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 Application for Approval of Unreflected Gas Cost Account Balance and Projected Gas Cost, and Gas Transportation Adjustment Clause Balance	)	REGULATORY DIVISION
	)	DOCKET NO. D2013.5.34
	)	DOCKET NO. D2014.5.47

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

March 18, 2015

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I. PURPOSE OF SUPPLEMENTAL TESTIMONY

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

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

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

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

Q. ARE YOU THE SAME GEORGE L. DONKIN WHO SUBMITTED PRE-FILED DIRECT TESTIMONY ON NOVEMBER 27, 2013 IN DOCKET NO. D2013.5.34?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY AT THIS TIME?

A. The purpose of my supplemental testimony at this time is to respond to additional information that has been produced by NorthWestern Energy (NWE, or the Company) in its responses to discovery requests in these consolidated dockets.

Q. PLEASE DESCRIBE THE PROCEDURAL EVENTS THAT LED UP TO NWE'S DECEMBER 2014 FILING OF SUPPLEMENTAL TESTIMONY AND EXHIBITS IN THESE DOCKETS.

A. This case began with NWE's May 31, 2013 annual gas tracker filing in Docket No. D2013.5.34, for the 12-month period ending June 30, 2013. Following that filing, MCC and the Commission Staff submitted data requests to NWE; MCC submitted my pre-filed direct testimony on USB-related issues on November 27, 2013; the Commission issued a Notice of Additional Issue and suspended the procedural schedule on December 19, 2013, and I responded to data requests of NWE and the Commission Staff relating to my November 27, 2013 pre-filed direct testimony on December 23, 2013. On March 14, 2014, NWE filed a Motion to Consolidate, requesting that the Commission consolidate Docket No. D2013.5.34 with

its upcoming annual gas tracker filing for the 12-month period ending June 30, 2014, to be filed on May 29, 2014. That filing became Docket No. D2014.5.47. On June 10, 2014, the Commission granted NWE's Motion to Consolidate Docket No. D2013.5.34 with Docket No. D2014.5.47. The Commission Staff and MCC submitted data requests to NWE on its May 29, 2014 filing in Docket No. D2014.5.47. On October 10 and 22, 2014, NWE indicated it would not be able to adhere to the schedule in these consolidated dockets, and on October 23, 2014, the procedural schedule in these consolidated dockets was suspended. On December 5, 2014, NWE filed supplemental testimony in these consolidated dockets, and on January 27, 2015, the Commission issued a new procedural schedule that provided for additional data requests on NWE's 2014 gas tracker application and 2014 supplemental testimony, and for pre-filed testimony from intervenors.

II. NOVEMBER 27, 2013 DIRECT TESTIMONY

Q. IS IT CORRECT THAT YOUR NOVEMBER 27, 2013 DIRECT TESTIMONY IN THIS CASE WAS BASED SOLELY ON THE COMPANY'S APPLICATION AND RESPONSES TO COMMISSION STAFF AND MCC DISCOVERY REQUESTS IN DOCKET NO. D2013.5.34?

A. That is correct.

Q. WHAT ISSUE DID YOU ADDRESS IN YOUR NOVEMBER 27, 2013 DIRECT TESTIMONY IN THIS CASE?

A. NWE's gas tracker filing in Docket No. D2013.5.34 is for the 12-month period ending June 30, 2013. One of the components of expenses for which NWE seeks Commission approval is the estimated lost revenues that result from its estimates of Dkt reductions in natural gas usage that take place under its Universal Systems Benefits (USB) and Natural Gas Supply Demand Side Management (DSM) energy efficiency programs. I was asked by the MCC to analyze the Company's filing in Docket No. D2013.5.34, including the USB-related lost Dkt sales and related lost revenues the Company had included in its 2012-13 program period gas tracker costs, and

to present the Commission with the results of my analysis in the form of direct testimony and related exhibits.

Q. PLEASE DESCRIBE THE USB PROGRAMS THAT PRODUCE NWE'S ESTIMATED LOST DKT SALES AND RELATED LOST REVENUES.

A. NWE's estimated lost Dkt sales and related lost revenues are the result of two USB conservation programs: (1) the "E + Free Weatherization Program" and (2) the "E + Energy Audit for the Home" Program. NWE's out-of-pocket expenses for these two programs are recovered through separate USB annual natural gas tracker filings.

Q. PLEASE SUMMARIZE THE OPINIONS, CONCLUSIONS, AND RECOMMENDATIONS THAT YOU PRESENTED IN YOUR NOVEMBER 27, 2013 DIRECT TESTIMONY.

A. My November 27, 2013 direct testimony in Docket No. D2013.5.34 contains the following opinions, conclusions, and recommendations:

1. Tracking USB and DSM lost revenues can produce periodic rate increases without taking into account other factors that would support no rate change, or even a rate reduction. While it may be

that the Company's USB programs result in some level of reduction in gas sales and revenues, growth in the number of customers served continues to take place on the system, along with the concomitant increased gas sales in between rate cases.

2. Automatic rate adjustments between general rate cases can reduce business risk, relative to the business risk that may have been used by a Commission in arriving at the cost of capital associated with the regulated utility's investments in gas utility operations. If that is so, non-gas cost tracker recovery may produce an actual rate of return that exceeds the gas utility's cost of capital.

3. Automatic tracker rate adjustments may reduce management incentives to control costs.

4. My Exhibit No.___(GLD-1) shows NWE's annual out-of-pocket USB expenses from program periods 2006-07 through 2012-13, ranged between a low of $832,006 in program period 2006-07, and a high of $2,323,629 in program period 2010-11; total USB expenses during the entire 7-year period were $11,341,305.

5. Exhibit No.___(GLD-1) shows that NWE's USB expenses per Dkt saved increased significantly in recent years, from $19.63 per Dkt in program period 2006-07, to $34.02 per Dkt in program period 2011-12, and to $60.34 per Dkt in program period 2012-13.

6. My Exhibit No.___(GLD-2) shows that NWE's estimates of the values of gas cost savings that were produced by its out-of-pocket USB expenses from 2006-07 through 2012-13 amounted to $8,072,461. The estimated values of the gas cost savings that were produced by NWE's out-of-pocket USB expenses were $3,268,844 less than expenses from 2006-07 through 2012-13.

7. My Exhibit No. ___(GLD-3) shows that (a) with a discount rate of 7.48%, the estimated net present value (NPV) of future gas cost savings due to NWE's 2012-13 out-of-pocket USB expenses is $1,379,845, and (b) with a discount rate of 10.51%, the estimated NPV of future gas cost savings due to NWE's 2012-13 out-of-pocket USB expenses is $1,075,365.

8. NWE's 2012-13 program period out-of-pocket USB expenses were $1,692,380. That amount is significantly greater than the

estimated NPVs of future gas costs savings ($1,379,845 at a discount rate of 7.48%, or $1,075,365 at a discount rate of 10.51%), that are presented in Exhibit No.___(GLD-3).

9. Under the current practice ratepayers also pay increased gas tracker rates to compensate NWE for its estimated lost revenues relating to 2012-13 USB activities.

10. The significant increases that are reflected in NWE's USB-related expenses per Dkt saved that have taken place in recent years suggest that ratepayers are no longer realizing positive NPV benefits from the Company's USB activities. I therefore recommend that the Commission deny NWE's request for gas tracker recovery of USB-related lost revenues, for both the 2012-13 program period and for future program periods.

11. The foundation for lost revenue recovery for estimated reduced sales resulting from demand-side activities is the belief that without lost revenue recovery, NWE would benefit from promoting wasteful natural gas usage and may not adequately support cost-effective natural gas conservation programs. The termination of lost revenue recovery in its natural gas tracker

should not produce a disincentive for NWE to pursue cost-effective USB conservation programs. NWE's out-of-pocket USB energy efficiency programs stem from a legislative mandate. Accordingly, NWE is not in a position to avoid promoting cost-effective USB energy efficiency programs, with or without gas tracker recovery of lost revenues that result from such programs.

III. ISSUES ADDRESSED IN SUPPLEMENTAL TESTIMONY

Q. WHAT ISSUES ARE YOU ADDRESSING IN THIS SUPPLEMENTAL TESTIMONY?

A. Exhibit ___ (GLD-1) to my November 27, 2013 direct testimony presents comparisons of NWE's USB-related expenditures with estimated USB Dkt savings for program periods 2006-07 through 2012-13. NWE's filing in Docket No. D2014.5.47 presents USB-related data for the additional program period 2013-14. This pre-filed supplemental testimony updates Exhibit ___ (GLD-1) in the form of Exhibit ___ (GLD-4), which includes the additional comparison of NWE's USB-related expenditures with estimated USB Dkt savings for program period 2013-14.

Exhibit ___ (GLD-3) to my November 27, 2013 direct testimony presents comparisons of my estimates of the NPV of future USB-related gas cost savings with NWE's USB expenditures in program period 2012-13. Exhibit ___ (GLD-5) to this supplemental testimony presents similar comparisons of my estimates of the NPV of future gas cost savings from NWE's program period 2013-14 USB activities with the USB expenditures that produced those gas cost savings.

Q. DO YOU ALSO ADDRESS NWE'S RATE TREATMENT OF ITS COMPANY-OWNED GAS PRODUCING PROPERTIES IN THIS SUPPLEMENTAL TESTIMONY?

A. Yes.

IV. ADDITIONAL TESTIMONY ON NWE'S USB ACTIVITIES

Q. YOU STATED IN YOUR NOVEMBER 27, 2013 DIRECT TESTIMONY THAT SIGNIFICANT INCREASES IN NWE'S USB EXPENSES IN RECENT YEARS SUGGEST THAT RATEPAYERS ARE NO LONGER REALIZING NPV BENEFITS FROM NWE'S USB ACTIVITIES. THAT OPINION WAS BASED IN PART ON A COMPARISON OF THE LEVEL OF THE COMPANY'S USB EXPENDITURES IN PROGRAM PERIOD 2012-13, WITH YOUR ESTIMATES OF FUTURE GAS COST SAVINGS RESULTING FROM 2012-13 USB ACTIVITIES, CORRECT?

A. That is correct.

Q. IS IT ALSO CORRECT THAT THE USB EXPENDITURES AND ESTIMATED DKT SAVINGS DATA SUPPORTING THAT OPINION WERE PROVIDED BY NWE IN RESPONSES TO DATA REQUESTS AND THE PREFILED DIRECT TESTIMONY OF MR. THOMAS IN DOCKET NO. D2013.5.34?

A. That is also correct.

Q. DOES MR. THOMAS'S PREFILED DIRECT TESTIMONY IN DOCKET NO. D2014.5.47 PRESENT USB DKT SAVINGS DATA FOR PROGRAM PERIOD 2013-14?

A. Yes. Page WMT-4 of Mr. Thomas's direct testimony in Docket No. D2014.5.47 shows a reported USB Dkt savings figure for program period 2013-14 of 29,881 Dkt.

Q. HAS NWE PROVIDED USB EXPENDITURES DATA FOR PROGRAM PERIOD 2013-14 IN RESPONSE TO A DISCOVERY REQUEST IN DOCKET NO. D2014.5.47?

A. Yes. The Company's response to MCC-046 in Docket No. 2014.5.47 shows the following USB expenditures figures for program period 2013-14: (1) E+ Free Weatherization = $1,403,285.31, and (2) E+ Energy Audit for the Home = $1,064,299.79.

Q. HAVE YOU USED THE ADDITIONAL DKT SAVINGS AND EXPENDITURES FIGURES FOR NWE'S USB PROGRAM PERIOD 2013-14 TO PREPARE UPDATED VERSIONS OF EXHIBITS ___ (GLD-1) - ___ (GLD-3) OF YOUR NOVEMBER 27, 2013 DIRECT TESTIMONY IN DOCKET NO. D2013.5.34?

A. Yes. Updated versions of my Exhibits ___ (GLD-1) and ___ (GLD-3) are presented as Exhibits ___ (GLD-4) and ___ (GLD-5) of this supplemental direct testimony.

Q. WHAT OPINIONS AND CONCLUSIONS DO YOU REACH FROM EXHIBITS ___ (GLD-4) AND ___ (GLD-5) OF YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A. The data presented in Exhibits ___ (GLD-4) and ___ (GLD-5) reinforce the opinions and conclusions I presented in my November 27, 2013 direct testimony regarding the Company's USB activities. For example:

- Exhibit ___ (GLD-4) shows that NWE's USB expenditures increased significantly – from nearly $1.7 million in program period 2012-13 to nearly $2.5 million in program period 2013-14

– with very little increase – from 28,048 Dkt to 29,881 Dkt – in annual USB Dkt savings.

- Exhibit ___ (GLD-4) also shows that current year USB expenses per Dkt saved were far greater in program period 2012-13 ($60.34) and program period 2013-14 ($82.58), than they were in previous program periods, when they ranged between $15.52 and $34.02.

- Exhibit ___ (GLD-4) demonstrates that NWE's USB activities in program periods 2012-13 and 2013-14 were far less cost effective than they had been in previous program periods.

- Exhibit ___ (GLD-5) presents my calculations of the estimated NPV of future gas cost savings to be realized over a 20 year period from NWE's USB activities in program period 2013-14; they range between a low of about $1.1 million (at a discount rate of 10.51%) and a high of just over $1.4 million (at a discount rate of 7.48%). These estimates of future gas cost savings from program period 2013-14 USB activities are far below the nearly $2.5 million of USB expenditures that NWE incurred in that same program period.

- The fact that NWE's USB-related expenditures in program periods 2012-13 and 2013-14 have greatly exceeded the NPV of estimated future gas cost savings from those activities demonstrates that the Company's USB activities are no longer cost effective at the expenditure levels now being incurred by the Company.

Q. HAS THE MONTANA DEPARTMENT OF REVENUE (DOR) PROVIDED GUIDANCE REGARDING HOW TO MEASURE THE COST EFFECTIVENESS OF ENERGY CONSERVATION?

A. Yes. DOR's public purpose definitions include the following:

- Cost-effective energy conservation – the installation or implementation of an energy efficient measure or practice which results in a reduction of energy usage**.** ***Cost-effective means that the expected benefits accrued as a result of pursuing the action must exceed the expected costs associated with that action over some reasonable period of time***. Permitted energy conservation expenditures/credits subject to DOR review are found at

ARM 42.29.106 and include energy audits and DSM programs. (Emphasis added)

- Low-income customer weatherization – a group of energy assistance measures targeted at improving energy efficiency and energy related safety of low-income homes. Permitted low-income weatherization expenditures/credits subject to DOR review are found at ARM 42.29.107.

Q. WHAT THEN ARE YOUR OVERALL CONCLUSIONS REGARDING NATURAL GAS TRACKER RECOVERY OF LOST REVENUES RESULTING FROM NWE'S USB ACTIVITIES?

A. As I stated in my November 27, 2013 pre-filed direct testimony in Docket No. D2013.5.34, the termination of lost revenue recovery in its natural gas tracker should not produce a disincentive for NWE to pursue cost-effective USB conservation programs. Moreover, NWE's out-of-pocket USB energy efficiency programs stem from a legislative mandate. Accordingly, NWE is not in a position to avoid promoting USB energy efficiency programs, with or without gas tracker recovery of lost revenues that result from such programs. I recommended therefore that the Commission terminate lost revenue recovery for USB-related activities in NWE's natural gas tracker.

In addition, the NPV cost/benefit analyses presented in Exhibits ___ (GLD-3) and ___ (GLD-5) demonstrate that NWE's USB activities in recent years fail to pass DOR's cost effectiveness test; the expected benefits accrued as a result of pursuing the actions are not expected to exceed the costs incurred over some reasonable period of time in the future. This represents further support for my recommendation that the Commission reject NWE's request to include estimated lost revenues from USB activities in its recoverable gas costs in these consolidated dockets and in future natural gas tracker filings.

V. GAS PRODUCING PROPERTIES COST OF SERVICE

Q. ARE YOU FAMILIAR WITH NWE'S PURCHASE OF GAS PRODUCING PROPERTIES IN MONTANA IN RECENT YEARS?

A. Yes.

Q. HOW HAS NWE REFLECTED THE COSTS OF GAS SUPPLIES BEING ACQUIRED FROM ITS COMPANY-OWNED GAS PRODUCING PROPERTIES IN ITS GAS COST RATES SINCE THE PROPERTIES WERE ACQUIRED?

A. Beginning with its acquisition of the Battle Creek property in 2010, and continuing with the acquisitions of the Bear Paw property in 2012, and the Devon property in 2013, NWE has used a "bridging concept" to recover the estimated fixed cost of service for each property. The "bridge" allows NWE to begin recovering the fixed costs of an acquired gas producing property on an interim basis as a component of total gas costs in its monthly gas tracker filings until the producing property "is proposed for treatment in a future filing." See NWE's October 10, 2010 cover letter to its November 1, 2010, regular monthly gas tracker filing in Docket No. D2010.7.75. See also John Smith's pre-filed direct testimony in Docket No. D2011.5.36, at JMS-7, which states "…this bridging concept would allow NWE to recover the Battle Creek cost of service through the natural gas tracking case on an interim basis until a Battle Creek revenue requirement filing could be made and processed in the future."

Q. PLEASE DESCRIBE HOW NWE HAS DEVELOPED THE BRIDGE RATE COMPONENTS OF THE GAS COST RATES THAT HAVE BEEN INCLUDED IN ITS MONTHLY GAS TRACKER FILINGS.

A. NWE's "bridging concept" interim rates have been in the form of a $/Dkt of total Company-billed Dkt sales increment, that is added to the Company's traditional purchased gas cost tracker rates. The increment has been calculated as follows:

1. Estimate the first year Dkt production volume and first year annual fixed cost revenue requirement for the newly acquired gas producing property.

2. Estimate the Company's total annual billed Dkt supply volume.

3. Divide the estimated first year annual fixed cost revenue requirement by the estimated total annual billed Dkt supply volume, to produce the $/Dkt increment to be added to the traditional purchased gas tracker rate in monthly gas tracker filings. Thus, the increment that is reflected in the tracker does not reflect a $/Dkt rate for the individual gas producing

properties, but represents costs spread out over total sales volumes.

Q. HAS NWE MADE A REVENUE REQUIREMENT FILING FOR BATTLE CREEK?

A. Yes; on March 30, 2012, in Docket No. D2012.3.25. That filing produced a Commission-approved fixed cost unit rate for Battle Creek of $0.1252/Dkt.

Q. DID NWE MAKE ANY SUBSEQUENT CHANGES TO ITS FIXED COST RECOVERY RATE FOR BATTLE CREEK IN ITS ANNUAL GAS TRACKER FILINGS?

A. Yes. In Docket No. D2013.5.34, Mr. Smith's Exhibit ___ (JMS-2), at Line 47, shows a Battle Creek unit rate increment of $0.1237/Dkt. In Docket No. D2014.5.47, Mr. Smith's Exhibit ___ (JMS-2), at Line 48, shows that same Battle Creek unit rate increment of $0.1237/Dkt.

Q. HOW DID NWE DEVELOP THE FIXED COST GAS TRACKER RATES FOR ITS BATTLE CREEK GAS PRODUCING PROPERTY FOR THE PROJECTED PERIOD JULY 2014 – JUNE 2015?

A. NWE's response to PSC-040 a. presents the Company's calculation of the fixed cost tracker rate of $0.1237/Dkt for Battle Creek for July 2014 – June 2015. That calculation was based on a "2011 Test Period Normalized Load" of 19,912,975 Dkt, and NWE's estimated fixed cost revenue requirement for Battle Creek for the 12-months ended December 31, 2011.

Q. WHAT DO YOU CONCLUDE FROM THE FACT THAT NWE HAS USED UNIT RATE INCREMENTS RANGING BETWEEN $0.1252/DKT AND $0.1237/DKT FOR BATTLE CREEK IN ITS LAST THREE ANNUAL NATURAL GAS TRACKER FILINGS?

A. The Company's response to Data Request PSC-40 a. shows that the 2014/15 tracker period unit rate increment for Battle Creek is based on an estimated 2011 fixed cost revenue requirement. It appears therefore that the 2013/14 tracker period unit rate increment of $0.1237/Dkt for Battle Creek was also based on an estimated 2011 fixed cost revenue requirement. It also appears that the 2012/13 tracker period unit rate increment of $0.1252/Dkt for Battle Creek was based on an estimated fixed cost revenue requirement

that was similar to and perhaps the same as the fixed cost revenue requirement that was used to produce the $0.1237/Dkt unit rate increment.

Q. WHAT ARE THE FIXED COST "BRIDGE" RATES FOR NWE'S BEAR PAW AND DEVON GAS PRODUCING PROPERTIES IN THE COMPANY'S FILING IN DOCKET NO. D2014.5.47?

A. NWE's filing in Docket No. D2014.5.47 contains the following fixed cost "bridge" rates for the projected period July 2014 – June 2015:

- Bear Paw - $0.1817/Dkt. See Exhibit JMS-2, Line 51.
- Devon - $0.9308. See Exhibit JMS-2, Line 54.

Q. HOW DID NWE DEVELOP THE FIXED COST GAS TRACKER RATES FOR ITS BEAR PAW AND DEVON GAS PRODUCING PROPERTIES FOR THE PROJECTED PERIOD JULY 2014 – JUNE 2015?

A. NWE's response to PSC-041 a. presents the Company's calculation of the fixed cost tracker rate of $0.1870/Dkt for Bear Paw. That calculation was based on the estimated first year fixed cost revenue requirement for the twelve months ended December 2012 that is contained in NWE's February 23, 2012 original purchase analysis for the Bear Paw acquisition, adjusted

"to reflect current delivery to Montana retail customers." See also NWE's Updated Attachment to its response to PSC-041 a.

NWE's response to PSC-042 a. presents the Company's calculation of the fixed cost tracker rate of $0.9308/Dkt for Devon. That calculation was based on the estimated first year fixed cost revenue requirement for the twelve months ended December 2013 that is contained in NWE's November 11, 2013 purchase analysis for the Devon acquisition. See also NWE's Updated Attachment to its response to PSC-042 a.

Q. HAVE NWE'S FIXED COST "BRIDGE" RATES FOR THE BEAR PAW AND DEVON PRODUCING PROPERTIES CHANGED SINCE THEY WERE FIRST INCLUDED BY NWE IN ITS MONTHLY GAS TRACKER FILINGS?

A. No, they have not.

Q. ARE NWE'S FIXED COST REVENUE REQUIREMENTS AT ITS PRODUCING PROPERTIES EXPECTED TO HAVE CHANGED SINCE 2012, IN THE CASE OF BEAR PAW, AND SINCE 2013, IN THE CASE OF DEVON, SINCE THEY WERE FIRST INCLUDED BY THE COMPANY IN ITS MONTHLY GAS TRACKER FILINGS?

A. Yes. This may be seen by reference to Exhibits ___ (GLD-6) and ___ (GLD-7). Exhibit ___ (GLD-6) shows that NWE is forecasting that the Devon annual fixed cost revenue requirement will decline from $17.9 million in 2013 to $15.7 million in 2015. Similarly, Exhibit ___ (GLD-7) shows that NWE is forecasting that the Bear Paw annual fixed cost revenue requirement will decline from $4.7 million in 2012 to $3.4 million in 2015.

Q. HOW WOULD THE FORECASTED DECLINE IN FIXED COST REVENUE REQUIREMENTS AFFECT FIXED COSTS PER DKT OF TOTAL ANNUAL BILLED SUPPLY DKT VOLUMES AT NWE'S DEVON PRODUCING PROPERTY?

A. Declines over time in the fixed cost revenue requirement would reduce the unit rate per Dkt of annual billed supply at the Devon producing property. Exhibit ___ (GLD-6) shows that NWE's forecast has the Devon fixed cost

per Dkt of billed supply declining from $0.9308/Dkt in 2013 to $0.8103/Dkt during July 2014 – June 2015.

Q. HOW WOULD THE FORECASTED DECLINE IN FIXED COST REVENUE REQUIREMENTS AFFECT FIXED COSTS PER DKT OF TOTAL ANNUAL BILLED SUPPLY DKT VOLUMES AT NWE'S BEAR PAW PRODUCING PROPERTY?

A. Declines over time in the fixed cost revenue requirement would reduce the unit rate per Dkt of annual billed supply at the Bear Paw producing property. Exhibit ___ (GLD-7) shows that NWE's forecast has the Bear Paw fixed cost per Dkt of billed supply declining from $0.1817/Dkt in 2012 to $0.1794 during July 2014 – June 2015.

Q. THE DIFFERENCE BETWEEN THE ORIGINAL BEAR PAW TRACKER RATE OF $0.1817/DKT AND THE $0.1794/DKT RATE SHOWN IN EXHIBIT ___ (GLD-7) FOR JULY 2014 – JUNE 2015 IS NOT NEARLY AS GREAT AS THE COMPARABLE DIFFERENCE FOR DEVON THAT IS SHOWN IN EXHIBIT ___ (GLD-6). WHY IS THAT?

A. It is my understanding that when NWE made its initial "bridging concept" filing for the Bear Paw acquisition, there was a transportation bottleneck that limited its takes for delivery to Montana ratepayers to 1,204,500 Dkt, as opposed to the estimated 2012 Bear Paw production of 1,601,000 Dkt shown in the February 23, 2012 original purchase analysis. Accordingly, the Company calculated its initial fixed cost gas tracker rate for Bear Paw with a lower gas production Dkt volume and a corresponding lower fixed revenue requirement ($3,565,320, not $4,740,046). As shown at Line 7 of Exhibit ___ (GLD-7), had the somewhat greater Dkt volumes and fixed revenue requirement been used, the initial fixed cost gas tracker rate for Bear Paw would have been $0.2416/Dkt, not $0.1817/Dkt.

Q. HAVE YOU PERFORMED A SIMILAR COMPARISON OF THE INITIAL FIXED COST GAS TRACKER RATE FOR BATTLE CREEK WITH A MORE CURRENT ESTIMATE OF WHAT THAT RATE WOULD BE DURING JULY 2014 – JUNE 2015?

A. No. NWE's initial fixed cost gas tracker rate for Battle Creek was developed using a different methodology, and current comparable data are not available.

Q. WHAT WOULD YOU EXPECT IF YOU WERE TO COMPARE THE INITIAL FIXED COST GAS TRACKER RATE FOR BATTLE CREEK WITH A MORE CURRENT ESTIMATE OF WHAT THAT RATE SHOULD BE DURING JULY 2014 – JUNE 2015?

A. As I previously stated, NWE's initial estimate of a fixed cost rate per Dkt of billed supply for Battle Creek - $0.1237/Dkt - was based on a "2011 Test Period Normalized Load" of 19,912,975 Dkt, and NWE's estimated fixed cost revenue requirement for Battle Creek for the 12-months ended December 31, 2011. It is my expectation that an update to July 2014 – June 2015 of Battle Creek production and fixed costs would produce a significantly lower fixed cost gas tracker rate for Battle Creek. I reach this conclusion because – as is also the case with the Devon and Bear Paw

producing properties – the Battle Creek total annual fixed cost revenue requirement is expected to decline over time, while the total annual billed Dkt supply quantity is expected to remain at or near 20,000,000 Dkt. This result would produce a decline in the Battle Creek unit rate increment for July 2014 – June 2015, relative to the $0.1237/Dkt unit rate that results from 2011 Battle Creek total annual fixed costs.

Q. WHAT IS THE TOTAL GAS COST RATE BEING PROPOSED BY NWE FOR ALL GAS TO BE PURCHASED AND PRODUCED DURING JULY 2014 – JUNE 2015?

A. As shown at Line 57 of Exhibit ___ (JMS-2) in Docket No. D2014.5.47, NWE has proposed a total gas cost rate of $4.9645/Dkt for the tracker period July 2014 – June 2015.

Q. WHAT WOULD NWE'S TOTAL GAS COST RATE BE FOR THAT SAME PERIOD OF TIME IF THE FIXED COST RATES THAT ARE SHOWN IN EXHIBITS ___ (GLD-6) AND ___ (GLD-7) WERE TO BE USED FOR DEVON AND BEAR PAW?

A. If the fixed cost rates for July 2014 – June 2015 that are shown in Exhibits ___ (GLD-6) and ___ (GLD-7) were to be used for Devon ($0.8103/Dkt)

and Bear Paw ($0.1794/Dkt), NWE's total gas cost rate for the 2014/2015 tracker period would be $4.8417/Dkt, not $4.9645/Dkt, as proposed by the Company.

Q. IF THE FIXED COST RATES THAT ARE SHOWN IN EXHIBITS ___ (GLD-6) AND ___ (GLD-7) WERE TO BE USED FOR DEVON AND BEAR PAW RESULTING IN A RATE OF $4.8417/DKT WHAT WOULD BE THE APPROXIMATE DOLLAR IMPACT FOR THE 2014/2015 TRACKER PERIOD?

A. A reduction in NWE's gas cost rate from $4.945/Dkt to $4.8417/Dkt would reduce total gas cost revenue during July 2014 – June 2015 by approximately $2.5 million.

Q. DID MCC AND THE COMMISSION SEEK CURRENT COST OF SERVICE DATA FOR BATTLE CREEK, BEAR PAW, AND DEVON THROUGH DISCOVERY REQUESTS IN THIS CASE?

A. Yes; in Data Requests MCC-053, MCC-054, and MCC-055, and in Data Requests PSC-040, PSC-041, and PSC-042.

Q. HOW DID NWE RESPOND TO DATA REQUESTS MCC-053, MCC-054, AND MCC-055?

A. The Company's responses to Data Requests MCC-053, MCC-054, and MCC-055 refer MCC to its responses to Data Requests PSC-040, PSC-041, and PSC-042, respectively.

Q. DO NWE'S RESPONSES TO DATA REQUESTS PSC-040, PSC-041, AND PSC-042 PROVIDE CURRENT COST OF SERVICE DATA FOR THE COMPANY'S GAS PRODUCING PROPERTIES?

A. No. Those responses present NWE's estimates of the initial fixed costs per Dkt that NWE has been using with its "bridging concept" to recover the fixed costs of its company-owned gas producing properties. They reflect cost estimates for prior periods; they do not reflect current costs for the Company's gas producing properties.

Q. DO YOU THEREFORE HAVE A RECOMMENDATION REGARDING RATE TREATMENT FOR NWE'S COMPANY-OWNED GAS PRODUCING PROPERTIES?

A. Yes. NWE has been using outdated fixed cost revenue requirement data for recovering the fixed costs of its gas producing properties since 2012, in the

case of Battle Creek and Bear Paw, and since 2013 for Devon. It is now time that the Company provide actual cost of service data to support the rates that have been collected. I therefore recommend that the Commission direct NWE to make a filing as soon as possible that presents actual cost of service support for the rates that have been collected. The required cost of service support for the rates that have been paid by ratepayers should cover all relevant periods of time through June 2015. To the extent gas cost revenues collected from interim rates have exceeded Commission-approved cost-based rates; the differences should be refunded to ratepayers. In addition, the Commission should direct NWE to make a filing, to be effective July 1, 2015, that removes "bridging concept" rates from the gas tracker, to be replaced by actual cost-based rates resulting from the current fixed cost revenue requirements for each company-owned gas producing property.

Q. DOES THIS CONCLUDE YOUR PREFILED SUPPLEMENTAL TESTIMONY?

A. Yes, it does.

Exhibit No. ___ (GLD-4)

D2013.5.34/D2014.5.47

NorthWestern Energy

Pre-Filed Direct Testimony of

George Donkin

on behalf of the Montana Consumer Counsel

D2013.5.34/D2014.5.47
Exhibit No. ___ (GLD-4)

NorthWestern's Annual USB Dkt Savings And USB Gas Tracker Expenses
Program Periods 2006-07 Through 2013-14

	(1)	(2)	(3)	(4)	(5)
Program Period	**Annual USB Dkt Savings**	**E+Free Weatherization USB Expenses**	**E+Energy Audit For The Home USB Expenses**	**Current Year USB Gas Tracker Expenses**	**Current Year USB Expenses Per Dkt Saved**
2006-07	42,393	$ 537,934	$ 294,072	$ 832,006	$19.63
2007-08	58,482	$ 536,570	$ 370,900	$ 907,470	$15.52
2008-09	60,904	$ 791,407	$ 440,802	$ 1,232,209	$20.23
2009-10	70,706	$ 981,326	$ 1,316,075	$ 2,297,401	$32.49
2010-11	79,371	$ 1,425,793	$ 897,836	$ 2,323,629	$29.28
2011-12	60,447	$ 1,372,865	$ 683,345	$ 2,056,210	$34.02
2012-13	28,048	$ 737,167	$ 955,213	$ 1,692,380	$60.34
2013-14	29,881	$ 1,403,285	$ 1,064,300	$ 2,467,585	$82.58
Totals	430,232			$ 13,808,890	$32.10

Source: Original Exhibit ___ (GLD-1) updated with 2013-14 program period data.

Exhibit No. ___ (GLD-5)

D2013.5.34/D2014.5.47

NorthWestern Energy

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Estimated Net Present Value Of NWE's Future Gas Costs Savings Resulting From The Future Annual Dkt Savings That Were Produced By 2013-14 Program Period USB Expenses Based On Alternative Discount Rates Of 7.48% And 10.51%

Program Period	Annual Dkt Savings From 2013-14 Program Period	Estimated Gas Cost Savings In $/Dkt	Estimated Annual Gas Cost Savings
2013-14	29,881	$3.437	$102,701
2014-15	29,881	$3.574	$106,809
2015-16	29,881	$3.717	$111,081
2016-17	29,881	$3.866	$115,525
2017-18	29,881	$4.021	$120,146
2018-19	29,881	$4.182	$124,951
2019-20	29,881	$4.349	$129,950
2020-21	29,881	$4.523	$135,148
2021-22	29,881	$4.704	$140,553
2022-23	29,881	$4.892	$146,176
2023-24	29,881	$5.088	$152,023
2024-25	29,881	$5.291	$158,103
2025-26	29,881	$5.503	$164,428
2026-27	29,881	$5.723	$171,005
2027-28	29,881	$5.952	$177,845
2028-29	29,881	$6.190	$184,959
2029-30	29,881	$6.437	$192,357
2030-31	29,881	$6.695	$200,051
2031-32	29,881	$6.963	$208,053
2032-33	29,881	$7.241	$216,376

Net Present Value Of Future USB Gas Cost Savings at 7.48% Discount Rate	$1,423,228
Net Present Value Of Future USB Gas Cost Savings at 10.51% Discount Rate	$1,109,175
Total Program Period 2013-2014 USB Expenses Shown in Exhibit ___ (GLD-4)	$2,467,585

Sources: (1) For program period gas cost savings of $3.437 per Dkt, see NWE's response to MCC-050.
(2) For 7.48% and 10.51% discount rates, see Working Gas and Deferred Account interest rates shown in Mr. Smith's Exhibit___(JMS-1SupII) Work Papers, page 3 of 6.

Exhibit No. ___ (GLD-6)

D2013.5.34/D2014.5.47

NorthWestern Energy

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NorthWestern's Projected Annual Dkt Production And Fixed Cost Revenue Requirement
Devon Gas Producing Property
2013 - 2015

Line No.	(1) Description	(2) 2013	(3) 2014	(4) 2015	(5) July 2014-June 2015 Average Of 2014 & 2015
1	Annual Dkt Production	5,471,513	4,879,307	4,409,431	4,644,369
2	Revenue Requirement Including Production Taxes	$ 18,950,422	$ 17,765,321	$ 16,685,253	$ 17,225,287
3	Production Taxes	$ (1,045,971)	$ (1,042,220)	$ (996,146)	$ (1,019,183)
4	Fixed Revenue Requirement (Excluding Production Taxes)	$ 17,904,451	$ 16,723,101	$ 15,689,107	$ 16,206,104
5	Fixed Revenue Requirement Per Dkt Of Devon Production	$ 3.2723	$ 3.4274	$ 3.5581	$ 3.4894
6	Total Supply Billed Dkt	19,235,014			20,000,799
7	Fixed Cost Per Dkt Of Billed Supply	$ 0.9308			$ 0.8103

Sources: Lines 1 - 3 = NWE's response to PSC-042 a., updated attachment.
Line 6 = NWE's response to PSC-042 a. for 2013, and Exhibit JMS-2, Work Papers, page 1, Docket No. D2014.5.47, for July 2014 - June 2015.

Exhibit No. ___ (GLD-7)

D2013.5.34/D2014.5.47

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Exhibit ___ (GLD-7)

NorthWestern's Projected Annual Dkt Production And Fixed Cost Revenue Requirement
Bear Paw Gas Producing Property
2012 - 2015

Line No.	(1) Description	(2) 2012	(3) 2013	(4) 2014	(5) 2015	(5) July 2014-June 2015 Average Of 2014 & 2015
1	Annual Dkt Production	1,601,000	1,326,000	1,132,000	920,000	1,026,000
2	Revenue Requirement Including Production Taxes	$ 5,011,079	$ 4,457,507	$ 4,031,661	$ 3,653,249	$ 3,842,455
3	Production Taxes	$ (271,033)	$ (281,197)	$ (265,132)	$ (244,332)	$ (254,732)
4	Fixed Revenue Requirement (Excluding Production Taxes)	$ 4,740,046	$ 4,176,310	$ 3,766,529	$ 3,408,917	$ 3,587,723
5	Fixed Revenue Requirement Per Dkt Of Devon Production	$ 2.9607	$ 3.1496	$ 3.3273	$ 3.7053	$ 3.4968
6	Total Supply Billed Dkt	19,622,208	19,235,014			20,000,799
7	Fixed Cost Per Dkt Of Billed Supply	$ 0.2416	$ 0.2171			$ 0.1794
8	Reduced Production Per Response To PSC-041 a.	1,204,500				
9	Fixed Revenue Requirement Due to Reduced Production	$ 3,565,320				
10	Reduced Fixed Cost Per Dkt Of Billed Supply	$ 0.1817				

Sources: Lines 1 - 3 = NWE's response to PSC-041 a., updated attachment.
Line 6 = NWE's response to PSC-041 a. for 2012, and Exhibit JMS-2, Work Papers, page 1, Docket No. D2014.5.47, for July 2014 - June 2015.
Lines 8 and 9 = NWE's response to PSC-041 a.