

MEMORANDUM

To: Commissioners, Bob, Jason, Justin, Kate, Will
From: Mike, Robin
Date: February 19, 2015
RE: Docket D2015.1.5 – BPA Residential Exchange Program Credit

I. Background

The Northwest Power Act of 1980 (Act) provides all residential and small farm customers in the Pacific Northwest access to the benefits of the Federal Columbia River Power System (FCRPS) through the provisions in the Act that set forth the Residential Exchange Program (REP). The REP essentially acts as a cash rebate to investor-owned utilities (IOUs) in the Pacific Northwest which must be passed on to residential and small farm customers. The Bonneville Power Administration (BPA) implements the REP and manages the distribution of power and benefits from the FCRPS. Although BPA administers and manages REP benefits, NorthWestern Energy must request approval from the Public Service Commission to adjust its tariffs each year to reflect the REP benefits it will receive and pass on to residential and small farm customers.

Since its inception, consumer-owned utilities (COUs) and IOUs have debated the proper calculation of REP benefits. Beginning in 1981, BPA calculated REP benefits by taking the difference between an IOU's Average System Cost (ASC) and the BPA Priority Firm (PF) rate, and multiplying that amount by the number of small farm and residential customers of an IOU in the Pacific Northwest. COUs began to complain to BPA that IOUs were including inappropriate costs into ASC calculations, thus driving up the costs of power they were buying from BPA. In the 1990's, BPA began to reconsider how it would implement the REP. In 1998 BPA launched a subscription process which gave IOUs the option of continuing the REP under the traditional methodology, or entering into a settlement agreement for benefits for the FY 2002-2011 period. In 2000, all six IOUs entered into a settlement agreement for REP benefits for the FY 2002-2011 period and within 90 days of the execution of the settlement agreements, a number of COUs challenged the agreements in the Ninth Circuit Court of Appeals.

In 2007, the Ninth Circuit Court of Appeals ruled against BPA on two lawsuits filed by the COUs challenging the 2000 REP settlement agreements. In response to the two Court orders, BPA immediately suspended all payments of REP settlement benefits. It initiated the WP-07S proceeding to respond to the Ninth Circuit's orders and issued its decision in the proceeding in 2008. The WP-

07s proceeding resulted in the IOUs, the COUs, and BPA engaging in mediated settlement discussions to solve their dispute over the implementation of the REP.

In 2010, the IOUs, the COUs, and BPA were able to reach an agreement in principle on the implementation of the REP going forward. The 2010 agreement set forth the total amount of benefits the IOUs as a group will receive through the REP for the period FY 2012-2028. In addition, the 2010 agreement set forth “interim true-up payments” due to IOUs. The interim true-up payments were a product of the suspension of payments to IOUs in 2007 and 2008. BPA decided the true-up payments would be distributed once a “final, non-appealable” order had been issued on the 2010 settlement agreement. The Ninth Circuit issued its final decision approving the settlement agreement on October 28, 2013; the period to appeal that order expired on January 28, 2014.

The 2010 settlement agreement provided NorthWestern an interim true-up payment in the amount of \$10,199,000. BPA distributed the money to NorthWestern in seven monthly installments beginning February 28, 2014 and instructed NorthWestern to distribute the true-up payment to its residential load in a timely manner. NorthWestern distributed the true-up payment to its residential load customers over the following 12-month REP period. The following table gives a brief history of the REP benefits distributed to NorthWestern’s customers. The exhaustion of the true-up payment benefits is the primary reason for the substantial decrease in benefits paid to NorthWestern’s residential load customers in the upcoming period:

Docket	Payment Period	Amount	
D2010.6.58	July 1, 2010 - June 30, 2011	\$7,496,919	
D2011.5.42	July 1, 2011 - June 30, 2012	\$5,232,666	
D2011.12.99	January 1, 2012 - June 30, 2012	\$306,940	Settlement agreement adjustment (October 2011)
D2012.5.59	July 1, 2012 - June 30, 2013	\$2,054,458	
D2013.6.42	July 1, 2013 - June 30, 2014	\$2,973,482	
D2014.1.14	March 1, 2014 - February 28, 2015	\$17,037,967	Distribution of true-up payment benefits
D2015.1.5	March 1, 2015 - February 28, 2016	\$5,160,822	

The settlement agreement true-up payment was a one-time event. NorthWestern Energy stated it expects the REP benefit give-back to customers to return to its customary annual level going forward.

II. NorthWestern Energy Filing

On January 26, 2015, NorthWestern filed its annual BPA REP credit adjustment reflecting the end of the settlement payment give-back to customers effective March 1, 2015. NorthWestern proposed to set the REP credit to distribute \$5,160,822 over the 12 month period beginning March 1 to its residential and small farm customers. This amount consists of a net prior period balance of \$78,280,

forecasted REP benefits for March 2015 through February 2016 of \$5,067,106, and a decrease in PSC and MCC taxes of \$15,436. NorthWestern's current and proposed REP credits are:

<u>Rate Class</u>	<u>Current (per kWh)</u>	<u>Proposed (per kWh)</u>
Residential	(\$0.006810)	(\$0.002032)
Residential Employee	(\$0.004086)	(\$0.001219)
General Service Secondary	(\$0.006810)	(\$0.002032)
Irrigation	(\$0.006810)	(\$0.002032)
Lighting	(\$0.006810)	(\$0.002032)

As a result of the decrease in the BPA credit, the increase on the bill for a typical residential customer using 750 kWh per month will be \$3.58 per month or \$42.96 per year. The actual amount will depend on each customer's class and usage.

On January 28, the Commission issued a Notice of Filing and Opportunity for a Hearing. On February 17, the Commission granted intervention to the MCC. On February 19, the counsel for the MCC informed Commission staff via email that the MCC had reviewed the filing and did not wish to request a procedural schedule or hearing.

III. Staff Recommendation

Staff Recommends approval of the REP credit adjustment as requested in NorthWestern's filing.