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PSC Approves Settlement Between NorthWestern, Consumer Advocates in Natural Gas Rate Case

Commission Modifies NorthWestern Proposal to include production assets in rates

HELENA, Mont. – The Montana Public Service Commission voted 5-0 Thursday to approve a natural gas rate increase for NorthWestern Energy customers.

The Commission largely accepted a settlement presented by the parties, which included consumer advocates. However, the Commission modified a proposal by NorthWestern to embed several gas production fields located in northern Montana into rates paid by customers.

“The settlement before us was mostly good, but we discovered a few problems that needed our attention. This commission never feels obligated to approve a settlement, particularly when there is a potential harm to the consumer that we can fix,” said Commissioner Roger Koopman, R-Bozeman.

In its initial filing submitted to the Commission in September of last year, NorthWestern requested an annual increase of \$10.9 million for its natural gas delivery and production services, a 6.8 percent change.

Under the modified settlement, NorthWestern will receive an annual rate increase of \$5.1 million. The average bill for a residential customer using 100 therms a month will increase by roughly two dollars, or 2.4 percent, going from \$80.17 to \$82.16. NorthWestern serves 189,400 Montana natural gas customers in 117 communities.

The Commission accepted the stipulated return of 9.55 percent to be a reasonable return for NorthWestern shareholders, down from the last commission approved return of 9.8 percent.

The Bear Paw gas production fields formerly owned by NFR and Devon Energy, were acquired by NorthWestern in 2012 and 2013, respectively. Another gas field, Battle Creek, was acquired in 2010. At the time of the acquisitions, the Commission established interim rates to allow the utility to recover the fixed costs of the purchase, pending a more thorough examination by the Commission.

At a May hearing commissioners raised concerns that the two fields were underperforming the market. In 2015, the gas fields cost consumers \$21,774,568, while an equivalent quantity of gas purchased from the market would have cost a little more than \$11 million. As the wholesale market continued to bottom out, the NorthWestern assets in 2016 cost consumers more than three times what the same amount of gas purchased from the open market would have cost.

“These assets were acquired based on overly optimistic estimates about the price of natural gas in the future,” said Vice-chairman Travis Kavulla, R-Great Falls. “Those forecasts turned out to be wrong and now consumers are on the hook for the difference.”

Though individual commissioners expressed concern that consumers were overpaying for gas produced by NorthWestern, the Commission agreed that disallowing cost recovery for the facilities would be overly punitive to the utility.

“At the time, these facilities looked like a good deal for customers. NorthWestern made a good faith investment and pulling the rug out from under them now simply wouldn’t be fair,” said Commissioner Bob Lake, R-Hamilton.

The Commission rejected part of the settlement which would have used the calendar-year 2015 booked value of the gas assets for rates going into effect next month. Instead, the Commission implemented a \$1.4 million annual adjustment to account for the declining production of the assets over time.

“NorthWestern’s gas reserves are depleting at an average rate of 5-6 percent a year,” said Chairman Brad Johnson, R-East Helena. “Customers should only be paying for the portion of useful life left in these facilities.”

The total rate increase associated with the gas production assets is equal to \$2.2 million annually, in addition to the 20.6 million already being collected in rates.

Parties will have an opportunity to object to the Commission’s modification within 10 days of a final order in the docket.

If the Commission receives no objections, the increase will go into effect on Sept. 1, 2017.

To view the full rate-case docket, visit: <http://bit.ly/2tgpjko>

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