



NorthWestern Energy Rate Case Summary

Reasons for the Rate Case

Time Between Rate Cases

- In this general rate case, NorthWestern sought to modify:
 - The electric rates set in Docket **2018.02.012**; and
 - The natural gas rates set in Docket **D2016.9.68**.

Drivers of the Rate Increase

- **NorthWestern asserts it has invested in capital additions:**
 - **\$835 million** in its electric system; and
 - **\$267 million** in its natural gas system.

Drivers of the Rate Increase

- Since the last applicable test periods, NorthWestern asserts its net rate base increased by approximately:
 - **\$453 million** for electric; and
 - **\$143 million** for natural gas.

Drivers of the Rate Increase

- Approximately **40%** of NorthWestern's original requested rate relief represents recovery of **flow-through costs** driven by **market power purchases** and **property taxes**.

Drivers of the Rate Increase

- **Property tax increases, as updated in rebuttal, support revenue requirement increases of:**
 - **\$14,529,164** for electric; and
 - **\$4,150,562** for gas.
 - **Reb. Test. Elaine Rich, Exs. EAR-1, EAR-2.**

General Ratemaking Concepts

Revenue Requirement Formula

$$RR = O + D + T + (r \times B)$$

RR = revenue requirement,

O = operating expenses,

D = depreciation expense,

T = tax expense,

r = rate of return, and

B = rate base, or the total book value of assets used to provide utility service.

Hope and Bluefield Standards

- **A utility's ROE should be commensurate with ROEs of businesses with similar risk.**
- **The ROE should be sufficient to maintain the financial integrity of the utility.**
- **The ROE should be adequate to enable the utility to attract investors and capital on reasonable terms.**

Rate Allocation

- Different customer classes can impose different burdens on a utility's system.
- Under general principles of utility ratemaking, **customers that impose a greater burden on the utility system should likewise bear a greater share of the cost of the system.**

Rate Allocation

- **To moderate the impact of steep rate increases, it may be reasonable to protect a customer class from the full cost of the burdens the class imposes on the utility system.**

Electric Revenue Requirement

Electric Revenue Requirement

- Staff's analysis of the record results in a zone of reasonableness for the electric revenue requirement increase:
 - \$71.3 million to
 - \$90.6 million.

Electric Revenue Requirement

- Staff's **\$71.3 million** low-end is based on NorthWestern's rebuttal position with adjustments for:
 - **Depreciation;**
 - **Incentive compensation expenses;**
 - **Stock-based compensation for non-executive;**
 - **Stock-based compensation for members of the board; and**
 - **A return on equity ("ROE") of 9.19%.**

Electric Revenue Requirement

- Staff's **\$90.6 million** high-end is based on NorthWestern's rebuttal position with adjustments for:
 - Stock-based compensation for non-executive;
 - Stock-based compensation for members of the board; and
 - An ROE of **9.78%**.

Electric Revenue Requirement

- About **half** of the **\$19.3 million** difference between the high and low end of the range of reasonableness is **due to the high and low ROEs**.
- The high and low ends for **depreciation** and incentive compensation each account for **about 25% of the difference**.

Electric Revenue Requirement

- The Order approves an **\$81,906,631** increase described in the settlement agreement.
- The Order approves a **9.65%** ROE.
- Both the revenue requirement and ROE fall within the zone of reasonableness.
- The increase approved is **\$23,220,811** less than NorthWestern's requested increase of **\$105,127,442**.

Electric Revenue Requirement

- NorthWestern's interim rate increased its electric base revenue requirement by **\$29,356,124**.
- Electric base revenue requirement rates increased **\$10,773,307** effective January 1, 2023, in NorthWestern's Tax Tracker.
- Of the **\$81,906,631** approved, **\$40,129,431** is already reflected in current rates being paid by customers.

Electric Revenue Requirement

- Compared to rates that include the interim and tax tracker adjustments, however, the bill for an average residential customer using 750 kWh per month will increase by about **\$8** or **7.6%**.
- However, there has also been a substantial reduction in the PCCAM under-collection, as discussed later.

Electric Supply Costs

Electric Supply Costs

- The Order approves a PCCAM Base of **\$208,282,098**, as agreed to by the Settling Parties.
- This is an increase of **\$69,616,395** or **50.2%** compared to the prior PCCAM Base, which was **\$138,655,703**.
- PCCAM base adjustments affect cost-sharing.

Electric Supply Costs

- The Interim Order approved a PCCAM Base of **\$199,802,510**, which became effective on October 1, 2022.
- The PCCAM Base approved in this Order is an increase of **\$8,479,588** or **4.2%** from NorthWestern's current rates.

Electric Supply Costs

- In addition:
 - **Capacity costs** are subject to **90/10 cost-sharing**,
 - The PCCAM will be subject to **quarterly adjustments**, and
 - **Interest** will be applied symmetrically on any deferred balances.

Electric Rate Impact

- On **October 1, 2022**, two rates changed at the same time: the interim rate approved in this docket, and the interim PCCAM true-up in Dkt. 2022.09.083.
- The PCCAM true-up was designed to recover a **\$52,833,327** under-collection over 12 months.
- The interim approved in this docket raised the PCCAM base to **\$199,802,510**, an increase of **\$61,146,807**.

Electric Rate Impact

- Because the Commission raised the interim PCCAM base in this case, the under-collected balance for July 1, 2022, through June 30, 2023, dropped.
- In the current PCCAM true-up, NorthWestern asserts it has under-collected **\$17,545,388**.
 - See Dkt. 2023.09.081
- On October 1, 2023, the PCCAM supply tracker rates dropped, which reduced the average monthly residential customer bill by **\$4.51** or **4.11%**.

Electric Rate Impact

- The net effect of PCCAM reduction and the Commission's decision today is an increase of about **\$3.50** or **3.3%** in the average monthly residential customer bill.
- Note, however, that we are headed into colder weather, so we should expect bills and overall usage to increase.

Electric Rate Allocation and Design

Electric Rate Allocation

- This Order allocates the increased electric revenue requirement across NorthWestern's customer classes in a manner that moves **closer to the cost-causer, cost-payer principle, but not entirely.**

Electric Rate Allocation: Increases

- **0% GS-1 Primary and GS-2 Transmission**
- **6.34% Irrigation**
- **13.6% GS-1 Secondary**
- **16.4% Lighting**
- **18.2% GS-2 Substation**
- **18.2% Residential**

Electric Rate Design

- **The Order accepts the electric rate design agreed to by the Settling Parties, which includes minimal changes from current rate designs.**
- **Only the GS-2 Substation class receives an increase in the monthly service charge.**
- **Lighting rate categories are consolidated.**

Natural Gas Revenue Requirement

Natural Gas Revenue Requirement

- Staff's analysis of the record results in a zone of reasonableness for the gas revenue requirement increase:
 - \$15.8 million to
 - \$23.1 million.

Natural Gas Revenue Requirement

- Staff's **\$15.8 million** low-end is based on NorthWestern's request with adjustments for:
 - **Depreciation;**
 - **Incentive compensation expense;**
 - **Stock-based compensation for non-executives;**
 - **Stock-based compensation for members of the board of directors;**
 - **Natural gas production asset step-down;**
 - **An ROE of 9.19%.**

Natural Gas Revenue Requirement

- Staff's **\$23.1 million** high-end is based on NorthWestern's request with adjustments for:
 - Stock-based compensation for non-executives;
 - Stock-based compensation for members of the board of directors;
 - Natural gas production asset step-down; and
 - An ROE of **9.78%**.

Natural Gas Revenue Requirement

- The Order approves the Settlement Agreement's stipulated natural gas 2022 revenue requirement increase of **\$18,210,987**.
- **BUT:** Reduces that increase by **\$738,928** to reflect the 2023 Production Asset Revenue Requirement stepdown.
- Resulting natural gas revenue requirement increase is **\$17,472,059**.

Natural Gas Revenue Requirement

- The increase approved by this Order is a **\$9,116,461** reduction from the **\$26,588,520** increase NorthWestern requested in its rebuttal.

Natural Gas Revenue Requirement

- The interim increase for natural gas revenue requirement was **\$1,727,788**
- In addition, the natural gas revenue requirement increased **\$2,855,048** effective January 1, 2023, in NorthWestern's Tax Tracker Docket.

Natural Gas Revenue Requirement

- Of the **\$17,472,059** approved in this Order, **\$4,582,846** is already reflected in NorthWestern's current rates being paid by customers.
- Compared to natural gas base revenues generated after the interim and property tax adjustments, the increase is **8.3%**.

Natural Gas Rate Impact

- Natural gas supply charges have dropped.
- The average monthly bill for a residential customer **was higher in August 2022** than it would be under the rates in this Order.
- All things considered, the average bill for a residential customer using 65 therms dropped **\$8.74** or **12.8%** between Aug. 2022 and rates described in this Order.

Natural Gas Rate Allocation and Design

Natural Gas Rate Allocation

- **Approximately 14%** increase for:
 - Residential Employee,
 - Utilities,
 - DBU Firm Transportation,
 - TBU Firm Transportation,
 - DBU Interruptible Transportation, and
 - TBU Interruptible Transportation.

Natural Gas Rate Allocation

- **Approximately 11% increase for:**
 - Residential General Service, and
 - Storage customer classes.

Natural Gas Rate Design

- **The Order accepts the natural gas rate design agreed to by the Settling Parties.**
- **With this rate design, only non-residential classes receive an increase in the monthly service charges.**

Riders

Reliability Rider

- **Not approved.**
- Stipulating parties agree that NorthWestern may request a **one-time** PCCAM Base Cost adjustment when **YCGS** is placed in service.
- If filed, the application must include all information needed for **prudency review**.
- The Order does not limit any non-settling party's ability to object to this filing.

Business Technology Rider

- **Not approved.**

Wildfire Mitigation Rider

- **Not approved.**
- NorthWestern may **defer and accumulate** incremental wildfire mitigation expenses subject to annual caps specified in the settlement.
- Deferred expenses are eligible for recovery, subject to a Commission **prudence determination**, in a future rate review.

Miscellaneous Issues

Demand-Side Management (DSM)

- **Costs will not be capitalized.**
- **Costs will continue to be recovered through the PCCAM.**
- **DSM program will be the subject of future working group discussions.**

Fixed-Cost Recovery Mechanism (FCRM)

- The FCRM pilot approved in Docket 2018.02.012 is eliminated.
- Future FCRM options will be the subject of future working group discussions.

Small Natural Gas Production Asset Acquisitions

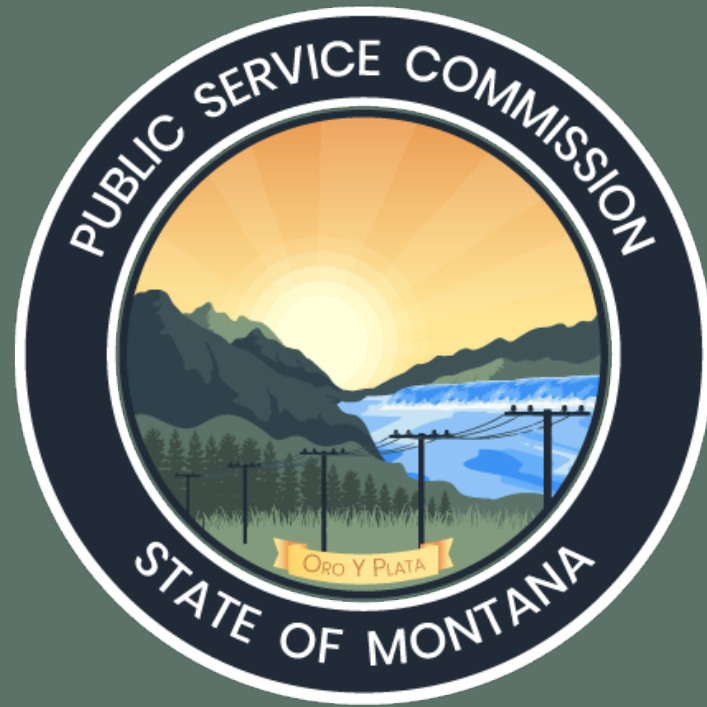
- NorthWestern may **defer and accumulate** costs associated with small natural gas production asset acquisitions.
- Will be subject to a Commission **prudence review** in a future rate case.

Sleepy Hollow Gas System

- NorthWestern's natural gas rate base and operating and maintenance expenses reflect its acquisition of Sleepy Hollow.
- NorthWestern may **defer and accumulate** any costs that exceed the 2022 known and measurable expense adjustment.
- Deferred costs will be subject to a Commission **prudence review** in a future rate case.

Conclusion

- **The question before the Commission is whether to adopt the draft final order as the Commission's final order in this proceeding.**
- **If the Commission approves the draft final order, it should also authorize staff to make non-substantive revisions to improve accuracy and clarity.**



Questions?