COVERED BY THE**
10 **WARRANTY AGREEMENT THAT NWE NEGOTIATED WITH**
11 **PRATT & WHITNEY POWER SYSTEMS, THE PROVIDER OF**
12 **THE FAILED TURBINES?**

13 A. According to Pratt & Whitney, [begin protected material] [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]

¹ This is the difference between the amount shown on line 28 of page 1 of Exhibit ____ (MRC-1) and the amount shown on line 51 of page 3 of the same exhibit.

1

[REDACTED]

2

[end protected material] ²

3 Q.

4

5

6

7

**SHOULD THE COMPANY'S MONTANA RETAIL RATEPAYERS
BE REQUIRED TO PAY FOR THESE ADDITIONAL
REPLACEMENT REGULATION SERVICE COSTS THAT ARE
ATTRIBUTABLE TO THE FORCED OUTAGE DUE TO THE
FAILED PRATT & WHITNEY TURBINES?**

8 A.

9

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No. The Company was granted prior approval by the Commission for the recovery of certain costs of the DGGS plant and its operation. This approval was granted by the Commission despite the plant's relatively high costs in comparison with the market regulation service purchases that it replaced. This prior approval was granted with the expectation that it would protect ratepayers against the risks of regulation service availability and potentially higher regulation service purchase costs that might occur in the future if market supplies were limited. While it may therefore be reasonable to allow for the recovery of replacement regulation service costs up to the total cost of owning and operating the DGGS plant, it does not

² See Response to Data Request PSC-008c, Attachment 5 – Protected at page 127 of 127 and Response to Data Request PSC-006d, Attachment 2 – Protected at page 128, 132 of 150.

1 seem reasonable to now charge ratepayers a greater amount, including both
2 full DGGGS plant and operating costs and the incremental costs of
3 replacement service due to [begin protected material] [REDACTED]
4 [REDACTED]
5 [REDACTED]. [end protected material]

6 **Q. DID NWE ATTEMPT TO RECOVER THESE INCREMENTAL**
7 **REPLACEMENT REGULATION SERVICE COSTS FROM PRATT**
8 **& WHITNEY?**

9 A. Apparently [begin protected material] [REDACTED]
10 [REDACTED].
11 [end protected material]³ Because various parts of data responses were
12 withheld by NWE in this case, based on privilege claims, it is not fully
13 clear whether (and why or why not) [begin protected material] [REDACTED]
14 [REDACTED]. [end protected material] In any event, it would seem
15 appropriate under the circumstances here for the Commission to treat this
16 as a matter of dispute between NWE and Pratt & Whitney, without
17 subjecting Montana ratepayers to additional cost obligations.
18

³ See references to Data Responses PSC-006d and PSC-008c, above.

1 **Q. WAS NWE AWARE THAT THESE REPLACEMENT**
2 **REGULATION SERVICE COSTS (OVER AND ABOVE THE FULL**
3 **COSTS OF OWNING AND OPERATING THE DGGs PLANT) MAY**
4 **NOT BE RECOVERABLE FROM MONTANA RATEPAYERS IF**
5 **PRATT & WHITNEY FAILED TO COVER THEM?**

6 A. According to notes of its meeting with Pratt & Whitney on April 19, 2012,
7 NWE's Vice President and General Counsel described that [begin
8 protected material] [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED] [end protected material]⁴

12 **Q. HAS THIS ISSUE BEEN ADDRESSED BY THE FERC?**

13 A. It was addressed by the Presiding Administrative Law Judge in her Initial
14 Decision issued September 21, 2012 in FERC Docket Nos. ER10-1138-000
15 and ER12-316-000 (to which the MPSC was a party) which stated
16 (footnotes omitted):

⁴ See Response to Data Request PSC-008c Attachment 5 at 122 of 127.

1 The issues before me in this proceeding are limited to the justness
2 and reasonableness of NorthWestern’s proposed revisions to
3 Schedule 3 of its tariff. With respect to its third party costs,
4 NorthWestern proposes to include a C component in the Monthly
5 Demand Rate where “C= Transmission Provider’s total cost of
6 procuring Regulation service during the second month preceding the
7 month, if any, for Transmission Customers from third party
8 suppliers.” The tariff also provides that “[t]o the extent
9 Transmission Provider procures product to supply this [Regulation
10 and Frequency Response] service it will pass through the actual
11 costs of providing this service as described through component ‘C’
12 in the formula above.” Even NorthWestern recognizes that this
13 unlimited language cannot be allowed to stand....

14 No party objects to a revision of the NorthWestern Schedule 3
15 language intended to allow a pass through of third party contracts
16 that are less than the variable costs of operating DGGs. The more
17 controversial proposal is to allow a pass through of third party
18 contract costs in the event of a DGGs outage. As illustrated by this
19 case, DGGs customers want to examine the propriety of third party
20 contracts entered into because of an outage....

21 I find that the proposed revisions to Schedule 3 quoted above by
22 NorthWestern are not just and reasonable and that third party
23 contract costs should be passed through only if the costs are lower
24 than the variable costs of operating DGGs. Furthermore,
25 NorthWestern must file under Section 205 of the FPA for
26 Commission review any time there is a third party contract and or
27 expenses associated with Schedule 3 Service that NorthWestern
28 seeks to pass through to its wholesale customers. Under such review
29 and forum, NorthWestern and its customers can analyze the
30 ramification of the contracts; likewise the Commission can take
31 appropriate action as necessary to ensure protection of all parties
32 with the overall public interest.⁵

⁵ See paragraphs 223-225 of the referenced Order.

1 Thus, the FERC ALJ rejected NWE’s proposal to recover incremental
2 regulation service replacement costs in this recent case, but left the door
3 open for a Section 205 rate filing by the Company in the event that NWE
4 believes that it can sustain the burden of proof to recover these costs. As of
5 this time, NWE has made no such filing at FERC, and it is not at all clear
6 why the Company did not make a Section 205 filing for the express
7 purpose of recovering outage-related purchased power costs from its
8 wholesale customers at the time it incurred those costs.

9 **Q. ARE THERE FURTHER POTENTIAL REGULATORY ISSUES**
10 **CONCERNING THE PRATT & WHITNEY DGGs WARRANTY**
11 **AND CONTINUING OPERATIONS?**

12 A. It appears that there are, but due to privilege claims they may not be fully
13 disclosed in this case. For example, notes of the April 19, 2012 meeting
14 with Pratt & Whitney disclose that NWE’s General Counsel

15 [begin protected material] [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]

1 [REDACTED]
2 [REDACTED]
3 [REDACTED] [end protected material]⁶

4 **Q. IS THERE ANY INDICATION OF THE POTENTIAL STRATEGIC**
5 **DESIGN ISSUES THAT MAY BE OF CONCERN?**

6 A. Yes. At that same meeting Pratt & Whitney's President said that Pratt &
7 Whitney [begin protected material] [REDACTED]
8 [REDACTED] [end protected material] Also, Pratt & Whitney's
9 Director of Engineering [begin protected material] [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED] [end protected material]⁷

13 **Q. ARE THESE POTENTIAL WARRANTY CONCERNS?**

14 A. Yes. [begin protected material] [REDACTED]
15 [REDACTED]
16 [REDACTED] [end protected material]⁸ Given

⁶ Emphasis added. See Response to Data Request PSC-008c Attachment 5 at 123 of 127.
⁷ Id. At 124-125 of 127.
⁸ Id. At 127 of 127.

1 the physical issues noted above, and the uniqueness they suggest regarding
2 the operation of the DGGs plant, it is not clear that this **[begin protected**
3 **material]** [REDACTED] **[end protected material]** is at all sufficient.
4 Further, given these issues and uncertainties, together with the fact that at
5 the time of prior approval NWE was the only one capable of assessing the
6 risks associated with its preferred plant configuration and the choice of
7 Pratt & Whitney as the turbine manufacturer, it is not clear why the
8 Company did not obtain outage insurance, **[begin protected material]** [REDACTED]
9 [REDACTED] **[end protected material]** explicitly covering generation
10 replacement costs.

11

12

III. LOST REVENUES

13 **Q. PLEASE DESCRIBE THE LOST REVENUES ISSUE THAT YOU**
14 **ARE ADDRESSING.**

15 **A.** In response to data request PSC-030b, NWE stated that it was the
16 Company's intention to include the energy conservation savings achieved
17 in its own buildings and facilities as "lost revenues" for recovery from
18 ratepayers. NWE attempts to rationalize this lost revenues claim by stating
19 that it is its own retail energy supply, transmission and distribution

1 customer and, just like any other customer, its own energy consumption is
2 included in the calculation of test period costs and rates.

3 **Q. IS IT APPROPRIATE AND REASONABLE FOR NWE TO**
4 **INCLUDE ITS OWN ENERGY CONSERVATION SAVINGS**
5 **ACHIEVED IN ITS OWN BUILDINGS AND FACILITIES IN THE**
6 **CALCULATION OF LOST REVENUES?**

7 **A.** No. Lost revenue compensation has been approved by the Commission as
8 an “incentive” that NWE claims is required to induce the Company to
9 promote economic energy conservation as an alternative to uneconomic and
10 wasteful energy sales. The logic supporting this incentive is that by
11 encouraging conservation and reducing wasteful energy consumption NWE
12 is limiting its sales and profit potential, which it would not be inclined to do
13 absent compensation for the revenues that it loses in the process. This logic
14 does not apply when it comes to NWE’s energy sales to itself and efforts to
15 reform its own uneconomic energy consumption.

1 **Q. WHY SHOULD THE SAME LOST REVENUE COMPENSATION**
2 **INCENTIVES NOT APPLY TO NWE’S CONSERVATION**
3 **EFFORTS TO REDUCE ITS OWN UNECONOMIC AND**
4 **WASTEFUL ENERGY CONSUMPTION IN ITS OWN BUILDINGS**
5 **AND FACILITIES?**

6 **A.** First, NWE is fully obliged, as the recipient and holder of a publicly
7 granted utility monopoly franchise, to operate in the most efficient manner
8 possible so as to restrain ratepayer costs. To do otherwise would be
9 wasteful and imprudent and subject the Company to cost disallowances in
10 the rate making process. Second, the Company will, in fact, be fully
11 compensated for so called “lost revenues” from its own energy
12 conservation since the revenue reduction for NWE as the seller will directly
13 reduce NWE’s costs as the buyer by the same amount. Because NWE is
14 both the payer and recipient of these revenues, conservation directly
15 provides its own compensatory reward.

16 One of the incentives for any business enterprise (including traditional
17 regulated utilities) is for a company to reduce its operating costs, thus
18 increasing the profit margin available for its shareholders and, in the long
19 run, holding down the level of costs charged to its consumers. In this case,
20 NWE’s proposal to include its own energy conservation savings in “lost

1 revenues” would doubly reward the Company because conservation would
2 directly reduce its expense level while the Company is also charging
3 ratepayers for “lost revenues” -- ignoring the fact that expense levels were
4 reduced in the first place. Moreover, under this scheme, ratepayers would
5 not receive the benefit of reduced utility expenses because they would
6 unfairly continue to pay for “lost revenues”.

7 In short, the Commission should order NWE to not include the
8 conservation savings achieved at its own buildings and facilities in its
9 calculation of lost revenues.

10 **Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY IN THIS**
11 **CASE?**

12 **A.** Yes, it does.