



Before The Public Service Commission
Of the State of Montana

DOCKET NOS. D2013.5.34/D2014.5.47

NATURAL GAS TRACKER FILING

**REBUTTAL
TESTIMONY AND EXHIBITS**

APRIL 2015

7 **PREFILED REBUTTAL TESTIMONY**
8 **OF PATRICK J. DIFRONZO**
9 **ON BEHALF OF NORTHWESTERN ENERGY**

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11
12 **TABLE OF CONTENTS**

13	<u>Description</u>	<u>Starting Page No.</u>
14		
15	Witness Information	1
16	Purpose of Testimony	1
17	Natural Gas Production Assets	2
18		
19		
20		
21		

22 **Witness Information**

23 **Q. Are you the same Patrick J. DiFronzo of NorthWestern Energy**
24 **(“NorthWestern”) who submitted prefiled direct testimony in both of**
25 **these annual natural gas supply tracker filings?**

26 **A. Yes, I am.**

27 **Purpose of Testimony**

28 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

1 **A.** The purpose of my rebuttal testimony is to discuss and comment upon
2 certain statements and adjustments related to natural gas production
3 assets recommended by Montana Consumer Counsel (“MCC”) witness,
4 George L. Donkin, in his prefiled direct testimony in these consolidated
5 dockets.

6

7

Natural Gas Production Assets

8 **Q.** Is the current fixed rate of \$0.1237/Dkt for Battle Creek an interim rate
9 or a rate in place as part of the bridging concept?

10 **A.** No, it is neither. This fixed rate was approved by the Montana Public
11 Service Commission (“Commission”) in the last natural gas general rate
12 case in Docket No. D2012.9.94 per Order No. 7249e, ¶¶ 25, 29, and 60.
13 (Prior to that, the Commission approved inclusion of the Battle Creek
14 assets in rate base in Docket No. D2012.3.25 per Order No. 7210b.) Mr.
15 Donkin discusses the 2012/13 tracker period rate of \$0.1252/Dkt and the
16 current \$0.01237/Dkt and suggests that these are based on an estimated
17 fixed cost revenue requirement. His suggestions are wrong. In Docket
18 No. D2012.3.25, Order No. 7210b, at Ordering Paragraph 5, the
19 Commission ruled, “NWE is authorized to recover the total fixed revenue
20 requirement of \$2,494,036. The approved fixed-cost unit rate for Battle
21 Creek is \$0.01252/therm.” In Docket No. D2012.9.94, Order No. 7249e,
22 at paragraph 25, the Commission acknowledged that I testified the Battle
23 Creek fixed revenue requirement had increased to \$2,528,947, which

1 resulted in a unit rate of \$0.1270/Dkt. The Commission directed
2 NorthWestern to calculate the fixed-cost unit rate using a 9.80% return on
3 equity and to file compliance tariffs. NorthWestern applied the 9.80%
4 ROE and reduced the unit rate to \$0.1237/Dkt. This is based on the
5 Commission approved fixed cost revenue requirement.

6

7 **Q. Should this fixed revenue requirement rate for Battle Creek remain in**
8 **place until the next general rate case is filed and an updated revenue**
9 **requirement is approved by the Commission?**

10 **A.** Yes.

11

12 **Q. Whenever an updated revenue requirement is approved for Battle**
13 **Creek, should any prior periods be adjusted?**

14 **A.** No, this would be retroactive ratemaking. The rate derived from an
15 updated revenue requirement would be part of the overall natural gas
16 supply rate going forward from the date of Commission approval until the
17 next general rate filing.

18

19 **Q. Do you agree with Mr. Donkin that the Bear Paw and Devon natural**
20 **gas production assets should be adjusted to actual cost of service?**

21 **A.** Yes, but not at this time. When NorthWestern makes the respective filings
22 with the Commission to review and approve the acquisition of Bear Paw

1 and Devon production assets, the interim rates will be trued-up to rates
2 resulting from the corresponding test period costs in these filings.

3
4 **Q When does NorthWestern plan on making the respective filings with**
5 **the Commission to review and approval the acquisition of Bear Paw**
6 **and Devon natural gas production assets?**

7 **A.** NorthWestern plans on making these filings as part of a consolidated
8 natural gas utility revenue requirement filing in 2016. This filing is the
9 proper forum for review, approval, and final true-up of interim rates.

10
11 This consolidated filing would include requests to approve the acquisition
12 of the Bear Paw and Devon natural gas production assets and establish
13 final rates for these assets from the dates they were placed into service,
14 as well as a consolidated natural gas utility distribution, transportation,
15 storage, and production assets (Battle Creek, Bear Paw, and Devon) filing
16 based on a 2015 test period to establish natural gas rates going forward.

17
18 **Q. Do you agree with Mr. Donkin that a customer refund would be in**
19 **order for the Bear Paw and Devon natural gas production assets – if**
20 **interim rates exceed final Commission-approved rates ultimately**
21 **determined in the 2016 filing discussed above?**

1 **A.** Yes, provided that if interim rates are lower than the Commission-
2 approved rates, then customers would be charged for the difference,
3 consistent with the 2012 Battle Creek filing.

4

5 **Q.** Does this conclude your rebuttal testimony?

6 **A.** Yes, it does.

8 PREFILED REBUTTAL TESTIMONY
9 OF JOE SCHWARTZENBERGER
10 ON BEHALF OF NORTHWESTERN ENERGY
11

12 TABLE OF CONTENTS

13 <u>Description</u>	<u>Starting Page No.</u>
14 Witness Information	2
15 Purpose of Testimony	4
16 MCC Recommendations and Analysis	5
17 Natural Gas USB Program Cost Effectiveness	13
18 2012-13 and 2013-14 Program Periods	17
19 2006-07 through 2012-13 Program Periods	23
20 Additional Items	25
21 Conclusion	26
22	
23 <u>Exhibits</u>	
24 Value of Lost Revenues Disallowance Recommended by MCC	Exhibit__(JS-2)
25 Analysis of the 2006-07 Through 2012-13 Natural Gas USB Program Activities	Exhibit__(JS-3)

26

Witness Information

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Q. Please state your name and business address.

A. My name is Joe Schwartzenberger. My business address is 40 East
Broadway, Butte, Montana 59701.

Q. Are you the same Joe Schwartzenberger of NorthWestern Energy (“NorthWestern”) who submitted prefiled supplemental testimony in Consolidated Docket Nos. D2013.5.34 and D2014.5.47?

A. Yes.

Q. Are you aware that on December 19, 2013, the Montana Public Service Commission’s (“Commission”) Notice of Additional Issue in Docket No. D2013.5.34 directed NorthWestern to supplement its tracker filing with a response regarding Commission Findings of Fact ¶¶ 40-79 in Order No. 7219h in the Electric Tracker Docket No. D2012.5.49 involving true-up of lost revenues and the lost revenues adjustment policy that may be applicable to the natural gas tracker?

A. Yes.

Q. Did NorthWestern provide such a supplement?

A. NorthWestern did address the portions of Final Order No. 7219h related to true-up of lost revenues in my prefiled supplemental testimony in this consolidated docket. However, while Order No. 7219h ¶ 78 found that “as

1 of the service date of this order, NorthWestern bears the burden of
2 demonstrating why any request for incremental lost revenues resulting
3 from the acquisition of additional USB or DSM savings is reasonable and
4 in the public interest”, as I also explained in my supplemental testimony,
5 this issue was not addressed in this docket.

6
7 **Q. Why was this issue not addressed?**

8 **A.** In Docket No. D2012.5.49, Order No. 7219i, the Commission, as a
9 component of a Partial Settlement entered into by NorthWestern and the
10 Commission in Montana Second Judicial District Court, Silver Bow County
11 Cause No. DV-13-399, removed the language quoted above from the
12 Final Order. The Commission further agreed in the Partial Settlement “not
13 to raise the lost revenue policy issue as an additional issue” in the 2012-
14 2013 Electricity Supply Tracker (Docket No. D2013.5.33), or in the 2013-
15 2014 Electricity Supply Tracker (Docket No. D2014.5.46), but rather “to
16 open a separate docket” to address the Lost Revenue Adjustment Policy
17 issue **for both electric and natural gas efficiency programs**” (emphasis
18 added).

19
20 Subsequently, the Commission established a separate docket, Docket No.
21 D2014.6.53, the Lost Revenue Adjustment Mechanism (“LRAM”) Docket,
22 for purposes of addressing the recovery of NorthWestern's lost revenues.

1 **Q. Does George Donkin, on behalf of the Montana Consumer Counsel**
2 **(“MCC”), raise the issue of recovery of Universal System Benefits**
3 **(“USB”) related lost revenues in this consolidated natural gas tracker**
4 **docket?**

5 **A.** Yes, he does. While MCC took no position on the Partial Settlement
6 described above, NorthWestern filed a motion in these consolidated
7 dockets to reserve the issue and strike Mr. Donkin’s testimony regarding
8 disallowance of recovery of lost revenues resulting from NorthWestern’s
9 USB activities in the 2012-2013 and 2013-2014 tracker periods, and in
10 future natural gas tracker filings. As described in the motion,
11 NorthWestern believes that these issues should be considered after an
12 order has been issued in the LRAM Docket.

13
14 **Q. Has testimony been filed in the LRAM docket?**

15 **A.** Yes, NorthWestern, the MCC, and the Human Resource Council District
16 XI/Natural Resources Defense Council (“HRC/NRDC”) have filed direct
17 and response testimony in the LRAM Docket; rebuttal and additional
18 issues testimony will also be filed. Discovery has also been conducted.

19
20 **Purpose of Testimony**

21 **Q. What is the purpose of your testimony?**

22 **A.** As described above, NorthWestern has filed a motion concurrent with the
23 filing of this testimony to reserve the lost revenues recovery issue and

1 strike certain portions of the prefiled direct testimonies submitted by Mr.
2 Donkin on behalf of the MCC in Docket No. D2013.5.34 (“2013
3 Testimony”) and in Consolidated Docket Nos. D2013.5.34 and D2014.5.47
4 (“2014 Testimony”) related to recovery of USB lost revenues.
5 NorthWestern also moved to strike Mr. Donkin’s testimony related to
6 NorthWestern’s out-of-pocket expenses for its natural gas USB programs,
7 which have been approved and recovered separate and apart from the
8 natural gas supply tracker. Because the Commission has not yet had an
9 opportunity to rule on this motion, my testimony rebuts this testimony filed
10 by Mr. Donkin.

11
12 **MCC Recommendations and Analysis**

13 **Q. Please describe Mr. Donkin’s recommendations on behalf of the**
14 **MCC related to USB program lost revenues.**

15 **A.** Although it is not clear, my understanding is that Mr. Donkin’s
16 recommendation is the disallowance of NorthWestern’s lost revenues
17 associated with the natural gas energy savings produced by natural gas
18 USB program expenses NorthWestern incurred during the 2012-13 and
19 2013-14 tracker periods and that recovery of USB-related lost revenues
20 not be allowed in future natural gas tracker filings.

21
22 **Q. You stated above that the issue of lost revenue recovery has been**
23 **addressed in testimony filed by NorthWestern in the LRAM Docket.**

1 **Is this testimony pertinent to the recommendation made by Mr.**
2 **Donkin in this consolidated docket?**

3 **A.** Yes it is. NorthWestern has stated its position regarding recovery of lost
4 revenues, including USB-related lost revenues, in the LRAM Docket.
5 Refer to the Prefiled Direct Testimonies of Patrick Corcoran and Brian
6 Bird, and the Prefiled Response Testimony of Ric Gale in that docket. My
7 testimony below addresses Mr. Donkin's recommendations regarding
8 recovery of lost revenues associated with natural gas USB activities, his
9 computations, and the incompleteness of certain portions of his analyses.
10 I also describe recent program changes that impact his comparison of the
11 cost of natural gas savings per dekatherm ("Dkt") for the 2012-13 and
12 2013-14 periods to previous years.

13
14 **Q.** **Does Mr. Donkin estimate the resulting disallowance in these**
15 **consolidated dockets if the Commission were to adopt his**
16 **recommendation?**

17 **A.** Partially. On page 14 of his 2013 Testimony, Mr. Donkin estimates lost
18 revenues due to energy savings from 2012-13 USB activities to be
19 \$166,300. However, he does not provide an estimate of lost revenues
20 due to energy savings from 2013-14 USB activities in his 2014 Testimony,
21 nor does he estimate the total for both tracker periods combined.

22

1 **Q. Is Mr. Donkin's estimate of lost revenues due to energy savings from**
2 **2012-13 USB activities accurate?**

3 **A.** No. In order to estimate the lost revenues, Mr. Donkin multiplies the ratio
4 of USB natural gas savings to total USB plus Demand-Side Management
5 ("DSM") natural gas savings by the total lost revenues for the 2012-13
6 program period. That approach does not account for lost revenues in the
7 2012-13 period that result from previous year's activities, nor does it
8 account for the reset of lost revenues to zero on April 1, 2013 as a result
9 of the rate adjustment in Docket No. D2012.9.94, NorthWestern's most
10 recent natural gas utility general rate case. Mr. Donkin's estimate is
11 based on 9 months of actual and 3 months of forecast data. Ultimately,
12 the calculation should use 12 months of actual data.

13
14 Lost revenues in the 2012-13 tracker period due to the natural gas savings
15 produced by USB program activities in that period using reported savings
16 based on 12-months actual data are \$31,485. Total lost revenues in both
17 the 2012-13 and 2013-14 tracker periods due to 12-months actual
18 reported energy savings produced by the program activities in those
19 periods are \$81,547. Refer to Exhibit__(JS-2). This stand-alone
20 computation is made by including only the reported USB natural gas
21 savings in the 2012-13 and 2013-14 periods in the lost revenue model.
22 Refer to row 7 on page 2 and row 8 on page 4. Beyond that, the model is

1 consistent with the computation methods used in previous lost revenue
2 models. The results are summarized on page 1.

3

4 **Q. What reasons does Mr. Donkin give for his disallowance**
5 **recommendation?**

6 **A.** He bases his recommendation on the fact that NorthWestern is statutorily
7 required to promote such activities. He further supports his
8 recommendation based on his conclusion that NorthWestern's E+ Free
9 Weatherization ("Weatherization") and E+ Energy Audit for the Home
10 ("Energy Audit") programs were not cost effective in the 2012-13 and
11 2013-14 tracker periods.

12

13 **Q. Specifically, on page 16 of his 2014 Testimony, Mr. Donkin observes**
14 **that NorthWestern USB programs stem from a legislative mandate,**
15 **and therefore, NorthWestern is not in a position to avoid promoting**
16 **such programs whether or not it is allowed recovery of associated**
17 **lost revenues. Do you agree?**

18 **A.** I agree that is the case for natural gas USB programs. However I do not
19 agree that NorthWestern should be penalized for following the law. In
20 addition, Mr. Corcoran addresses recovery of lost revenues associated
21 with USB-funded programs in his prefiled direct testimony in the LRAM
22 Docket.

23

1 **Q. What is the basis of Mr. Donkin's conclusion that NorthWestern's**
2 **2012-13 and 2013-14 USB activities were not cost effective?**

3 **A.** Mr. Donkin bases his conclusion on analyses that compare the net
4 present value ("NPV") of 20 years of estimated average natural gas cost
5 savings associated with the Weatherization and Energy Audit programs to
6 the program expenses that resulted in those savings. His analysis shows
7 that the NPV of the program expenses are greater than the NPV of the
8 associated natural gas cost savings for both the 2012-13 and 2013-14
9 tracker periods.

10

11 **Q. You have addressed the problems with Mr. Donkin's estimate of lost**
12 **revenues. Do you also have concerns regarding his approach to**
13 **determining cost effectiveness?**

14 **A.** Yes, I do. I do not agree with his application of a strict resource value-
15 based cost effectiveness analysis to USB programs or with certain
16 technical details in his analyses. In addition, Mr. Donkin does not consider
17 the impacts of changes to the Weatherization program or adjustments
18 made to reported savings for the Energy Audit program in recent years to
19 reflect the 2012 SBW Consulting, Inc. ("SBW") evaluation.

20

21 **Q. How would you generally characterize Mr. Donkin's analyses?**

22 **A.** The analyses limit the benefits strictly to the value Mr. Donkin assigns to
23 the natural gas cost savings. Although not identical in technical detail,

1 conceptually, the analyses are similar to benefit/cost analyses typically
2 performed to determine the cost effectiveness of DSM measures and
3 programs that are designed and funded specifically for the purpose of
4 acquiring supply resource (energy savings) at less than a utility's avoided
5 cost. In fact, NorthWestern regularly uses such benefit/cost analysis,
6 specifically a Total Resource Cost test, to screen energy efficient
7 measures for potential inclusion in its programs and to judge the cost
8 effectiveness of the programs themselves. However, Mr. Donkin's
9 approach is more reflective of a Program Administrator Cost test in that he
10 uses utility costs rather than total costs.

11
12 **Q. How do the technical details of Mr. Donkin's analysis differ from**
13 **typical DSM analysis?**

14 **A.** For starters, the initial tracker period "Estimated Gas Cost Savings in
15 \$/Dkt" in both of Mr. Donkin's analyses is the average natural gas
16 commodity cost for the relevant tracker period as originally provided by
17 NorthWestern in response to Data Request MCC-018 and as updated and
18 replaced with its response to Data Request MCC-050. In contrast, typical
19 DSM analysis uses long-run avoided costs to value the savings. Also, Mr.
20 Donkin's methodology does not account for environmental benefits
21 associated with the natural gas savings. NorthWestern has consistently
22 included a 10% environmental benefit factor in its Total Resource Cost
23 test to evaluate natural gas DSM cost effectiveness.

1 **Q. In your opinion is application of a strict resource value-based cost**
2 **effectiveness test to natural gas USB programs appropriate?**

3 **A.** No.

4

5 **Q. Why not?**

6 **A.** The definition of, and funding for, USB purposes was originally established
7 by Montana law in 1997 in the context of broad reorganization of the
8 natural gas and electric industry. USB was established to ensure the
9 continuance of, or new funding for, public policy programs that existed
10 prior to restructuring or public policy needs in Montana that were
11 determined to be worthy of pursuit going forward. Pursuant to statute, the
12 Commission established the Montana Power Company's initial natural gas
13 USB charge to collect revenues for the low-income bill discount, the
14 Weatherization program, and the Energy Audit program at the pre-USB
15 funding levels for these public purposes. Natural gas USB funding and
16 allocations among the public purposes have evolved over time based on
17 input by stakeholders and Commission orders. NorthWestern's natural
18 gas USB activities continue to promote the public purposes consistent with
19 Montana law, the Commission's administrative rules, and Commission
20 orders, and they produce benefits beyond the value of the natural gas
21 savings they produce. While it may not be practical or possible to value
22 these benefits precisely, given the public policy purposes that resulted in

1 USB funding, I do not believe they should be ignored when considering
2 the effectiveness and significance of these programs.

3

4 **Q. Has the Commission previously ordered funding levels for natural
5 gas USB programs?**

6 **A.** Yes. Most recently, the Commission determined the funding levels for
7 natural gas USB programs in Order No. 6679e issued in Docket Nos.
8 D2004.7.99, D2004.12.192 and D2005.6.106 (“Consolidated USB
9 Dockets”). These funding levels remain in place today. NorthWestern has
10 operated its programs to comply with the order.

11

12 **Q. Does the Commission regularly approve natural USB program
13 expenses outside of natural gas tracker dockets?**

14 **A.** Yes. Unlike natural gas DSM program expenses, natural gas USB
15 program expenses are approved and recovered separate and apart from
16 the natural gas supply tracker. Order No. 6679e authorized the use of a
17 tracking mechanism for annual tracking of natural gas USB charges and
18 expenses. For periods relevant to these consolidated dockets,
19 NorthWestern made required annual filings in Docket Nos. D2012.3.32,
20 D2013.3.20, and D2014.4.30. The Commission has issued final orders in
21 these dockets -- Order No. 7243a in Docket No. D2012.3.32 and Order
22 No. 7354a in Docket Nos. D2013.3.20 and D2014.3.30.

23

1 Natural Gas USB Program Cost Effectiveness

2 **Q. What guidance does Montana statute provide concerning the cost**
3 **effectiveness of natural gas USB activities?**

4 **A.** I note that Mr. Donkin refers to Montana Department of Revenue (“DOR”)
5 rules as providing guidance regarding how to measure the cost
6 effectiveness of energy conservation in the context of USB programs.
7 *Page 15 of his 2014 Testimony.* While these rules do provide guidance,
8 they were adopted by DOR for electric USB pursuant to § 69-8-413(1),
9 MCA, and do not apply directly to natural gas USB activities.

10
11 Sections 69-3-1402(15) and 69-3-1408(1), MCA, address natural gas USB
12 related to Mr. Donkin’s cost effectiveness concern:

13 “Universal system benefits programs” means public purpose
14 programs for cost-effective local energy conservation, low-income
15 energy bill discounts, low-income weatherization, and emergency
16 low-income energy bill assistance.” § 69-3-1402(15), MCA.

17 and, in relevant part,

18 “The commission shall establish a universal system benefits
19 charge....taking into consideration the current level of expenditures
20 by the natural gas utility, cost effectiveness, and similar costs
21 imposed in other states.” § 69-3-1408(2), MCA.

22 First, while both sections speak to the notion of cost effectiveness, neither
23 defines the term. In other words, specific criteria that should be used to

1 determine cost effectiveness of natural gas USB programs are not
2 specified. Second, both sections provide a qualified list of USB activities.
3 “Cost effective” or “cost effectiveness” applies only to the first item in the
4 lists, energy conservation. Low income weatherization is not subject to
5 the cost effectiveness criteria.

6

7 **Q. What guidance does Commission rule provide concerning the cost**
8 **effectiveness of natural gas USB activities?**

9 **A.** Administrative Rule of Montana (“ARM”) 38.5.7020(1) provides:

10 Pursuant to 69-3-1408, MCA, natural gas utilities shall implement a
11 universal system benefits program (USBP), a public purpose
12 program for cost-effective local energy conservation, low-income
13 weatherization, and low-income energy bill assistance (69-3-1402,
14 MCA).

15 This rule does not establish specific criteria for determining cost
16 effectiveness, and the term “cost-effective” applies only to local energy
17 conservation.

18

19 **Q. Section 69-3-1408(2), MCA, requires the Commission to consider a**
20 **number of items, including cost effectiveness, when establishing a**
21 **USB charge. Has the Commission done so?**

22 **A.** Yes, it has. For example, Order No. 6679e increased the natural gas USB
23 charge to fully fund natural gas USB activities and established electric and

1 natural gas USB activity funding allocations that remain in place today.
2 Among other things, the Order specified increased funding of the Energy
3 Audit and Weatherization programs. In that Order, the Commission found
4 “that, on a combined basis, the funding allocation percentages produce a
5 reasonable, fair, and equitable distribution of scarce USB resources that
6 address both long and short-term USB goals and objectives.” ¶ 106, and
7 “...that the proposed “fully funded” natural gas USB program amounts
8 represent reasonable, fair and equitable allocations of scarce natural gas
9 USB resources.” ¶ 104

10
11 **Q. Did Order 6679e specify program design changes for the Energy
12 Audit or Weatherization programs?**

13 **A.** No. The Order did find “that the current DPHHS weatherization programs
14 are an effective use of limited USB funds” and it continued to “encourage
15 all affected parties to work out strategies, through a collaborative
16 approach, that improve the efficient administration and enhance the
17 effectiveness of USB programs.” ¶ 111

18
19 **Q. Has NorthWestern since worked with affected parties to improve the
20 efficient administration and enhance the effectiveness of USB-
21 funded weatherization programs?**

22 **A.** Yes. Most recently, pursuant to an agreement reached with HRC/NRDC
23 in Docket No. D2011.3.26, NorthWestern convened a collaborative with

1 the Montana Department of Health and Human Services (“DPHHS”) and
2 the affected Human Resource Councils (collectively “Agencies”) aimed at
3 improving the Weatherization Program.

4
5 **Q. Did the collaborative result in program improvements?**

6 **A.** Yes. Prior to the collaborative, NorthWestern had made annual
7 modifications to its Weatherization Program contract with DPHSS in an
8 ongoing effort to better maximize the weatherization results of all funding
9 sources for NorthWestern's customers. A primary consideration each
10 year was the portion of qualified weatherization costs that would be
11 funded by NorthWestern USB. This portion tended to fluctuate with
12 available federal funding. From 2004 through 2012, the portion of
13 qualified weatherization costs funded by NorthWestern under the contract
14 had varied between 30% and 100%. At the time of the collaborative,
15 federal funding for weatherization was decreasing significantly as a result
16 of the termination of funds available through the American Recovery and
17 Reinvestment Act.

18
19 During the collaborative, NorthWestern came to better understand the
20 challenges, including administrative difficulties faced by DPHHS and the
21 Agencies to integrate NorthWestern USB funds into the DPHHS
22 Weatherization Program. As a result of the collaboration, NorthWestern's
23 2013 Weatherization contract included a number of changes. Most

1 weatherization costs funded by NorthWestern increased under the 2013
2 and 2014 contracts as a result of the collaborative as described above,
3 USB funds contributed directly to weatherization of relatively fewer homes
4 and thus showed a corresponding decrease in natural gas savings
5 attributed to USB. In addition, NorthWestern's previous USB
6 weatherization contract with DPHHS did not allow for any administrative
7 costs. Administrative costs had previously been covered with other funds.
8 During the collaborative, NorthWestern was made aware that the pending
9 decrease in federal funds left the DPHHS Weatherization Program short of
10 funding necessary to cover related administrative costs including the
11 administrative costs associated with NorthWestern's USB weatherization
12 contract with DPHHS. As a result, NorthWestern agreed to combine
13 administrative costs with production overhead costs and increase the
14 funding in that expense category by 5% of the contract amount. These
15 changes, which have been in place since January 1, 2013, impacted half
16 of the 2012-13 tracker period and all of the 2013-14 tracker period, and
17 they contributed to the increase in the "Current Year USB Expenses per
18 Dkt Saved" figures computed by Mr. Donkin for those tracker periods.

19
20 **Q. Does this mean the Weatherization program is less effective?**

21 **A.** No. As I stated above, the contract changes resulting from the
22 collaborative, including the change to the USB funding level for

1 weatherization of individual homes, improved the overall administrative
2 efficiency of the program.

3

4 **Q. So, USB funds contributed directly to the weatherization of fewer**
5 **homes in tracker periods 2012-13 and 2013-14 as compared to recent**
6 **previous periods. Does that mean that federal weatherization**
7 **funding available to NorthWestern's customers decreased from what**
8 **it otherwise would have been?**

9 **A.** No. That was of particular concern for NorthWestern. During the
10 collaboration, DPHHS confirmed that NorthWestern's level of funding for
11 qualified weatherization measures (i.e. 60% vs. 100%, for example) does
12 not impact federal funding available for weatherization for NorthWestern's
13 customers.

14

15 **Q. What else should the Commission know about the USB**
16 **Weatherization program that is pertinent to Mr. Donkin's concerns**
17 **about cost effectiveness?**

18 **A.** Cost effectiveness is a consideration in the implementation of the
19 Weatherization program. Under the DPHSS Weatherization Program,
20 modeling is conducted to screen most individual measures that apply to
21 each home, and only those measures that pass the screening are
22 implemented. In addition, the total combined cost of weatherization and
23 minor repairs performed to make weatherization materials effective must

1 pass the screening. The savings and costs associated with safety-related
2 repairs and replacements are limited to an average of 15% of total
3 weatherization costs. DPHHS uses NorthWestern's retail rate for the cost
4 savings in the analysis. USB-funded weatherization mirrors the DPHHS
5 program for screening of weatherization measures.

6
7 **Q. Have there also been changes related to the Energy Audit program**
8 **that contribute to the higher "Current Year USB Expenses per Dkt**
9 **Saved" figures computed by Mr. Donkin for the 2012-13 and 2013-14**
10 **tracker periods?**

11 **A.** Yes. The "Annual USB Dkt Savings" figures used by Mr. Donkin in
12 Exhibit__(GLD-4) are NorthWestern's reported savings also based on 9
13 months of actual data and 3 months forecast data. These are the USB-
14 related savings NorthWestern incorporated in its initial filings for each of
15 the tracker periods. SBW determined a Savings Realization Rate of 0.41
16 for the Energy Audit program in its evaluation. *Page 81 of 965 of Exhibit*
17 *(MHB-1a) of the Prefiled Direct Testimony of Michael Baker.* While SBW's
18 findings are incorporated in the lost revenue true-up computation included
19 on Exhibit__(WMT-5-Corrected.2) to my prefiled supplemental testimony
20 in these consolidated dockets, NorthWestern appropriately began
21 incorporating this adjustment in its reported savings in 2013. In addition,
22 for the first time since 2007 the contracted price for audits increased in
23 2013 and 2014. The increases were 8% and 3.85% in 2013 and 2014,

1 respectively. These changes also contributed to the reduction in reported
2 savings for the 2012-13 and 2013-14 tracker periods as compared to prior
3 periods and, therefore, to the increase in “Current Year USB Expenses
4 per Dkt Saved” figures computed by Mr. Donkin for those tracker periods.
5

6 **Q. You previously stated that the Weatherization and Energy Audit**
7 **programs produce benefits beyond the value of the natural gas**
8 **savings they produce. What are examples of those benefits?**

9 **A.** The Weatherization program makes energy bills more manageable for
10 NorthWestern’s low-income customers. This is a significant public
11 purpose program that provides value not necessarily measured explicitly
12 in cost effectiveness evaluations. To the extent customers are better able
13 to afford vital utility services, bill collection and shut-off efforts are reduced,
14 which correspondingly lowers associated administrative costs. Identifying
15 and correcting energy-related safety issues in weatherized homes,
16 including replacement of unsafe space heat appliances when necessary,
17 is another important aspect of the program. In addition to the benefits to
18 weatherized households, correcting safety items before they become
19 issues benefits society. The program includes an educational component
20 aimed at helping customers understand how their homes use energy and
21 what they can do to better manage their energy costs.
22

1 In addition to producing energy savings through direct installation of
2 efficiency measures, the Energy Audit program also includes an
3 educational component aimed at helping customers understand how their
4 homes use energy and what they can do to manage their energy costs,
5 and it provides customers information on residential DSM programs that
6 are available to help with the implementation of audit recommendations.
7 In this sense, the program feeds the DSM programs and contributes to the
8 acquisition of cost effective savings through them. To the extent
9 customers are better able to afford vital utility services because of the
10 program, bill collection and shut-off efforts are reduced, which
11 correspondingly lowers associated administrative costs. Energy-related
12 safety is also an important aspect of this program. Customers are advised
13 of any safety concerns associated with natural gas appliances and/or
14 safety-related issues that will result from implementation of audit
15 recommendations and provided with recommendations for action. As with
16 the Weatherization program, identifying safety concerns so the customer
17 can take action before they become issues benefits both the individual
18 household and society.

19
20 **Q. What else should the Commission know about the Energy Audit**
21 **program that is pertinent to Mr. Donkin's concerns about cost**
22 **effectiveness?**

1 **A.** On an individual basis, the natural gas measures funded by the program
2 during the 2012-13 and 2013-14 tracker periods were cost effective based
3 on the Total Resource Cost test NorthWestern uses to screen the
4 measures included in its DSM programs. Additionally, SBW determined
5 that the natural gas portion of the Energy Audit program was cost effective
6 on average during the evaluation period. I acknowledge that the electric
7 portion of the program was not cost effective and that an evaluation was
8 not performed on the combined program. *See pages 82 and 83 of 965 of*
9 *Exhibit__(MHB-1a) of the Prefiled Direct Testimony of Michael Baker.*

10

11 **2006-07 through 2012-13 Program Periods Analysis**

12 **Q.** On pages 8 and 9 of his 2013 Testimony, Mr. Donkin states that the
13 **USB expenses for the Weatherization and Energy Audit programs**
14 **totaled \$11,341,305 from the 2006-07 tracker period through the 2012-**
15 **13 tracker period, while the value of the natural gas cost savings**
16 **produced by those expenses during the same periods was**
17 **\$8,072,461. He concludes that the benefits are \$3,268,844 less than**
18 **the expenses. Exhibit__(GLD-2) illustrates his analysis. Do you**
19 **agree with Mr. Donkin's approach?**

20 **A.** No, as I explained above, I do not agree that the cost effectiveness of
21 these programs should be judged strictly on a resource value basis.
22 Setting my disagreement aside, Mr. Donkin's analysis falls short of telling

1 the entire story. The analysis ignores most of the savings the activities
2 produce in future years.

3

4 **Q. Have you completed an analysis that includes the benefits of the**
5 **future savings?**

6 **A.** Yes. Refer to Exhibit__(JS-3).

7

8 **Q. Please explain the analysis embodied in Exhibit__(JS-3).**

9 **A.** While I have detailed the reasons why Mr. Donkin's analysis is not valid, I
10 use his methodology and values in this analysis. The purpose of this
11 exhibit is simply to illustrate the significant impact of including the value of
12 the future savings, mirroring Mr. Donkin's approach to judging cost
13 effectiveness in Exhibits__(GLD-3) and (GLD-5) for the 2012-13 and
14 2013-14 periods, respectively. To that end, as noted on the exhibit, the
15 basic source data is from Exhibit__(GLD-2). I added additional periods to
16 reflect 20 years of savings for the 2006-07 through 2012-13 program
17 activities and escalated "Gas Cost Savings in \$/Dkt" by a constant 4% per
18 year from 2013-14 forward consistent with Mr. Donkin's approach. I
19 compared the NPV of "Gas Cost Savings" to the NPV of the "Total USB
20 Expenses" using discount rates of 7.48% and 10.51% respectively.

21

22 **Q. What are the results of this analysis?**

1 **A.** Using a discount rate of 7.48%, the NPV (in 2006-07) of the gas cost
2 savings exceeds the NPV (in 2006-07) of the USB expenses by
3 approximately \$7.3 million. Using a discount rate of 10.51%, the NPV (in
4 2006-07) of the gas cost savings exceeds the NPV (in 2006-07) of the
5 USB expenses by approximately \$4.3 million.

6

7

Additional Items

8 **Q.** On page 6 of his 2014 Testimony, Mr. Donkin states, “Automatic rate
9 adjustments between rate cases can reduce business risk, relative to
10 the business risk that may have been used by a Commission in
11 arriving at the cost of capital associated with the regulated utility’s
12 investments in gas utility operations. If that is so, non-gas cost
13 tracker recovery may produce an actual rate of return that exceeds
14 the gas utility’s cost of capital.” Please comment.

15 **A.** I am not an expert on either cost of capital or business risk, or on how they
16 may or may not be impacted by non-gas cost tracker recovery. However,
17 I note that the NorthWestern natural gas utility’s cost of capital has been
18 considered in three general filings since the Commission first authorized
19 recovery of natural gas USB-related lost revenues in 2005, Docket Nos.
20 D2007.7.82, D2009.9.129, and D2012.9.94.

21

1 **Q. Mr. Donkin continues, “I recommend therefore that the Commission**
2 **terminate lost revenue recovery for USB-related activities in**
3 **NorthWestern’s natural gas tracker.” Please comment.**

4 **A.** As stated above, NorthWestern’s position regarding recovery of lost
5 revenues, including USB-related lost revenues, is included in the LRAM
6 Docket currently being processed before the Commission. Refer again to
7 the Prefiled Direct Testimonies of Patrick Corcoran and Brian Bird, and the
8 Prefiled Response Testimony of Ric Gale in that docket.

9

10 **Conclusion**

11 **Q. Please summarize your recommendations.**

12 **A.** The Commission has allowed recovery of natural gas USB-related lost
13 revenues under the Lost Revenue Adjustment Mechanism since 2005.

14

15 NorthWestern has and does operate natural gas USB programs consistent
16 with statute, Commission rule, and Commission orders.

17

18 It is not appropriate to focus strictly on the value of the natural gas savings
19 to determine cost effectiveness of the natural gas public purpose USB
20 programs as Mr. Donkin has done. Even if the Commission determines
21 that judging cost effectiveness based strictly on resource value is
22 appropriate, Mr. Donkin’s general approach is inconsistent with the Total

1 Resource Cost Test that NorthWestern has consistently used to judge
2 cost effectiveness of DSM measures and programs.

3
4 The Commission has not established specific cost effectiveness criteria for
5 natural gas USB programs. If, in the future, the Commission determines
6 establishing such criteria for purposes of determining recovery of USB-
7 related lost revenues is appropriate, it should establish such criteria in a
8 separate docket to allow all interested stakeholders an opportunity to
9 participate. Finally, if cost effectiveness criteria are established,
10 NorthWestern should be allowed time to consider how the programs might
11 be modified to comply. To that end, if the Commission ultimately defines
12 cost effectiveness criteria, it is critical that such criteria provide
13 NorthWestern a reasonable opportunity to pursue natural gas USB
14 activities consistent with statute, Commission rules, and Commission
15 orders while maintaining established cost effectiveness requirements.

16
17 The Commission should not disallow recovery of natural gas USB lost
18 revenues for the 2012-13 and 2013-14 periods or future years simply
19 because NorthWestern is statutorily required to implement natural gas
20 USB programs.

21
22 The Commission should reject Mr. Donkin's recommendation to disallow
23 recovery of lost revenues produced by 2012-13 and 2013-14 natural gas

1 USB activities in these consolidated dockets and future tracker periods
2 based on the program cost effectiveness methodology advanced by Mr.
3 Donkin.

4

5 **Q. Does this complete your testimony?**

6 **A.** Yes, it does.

	A	B	C	D
1	July 1, 2012- June 30, 2014 Natural Gas USB Lost Revenues			
2	Time Period¹	Montana T&D²	Battle Creek	Total USB Lost Revenues
3				
4	Tracker 2012-13:			
5	July 1, 2012-March 31, 2013	\$ 22,417		\$ 22,417
6	April 1, 2013-June 30, 2013	\$ 8,405		\$ 8,405
7	Total Tracker 2012-2013	\$ 30,822	\$ 664	\$ 31,485
8				
9	Tracker 2013-14	\$ 48,991	\$ 1,071	\$ 50,062
10				
11				
12	Notes:			
13				
14	1. Lost Revenues for USB Savings for the time period July 1, 2012 through June 30, 2014.			
15				
16				
17				
18				
19				
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	A	B	C	D	E	F	G	H	I
1	Natural Gas DSM Lost Revenues - Battle Creek								
2									
3									
4	Annual Energy Savings:								
5									
6	1)	Gas DSM Savings -- Targets & Reported Savings		December 1, 2012 - June 30, 2013	Tracker 2013-14				
7				USB REPORTED	USB REPORTED				
8		Annual (dKt)		15,923	26,009				
9		Cumulative (dKt)		15,923	41,932				
10		Pro-rated for 7 months							
11									
12									
13									
14	2)	Cumulative Annual Gas Savings ²		December 1, 2012 - June 30, 2013	Tracker 2013-14				
15		Total		USB REPORTED	USB REPORTED				
16				7,961	13,004				
17									
18									
19									
20	Rates:			Docket D2012.3.25 - Final Order 7210b	Docket D2012.7.74 - June 1, 2013 Monthly Natural Gas Cost Rate Adjustment				
21							December 1, 2012 - June 30, 2013	Tracker 2013-14	
22	Revenue Requirement related rate (\$/Dkt)			0.12520	0.12370				
23									
24									
25									
26									
27	December 1, 2012 - June 30, 2013			Reported				Estimated	
28	USB			Gross				Lost	
29		Rate		Program		Net		Revenue	
30	Bill Line Item	(\$ per dKt)		Savings	Adjustment	Savings		(\$)	
31				(dKt)	Factor	(dKt)			
32	Battle Creek	\$ 0.125200		7,961	0.67	5,300		664	
33									
34									
35	Tracker 2013-14			Reported				Estimated	
36	USB			Gross				Lost	
37		Rate		Program		Net		Revenue	
38	Bill Line Item	(\$ per dKt)		Savings	Adjustment	Savings		(\$)	
39				(dKt)	Factor	(dKt)			
40	Battle Creek	\$ 0.123700		13,004	0.67	8,857		1,071	
41									
42									

Analysis of the 2006-07 Through 2012-13 Natural Gas USB Program Activities

1	2	3	4	5	6		
Period	Reported Current Year USB Savings (Dkt)	Cummulative USB Savings (Dkt)	Current Year Gas Cost Savings (\$/Dkt)	Estimated Total Gas Cost Savings	Total USB Expenses	Net Annual Benefit (Cost) Of USB Program	
2006-07	42,393	42,393	\$6.33	\$268,348	\$832,006	(\$563,658)	
2007-08	58,482	100,875	\$7.32	\$738,405	\$907,470	(\$169,065)	
2008-09	60,904	161,779	\$7.09	\$1,147,013	\$1,232,209	(\$85,196)	
2009-10	70,706	232,485	\$5.03	\$1,169,400	\$2,297,401	(\$1,128,001)	
2010-11	79,371	311,856	\$5.06	\$1,577,991	\$2,323,629	(\$745,638)	
2011-12	60,447	372,303	\$4.53	\$1,686,533	\$2,056,210	(\$369,677)	
2012-13	28,048	400,351	\$3.71	\$1,485,302	\$1,692,380	(\$207,078)	
2013-14	0	400,351	\$3.44	\$1,377,207	\$0.00	\$1,377,207	
2014-15	0	400,351	\$3.58	\$1,432,296	\$0.00	\$1,432,296	
2015-16	0	400,351	\$3.72	\$1,489,588	\$0.00	\$1,489,588	
2016-17	0	400,351	\$3.87	\$1,549,171	\$0.00	\$1,549,171	
2017-18	0	400,351	\$4.02	\$1,611,138	\$0.00	\$1,611,138	
2018-19	0	400,351	\$4.19	\$1,675,583	\$0.00	\$1,675,583	
2019-20	0	400,351	\$4.35	\$1,742,607	\$0.00	\$1,742,607	
2020-21	0	400,351	\$4.53	\$1,812,311	\$0.00	\$1,812,311	
2021-22	0	400,351	\$4.71	\$1,884,803	\$0.00	\$1,884,803	
2022-23	0	400,351	\$4.90	\$1,960,196	\$0.00	\$1,960,196	
2023-24	0	400,351	\$5.09	\$2,038,603	\$0.00	\$2,038,603	
2024-25	0	400,351	\$5.30	\$2,120,148	\$0.00	\$2,120,148	
2025-26	0	400,351	\$5.51	\$2,204,953	\$0.00	\$2,204,953	
2026-27	0	357,958	\$5.73	\$2,050,331	\$0.00	\$2,050,331	
2027-28	0	299,476	\$5.96	\$1,783,969	\$0.00	\$1,783,969	
2028-29	0	238,572	\$6.20	\$1,478,012	\$0.00	\$1,478,012	
2029-30	0	167,866	\$6.44	\$1,081,570	\$0.00	\$1,081,570	
2030-31	0	88,495	\$6.70	\$592,985	\$0.00	\$592,985	
2031-32	0	28,048	\$6.97	\$195,461	\$0.00	\$195,461	
				NPV discounted @ 7.48%	\$15,510,398	\$8,248,971	\$7,261,427
				NPV discounted @ 10.51%	\$11,598,813	\$7,328,855	\$4,269,958

1,2,3,5 Values for 2006-07 through 2012-13 Periods are from Exhibit No. ____ (GLD-2)

3 The value for 2013-14 is from the response to MCC-050. Values from 2013-14 forward are escalated at 4% per year consistent with the escalation factor used in Exhibits __ (GLD-3) and (GLD-5).

4 Equals Column 2 x Column 3

6 Equals Column 4 - Column 5

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of NorthWestern Energy's Rebuttal Testimony and Exhibits in Docket Nos. D2013.5.34/D2014.5.47 will be hand delivered to the Montana Public Service Commission and Montana Consumer Counsel and also e-filed with the Montana Public Service Commission. It will also be served upon the following persons by postage prepaid via first class mail as follows:

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