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NorthWestern[®]
Energy*Delivering a Bright Future*

July 17, 2015

Ms. Kate Whitney
Administrator, Regulatory Division
Montana Public Service Commission
1701 Prospect Avenue
PO Box 202601
Helena, MT 59620-2601

RECEIVED
JUL 17 2015
MONT. P.S. COMMISSION

RE: Compliance Filing – NorthWestern Energy Revised Electric USB Allocations Post Senate Bill 150

Dear Ms. Whitney:

With this letter NorthWestern Energy (“NorthWestern”) submits its Compliance Filing to adjust the 2015 electric Universal System Benefits (“USB”) budget allocations in order to comply with the minimum Low Income funding requirements established by the 2015 Montana Legislature with the passage of Senate Bill 150 (“SB 150”). SB 150 increases a public utility’s minimum annual funding requirement for low-income energy and weatherization assistance to 50% of the public utility’s overall annual electric USB funding level. SB 150 applies retroactively to January 1, 2015. The Montana Public Service Commission (“MPSC”) has previously defined the allocations of electric USB funds through MPSC Order No. 6679e which must be modified in order to comply with statute.

NorthWestern has revised its 2015 budget allocations to comply with SB 150 and incorporate joint recommendations received from the Montana Human Resource Development Councils Directors Association (“HRDCs”), the Montana Department of Public Health and Human Services (“MDPHHS”), and Energy Share of Montana (“Energy Share”) for allocating the additional Low Income funds. These three organizations represent the interests of low-income customers and have been major and active participants in the discussion regarding the use of USB funds. The fact that they reached consensus regarding allocation is significant. NorthWestern believes that the recommended allocations are fair and reasonable, and that they should be used for 2015 and on a permanent basis in the future. The letter detailing these recommendations is included as Attachment 1. NorthWestern’s revised 2015 electric USB budget is included as Attachment 2.

NorthWestern is taking actions to implement the revised 2015 budget due to the retroactive nature of SB 150.

A more detailed discussion of SB 150, pre-SB 150 USB allocations, and the revised allocations follows.

As stated, SB 150 increases the minimum annual funding requirement for low-income energy and weatherization assistance to 50% of the overall annual electric USB funding level, retroactive to January 1, 2015. No changes have been made to the public utility’s overall annual

electric USB funding level. No changes have been made to the Large Customer provision which sets the Large Customer USB rate and allows Large Customers to self-direct their USB funds.

Through MPSC Order No. 6679e (December 17, 2008), the MPSC set out allocation levels among the electric USB categories, including funding levels for specific Low Income activities. The passage of SB 150 requires changes to these allocation levels.

NorthWestern has reallocated 2015 electric USB funding based upon its 2015 electric USB Business Plan revenues, in order to comply with the requirements of SB 150 and to align, to the extent possible, with MPSC Order No. 6679e. Large Customer revenues represent 30% of the 2015 electric USB Business Plan revenues. SB 150 requires that 50% of the total electric USB revenues be allocated to Low Income activities. The remaining 20% of the electric USB revenues are available for the Local Conservation, Market Transformation, Renewable Resources, and Research and Development USB categories (“Other Categories”). The revised 2015 budgets for the Other Categories are in proportion to the allocations for these categories as set forth in MPSC Order No. 6679e.

NorthWestern’s 2015 Business Plan electric USB revenues are projected to be \$9,707,038. Setting the minimum funding requirement for Low Income activities at 50% of total electric USB revenues increases funds committed to the Low Income category from the initial 2015 Budget of \$3,309,309 (34% of total electric USB revenues) to \$4,853,519 (50% of total electric USB revenues), an increase of \$1,544,210. The total funds available for the Other Categories are reduced from \$3,489,798 (36% of total electric USB revenues) to \$1,945,588 (20% of total electric USB revenues), a reduction of \$1,544,210. The Large Customer allocation of \$2,907,931 is not impacted by the passage of SB 150.

The Low Income minimum funding requirement of \$4,853,519, as well as the funds for Other Categories of \$1,945,588, are funded through revenues collected from the non-Large Customer rate classes. Table 1 shows the Electric USB Business Plan Revenues by customer class.

Table 1. NorthWestern Electric Universal System Benefits 2015 Business Plan Revenues

NorthWestern Electric Universal System Benefits 2015 Business Plan Revenues		
	Business Plan Revenues By Class	% of USB Revenue By Class
Residential		
Residential	\$ 3,219,010	33%
General Service		
GS-1/GS-2 < 1000 kW	\$ 3,239,778	33%
Irrigation	\$ 114,511	1%
Lighting	\$ 225,808	2%
Total Non-Large Customer	\$ 6,799,107	70%
Large Customer		
GS-1/GS-2 > 1000 kW and Special Contracts	\$ 2,907,931	30%
Total USBC Business Plan Revenues	\$ 9,707,038	100%

Both actual annual electric USB revenues and the Large Customer percentage of the total electric USB revenues fluctuate. Large Customers have no responsibility to contribute to the 50% minimum Low Income funding requirement. To the extent that actual electric USB revenues and/or revenues collected from non-Large Customers vary from the Business Plan, allocations to the Low Income and Other Categories may need to be adjusted. For example, if Large Customer revenues represent a larger percentage of the total revenues, additional funds must be drawn from the Other Categories in order to fund Low Income activities at the minimum funding level of 50%. Revenues fluctuate and the final annual revenues are not determined until the close of December business.

Due to the variables impacting actual revenues and the actual percentage of revenues represented by the Large Customers, NorthWestern has not fully committed all funds in the proposed budget at this time, but will make such commitments by the end of the calendar year to comply with the Department of Revenue Administrative Rule 42.29.111 regarding qualifying expenditures.

Attachment 2 shows the allocations and adjustments which NorthWestern is applying to the 2015 Electric USB revenues based upon the Business Plan, the passage of SB 150, and feasible alignment with MPSC Order No. 6679e.

Adjustments to Low Income Activities

In MPSC Order No. 6679e, the MPSC defined the funding levels for specific Low Income activities that benefit low-income customers of NorthWestern. Program offerings include bill assistance, weatherization, and emergency energy assistance.

Based on the 2015 Business Plan, electric USB revenues, and the allocation of 50% of the total revenues to Low Income activities, the 2015 budget for the Low Income category is increased by \$1,544,210.

As shown on Attachment 1, the HRDCs, MDPHHS, and Energy Share jointly recommend that funding of Energy Share be increased by \$50,000 annually and that remaining additional low-income funds be directed to the Free Weatherization Program. NorthWestern supports this strategy and, as explained above, has incorporated it into the revised Low Income activity allocations.

The revised electric USB Low Income allocation sustains the current electric low-income bill discount, increases funding to Energy Share from \$239,000 to \$289,000 annually, and directs the majority of incremental Low Income funds to weatherizing homes of low-income customers. The incremental increase for weatherization is estimated to range from \$1.1M to \$1.4M depending upon revenues and the demand for the bill discount. This increases the annual electric USB Free Weatherization funding from \$518,000 to approximately \$1.7M. No changes have been made to the Low Income category budgets for labor, promotion, or administration.

This approach complies with SB 150 and fits with NorthWestern's continued commitment to administer a balanced mix of USB programs and activities for its customers.

NorthWestern recognizes that investments in “bricks and mortar” weatherization result in more permanent reductions of energy usage and related energy bills in comparison to bill assistance. As noted in the letter from the low-income organizations, federal funding of low-income weatherization has declined in recent years. By directing the majority of the incremental funds to the installation of weatherization measures, which reduces energy usage in the weatherized homes years into the future, bill discount and emergency energy assistance funds are stretched further. Table 2 shows the initial 2015 Low Income budget and the revised 2015 budget under the new allocation strategy.

Table 2. NorthWestern 2015 Low Income Activity Budget

Low Income Activity	Initial NorthWestern 2015 Allocation	Revised 2015 Allocation Post SB 150
Low Income Bill Discount (15% May 1 – October 31 and 25% November 1- April 30 – fluctuates with number of participating customers, rates, and weather.) Budget is based on Business Plan.	\$2,568,225	\$2,568,225
Free Weatherization	\$518,000	\$1,638,794
Electric Incentives and Fuel Switch Analysis	\$37,000	\$37,000
Energy Share	\$239,000	\$289,000
Other/Outreach – promotion, labor, admin, other	\$70,500	\$70,500
Potential Shortfall to be Covered	-\$123,416	-
Potential to be Allocated to Free Weatherization as available	-	\$250,000
TOTAL	\$3,309,309	\$4,853,519

Funding levels have been changed as noted above. No changes have been made to the Low Income activities which are described below.

Low Income Discount

Customers qualifying for Low Income Energy Assistance Program (“LIEAP”), the federally funded heating assistance program, receive NorthWestern’s Bill Discount. Customers may apply for LIEAP assistance through their local Human Resource Council (“HRC”). As provided in tariffs approved by the MPSC, qualifying customers receive NorthWestern’s electric Low Income Bill Discount of 15% from May 1 through October 31 and 25% from November 1 through April 30. The budget is based upon the Business Plan while actual expenses are determined by the number of participating customers, rates, and weather.

The Free Weatherization Program

As noted above, the installation of weatherization measures results in year-after-year reductions in energy usage in a home. NorthWestern partners with the MDPHHS and the local HRCs to offer the Free Weatherization Program. The Free Weatherization Program pools electric and natural gas USB funds consistent with MPSC Order No. 6679e. In addition to Weatherization, electric USB Low Income funds have been applied to incentives (Electric Weatherization Incentives) paid to the HRCs for identifying and weatherizing homes of qualifying NorthWestern customers with electric heat. Homes heated with NorthWestern’s electricity are analyzed (Fuel Switch Analyses) to determine whether it is appropriate to convert the homes to natural gas.

The Free Weatherization program includes a comprehensive energy audit, installation of air-sealing, hot water conservation, insulation measures, and compact fluorescent light bulbs, and energy-related health and safety improvements such as heating equipment tune-ups and repairs.

Customers are provided with information to help them better manage their energy usage and to better understand their energy costs.

Energy Share

Energy Share of Montana offers assistance to those facing heating emergencies. It is intended to be a one-time, last resort safety net, used after all other resources have been exhausted. MPSC Order No. 6679e allows for the pooling of electric and natural gas USB funds to support Energy Share funding. Funds directed to Energy Share may be assigned to NorthWestern customers' immediate needs or may be assigned to an endowment to support NorthWestern customers' needs in the future.

Potential Funds to be Allocated

The 2015 contracts with Energy Share and MDPHHS for Free Weatherization are being modified to define the funding levels listed in Table 2 and to allow for additional funds to be committed to the Free Weatherization program at year end to the extent the funds are available.

Adjustments to Other Categories

Attachment 2 shows the reductions to the budgets of the Other Categories – Local Conservation, Market Transformation, Renewables, and Research and Development, while maintaining the proportional allocations for these categories as set forth in MPSC Order No. 6679e. It is necessary to scale back the activities in these categories and manage budgets in order to meet the minimum Low Income funding requirement of 50% as required by SB 150. The Local Conservation funds and the Market Transformation funds are treated as a pool of funds as are the Renewable Resource funds and the Research and Development funds. This is consistent with historic practice.

NorthWestern supports the allocations used in this 2015 Compliance Filing and their use on a permanent basis going forward and requests that the MPSC approve this proposal.

An original and one copy of this filing are being provided to the MPSC and three copies will be delivered to the Montana Consumer Counsel.

The NorthWestern employee responsible for answering questions concerning this filing or for inquiries to the appropriate members of the Utility Staff is:

Mr. Joe Schwartzberger
NorthWestern Energy
40 East Broadway
Butte, MT 59701
(406) 497-3362
joe.schwartzberger@northwestern.com

Please send copies of any documents submitted in response to this filing to Joe Schwartzberger, Al Brogan, and Pam LeProwse. NorthWestern also requests that all electronic correspondence related to this filing be sent to pamela.leprowse@northwestern.com.

If there are any questions in this regard, I can be reached at (406) 497-3362.

Sincerely,

Joe Schwartzberger by CRH

Joe Schwartzberger
Director of Regulatory Affairs

Attachments

cc Montana Consumer Counsel
Brian Steffen, President, MT HRDC Directors Association
Tina Shorten, President, Energy Share of Montana
Kane Quenemoen, HIS Bureau Chief, Montana DPHHS



June 19, 2015

Pat Corcoran
VP Government and Regulatory Affairs
40 E. Broadway
Butte, MT 59701

Dear Mr. Corcoran,

The Montana HRDC Directors' Association, Energy Share of Montana and the Montana Department of Public Health and Human Services (DPHHS) jointly convey our thanks to NorthWestern Energy Corporation (NWE) for the initiative it took to introduce and pass Senate Bill 150 increasing the utility's minimum annual Universal System Benefits (USB) funding for low-income energy and weatherization assistance activities.

Together, we also want to mutually suggest that NWE's proposal to the Public Service Commission (PSC) for implementing SB 150 prioritize the use of these additional funds for the Free Weatherization Program and include an earmark of \$50,000 for Energy Share.

All three organizations share the belief that additional USB funds should address the greatest needs and target the best possible outcomes. Weatherization is one of those needs. With the decline in federal funding, the number of high-energy-use LIEAP customers receiving weatherization each year has dropped from 12% in 2012 to 5% in 2014, despite the fact that weatherization consistently reduces the cost burden of low-income households from an average of 14% of their incomes to less than 2.5%.

We also support funding for Energy Share to continue its work in preventing shutoffs and helping low-income households stay current with their utility bills. Over the last five full fiscal years (FY10-FY14) Energy Share has spent \$130,000 more per year (average) on NWE customers than it received in USB contributions designated for bill assistance. Increasing Energy Share's earmark by \$50,000 annually leaves the bulk of new funds available for low-income weatherization while providing some additional support for emergency bill assistance.

Montana HRDC Directors Association
321 E. Main Street, Suite 316 Bozeman, MT 59715-4721
406-586-1572 email: civicconsulting@msn.com

And lastly, we request that the utility submit a single proposal to the PSC that includes both the 2015 retroactive period as well as the subsequent years in order to minimize the burden on the PSC and to simplify the entire process.

Again, thank you for all you do to assist your low-income customers. If we can answer questions or be of any assistance, just let us know.

Sincerely,



Brian Steffen, President, MT HRDC Directors Association



Tina Shorten, President, Energy Share of Montana



Kane Quenemoen, HIS Bureau Chief, Montana DPHHS

NorthWestern Energy Electric Universal System Benefits 2015 Budget Based on 2015 Business Plan Revenues

Section A

Section B

Section C

MPSC Order No. 6679e 2015 Electric USB Budget			NorthWestern Approved 2015 Electric USB Budget			Revised 2015 Electric USB Budget SB 150		
USB Electric Category	Revenue Allocation	% of Total Revenue	Revenue Allocation	% of Total Revenue	NorthWestern Approved Program Budget	Revenue Allocation	% of Total Revenue	SB 150 Proposed Program Budget
Conservation	1,103,690	11%	1,145,571	12%	1,145,571	638,664	7%	638,664
Market Trans	704,731	7%	731,509	8%	731,509	407,822	4%	407,822
Renewables	1,261,915	13%	1,310,134	13%	1,310,134	730,409	8%	730,409
R & D	291,211	3%	302,584	3%	302,584	168,693	2%	168,693
Low Income	3,187,791	33%	3,309,309	34%		4,853,519	50%	
Bill Discount					\$ 2,568,225			\$ 2,568,225
Free Weatherization					\$ 518,000			\$ 1,638,794
Elec Wx Incentives					\$ 30,000			\$ 30,000
Fuel Switch Analyses					\$ 7,000			\$ 7,000
Energy Share					\$ 239,000			\$ 289,000
Promotion, Labor and Admin					\$ 70,500			\$ 70,500
Potential Shortfall ¹					\$ (123,416)			\$ -
Potential Remaining Allocation ²					\$ -			\$ 250,000
Large Customer	3,157,699	33%	2,907,931	30%	2,907,931	2,907,931	30%	2,907,931
Totals	9,707,038	100%	9,707,038	100%	9,707,038	9,707,038	100%	9,707,038

NorthWestern Energy Electric USB Business Plan Revenues

Section A -- Allocates Total 2015 Business Plan Revenues based on MPSC Order No. 6679e which assumed Large Customer revenues to be 33% of the total revenues. 2015 Large Customer Business Plan Revenues are 30%.

Section B -- Allocates 2015 Business Plan Revenues based upon Large Customer revenues and with non-Large Customer revenues (Low Income, Local Conservation, Market Transformation, Renewables, and R&D) proportional to MPSC Order No. 6679e.

Section C -- Allocates Business Plan Revenues to comply with SB 150 based upon Business Plan Revenues for Large Customer revenues and non-Large Customer revenues--50% of total revenues to Low Income, 30% to Large Customer, and the remaining 20% of revenues distributed amongst all Other Categories in proportion to MPSC Order No. 6679e. Low Income funding fully covers the Bill Discount, increases Free Weatherization and Energy Share as jointly recommended by Montana Department of Public Health and Human Services, Montana Human Resource Development Council Directors, and Energy Share of Montana.

¹ The potential shortfall is primarily the result of the bill discount which varies dependent on the number of customers enrolled, rates, and weather. Funds from the Other Categories were not fully committed to allow for fluctuations in revenues and demands from within the Low Income Category to cover the shortfall at year end.

² The potential remaining allocation is set aside in recognition of the fluctuation in revenues or demand for the bill discount and will be fully committed to Free Weatherization at year's end.