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: (1) Unreflected Gas Cost Account Balance and Projected Gas Cost; and (2) Gas Transportation Adjustment Clause Balance	))))	REGULATORY DIVISION DOCKET NO. D2013.5.34
IN THE MATTER Of NorthWestern Energy's Application for: (1) Unreflected Gas Cost Account Balance and Projected Gas Cost; and (2) Gas Transportation Adjustment Clause Balance	))))	REGULATORY DIVISION DOCKET NO. D2014.5.47

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

PSC-044

Regarding: Electronic Worksheets
Witness: Donkin

Please provide working electronic copies of all Exhibits with all supporting files and links intact.

RESPONSE:

Please see the response to NWE-006.

PSC-045

Regarding: Exhibit No.__(GLD-7)
Witness: Donkin

a. You cite NorthWestern's updated attachment to PSC-041(a) as a reference for line 1. The cited file shows a figure of 980,000 Dkt for 2015 rather than 920,000 Dkt. Why does your figure differ from NorthWestern's?

b. Should line 5 refer to NFR production rather than Devon production?

c. Please describe why you did not extend lines 8-10 of this exhibit to column 6.

d. At 19:8-10 you list "Estimate the first year Dkt production volume and first year annual fixed cost revenue requirement for the newly acquired gas producing property" as the first step in calculating a rate for the gas tracker. Why is it necessary to estimate production volume to calculate this rate?

e. If necessary, please submit an amended exhibit.

RESPONSE:

a. The correct figure is 980,000 Dkt. See the response to NWE-006, which includes Exhibit No. ___ (GLD-7) Corrected.

b. Yes. See the response to NWE-006, Exhibit No. ___ (GLD-7) Corrected.

c. Lines 8-10 of the exhibit were not extended because the purpose of the exhibit is to focus on the comparison of NWE's fixed cost per Dkt of billed supply in 2012 at Bear Paw with its fixed cost per Dkt of billed supply during July 2014 – June 2015 at Bear Paw.

d. Please see the attachments to NWE's responses to PSC-040 (a) and PSC-040 (b). They show that O&M expenses and depletion expenses are included in the calculation of producing property fixed costs. I assume that to some unspecified extent, NWE's O&M expenses and depletion expenses will vary with the expected level of production. I therefore assume that

NWE took expected Dkt production into account in calculating the annual fixed revenue requirement of its recently acquired gas producing properties.

e. There is no need to prepare an amended exhibit. The exhibit is based on the Dkt production levels and costs – including O&M and depletion costs – that were used by NWE in developing its estimates of fixed costs per Dkt of billed supply.

PSC-046

Regarding: Recommended Rate Treatment of Natural Gas Production Properties
Witness: Donkin

At 30:17-31:5 you argue that the rates used to recover fixed costs in NorthWestern's Battle Creek, NFR, and Devon gas production assets are supported by outdated revenue requirement data. You 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."

a. The fixed cost rate for the Battle Creek assets was addressed and approved by the Commission in Docket No. D2012.9.94, Final Order No. 7249e, ¶¶ 25, 29, and 60. The adjusted rate is discussed in NorthWestern's June 1, 2013 natural gas cost rate adjustment in Docket No. D2012.7.74. Are you recommending that NorthWestern include updated Battle Creek cost of service data in the proposed filing?

b. As a matter of ratemaking convention, is it your view that both the interim rates still in place for the Devon and Bear Paw properties are subject to true-up or revision, as well as the unit rates for Battle Creek, which typically would only be adjusted only in the context of a general rate case? If so, please cite to the authority you rely upon to support the contention that revenue requirement and unit rates established in a general rate case can be modified through an annual tracker.

c. Please describe in detail why the Commission should establish natural gas production asset rates outside of a full rate case that would evaluate costs and revenues from all NorthWestern natural gas utility assets, or combined utility assets.

d. If you are proposing that NorthWestern's natural gas production assets should receive rate treatment (e.g. declining fixed rates due to declining revenue requirements) that differs significantly from the rate treatment applied to its other electric and natural gas plant assets, please describe any outstanding features of natural gas production assets that would warrant differential rate treatment.

PSC-046 continued

RESPONSE:

a. Yes.

b. NWE's annual revenue requirement and unit rates for Battle Creek, Bear Paw, and Devon should not be established in a general rate case; rather, they should be adjusted annually in NWE's annual gas tracker filings. This is essential if ratepayers are to realize the results over time from the net present value cost comparisons, levelized cost comparisons, and cross-over point assumptions, that were used by NWE and presented to and considered by MCC and the Commission for the purpose of accepting as reasonable the acquisitions of the Battle Creek, Bear Paw, and Devon gas producing properties. See also the response to PSC-046 (c) below.

c. For each of NWE's Battle Creek, Bear Paw, and Devon producing property acquisitions, the Company provided MCC (and presumably also the PSC Staff) with detailed quantitative analyses showing how the economics of the acquisitions were expected to perform, in comparison with simply continuing to purchase the same quantities of gas from suppliers at projected future gas supply market prices, i.e., future AECO index prices. The calculations included comparisons of the net present value (NPV) of the expected annual revenue requirement for the producing property with the NPV of purchasing the same future quantities of gas at projected future AECO prices. The future annual revenue requirement for each potential acquisition was largely determined by the assumed purchase price of the property, which was the major determinant of the average annual rate base used to produce each property's expected annual revenue requirement. For each property, NWE's calculations showed a declining rate base and a declining total annual revenue requirement for each future year. For each property, NWE's calculations showed a relatively close relationship between the NPV of the property's future annual revenue requirements and the NPV of buying the same quantities of gas each year at projected future AECO prices. In Docket No. D2012.3.25, which related to NWE's first two gas reserves acquisitions in the Battle Creek field, I stated the following in my pre-filed direct testimony:

PSC-046 continued

> "I have reviewed NWE's overall approach to estimating the value of Battle Creek to both the sellers and to the Company's ratepayers, at the times when the properties were purchased. That process is described in detail in the direct testimonies and related exhibits and workpapers of NWE witnesses Patrick E. Callahan, Brian B. Bird, and John Jay Waterman. It is a net present value (NPV) analysis that takes into account and compares the future revenue requirement for Battle Creek as a rate-based, cost of service property, with the future revenues ratepayers would pay if the same Battle Creek production volumes were instead purchased at future natural gas supply market prices. As is shown in Mr. Bird's exhibits BBB-1 and BBB-2, the various scenarios considered by NWE in estimating the value of Battle Creek produced NPV results that favored somewhat a rate base, cost of service acquisition, over market purchases at the then current supply price forecasts. The economic analyses performed by NWE using the gas supply market price forecasts available at the time support the conclusion that the purchase price of $12.4 million that NWE paid for Battle Creek was reasonable."

In that same Docket No. D2012.3.25 testimony I expressed a concern that the crossover point when expected future revenue requirement unit costs of a producing property become equal to or below expected future gas supply prices in the same year not be too distant in the future. That issue resulted in the "Unit Cost/Market-Price Stipulation and Agreement" between NWE and MCC in which specified crossover points in $ per Mcf and years are to be applied to future natural gas acquisitions by NWE.

NWE's monthly gas tracker rates include a fixed cost per Dkt of billed supply component for each gas producing property that is simply the assumed annual fixed cost revenue requirement of the property, divided by the expected total Dkt quantity of billed annual supply requirements. With a declining rate base, the annual fixed cost revenue requirement of each NWE gas producing property will decline from year to year. However, that has not been happening.

NWE realizes more revenue than would be the case if the actual cost-based revenue requirement of each gas producing property were to be used and included in the applicable fixed cost per Dkt of billed supply for each future year. Failing to

PSC-046 continued

reduce from one year to the next the annual revenue requirements to be included in rates for the Battle Creek, Bear Paw, and Devon gas producing properties as those annual revenue requirements decline with the declining rate base of each property produces the following unreasonable results:

- Ratepayers pay more than the cost-based revenue requirement that was used to evaluate each reserves acquisition.

- NWE recovers more from ratepayers than was reflected in the evaluations of each reserves acquisition that were presented to MCC and the Commission for their consideration.

- The NPV that was used to evaluate the cost-based revenue requirement in evaluating each reserves acquisition was less than the NPV of the revenue requirement that ratepayers actually pay over time. This means that the NPV comparisons made by NWE of reserves acquisitions vs. buying the same Dkt quantities at market prices failed to reflect reality and unreasonably favored reserves acquisitions at the expense of market purchases.

- NWE's crossover point analyses for the Bear Paw and Devon properties may also have been distorted.

d. See my responses above. They demonstrate that the controlling considerations for determining the appropriate rate treatment for the Battle Creek, Bear Paw, and Devon gas producing properties should be:

- The presentations NWE provided to MCC and the Commission described in the responses to PSC-046 (b) and (c) above.

- The fact that NWE will consistently over recover the cost-based revenue requirement of its gas producing properties if it continues to include in revenues and rates a revenue requirement that does not decline from year to year as the rate base and associated cost-based revenue requirements of those properties decline.

PSC-047

Regarding: Refunding Gas Production Cost Overcollections
Witness: Donkin

a. At 31:7-9 you recommend that to the extent gas cost revenues collected from interim rates on NorthWestern's production properties exceed revenues from Commission approved rates established following a contested proceeding, the difference should be refunded to ratepayers. A contested proceeding may involve different test years than those used to calculate the interim bridge rates. Are you proposing that the Commission set rates for each year since purchase for each asset? Please provide more detail on how you believe the Commission should calculate refunds.

b. Can the declining annual revenue requirements found in the spreadsheets provided in NorthWestern's updated responses to PSC-041(a) and PSC-042(a) be used to calculate what you essentially propose on the final page of your narrative testimony, i.e., the difference between 1) the actual cost of service and 2) the supposed cost of service based on a first-year revenue requirement recovered through interim unit rates, which under your proposal would be refunded to consumers?

c. You estimate for the 2014-15 tracker year, the cost to consumers of NorthWestern charging unit rates that are higher than they should be for gas-producing properties is $2.5 million. Please provide an estimate, based on the declining revenue requirements in GLD-6 and GLD-7, and what NorthWestern has actually recovered from consumers, of how much consumers have overpaid (if your advocacy is assumed to be fact) since the assets were put into rates.

RESPONSE:

a. As is described in the response to PSC-046 (b) and (c) above, the cost/benefit analyses used by NWE to support the purchases of the Battle Creek, Bear Paw, and Devon properties assumed that the fixed cost revenue requirement of each property would decline each year in the future. For ratepayers to realize the full benefit of each reserves acquisition, it is therefore necessary that the fixed cost revenue requirement per Dkt of billed supply that NWE recovers from ratepayers be reset each year. The individual test year cost data for each property for each year should be compared with the fixed cost revenues collected by NWE in rates for each corresponding property, with the excess of revenues being refunded to ratepayers. This process can readily take place in NWE's annual natural gas tracker filings made at the end of May of each year.

b. Actual annual declining revenue requirements should be used.

c. I am unable to perform the requested calculations. I do not have access to the fixed cost revenues for each property that NWE has collected to date.

PSC-048

Regarding: USB Program Cost Effectiveness
Witness: Donkin

a. NorthWestern has previously contended that while the E+ Energy Audit, which makes up nearly half the natural gas USB spending, saves no energy itself, it opens the door to a host of other cost-effective DSM programs—both electric and gas. How should this be factored into any Commission decision about the cost-effectiveness of this program, both by itself and within the context of natural gas USB programming generally?

b. You contend that the natural gas USB program's costs exceed the net present value of its benefits over time, in violation of the Department of Revenue's rules for the program. In that case, why not order NorthWestern to discontinue cost-ineffective programs completely, rather than merely addressing Lost Revenues?

RESPONSE:

a. My testimony only addressed USB programs and their cost effectiveness in the aggregate.

b. My testimony did not address the USB programs from a legislative and Commission policy standpoint.