

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

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IN THE MATTER OF NorthWestern	)	REGULATORY DIVISION
Energy's 2012-2013 Electricity Supply	)	
Tracker	)	DOCKET NO. D2013.5.33
	)	
IN THE MATTER OF NorthWestern	)	DOCKET NO. D2014.5.46
Energy's 2013-2014 Electricity Supply	)	
Tracker	)	

**RESPONSES OF THE MONTANA CONSUMER COUNSEL  
TO THE PUBLIC SERVICE COMMISSION**

**PSC-035**

Regarding: 2014-2015 Tracking Period  
Witness: Donkin

Has NorthWestern requested final approval of any costs associated with hedging deals entered into after November 18, 2014 in this proceeding?

**RESPONSE:**

Mr. Donkin does not know the extent to which NorthWestern may have entered into new off-system hedging transactions after November 18, 2014 and whether any such transactions are included in the 2014/2015 figures used by NWE as the basis for its rate request in D2014.5.46.

**PSC-036**

Regarding: Outage Cost Estimate  
Witness: Wilson

You testify, “NWE has calculated several ‘estimates of what the actual power replacement costs might have been’, and note “an earlier estimate . . . that was made by the Commission staff,” but you do not provide your own estimate of the replacement power costs attributable to the outage.

- a. Have you analyzed or estimated the costs attributable to the outage that NorthWestern is seeking to recover in this proceeding? Please provide your estimate(s).
- b. Should the Commission be concerned that the only party to this proceeding that has provided estimates of these costs is the party seeking cost recovery?
- c. Do you take any position with respect to the accuracy or methodology underlying any of the figures that you set forth on page 14 of your testimony? Please explain.

**RESPONSE:**

- a. I have reviewed and analyzed the estimated costs attributable to the outage that were made by NorthWestern and by the Commission Staff. I have not made independent estimates of these costs.
- b. While that may be a legitimate concern, in this case the fact that the Commission Staff made its own estimate of the costs tempers the concern. Moreover, the estimates made by the Commission Staff and by NorthWestern can be checked against reported cost data for further evaluation.
- c. In my opinion the capacity factor and spot price purchase assumptions in the Staff calculation are the most reliable.

Capacity factor in the Staff calculation is the actual capacity factor for CU3 during the outage period. In the Staff calculation as well as in each of the three NWE calculations, estimated MWh without the outage were based on the assumption that CU4 would have operated at the CU3 capacity factor absent the outage. The same assumption seems appropriate for the CU4 capacity factor, itself.

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**PSC-036 continued**

Spot purchases in the Staff calculation reflect actual monthly spot purchases as reported in the Company's May 29, 2014 Electricity Supply Tracker filing. This would seem to be a better estimate of the most likely cost of the pertinent supply than an alternative average hourly spot price for the NorthWestern delivery system.

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**PSC-037**

Regarding: Replacement Power Costs  
Witness: Wilson

On page 17 of your testimony, you refer to the “incremental cost of replacement power,” and also suggest denial of “cost recovery for replacement power costs.”

Is it your position that the Commission should disallow all replacement costs associated with the outage, or merely the incremental replacement costs associated with the outage? Please explain what you mean by incremental.

**RESPONSE:**

By “incremental cost of replacement power” I mean costs in excess of the cost of supply absent the outage. In other words, supply cost increases attributable to the outage should not be recovered from ratepayers. As stated in the testimony, while the prior approval that was granted for CU4 may still make it reasonable to allow for the recovery of replacement power costs up to the total cost of owning (and paying the costs of operating) the CU4 plant, it does not seem reasonable to now charge ratepayers a greater amount, including both full CU4 fixed plant costs and the incremental costs of replacement power, due to a plant outage for which ratepayers were not responsible.

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**PSC-038**

Regarding: Electricity Supply Costs  
Witness: Wilson

For the 2013-2014 tracking period, NorthWestern seeks final approval to collect a total of \$411,720,021 through electricity supply rates:

\$273,282,745 for supply costs +  
\$72,745,544 + \$19,007,429 for CU4 costs +  
\$28,234,531 + \$12,210,687 for DGGS costs +  
\$6,217,360 + \$21,725 for Spion Kop costs

*See Response to MCC-076 (Nov. 7, 2014).*

- a. Is it your position that some of the electricity supply costs that NorthWestern claims in this proceeding were not actually incurred? If so, please identify the amount that was not actually incurred.
- b. Is it your position that some of the electricity supply costs that NorthWestern claims for the 2013-2014 tracking period were not prudently incurred? If so, please identify the amount that was not prudently incurred.
- c. Given your testimony regarding CU4 replacement power costs and lost revenues, of the \$411,720,021 associated with the 2013-2014 tracking period, what amount should ultimately be recovered by the utility through the electricity supply rates?

**RESPONSE:**

- a. No. Though it is the case that NWE apparently intends to collect more than its total supply costs because it does not intend to credit ratepayers for certain cost savings attributable to the CU4 outage – such as labor cost savings related to furloughed workers and maintenance cost savings during the outage. See response to MCC-059.
- b. Based on the Company's testimony in this case, it cannot be concluded that the outage-related replacement power costs (without recourse to insurance or to parties responsible for the outage) were incurred prudently. This is so because, although the Company believes that the outage was caused in part or in whole by maintenance work being performed on the generator by Siemens under PPLM's supervision and direction during the May/June planned overhaul of the plant, NWE:

**PSC-038 continued**

- 1) has not determined whether PPLM, the plant operator responsible for plant maintenance and for hiring and supervising Siemens' overhaul work, believes that any of the overhaul work that caused the plant outage was done improperly, negligently or not in accordance with industry standards;
  - 2) has made no determination whether it can pursue any actions to recover all or part of the costs incurred by the outage from Siemens, PPLM, their insurers, or from any other party;
  - 3) has not determined if any of the other owners of CU4 have attempted to recover replacement power costs from Siemens;
  - 4) is just now (after the fact) in the process of investigating the costs and benefits of obtaining outage insurance for Colstrip 4; and
  - 5) does not intend to credit ratepayers with the labor cost savings that were realized because of the plant outage.
- c. While I have not performed the calculation, it is my testimony that power supply costs in excess of the cost of supply absent the CU4 outage (i.e., supply cost increases attributable to the outage) should not be recovered from ratepayers. In addition, it is my recommendation that so-called "lost revenues" should no longer be charged to ratepayers. In the 2013-2014 tracking period these "lost revenues" amounted to \$10,058,433.

**PSC-039**

Regarding: Lost Revenue Repetition at 23:10-13  
Witness: Wilson

- a. When did you first become aware that “NWE’s LRAM methodology assumes that each prior year’s conservation fully repeats itself in each subsequent year and that the Company is entitled to full lost revenue compensation for the assumed repetition of that estimated conservation in each year?”
- b. Has this aspect of NWE’s LRAM methodology changed since the Commission first approved NorthWestern’s recovery of lost revenues in 2005?
- c. Can you provide specific examples of repeated savings and associated lost revenues that are unwarranted? If so, please explain.

**RESPONSE:**

- a. My recollection is that I have known this since the Commission first approved NorthWestern’s recovery of lost revenues in 2005. However, at that time I did not anticipate the immense growth that has occurred in NWE’s LRAM claims nor the degree of annual pyramiding of those claims that has occurred in recent years.
- b. While it has grown immensely and pyramided over time as general rate cases have not been filed, this aspect of NWE’s LRAM methodology has remained mechanically the same since 2005.
- c. As I stated in my testimony, only about 9 percent of the estimated \$12,665,362 of lost revenues in the 2014/2015 tracker year total relates to estimated conservation initiated in the 2014/2015 tracker year. The other 91 percent is simply the assumed repetition of estimated conservation from prior years. In fact, 45 percent of the total is assumed re-repetition and re-re-repetition of estimated annual conservation from tracker years 2011/2012 and earlier. This is largely attributable to the fact that NWE has elected not to file a general rate case since its last rate case was filed in 2009.

While it is difficult to specifically identify particular examples of the unwarranted repetition of claimed lost sales (largely because estimated conservation has been just that -- non-specific estimates -- rather than particular metered and identified sales reductions) it is common sense that as time passes conservation that was estimated to have been initiated by NWE’s promotion of conservation in earlier years will fall off in later years either due to attrition or

**PSC-039 continued**

the fact that, over time, customers would have been likely to achieve some economic conservation on their own without NWE's promotion.

Although it is probable that there may be some repetition of certain conservation initiatives in some subsequent years and that some growth in accumulated lost revenues may occur over time, annual savings from particular programs are also virtually certain to decrease and result in less certain estimated energy savings in later years and savings that are less certainly linked exclusively to NWE's conservation programs. This is particularly the case if it is recognized that a direct causal connection to NWE's early promotional initiatives is not highly likely for conservation that occurs years later when the associated conservation practices have become commonplace and widely adopted as consumers become educated over time. As consumers understand the financial savings that are possible, they are ultimately motivated to conserve by their own economic interests.

A specific example in this case is that a significant portion of NWE's claimed lost revenues derives from the assumption that NWE should continue to be compensated for shifts that have occurred over the years to more efficient lighting, even though such shifts have now generally happened nationwide, encouraged by laws and initiatives that are not dependent on NWE's programs to promote energy conservation.

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**PSC-040**

Regarding: Lost Revenue Disallowance  
Witness: Wilson

At 33:18-20 you recommend that if any interim revenue adjustments are retained, they should be limited to traditional fuel and purchased power costs.

- a. Are you recommending that the Commission disallow all or part of the requested lost revenues in these consolidated dockets?
- b. If so, please specify the amount of disallowance you are recommending, accompanied by electronic worksheets to support the recommendation.

**RESPONSE:**

- a. Yes. While it would be possible for the Commission to disallow some claimed “lost revenues” and to allow the recovery of other amounts, it is my recommendation that the “lost revenue” recovery procedure be eliminated entirely.
- b. See response to part (a) of this question.