

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

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IN THE MATTER OF NorthWestern Energy's		REGULATORY DIVISION
Application for Approval to Purchase and)	
Operate PPL Montana's Hydroelectric Facilities,)	DOCKET NO. D2013.12.85
for Approval of Inclusion of Generation Asset)	
Cost of Service in Electricity Supply Rates, for)	
Approval of Issuance of Securities to Complete)	
the Purchase, and for Related Relief)	
)	

**PREHEARING MEMORANDUM
OF THE MONTANA CONSUMER COUNSEL**

In accordance with the schedule provided in the procedural order (Order No. 7323b issued on January 16, 2014) in this docket, the Montana Consumer Counsel submits its prehearing memorandum.

I. CONTESTED ISSUES.

The contested issue in this docket is:

At what value and under what conditions could the Montana Public Service Commission ["PSC"] reasonably preapprove NorthWestern Energy's ["NWE"]'s Application for Approval to Purchase and Operate PPL Montana's Hydroelectric Facilities?

Subsidiary issues include:

Risk Issues:

- a. Whether the \$900 million bid and proposed purchase price for the Hydros is reasonable in that it is based on an assumed market value largely derived from NWE's assumptions regarding carbon cost loading, reduced capital expenditure levels and asset appreciation.
- b. Whether the risks of future uncertainties inherent in NWE's assumptions related to carbon cost loading, reduced capital expenditure projections and asset appreciation should be entirely borne by ratepayers or shared with NWE's owners.
 1. Should limitations be placed on the recovery of future capital expenditures that exceed the levels projected by NWE in seeking purchase preapproval?
 2. Should there be provisions for future rate reductions if the carbon loading assumptions projected by the Company in seeking preapproval do not materialize?
 3. Should a portion of the revenue requirement associated with the Company's future cost projections (e.g., assumed future carbon costs) be deferred for recovery to achieve intergenerational pricing equity?
- c. Whether the need and justification for such risk allocation is magnified by a regulated utility's self interest in the financial benefits of preapproved rate

basing of a \$900 million investment and its role in setting that purchase price.

Revenue Requirement Issues:

- d. Whether the approximately \$89 million unrecovered cost that will be booked by NWE at the time of the sale of the Kerr Dam facilities to the Confederated Salish and Kootenai Tribes should be included in rate base once the sale has been completed and Kerr is no longer providing regulated service to NWE ratepayers.
- e. Whether it was reasonable for NWE to increase its offer and include in the proposed purchase price an amount above its estimated value in an effort to foreclose any other potential but unproven interest.
- f. What rate of return, including capital structure, return on equity and debt interest cost, should be authorized for any resulting preapproved rate base?
- g. Should depreciation expense be allowed on the Company's assumed positive residual value of the hydro assets?

II. WITNESSES.

MCC will present the testimony of its expert witnesses Dr. John W. Wilson and Mr. Albert E. Clark. MCC reserves the right to call any witness who filed prehearing testimony in this case that is admitted into evidence.

III. EXHIBITS.

MCC will offer into evidence the March 28, 2014, prefiled Direct testimony and exhibits of Dr. John W. Wilson and Mr. Albert E. Clark, and the May 30, 2014, prefiled Additional Issues Response testimony and exhibits of Dr. Wilson.

MCC reserves the right to introduce other exhibits at the hearing as may become necessary.

IV. DATA RESPONSES AND ADDITIONAL EXHIBITS

MCC will move for admission into the record all data responses filed by all parties in this docket, including all exhibits thereto and all material referenced in the responses.

MCC reserves the right to introduce any other exhibits identified, referenced or relied upon in the testimony or by any party in this proceeding.

V. SPECIAL SCHEDULING NEEDS.

MCC requests that Dr. Wilson and Mr. Clark be scheduled to testify no later than Friday, July 11. MCC has no other special scheduling needs.

DATED this _____ day of June, 2014.

Robert A. Nelson
Consumer Counsel
PO Box 201703
111 North Last Chance Gulch, Suite 1B
Helena MT 59620-1703