

At the meeting of the Public Service Commission of the State of Montana held at the Commission's Offices in Helena, Montana, on September 4, 2014, the following members were present:

Bill Gallagher, Chairman
Bob Lake, Vice Chairman
Kirk Bushman, Commissioner
Travis Kavulla, Commissioner
Roger Koopman, Commissioner

APPEARANCE

Aleisha Solem, Commission Secretary

(238) In the matter of the approval of Commission Minutes for the week of August 25, 2014.

Commissioner Lake moved to APPROVE the Commission Minutes for the week of August 25, 2014. Commissioner Koopman seconded the motion, which passed unanimously.

APPEARANCE

Scott Fabel, Regulatory Division

(239) In the matter of N2014.8.74: CenturyLink's tariff transmittal 14-03.

Commissioner Kavulla moved to APPROVE CenturyLink's tariff transmittal 14-03. Commissioner Lake seconded the motion, which passed unanimously.

APPEARANCE

Kate Whitney, Administrator, Regulatory Division

(240) In the matter of out of state staff travel.

Commissioner Bushman moved to APPROVE the out of state staff travel of Dagan Lynch to attend the Regulatory Training in Financial Planning, Strategies, and Accounting Issues for Publicly and Privately Owned Water & Wastewater Utilities in Albuquerque, NM October 12-17, 2014. Commissioner Lake seconded the motion, which passed unanimously.

APPEARANCE

Kate Whitney, Administrator, Regulatory Division
Will Rosquist, Neil Templeton, Bob Decker, Regulatory Division
Justin Kraske, Administrator, Legal Division

(241) In the matter of D2013.12.85: NorthWestern Energy's application to purchase and operate PPL Montana's hydroelectric facilities.

Chairman Gallagher moved to:

1. Approve the NWE application under the following terms and conditions; and
2. Direct staff to promptly prepare an Order reflecting said approval and the following findings; and
3. Communicate to the parties that if there is objection to this decision that Motion for reconsideration may be made prior to issuance of the final Order; and
4. We communicate to NWE that if they have no objection to the decision necessitating a Motion for Reconsideration that they make haste in securing financing at the lowest rate available to them for the term prescribed by the Commission below.

CONDITIONS:

- A. The purchase price negotiated by NWE is \$900M; the rate-based amount is \$870M;
- B. The 52% 48% debt to equity capital structure proposed by NWE is reasonable and acceptable;
- C. Return on equity shall be 9.8%;
- D. Debt:
 - a. The debt tenor shall be 30 years and shall not exceed 4.25%;
 - b. NWE is directed to proceed with all swiftness possible to execute the lowest possible interest rate below 4.25% with a 30 year tenor, and upon execution of same, make a compliance filing reflecting the results and impact on revenue requirement.
- E. Depreciation of the hydro facilities shall occur over a fifty year period;
- F. First year revenue requirement shall only include the known and measurable real property taxes currently paid by PPL Montana;
- G. Kerr:
 - a. The temporary acquisition of the Kerr facility shall create zero risk for the rate-payer and any and all financial risk associated with the term of NWE's Kerr ownership shall be borne by NWE shareholders;
 - b. A compliance filing shall be made upon completion of the subsequent transfer of the Kerr facility to demonstrate that the ownership of the Kerr facility by NWE resulted in a zero or net positive financial benefit for the rate-payers;

- H. Any future sale, transfer, etc. of NWE's interest in any of the hydro assets, excluding Kerr, shall require regulatory approval of the Commission.
- I. The proper ratemaking treatment of any future gains on any activity involving the hydro assets shall be determined by the Commission, and in making that determination, the Commission should recognize that ratepayers have carried certain risks of loss associated with the acquisition of the hydros.

FINDINGS: The Commission finds by a preponderance of the evidence that:

- 1. NWE's purchase of the hydro assets is in the public interest and that the benefits substantially outweigh the risks;
- 2. The models developed for the purpose of establishing the value and offer price for the hydro assets were sufficient and reasonable;
- 3. The assumptions, including carbon cost estimates, and future capital expenditure estimates, used in the models estimating the value of the hydro assets were all within a range of sufficient, fair, and reasonable.
- 4. The offer price/value of \$900M is valid and within a reasonable range for the assets and that rate-basing the \$870M purchase price is consistent with MCA § 69-3-201 and is just and reasonable;
- 5. The means and assumptions used to compare the cost of the hydros with alternative energy supply resources were sufficient, fair and within a range reasonableness;
- 6. The selection of alternative energy resources compared to the hydro acquisition constituted a "full range" of alternative resources and were adequate and reasonable;
- 7. The \$870M rate based cost of acquisition of the hydro assets compares favorably with alternative energy supply resources and is, in its totality, cost effective;
- 8. Pursuant to MCA § 69-3-109, the acquisition adjustment above the original cost of the hydro facilities and the transfer of the hydro facilities to NWE is in the public interest;
- 9. NWE's due diligence with regard to the condition of the hydro assets was sufficient and reasonable;
- 10. The condition of the assets is satisfactory relative to the price of the assets and to the forecast of capital expenditures;
- 11. The overall benefits of the hydro purchase outweighs the risk that the due diligence might have failed to expose any discoverable deficiency in any of the

hydro facilities; or that the annual or cumulative forecasted capital expenditure budget may be insufficient;

12. Capital Structure:

- a. The 52% 48% debt to equity capital structure proposed by NWE is consistent, fair and reasonable;
- b. The 55% 45% debt to equity capital structure proposed by the Consumer Counsel is artificial, and may encourage a level of utility debt detrimental to the utility and unsupported by the Commission;

Based on the Commission's analysis of the record evidence and testimony of the MCC and NWE, a return on equity of 9.8% and a resulting total rate of return of 6.9% (depending on cost of debt) are fair and equitable;

13. Debt:

- a. Given the low interest rates available, that the debt tenor should be 30 years and should not exceed 4.25% ;
- b. The proposals that including ten year debt, and/or the mixing of thirty and ten year debt to reduce the short term impacts of debt on rates are not worth the risk that the cost of debt, and rates, will rise beyond the ten year period and these proposals are unacceptable to the Commission;

14. The deferred accounting restrictions (Cap-Ex floor and ceiling, Carbon cost adjustment, and decommissioning/terminal costs) proposed by the Consumer Counsel are unnecessary and unmanageable, and their adoption by this Commission would result in thwarting consummation of the purchase constituting a defacto denial of the acquisition by the Commission;

- a. Risks mitigated by these proposals are outweighed by the overall benefits of the hydro acquisition; and
- b. The risk assumed by the rate-payers if these conditions effectively thwart the consummation of the hydro purchase leaving NWE, and the rate-payers with the more expensive alternative energy supply resources outweigh the risks assumed in this approval;

15. The Commission accepts the NWE proposal that

- a. Hydros capital expenditures incurred in the normal course of business allowable for cost recovery would be capped at \$58.1 million, from 2015 through 2020, which is NorthWestern's forecasted Hydros-related capital expenditure budget for that period;
- b. Except as noted in Item c. below, Hydros Capital Expenditures greater than \$58.1 million during this period would not be allowed the recovery of

a return on, but will be allowed recovery of a return of (depreciation expense);

- c. Recovery of a Return on and Return of hydro capital expenditures that are the result of extraordinary events and/or unknown Regulatory or Environmental Regulations may be requested by NorthWestern as part of future general rate filings.

16. Acquisition of the hydro assets under the above Conditions is consistent with the objectives of MCA § 69-8-419, and specifically, acquisition of the hydro assets would meaningfully facilitate NWE's ability to:

- a. Provide adequate and reliable electricity supply service at the lowest long-term total cost;
- b. Manage and mitigate risks;
- c. Provide adequate electricity supply service at just and reasonable rates;

17. The acquisition of the hydro assets was not possible via a competitive solicitation;

18. The present estimated impact of \$ 4.63 (assuming a debt interest rate of 4.25%) or \$4.53 (assuming a debt interest rate of 4.05%) on the average monthly NWE customer electricity bill is fair and reasonable and will be offset by the long term benefits of adding the rate stable, geographic, watershed, and fuel diversified, sustainable, predictable, and zero fuel cost, hydro generation to the portfolio of the Montana's largest electric utility;

19. KERR:

- a. There was no express request for approval of the subsequent transfer of the Kerr facility in the Application;
- b. Likewise, there was no evidence presented by the CSKT or NWE that such a subsequent transfer is in the public interest;
- c. The Commission makes NO finding in this proceeding as to whether the proposed subsequent transfer of the Kerr facility to the CSKT is or is not in the public interest;
- d. However nominal, in keeping with the "transfer agent" description of NWE's role regarding the Kerr facility, the rate-payer should be exposed to NO risk relative to NWE's temporary ownership of that facility;

20. The Commission's pre-approval of this acquisition as in the public interest is predicated on the capital-expenditure and O&M forecasts' being a substantially

true representation of the future costs of the Hydros.¹ Consideration of the prudence of future hydro capital expenditure investment over and above NWE's Cap-Ex forecast may depend on what a prudent utility, in that moment, would do, but, the Commission may also consider what NorthWestern did and did not predict at the time it was proposing this acquisition.

21. The opportunity for public participation in this docket/process was substantial, significant and meaningful;
22. NWE's application is consistent with the applicable Commission rules;

AUTHORIZATIONS: The Commission authorizes NWE to:

- 1) Make a compliance filing following the final order in this docket to adjust the purchase price to reflect the actual cost of debt;
- 2) Recover the estimated total revenue requirement of no more than \$116,865,355², as adjusted in the compliance filing, in electric supply rates;
- 3) Make a final compliance filing in approximately December 2015 to reflect post-closing adjustments, the conveyance of the Kerr Project to the Confederated Salish and Kootenai Tribes, and the actual property tax expense for the hydros;
- 4) Track revenue credits on a portfolio basis through the electricity supply cost tracker;
- 5) Finance transactions proposed in the application; and,
- 6) Utilize the proceeds from the financing transactions as proposed in the application.

Commissioner Koopman seconded the motion.

Motion to Amend: Commissioner Koopman moved to REDUCE the rate base to \$840 million, effectively removing \$30 million from rate base. Commissioner Kavulla seconded the motion which failed 2-3. Commissioners Gallagher, Lake, and Bushman dissenting.

Motion to Amend: Commissioner Kavulla moved to INCLUDE the Carbon Price Forecast Condition handout language in the order with the removal of the words "of or" on page 3. Commissioner Koopman seconded the motion, which failed 2-3. Commissioners Gallagher, Lake, and Bushman dissenting.

Motion to Amend: Commissioner Koopman moved to AMEND the capital structure to a 53.5 percent 46.5 percent debt to equity structure. Commissioner Kavulla seconded the motion, which failed 2-3. Commissioner Gallagher, Bushman, and Lake dissenting.

¹ NorthWestern did not include in its forecast any specific large capital events, nor did it forecast a general contingency amount, which would represent the aggregate possibility that out of a wide variety of events that are unlikely, but possible, to occur, that a quantifiable risk exists that such an event could occur.

² Based upon 4.25% debt.

Motion to Amend: Commissioner Kavulla moved to AMEND the return on equity to 9.5 percent. Commissioner Koopman seconded the motion, which failed 2-3. Commissioners Gallagher, Bushman, and Lake dissenting.

The main motion passed 4-1. Commissioner Kavulla dissenting.

There being no further business to come before the Commission the meeting was adjourned.

W. A. GALLAGHER, Chairman

BOB LAKE, Vice Chairman

KIRK BUSHMAN, Commissioner

TRAVIS KAVULLA, Commissioner

ROGER KOOPMAN, Commissioner

ATTEST:

Aleisha Solem
Commission Secretary

(SEAL)