Service Date: December 23, 2013

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

In the Matter of NORTHWESTERN ENERGY, Application for Approval of Unreflected Gas Cost Account Balance, Projected Gas Cost and Gas Transportation Adjustment	)))))	REGULATORY DIVISION DOCKET NO. D2013.5.34

DATA RESPONSES OF THE MONTANA CONSUMER COUNSEL

PSC-020
Regarding: Testimony, pg. 7, ll. 7-11
Witness: Donkin

Please explain the relationship between USB programs and the increase in customers.

RESPONSE:

The only relationship between USB programs and an increase in customers that is relevant to the referenced testimony is the fact that between rate cases an LDC's non-gas revenues increase with net customer growth, and this will tend to offset to some extent any decrease in non-gas revenues that may have resulted from the utility's USB-related DSM activities.

PSC-021

Regarding: Testimony, pg. 7, ll. 16-18
Witness: Donkin

a. Please cite examples where non-gas cost tracker recovery has produced an actual rate of return exceeding a gas utility's cost of capital.

b. If NWE was granted full recovery of its non-gas costs in its USB programs, would that recovery produce an actual rate of return exceeding NWE's cost of capital? Why or why not?

RESPONSE:

a. The referenced testimony is not specific to a particular LDC or a particular non-gas cost tracker mechanism. It is, rather, addressing on a conceptual basis the fact that non-gas cost tracker recovery will reduce an LDC's business risk, with a concomitant reduction in the utility's cost of capital. The extent to which that in turn results in an actual rate of return that exceeds the LDC's cost of capital would depend on other factors, including how the regulatory authority arrives at the LDC's allowed rate of return.

b. See the response to PSC-021(a), above.

PSC-022

Regarding: Testimony, pg. 8, ll. 1-2
Witness: Donkin

a. Please explain that if a company has no control over gas costs, how that reduces management incentives to control costs.

b. Are you saying that if a company is allowed 100% recovery of automatic tracker adjustments, management has no incentive to control costs? Please explain.

RESPONSE:

a. Since the 1970s, it has been widely assumed by regulators that regulated buyers of natural gas, i.e., pipelines and LDCs in the merchant function, have no control over gas supply prices, but they do have some control over gas supply costs. Because gas supply prices are somewhat volatile, beginning in the 1970s gas cost tracker/PGA mechanisms were implemented to provide pipelines and LDCs with more timely recovery of their prudently incurred gas supply costs, without having to file new general rate cases supporting new total costs of service and revenue requirements. Without gas cost tracker recovery, pipelines and LDCs would absorb actual gas supply costs in excess of the level of gas supply costs embedded in rates, and retain gas supply cost-related revenues in excess of the level of gas supply costs embedded in rates. Under these circumstances pipelines and LDCs had a significant incentive to purchase gas supplies at lowest reasonable costs. Most regulators and analysts of natural gas utilities believe that this incentive is somewhat reduced when actual gas supply costs are recovered through gas tracker/PGA mechanisms.

b. No. See the response to PSC-022(a.), above.

PSC-023

Regarding: Testimony, pg. 8, ll. 16-18
Witness: Donkin

a. What do you believe caused the increase in USB expenses from $19.63 to $60.34?

b. As houses, etc., become more and more energy efficient, would it make sense that the cost per Dkt would increase as the "low-hanging fruit" disappears? Please explain.

RESPONSE:

a. NWE's response to Data Request PSC-003 (a), which includes in part the following "NorthWestern's natural gas DSM programs are currently producing at an approximate level of 100,000 Dkt of new incremental energy savings each year. The USB contribution has steadily declined since the beginning of the DSM Plan and is assumed to be 25% going forward; the non-USB DSM contribution is assumed to be 75%."

   This response is consistent with the downward trend in annual USB-related Dkt savings experienced by NWE during program periods 2006-07 through 2012-13. See Exhibit__(GLD-1). It indicates that going forward there will be less "low-hanging fruit" than was available in the past, and in the future the Dkt savings resulting from USB-related DSM activities will be more costly to obtain than was the case in the past. This is a likely explanation for the referenced increase in USB-related DSM expenses per Dkt of savings.

b. Yes. See also the response to PSC-023(a), above.

PSC-024

Regarding: Testimony, pg. 11, ll. 1-6
Witness: Donkin

a. What was the basis for your reasoning in choosing the discount rates you chose?

b. Would other discount rates be equally applicable? For example, if the savings are expected for 20 years, why not use a 20-year T-bill rate or the CPI average annual change? Please explain.

c. Isn't the gas cost saving inversely predicated on what discount rate is selected, i.e., the higher the discount rate, the less gas cost savings? Please explain.

d. What is the "break-even" discount rate? In other words, what discount rate would be used for gas cost savings so that the savings equaled the out-of-pocket costs?

e. Please provide cites in other USB cases supporting your selection of discount rates.

RESPONSE:

a. The referenced testimony states the basis for the two discount rates – 7.48% is based on the interest rate used by NWE in calculating its deferred account costs in this case, and 10.51% is based on the interest rate used by NWE in calculating its working gas storage costs in this case.

b. The discount rate used in the analysis should reflect the sum of the following: (1) the expected future inflation rate over the 20-year time period; (2) the time value of money to ratepayers; and (3) an appropriate risk premium above components (1) and (2). Twenty-year Treasury bond rates and the expected CPI inflation rate fail to accurately capture all three of these components, primarily because the risk premium associated with the accuracy of long-term natural gas price projections is greater than the risk premium for 20-year treasury bills.

c. Yes – higher discount rates produce lower net present values for future flows of nominal dollar values than lower discount rates.

d. See Tab PSC 24d of the Excel spreadsheet calculations being provided on compact disk in response to NWE and PSC data requests.

e. My selection of discount rates is not based on other USB cases.

PSC-025

Regarding: Testimony, pg. 12, ll. 12-17
Witness: Donkin

a. What is the present new car loan rate? Two examples are fine. Assume a credit rating of 700+ and a 5-year loan life.

b. Please explain why it is reasonable to consider either of the two discount rates you chose in estimating the NPV of future gas cost savings using the examples of credit card debt costs and car loan debt costs.

c. Please cite any cases where those debt costs were used for estimating the NPV of future gas cost savings.

RESPONSE:

a. Bankrate.com reported on December 18, 2013, that for Helena, MT, new car loan rates for 5-year loans ranged between 1.99% at Pentagon Federal Credit Union, and 3.80% at U.S. Bank.

b. First, see the response to PSC-024(b) and (c), above. The discount rates I used in preparing Exhibit__(GLD-3) reflect cost of capital/interest rates used by NWE in evaluating investment decisions or, for example, in calculating the NPV of gas reserves acquisitions vs. buying natural gas at market prices.

c. NWE used its weighted cost of capital in the NPV analyses associated with recent natural gas reserves acquisitions. NWE and I recently used the Company's weighted cost of capital as the discount rate in evaluating the future costs and benefits of extending natural gas service to Townsend, MT.

PSC-026

Regarding: Testimony, pg. 13, ll. 5-9
Witness: Donkin

a. Isn't the comparison of NWE's program period out-of-pocket USB expenses to the NPV of the savings purely a result of the discount factors that were selected by you? Please explain.

b. Explain what you mean by "significantly greater" in line 6.

c. Is this amount a yearly expense or the expense over the lifetime of the USB savings? Please explain.

d. If the expense is over the lifetime what is the annual expense?

RESPONSE:

a. No. The comparison is made to determine if the USB-related activities are or were not cost effective. However, the magnitude of the NPV of future USB-related gas cost savings is affected by the discount rate used in making the comparison. This in turn affects the conclusion to be drawn from the comparison. See also the response to PSC-024(c.), above.

b. The 2012-13 program period out-of-pocket USB expenses exceed the estimated NPV of future USB-related gas cost savings by at least 22.7% ($1,692,380 vs. $1,379,845). That is a significant percentage difference.

c. The $1,692,380 of USB-related expense in the 2012-13 program period is a one-time expense.

d. See the response to PSC-026(c.), above.

PSC-027

Regarding: Testimony, pg. 14, ll. 2-7
Witness: Donkin

a. Is this total additional costs, or per year additional costs? Please explain.

b. What is the percentage of gas revenues of this additional cost?

c. If this is total additional costs over the lifetime of the investment, why was it not discounted to a NPV? Please explain.

RESPONSE:

a. This is the additional costs (estimated to be $166,300) that will be included in the annual gas tracker costs to be approved in this case. If the Commission continues to allow NWE to recover USB-related lost revenues in the Company's annual gas cost tracker, the lost revenues from this year along with future lost revenues will accumulate (with $ amounts varying based on then current natural gas commodity costs) until reset in a future general rate case proceeding.

b. John Smith's Exhibit__(JMS-1S) shows a total gas cost figure (including lost DSM revenue) of $75,541,000, for the 12 months ending June 30, 2013. The estimated lost USB-related DSM revenue of $166,300 represents 0.2% of that amount.

c. The estimated USB-related DSM additional cost for the 2012-13 program period is a one-time increase in NWE's annualized gas cost tracker revenues. Accordingly, there is no need to adjust the estimated nominal amount of $166,300 to a NPV figure.

PSC-028

Regarding: Testimony, pg. 15, ll. 10 through pg. 16, ln. 14
Witness: Donkin

a. If the Commission accepts your recommendation to deny NWE's request for USB recovery in gas trackers, where do you suggest NWE seek recovery of those costs?

b. If your response is that it should be in the context of a general rate case, are you proposing an accounting order to accumulate the costs to recover? Why or why not?

c. Is it your position and contention that costs mandated by legislature should not be allowed to be recovered in rates? Please explain in the context of confiscatory rate making.

RESPONSE:

a. The referenced testimony is addressing so-called lost revenues, not the out-of-pocket costs of NWE's USB activities. All of NWE's prudently incurred out-of-pocket USB-related costs are recovered in its USB expenses tracker.

b. No. See the response to PSC-028(a), above.

c. No. See the responses to PSC-028(a) and (b), above.

PSC-029

Regarding: Attachment A
Witness: Donkin

a. Please list in which cases you directly testify on tracker recovery of lost revenues resulting from USB energy efficiency programs.

b. Please list all cases you directly testified on tracker recovery of lost revenues.

RESPONSE:

a. There are no such cases.

b. There are no other cases in which my testimony addressed tracker recovery of lost revenues.

PSC-030

Regarding: Exhibit No. ___(GLD-1)
Witness: Donkin

a. Do the USB savings only last one year? As an example in the 2006-2007 program period, column (1) indicates annual USB savings in Dkt. Does this mean there is zero savings in year 2? Please explain.

b. Are the USB expenses associated with one specific year a one year only expense, or do the expenses continue every year? Please explain.

c. Would not you take the expected total Dkt savings and divide by total USB expenses to obtain those saving to determine the actual USB expense per Dkt saved? In other words, based on your testimony that USB investments have about a 20-year life, why wouldn't you take, as an example the 2006-2007 program period Dkt savings of 42,393, multiply by 20 years (the expected USB investment life), and divide that into the total USB Gas Tracker expenses? (42,393*20 = 847,860, 832,009/847,860 = $0.98 USB expense per Dkt saved) Please explain.

d. Is the Dkt savings a lost opportunity cost (revenue earned from shipping the gas) for the life expectancy of the savings? Please explain.

RESPONSE:

a. No. USB-related DSM gas cost savings are repeated in subsequent years.

b. USB-related DSM expenses associated with one specific year are assumed to be a one year only expense. No further explanation is necessary.

c. See my response to NWE-002(b).

d. No. USB-related DSM gas cost savings are independent of revenue earned from shipping the gas. Any associated lost revenues are only assumed to last until the next general rate case.

PSC-031

Regarding: Exhibit No. ___(GLD-2)
Witness: Donkin

a. Based on the table you present, if the next row (2013-2014), there was zero investment in USB, and as a result zero additional USB savings in Dkt), would there be zero estimated total gas savings? Please explain.

b. Is it your position that USB savings are predicated on the cost of gas? Please explain.

c. If the answer to (b) is yes, what is your rational for not using the projected gas cost increase of 4% per year as the discount rate?

RESPONSE:

a. No. The USB expenses incurred in program periods 2006-07 through 2012-13 are expected to produce future gas cost savings for many years beyond the 2012-13 program period. See the response to PSC-032(a), below.

b. Yes, as to USB-related DSM savings.

c. See the response to PSC-024(b), above.

PSC-032

Regarding: Exhibit ___(GLD-3)
Witness: Donkin

a. Did you do the same analysis for each of the periods prior to the 2012-2013 year? Why or why not?

b. Did you do a net present value analysis using the total Dkt savings discounted back (400,351 Dkt)? Why or why not?

c. Would the analysis in (b) above be a more accurate indicator of future USB gas cost savings? Why or why not?

RESPONSE:

a. No. Given the levels of gas supply prices prior to program period 2012-13, and the levels of actual annual USB-related Dkt savings that applied to those program periods, NWE's USB-related DSM activities in the earlier program appeared to have been cost effective. This conclusion is confirmed by the spreadsheet calculations contained in Tabs PSC 32(a) 2006-07 through PSC 32(a) 2011-12 of the compact disk being provided in response to NWE and PSC data requests.

b. No. See the response to PSC-032(a) above, which states that USB-related DSM activities in the earlier program periods appeared to have been cost effective. That was not the case for program period 2012-13, an expectation that was confirmed by the NPV analysis presented in Exhibit___(GLD-3).

c. Yes, for program periods 2006-07 through 2011-12. No, for program period 2012-13, and for future program periods.

PSC-033

Regarding: Lost Revenues from Natural Gas DSM Programs
Witness: Donkin

May the Commission infer that MCC is contesting only the lost revenues associated with NWE's natural gas utility USB programs, and is not contesting lost revenues from NWE's natural gas utility DSM programs? If not, please explain.

RESPONSE:

Yes, MCC is only addressing lost revenues associated with NWE's USB-related DSM activities.

PSC-034

Regarding: Termination of natural gas conservation programs
Witness: Donkin

Please describe in detail the circumstances in which MCC would recommend that NWE terminate a non-cost effective natural gas conservation program. How might one measure the usefulness of a program apart from the standard cost metrics?

RESPONSE:

USB-related conservation activities were established by the Montana legislature for electric (§ 69-8-402, MCA) and natural gas (§ 69-3-14082, MCA) retail sales customers of (a) utilities subject to PSC jurisdiction; and (b) cooperatives subject to their governing boards. Accordingly, MCC is not in a position to recommend to the Commission that NWE terminate its USB-related DSM activities. MCC may, however, consider recommending in a future proceeding that the Commission disallow cost recovery of imprudently incurred USB-related DSM expenses, if the evidence in that case were to support such a recommendation.

PSC-035

Regarding: LRAM Incentives
Witness: Donkin

Is there risk that in the absence of lost revenue recovery, NWE might substitute expenditures in USB programs that may be considered throughput neutral, such as bill assistance, for expenditure in programs that produce conservation savings such as weatherization programs? Please discuss whether the Commission should be concerned with such an outcome.

RESPONSE:

No. Please see my pre-filed testimony at page 16, lines 3-14. It is MCC's assumption that the Commission will use its oversight authority to ensure that NWE's USB-related conservation activities are not unreasonably curtailed in the absence of lost revenue recovery in its natural gas tracker.