



July 3, 2014

Ms. Kate Whitney
Montana Public Service Commission
1701 Prospect Avenue
P.O. Box 202601
Helena, MT 59620-2601

RE: Docket No. D2013.12.85
PPLM Hydro Assets Purchase
PSC Set 2 Data Requests (036-058)
UPDATED RESPONSE TO PSC-057

Dear Ms. Whitney:

Enclosed for filing is a copy of NorthWestern Energy's updated response to PSC-057 in PSC Set 2 Data Requests.

A hard copy will be mailed to the most recent service list in this Docket this date. The Montana Public Service Commission and the Montana Consumer Counsel will be served by hand delivery this date. These data responses will also be e-filed on the PSC website and emailed to counsel of record.

Should you have questions please contact Joe Schwartzenberger at 406 497-3362.

Sincerely,

Nedra Chase
Administrative Assistant
Regulatory Affairs

NC/nc
CC: Service List

CERTIFICATE OF SERVICE

I hereby certify that a copy of NorthWestern Energy's updated response to PSC-057 in PSC Set 2 Data Requests in Docket D2013.12.85, the PPLM Hydro Assets Purchase, has been hand delivered to the Montana Public Service Commission and to the Montana Consumer Counsel this date. This updated response will be e-filed on the PSC website and served on the most recent service list by mailing a copy thereof by first class mail, postage prepaid. This updated response will also be emailed to counsel of record.

Date: July 3, 2014



Nedra Chase
Administrative Assistant
Regulatory Affairs

**Docket No D2013.12.85
Hydro Assets Purchase
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NorthWestern Energy
Docket D2013.12.85
PPLM Hydro Assets Purchase

Public Service Commission (PSC)
Set 2 (036-058)

Data Requests served January 2, 2014

PSC-057

Regarding: Capital Structure
Witness: Bird

On page 16 of your testimony, you state that NWE worried that it would be outbid by an equity or infrastructure fund that carries a higher amount of debt to equity in its capital structure, causing a lower required return. Why could NWE, in a transaction of this magnitude, not be expected to finance a greater share of the acquisition through debt, rather than equity, thereby reducing the overall cost to ratepayers?

RESPONSE (January 24, 2014):

NorthWestern will be financing a slightly greater share of the acquisition through debt than equity (52% debt). However, we will not finance it with the same debt percentage as a financial buyer may carry because we do not want to harm the credit worthiness of NorthWestern. Another utility would likely maintain the same general debt to total capital ratio that we are recommending in this case. Financial buyers look for larger returns and are less concerned with credit ratings, so tend to apply more debt to their investments than we, or another utility, are comfortable carrying.

Something more important to consider is how much debt does NorthWestern use to finance our business (including this acquisition) versus other utilities. The summary attached, which is based upon information gathered from SNL, shows that over the last two years the debt percentage that NorthWestern was allowed (52%) was higher than the average/median allowed by the industry, which was around or slightly less than 50% respectively. Therefore, we are already carrying a higher level of debt than our peers to keep our overall capital costs low.

NorthWestern and the MPSC have worked hard to bring up the credit ratings of NorthWestern over the last 10 years and have achieved an acceptable level of credit worthiness that has provided low debt costs for our customers. Particularly with a bankruptcy in our history, it is hard to fathom why we would want to risk lowering our credit ratings by increasing our debt percentage now, particularly when it is already higher than other utilities. The debt percentage we are proposing here is in line with debt levels we have used in the past and we believe will support our existing credit ratings.

UPDATED RESPONSE (July 3, 2014):

Please see the Updated Attachment.

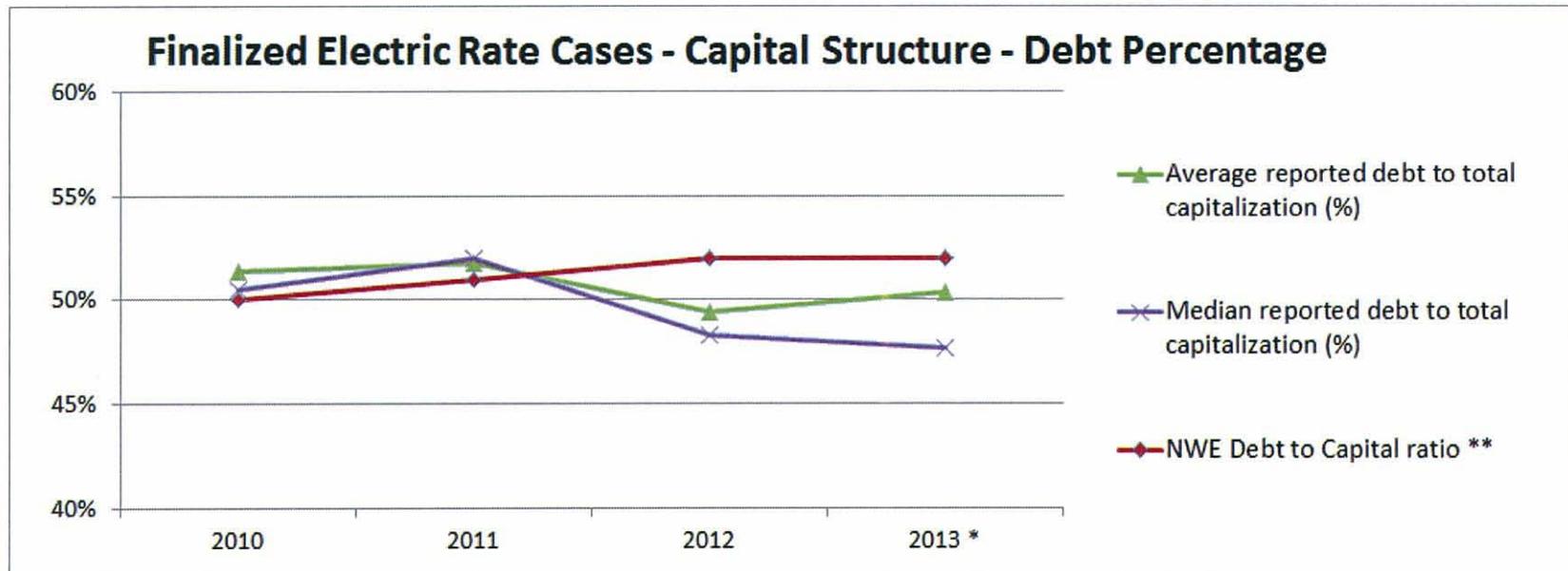
**NorthWestern Energy
 Authorized/Final Order Rate Cases 2010-2013*
 Capital Structure - Percentage of Debt**

Finalized Electric Rate Cases - Capital Structure

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013 *</u>
Number of Rate Cases Finalized	78	57	71	41
Number of rate cases reporting Capital Structure	57	42	52	29
Average reported debt to total capitalization (%)	51.37%	51.74%	49.41%	50.32%
Median reported debt to total capitalization (%)	50.48%	52.00%	48.29%	47.70%
NWE Debt to Capital ratio **	50.00%	50% / 52%	52.00%	52.00% (as filed)

* 2013 data is reported thru 10/31/2013

** Authorized NWE Debt to Cap Ratio: Colstrip in 2009 at 50%, DGGs at 50% & MT Elec Delivery at 52% in 2011, Spion Kop in 2012 at 52% & Hydro at 52% in 2013 (as filed)



All data provided from SNL database as of 10/31/2013