

Chairman's Report: 2017



APRIL 1, 2018

Montana Public Service Commission



Montana Public Service Commission



Brad Johnson - Chairman
District 5

In the current political environment, what's needed now more than ever is a sense of balance. As one of five elected officials charged with safeguarding Montana's energy future, I strive to embody this principle through deliberate, well-reasoned decisions that place the welfare of all Montanans above private influence and special interests. That means balancing emerging technology with conventional fuel sources, balancing new investment with rate impacts, and balancing the interests of utility shareholders with those of the ratepayer.

Each year the Commission is asked to rule on issues that have a direct impact on the finances and well-being of every single Montanan, and 2017 has been no exception. In the last year, the Commission has defended consumers from over \$10 million in potential increases.

However, it's not about just a single year's savings. Many of the Commission's decisions will have long-ranging impacts that reduce rates for years and decades into the future. For example, in May of this year the Commission made a bold decision to limit the length of term for new energy resources to a maximum term of 15 years. In doing so, the Commission ensured that consumers would not be forced into paying exorbitant rates for electricity based on notorious government price forecasts. Notably, the Commission applied the same standard to both independent power developers and the utility, NorthWestern Energy, creating a level playing field for all resources regardless of ownership or fuel type.

This year the Commission also embarked on an effort to strengthen NorthWestern's resource planning process. By directing the utility to consider regional developments while identifying its resource needs, as well as a wide range of alternatives to meet those needs, the Commission can ensure that the utility is selecting the least-cost resource available to reliably serve customers.

I'm proud of what my fellow commissioners and I have accomplished over the last year. At every turn this Commission has looked for ways to reduce risk to customers, limit rate impacts, and proactively plan for the future. At the same time, we've challenged the firms we regulate to act more like businesses in a competitive company by adopting a spirit of innovation and creative problem solving.

This report is by no means a comprehensive compilation of the Commission's work over the past year, however, it does highlight many of the "high profile" issues and dockets that the Commission addressed in 2017.

In the coming months the Commission must confront a growing mandate with increasingly scarce agency resources. Meeting this challenge will require creative problem solving and an unparalleled level of cooperation among commissioners. I'm confident that this Commission will continue to serve Montana consumers with the quality they deserve.

Sincerely,

Brad Johnson, Chairman

Disclaimer: This document is distributed as a communication from PSC Chairman Brad Johnson and does not necessarily reflect the views of other commissioners. PSC staff contributed objective information and research to this report, and any normative statements are a communication from the Chairman.

Report Highlights

- **100 Million In Prospective Ratepayer Savings since 2015 (See Appendix A)**

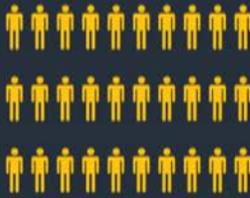
- **Protecting Ratepayers from Long-term Risk**

- **\$100 Million Rural Broadband Investment**

- **Preserving the “406” Area Code**

- **55 Percent Reduction in Railroad Related Fatalities & Accidents**

PSC By The Numbers 2017

| | |
|--|---|
| <p>Total FTE Count: 30</p>  | <p> \$4.1 Million</p> <p> 84 Opened</p> <p> 13 Hearings</p> <p> 78 Closed</p> |
|--|---|

Consumer Assistance Division

The Consumer Assistance Program mediates and resolves disputes between regulated companies and their customers.

| | | |
|--|--|--|
|  3 FTE |  3,415 Contacts |  1,027 Complaints |
|--|--|--|

Pipe Line Safety Program

The PSC participates in the Federal Pipeline Safety Program with 3 inspectors who are responsible for inspecting and enforcing federal and state pipeline safety regulations.



 **177 Days in the Field**

Rail Safety Program

State agencies have limited authority to enforce rail safety in the United States, as rail safety is primarily under federal jurisdiction. State involvement is limited to voluntary participation, with state inspectors enforcing Federal Railroad Administration (FRA) policy.

| | | |
|--|--|---|
|  | 55% Decline in Accidents <small>Since 2012.</small> |  9 Violations <small>Out of 1,425 Inspections</small> |
|--|--|---|

This graphic was prepared by PSC Communications Director Chris Puyear. PSC staff contributed objective research and information.

Budget Update

In the last year the PSC has experienced a series of reductions to its biennial budget and associated staffing levels, which raise real concerns about the agency's ability to provide effective, credible regulation of the utility sector over the long term.

Appropriation Reduction

In response to substantial pressures on the state budget, the legislature enacted a \$700,000 reduction to the PSC's biennial budget during the regular session. These cuts took the form of a \$250,000 reduction to operating funds, as well as a 3.44 FTE reduction to staffing levels. Six months later Governor Bullock called lawmakers back to Helena for a special session to address an expected \$227 million revenue shortfall. As part of the budget solution, the Legislature implemented an additional \$522,000 in reductions to the PSC.

Budget cuts of this magnitude are difficult for any state agency to absorb, however, they are particularly challenging given the comparatively small size of the PSC's budget. In total, the regular session and special session cuts amount to roughly a 10 percent reduction in overall agency resources. The PSC is unlike other areas of state government in that the agency is statutorily prohibited from accumulating large cash balances from year to year. This means that any reductions to budget or staffing levels have a direct impact on the agency's public safety, consumer assistance, and regulatory oversight functions.

The PSC is more than willing to tighten its belt when necessary. In fact, the agency has worked diligently over the last 20 years to keep revenue increases and FTE growth to a minimum. From 1997 to 2015 staffing at the PSC remained constant. However, since 2015 the agency has experienced a 15 percent reduction in its overall workforce. After implementing the combined regular and special session cuts, the PSC's budget for FY-18 will be below FY-12 levels.

Agency Impact

The decision to reduce the PSC's budget irrespective of the potential impact to ratepayers is particularly concerning given the negligible impact that these reductions have on the State checkbook. The PSC is funded through a "fee for service" model in which funds are derived directly through a small assessment on ratepayer monthly bills. As a result, reductions to the agency's budget or allocated staffing levels have no fiscal impact on the State of Montana.

Unfortunately, these budget cuts come at a time when, as this report demonstrates, the mandate before the PSC is continually expanding. On top of its ongoing statutory duties, in the next year the PSC will be responsible for processing three separate rate cases, determining an appropriate rate for net-metering customers, investigating a \$5.3 billion merger, re-writing the rules for operator service providers, and designing a new cost recovery mechanism for NorthWestern's electric supply costs. This list does not include any additional requirements that may be placed on the PSC by the legislature or arise through the action of another party. At the same time, the PSC is experiencing a dramatic demographic shift with the retirement of long-tenured staff. Reductions to staffing levels undermine efforts to plan for the future, while cuts to operating funds limit access to subject matter training for new hires. Left unaddressed, these deficiencies could have real world impacts on the PSC's ability to ensure that customers have access to energy that is affordable, reliable, and sustainable.

Modernizing the PSC

The following is a continuation of the “modernization” update provided in the Chairman’s 2016 Annual report.

Modernizing the PSC

At the beginning of calendar year 2015, the PSC initiated an agency-wide “modernization” effort to improve the efficiency and effectiveness of the Commission’s workflow. This included improving Information Technology functions, as well as staff reorganization efforts.

Continued Information Technology Upgrades

The Commission’s top IT priority is to rewrite its antiquated public-facing website and internal case management system. The PSC’s website is reminiscent of the dot-com era and no longer serves the needs of its customers, who increasingly expect to interact with government agencies in a digital format. The agency’s case management system is also badly in need of replacement. The current system is ill equipped to handle the Commission’s current case load and it lacks basic functionality, such as the ability to interface with Outlook, as well as the ability to track litigation and rule proceedings.

In May 2017, the Commission voted unanimously to move forward with the project, directing staff to work with the State Information Technology Division on the design of the new website, while gathering requirements for the internal case management system. Production of the new website is expected to be completed by mid-April with development of the case management system to immediately follow.

Staff Reorganization

In April 2015, the Public Service Commission initiated a comprehensive assessment to evaluate organizational structure and objectives, staffing, and human resources practices to ensure that we effectively support our mission and our goals. In order to preserve the integrity of the feedback, and to encourage candid participation from staff, the Commission contracted with Helena firm, Communication Management Services (CMS).

In January 2017, CMS presented a draft report of their findings to senior administrators and Chairman Johnson. Overall the report indicates a high level of job satisfaction among commission staff; however, the report also identifies several notable areas for improvement, including management

structure and reporting relationships, interdepartmental communication, knowledge transfer, and succession planning.

Following reductions to the PSC budget and staffing levels implemented during 2017 by the Montana Legislature, the Commission determined that it did not have sufficient resources to implement a majority of the recommendations contained in the report; however, after reviewing a supplemental analysis from CMS that took into consideration the agency's new resource constraints, the Commission voted to move forward with the following objectives:

- Develop or update job descriptions for all PSC staff to ensure they accurately reflect current responsibilities and roles.
- Provide training and technical assistance to PSC managers and supervisors on effective leadership and performance management.
- Establish a working group to provide ongoing planning and guidance regarding the use of full-time equivalent positions, succession planning, knowledge transfer, and reporting relationships.
- Develop processes and protocols to improve commission and staff communication, and information flow within the PSC.
- Develop curriculum for initial and ongoing orientation/training of newly-elected commissioners.
- Develop and implement strategies to ensure that PSC staff are motivated to contribute to organizational success, and have a sense of accomplishment and well-being in the workplace.

These six objectives will form the basis of a detailed organizational implementation plan, which specifies outcomes, priorities, timelines, responsible parties, and resources associated with each action item.

2017 Regulated Utility Rates

(as of the 1st day of each month)

| | NWE Gas (therm) | Big Sky Gas (therm) | MDU Gas (dkt) | EWM Gas (ccf) | NWE Electric (kwh) | MDU Electric (kwh) |
|------------------|----------------------------|------------------------------------|--------------------------|--------------------------|-----------------------------------|-----------------------------------|
| January | | | | | | |
| Total Rate | \$.6926926 | \$.87220 | \$5.4235 | \$.47833 | \$.115543 | \$.072636 |
| Supply Rate | \$.26519 | \$.447 | \$4.211 | \$.21993 | \$.067467 | \$.02416 |
| Service Chg | \$5.80/month | NWE | \$.23/day | \$7.25/month | \$4.10/month | \$.17/day |
| February | | | | | | |
| Total Rate | \$.7005726 | \$.8745026 | \$6.3005 | \$.47026 | \$.112185 | \$.072956 |
| Supply Rate | \$.27307 | \$.447 | \$5.088 | \$.21313 | \$.067011 | \$.02448 |
| Service Chg | \$5.80/month | NWE | \$.23/day | \$7.25/month | \$4.10/month | \$.17/day |
| March | | | | | | |
| Total Rate | \$.7077826 | \$.7265 | \$5.5885 | \$.45969 | \$.111978 | \$.073026 |
| Supply Rate | \$.28028 | \$.299 ** | \$4.376 | \$.19643 | \$.066804 | \$.02455 |
| Service Chg | \$5.80/month | NWE | \$.23/day | \$7.25/month | \$4.10/month | \$.17/day |
| April | | | | | | |
| Total Rate | \$.6831126 | \$.7265 | \$5.1525 | \$.46872 | \$.113178 | \$.076526 |
| Supply Rate | \$.25561 | \$.299 ** | \$3.94 | \$.21298 | \$.068004 | \$.0232 |
| Service Chg | \$5.80/month | NWE | \$.23/day | \$7.25/month | \$4.10/month | \$.17/day |
| May | | | | | | |
| Total Rate | \$.6910964 | \$.72866 | \$5.3055 | \$.47322 | \$.112738 | \$.075436 |
| Supply Rate | \$.26144 | \$.299 ** | \$4.093 | \$.21302 | \$.067564 | \$.02211 |
| Service Chg | \$5.80/month | NWE | \$.23/day | \$7.25/month | \$4.10/month | \$.17/day |
| June | | | | | | |
| Total Rate | \$.6904164 | \$.7286564 | \$5.3055 | \$.49832 | \$.111965 | \$.096266 |
| Supply Rate | \$.26076 | \$.299 ** | \$4.093 | \$.24065 | \$.066791 | \$.02149 |
| Service Chg | \$5.80/month | NWE | \$.23/day | \$7.25/month | \$4.10/month | \$.17/day |
| July | | | | | | |
| Total Rate | \$.7437593 | \$.7305293 | \$5.3065 | \$.45096 | \$.111932 | \$.097236 |
| Supply Rate | \$.31223 | \$.299 ** | \$4.093 | \$.19326 | \$.065871 | \$.02246 |
| Service Chg | \$5.80/month | NWE | \$.23/day | \$7.25/month | \$4.10/month | \$.17/day |
| August | | | | | | |
| Total Rate | \$.7384393 | \$.7315293 | \$5.3065 | \$.46464 | \$.111954 | \$.097876 |
| Supply Rate | \$.30691 | \$.30 ** | \$4.093 | \$.20599 | \$.065893 | \$.0231 |
| Service Chg | \$5.80/month | NWE | \$.23/day | \$7.25/month | \$4.10/month | \$.17/day |
| September | | | | | | |
| Total Rate | \$.7548921 | \$.7384841 | \$5.3065 | \$.3919 | \$.112108 | \$.100586 |
| Supply Rate | \$.316408 | \$.30 ** | \$4.093 | \$.13306 | \$.066047 | \$.02581 |
| Service Chg | \$5.65/month | NWE | \$.23/day | \$7.25/month | \$4.10/month | \$.17/day |
| October | | | | | | |
| Total Rate | \$.7374321 | \$.7284841 | \$5.2515 | \$.39881 | \$.112546 | \$.078836 |
| Supply Rate | \$.298948 | \$.29 ** | \$4.038 | \$.13991 | \$.066485 | \$.02551 |
| Service Chg | \$5.65/month | NWE | \$.23/day | \$7.25/month | \$4.10/month | \$.17/day |

| | NWE Gas (therm) | Big Sky Gas (therm) | MDU Gas (dkt) | EWM Gas (ccf) | NWE Electric (kwh) | MDU Electric (kwh) |
|-----------------|----------------------------|------------------------------------|--------------------------|--------------------------|-----------------------------------|-----------------------------------|
| November | | | | | | |
| Total Rate | \$.7285821 | \$.7224841 | \$5.2515 | \$.46377 | \$.112875 | \$.078876 |
| Supply Rate | \$.290098 | \$.284 ** | \$4.038 | \$.20407 | \$.066245 | \$.02555 |
| Service Chg | \$5.65/month | NWE | \$.23/day | \$7.25/month | \$4.10/month | \$.17/day |
| December | | | | | | |
| Total Rate | \$.7240021 | \$.7084841 | \$5.2515 | \$.46038 | \$.113123 | \$.078226 |
| Supply Rate | \$.285518 | \$.27 ** | \$4.038 | \$.20084 | \$.066493 | \$.0249 |
| Service Chg | \$5.65/month | NWE | \$.23/day | \$7.25/month | \$4.10/month | \$.17/day |

** Variable rate no longer offered to new customers; this is a 12-month term commitment rate.

Top Issues 2017

Energy

Protecting Ratepayers from Long-Term Resource Risk

In a landmark decision on June 22, 2017, the Montana Public Service Commission voted to reduce the standard rate and contract length available to small renewable energy projects up to 3 Megawatts in size, known as Qualifying Facilities (QFs). The Commission initially reduced the contract term from 25 years to a maximum of 10 years, voting to apply the same standards to the monopoly utility as well as independent developers. However, on reconsideration, the Commission decided to extend the contract term to 15 years, while retaining symmetrical treatment for utility-owned resources.

The state ratepayer advocate, the Montana Consumer Counsel supported the move. In testimony submitted to the Commission, MCC witness Jamie Stamatson argued that “basing rates that consumers will ultimately pay 25 years in the future on a forecast that will be stale for most of the contract’s life is excessively risky.”

The shorter contracts are an attempt by the Commission to protect ratepayers from absorbing all of the risk associated with developing energy projects in Montana. Excessively long energy contracts or supply arrangements lock consumers into rates based on an administrative guess at what the price of natural gas and electricity will be in the future. The longer the term of the arrangement, the less accurate this guesswork becomes and the greater the likelihood that consumers will wind up paying an electricity rate that is different than the actual cost to generate the power.

In Montana this process has resulted in consumers paying long-term rates that are often substantially above market. Appendix B shows the Montana PSC’s administrative price forecast for wind and solar compared to Mid-Columbia wholesale electricity prices. Today, Montana customers are paying nearly three times market for electricity produced by QFs. The shorter 15-year supply arrangements protect consumers from this forecast risk, while giving developers the certainty that they need to finance energy projects.

Importantly, the Commission voted to apply a symmetrical standard to Northwestern Energy, in an effort to create a level playing field between independent power producers and the monopoly utility.

PSC Among First Regulators in Country to Act on Tax Reform

Following the passage of Federal tax reform last December, the Commission took immediate action to ensure that ratepayers benefit from a reduction in corporate tax liability.

Scarcely before the ink had dried on the bill, the Commission directed regulated utilities in the state to calculate the change in tax liability that each company expected to receive under the new law and to come forward by the end of March with a proposal for how to apply those benefits.

The Commission's action ensures that gains from tax reform are not merely absorbed by utility shareholders, but instead directed in a way that provides a long-term benefit to the consumer. The Tax Cuts and Jobs Act represents the most comprehensive federal tax reform in over 30 years. The legislation, which will become effective for tax year 2018, creates a significant change in tax liability for regulated utilities through the reduction of the corporate income tax rate. The change creates a gap between the tax rate of 35 percent that customers currently pay through rates and the 21 percent rate at which utilities will be taxed next year.

NorthWestern's electric and gas utilities are subject to the Commission's requirement, as is the electric service of Montana-Dakota Utilities. Two other utilities, Great Falls' Energy West gas utility and MDU's gas utility, will stand to have their rates adjusted for the effects of tax reform during pending rate cases which those utilities filed in September 2017.

Filings from Montana's regulated utilities are due no later than March 31, 2018, at which point the Commission will review the proposals to determine whether or not a reduction in rates is appropriate.

Modernizing Utility Resource Planning

The Montana Public Service Commission this year adopted guidance intended to modernize NorthWestern Energy's resource planning process.

The additional guidance followed a plan by NorthWestern Energy to acquire an additional 500 MW of natural gas generating capacity in the next 18 years. The Commission acknowledged NorthWestern Energy's need for additional capacity, but expressed deep skepticism for the utility's proposed resource acquisition strategy.

The comments issued by the Commission have three main goals:

1. Ensure NorthWestern considers a wide range of both existing and new resources to meet customer needs.
2. Advise the utility on how to better measure its needs so that the company does not procure excess resources.
3. Apply a 15-year planning horizon to new resources, consistent with the Commission's orders limiting contracts with independent developers of power generation.

The Comments suggest that NorthWestern Energy should evaluate its capacity needs on a region-wide basis, rather than treating the utility as isolated from the wider market.

The Commission also encouraged NorthWestern Energy to look for existing resources to meet its needs. Uncommitted capacity at Colstrip and the Hardin Generating Station, a large wind farm on the Hi-Line, hydroelectric generators throughout the northwest, and “demand response,” where customers temporarily reduce their consumption during times of system stress, were among the resources identified in the comments. The Commission urged NorthWestern Energy to model the value of these resources as the utility considers what it needs to meet customer demand in the future.

An additional area of concern for Commissioners was the lack of meaningful stakeholder input throughout the planning process. The Commission’s resource planning rules encourage NorthWestern Energy to consult with an independent advisory committee of respected technical and public policy experts, yet information from the 2015 plan indicates that it met just five times with its committee over the two-year planning period.

The utility has since taken swift action to correct the problem, including sponsoring a widely attended forum dedicated to hearing from entrepreneurs and innovators pursuing emerging technologies in Montana.

NorthWestern will submit its next Resource Plan to the commission for review by December 15, 2018.

To view the full resource planning docket, visit: <http://bit.ly/2puJoUC>

PSC Approves Net Metering Study Criteria

On August 1, the Montana Public Service Commission voted unanimously to establish criteria for a study of net metering customers to be completed by NorthWestern Energy.

HB 219, sponsored by Representative Zach Brown, D-Bozeman, required NorthWestern Energy to conduct a comprehensive analysis of the costs and benefits associated with customer-generators. The law authorizes the Commission to establish minimum information requirements which must be included in the utility’s work.

The Commission’s criteria are aimed at ensuring that the utility is asking the right questions in order to obtain meaningful results.

The PSC directed NorthWestern Energy to evaluate a long list of potential benefits and costs. These include benefits such as avoided energy and capacity the utility otherwise would have to buy, and costs such as integrating solar or wind energy onto the utility network.

NorthWestern must submit its findings to the PSC as part of a general electric rate case, which the company intends to file in September of this year. The PSC will use the information from the study in order to determine whether a separate rate and classification of service is necessary for customer-generators. Those customers with interconnecting net-metering systems prior to Commission action will be unaffected by future changes.

To view the full docket, visit: <http://bit.ly/2whNwbv>

PSC Investigates Potential Impact of Avista, Hydro One Merger

On September 15, Avista Corporation (“Avista”) and Hydro One Limited (“Hydro One”) jointly filed with the Montana Public Service Commission an application requesting approval of a merger agreement under which Hydro One will acquire Avista in a \$5.3 billion all-cash transaction.

Under the agreement, Hydro One, a Canadian firm, will pay Avista shareholders \$53 per common stock share, a 24 percent premium to Avista’s July 18 closing price. The deal would create one of North America’s largest regulated utilities, serving approximately 2 million customers throughout Ontario and the Pacific Northwest.

Avista, a Spokane, Washington based utility, serves 700,000 electric and natural gas customers in eastern Washington, Oregon, Idaho, and Alaska. The company also provides service to 32 Montana customers located near its Noxon Rapids hydroelectric facility in Northwest Montana. Those 32 customers place Avista under the definition of a public utility in Montana, subject to regulation by the Commission.

In addition to its 466 megawatt Noxon Rapids generating station, Avista maintains a 15 percent ownership interest in Colstrip Units 3 and 4. The company’s share of the power plant equals 222 megawatts or enough to power about 160,000 homes.

The transaction is expected to close in the second half of 2018 subject to regulatory and government approvals and clearances, including approval by the Washington Utilities and Transportation Commission, the Public Utility Commission of Oregon, the Idaho Public Utilities Commission, the Regulatory Commission of Alaska, the Montana Public Service Commission, the U.S. Federal Energy Regulatory Commission, clearance by the Committee on Foreign Investment in the United States, and compliance with applicable requirements under the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

The PSC is in the process of investigating what impact, if any, the transaction may have on Montana-based generating assets, including those at Colstrip.

A procedural schedule has been established and a tentative hearing date set for May 17.

To view the complete application, visit: <http://bit.ly/2vYEdgZ>

Rate Case Update

NorthWestern Energy Natural Gas

On July 20, the Montana Public Service Commission voted unanimously 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 Energy to embed several gas production fields located in northern Montana into rates paid by customers.

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 Energy 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.

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 Energy assets in 2016 cost consumers more than three times what the same amount of gas purchased from the open market would have cost.

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.

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.

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

Montana-Dakota Utilities Natural Gas

On September 25, Montana-Dakota Utilities (MDU) filed with the Montana Public Service Commission a request for an approximately \$2.8 million rate increase for its Montana natural gas customers.

MDU estimates that the bill impact for the average natural gas customer would be approximately \$2.50 per month, or 4.1 percent. MDU Serves 84,200 Montana natural gas customers in 36 communities.

The PSC will have up to nine months to review the request, which includes a proposal to implement \$1.6 million of the overall increase on an interim basis in order to allow MDU to begin recovering costs prior to the conclusion of the rate case. Capital investments in distribution facilities to improve system safety and reliability are among the primary reasons for the rate increase listed in MDU's application to the Commission. The application states that overall investment increased by 23 percent in the period since the company's last gas rate case filing in 2014.

MDU is asking the Commission to authorize a 9.9 percent return for capital invested by its shareholders, up from the last Commission approved ROE of 9.5 percent.

The Commission will also evaluate a proposal by MDU to establish a rate rider on customers' bills in order to recover ongoing costs associated with the company's pipeline integrity replacement program, which are not included in rates.

A hearing in the matter is tentatively scheduled for April 26.

To view the full rate filing, visit: <http://bit.ly/2wYFEAD>

Energy West and Cut Bank Gas

Four days later, on September 29, Energy West filed a joint request with Cut Bank Gas to increase natural gas delivery rates for a combined 31,545 customers in the communities of Great Falls, Black Eagle, Ulm, Cascade, Tracy, Centerville, West Yellowstone, and Cut Bank.

Energy West is requesting an annual increase to its natural gas delivery revenues of approximately \$1.5 million, which the utility estimates would raise the average residential bill by \$4.10 per month or 7.03 percent for customers in the Great Falls area, and \$3.89 per month or 2.3 percent in West Yellowstone. Residential customers of Cut Bank Gas would face a similar increase with the average bill expected to rise by \$4.00, or 5.4 percent, if the company's request for an additional \$183,000 in annual revenue is approved by the Commission.

Stagnant customer growth, declining sales volumes, and increased investments in the distribution system to serve customers are among the reasons listed in the utilities' application to justify the rate increases.

The last rate increase for Energy West customers came in 2011, while rates for customers of Cut Bank Gas haven't changed in 11 years.

A hearing in the case is tentatively scheduled for May 9.

To view the full rate filing, visit: <http://bit.ly/2ya3hWC>

Telecommunications

PSC Announces Extended Life for 406 Area Code

Montana will remain the “406” for a while longer thanks in part to the Montana Public Service Commission’s efforts to ensure phone numbers are allocated more efficiently across the state.

Federal Communications Commission (FCC) officials informed the Commission on November 27 that the state’s single area code is expected to last into the 2030s.

Unbeknownst to many, Montana’s lone 406 area code, a point of pride across the state, is at risk of exhaustion.

Population increases plus the explosion of cellphone subscriptions combined with correlating phone number growth will eventually force the state of Montana to adopt an additional three digit area code. There are currently 1 million cell phone subscribers in Montana compared to 400,000 landline customers.

Four years ago the state’s 406 area code was expected to exhaust by 2019. Today, because of actions taken by the PSC in partnership with Montana telecommunication companies to more efficiently distribute numbers across the state, the FCC predicts that 406 could remain Montana’s exclusive area code into 2031.

The FCC requires planning for a new area code to begin three years in advance of the forecast area code exhaustion date. Montana is one of 12 remaining states with a single area code.

PSC Approves \$100 Million for Rural Broadband

On October 17, the Montana Public Service Commission voted unanimously to certify 20 companies and affiliates as eligible telecommunication carriers (ETCs), securing over \$100 million in federal funds to support the build-out of broadband and voice networks in high cost areas across Montana.

The funds that each ETC is eligible to receive come from the Federal Communications Commission’s Universal Service Fund (USF) to improve communication infrastructure in unserved and underserved areas across the country.

The FCC's USF includes four components: Connect America Fund, Low Income Assistance (Lifeline), E-Rate (schools and libraries), and Rural Healthcare, totaling approximately \$100 million available for broadband investment in Montana over the next year to the 20 certified ETCs.

All 20 ETC applicants met the requirements to receive universal service funding set by the Federal Communications Commission and the Montana Public Service Commission.

From 1998 to 2016, carriers in Montana received approximately \$1.5 billion in USF support. In contrast, Montanans contributed just over \$220 million to the fund over that same period.

Carriers who accept the high-cost support resources from the USF are required to invest those resources in networks capable of both broadband and voice service in unserved and underserved parts of the state, primarily rural areas. In addition to fiber infrastructure, the USF funds are also used to improve cellular and traditional phone line services in underserved parts of Montana.

In a subsequent action, the Commission voted unanimously to initiate a process to review the PSC's role in the ETC re-certification process and associated Universal Service Programs. The Commission's review will examine whether or not the PSC should recommend changes to the program at the state and federal level, as well as the possibility of implementing additional state reporting requirements, or performance standards to monitor how the money is spent.

PSC Proposes Cap on Inmate Calling Rates

On July 25, the Montana Public Service Commission voted unanimously to initiate a rulemaking to limit charges for phone calls between inmates and their families.

The move came after the Commission issued a notice requesting comment on the maximum allowable rate charged for calls between places in Montana and local correctional facilities in the state. Many of those comments expressed frustration with the price and quality of service of the companies that provide telephone services in detention facilities.

The PSC has the power to set maximum rates, or caps, for operator service providers. It is unlawful for such a provider to charge an "exorbitant rate," which the law defines as one above the Commission-determined rate cap.

The proposed rulemaking mirrors per minute and ancillary service charge rate caps established by the Federal Communications Commission for interstate inmate calling. According to the PSC's notice, rates would be capped at \$.25 per minute for collect calls and \$.21 per minute for calls placed using a pre-paid phone card.

The Commission's decision would not affect calls to or from the state prison in Deer Lodge, which are by contract capped at \$0.14 per minute.

Meanwhile, information obtained by the PSC suggests there is a wide variance between calling rates at different detention facilities. In some places, inmates or their families pay nearly \$15 for a 15-minute phone call. Jails typically earn a commission off of the revenue earned by the companies providing inmate calling services.

Update: On February 12, the Commission issued a notice suspending the rulemaking pending a more thorough investigation into the cost of service for OSPs in Montana. The Commission intends to proceed with the rulemaking once an accurate Montana-specific rate can be determined.

To view the full docket, visit: <http://bit.ly/2h06xML>

Transportation

PSC Gives Ride Sharing Company Lyft the Green Light

On August 24, 2017, the Montana Public Service Commission voted 4-1 to approve the license of Lyft, Inc., making it the second authorized Technology Network Carrier (TNC) in the state.

A similar license was granted to Raiser-MT, LLC (Uber) in December 2015, after changes to state law earlier that year paved the way for app-based, ride-sharing companies to operate in Montana.

By law, TNCs are required to carry minimum insurance coverage of \$50,000 for death and bodily injury per person, \$100,000 per incident, and \$25,000 for property damage. When a driver is engaged in a pre-arranged ride, the requirements go up to \$1 million for death, injury, or property damage, as well as uninsured motorist coverage.

The Commission determined that Lyft met all of the statutory requirements established by the Legislature, and that the company was a fit, willing, and able operator.

The approval of Lyft's license went into effect immediately and allowed the company to begin operating right away.

Program Highlight

Rail Safety

Accidents and fatalities associated with railroads are on the decline in Montana according to data supplied by the Federal Railroad Administration (FRA).

Railroad-related accidents or incidents fell from 198 events in 2008 to 98 events in 2017, a 55 percent decline. During that same period the number of railroad employee on-duty injuries also dropped 63 percent, from 100 injuries in 2008 to just 37 injuries in 2017.

Railroad-related accidents and incidents are falling at a much faster rate in Montana than most other states in the Pacific NorthWest. Out of eight states in the region, only Alaska and Wyoming have experienced sharper declines in the number of events over the last decade. PSC rail safety staff credit an improvement in rail safety education, as well as stronger relationships between regulators and stakeholders, with making the difference.

The news comes just one year after the PSC released a comprehensive Rail Safety Risk Assessment and Action plan.

Following the release of the assessment, the PSC Rail Safety Program immediately set about implementing the recommendations from the plan which included:

- Returning inspection capabilities to the prior baseline of two certified inspectors by completing on-the-job training and certification for our newly hired inspector.
- Engaging in regular communication between state inspectors and FRA management, including participation in regional conference calls.
- Participating in State Emergency Response Committee and Rail Safety Competition Council meetings.

State agencies have limited authority to enforce rail safety in the United States, as rail safety is primarily under federal jurisdiction. State involvement is limited to voluntary participation, with state inspectors enforcing FRA policy.

The PSC is a partner in the FRA's state rail safety program. The agency employs two certified inspectors who are responsible for enforcing state and federal regulations through boots on the ground inspections. In 2017, the program completed 360 inspections and identified 1,424 defects, resulting in the issuance of 14 total violations.

Connect with the PSC



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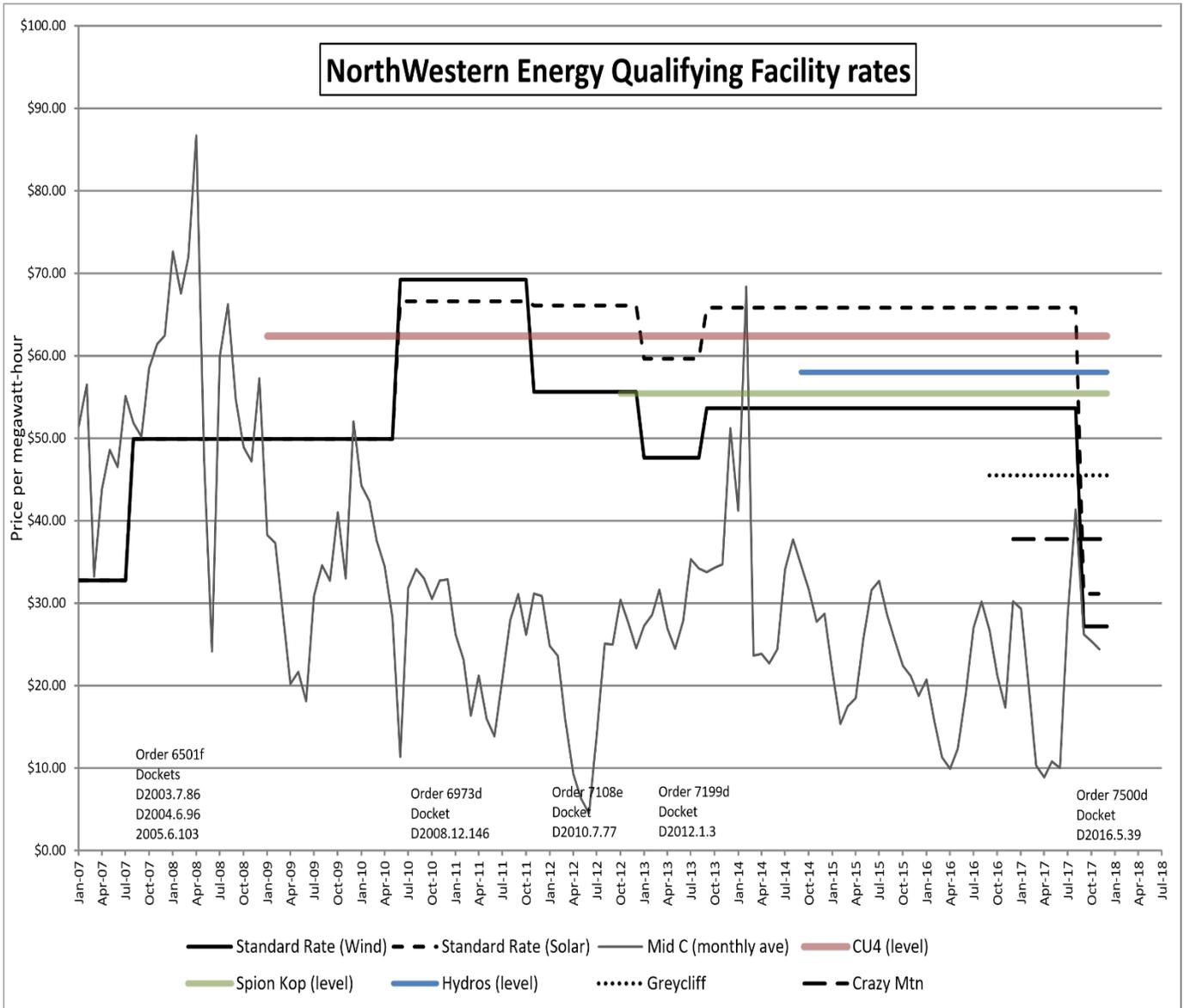
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Appendix A

Recent Public Service Commission Ordered Rate Reductions

| Docket Number | Description | Final Order | Service Date | Annual Savings (\$Millions) |
|-------------------------|-------------------------------|-------------|--------------|-----------------------------|
| D2014.8.72 | MDU Gas Rate Case | 7373c | 05/20/15 | 0.545 |
| D2014.6.53 | NWE Lost Revenues | 7375a | 10/15/15 | 9.500 |
| D2015.6.51 | MDU Electric Rate Case | 7433f | 03/25/16 | 2.036 |
| D2016.2.15 | Mountain Water Rate Case | 7475i | 06/22/16 | 1.111 |
| D2015.8.64 | Greycliff PURPA Petition | 7436d | 09/16/16 | 0.695 |
| D2016.1.8 | NWE Hydros Compliance | 7476a | 12/12/16 | 1.212 |
| D2016.7.56 | Crazy Mountain PURPA Petition | 7505b | 01/05/17 | 3.122 |
| D2016.12.103 | MT Sun PURPA Petition | 7535a | 07/21/17 | 7.573 |
| D2016.9.68 | NWE Gas Rate Case | 7522g | 08/15/17 | 4.252 |
| D2017.6.45 | New Colony PURPA Petition | 7560a | 12/26/17 | 1.466 |
| One Time Savings | | | | |
| D2014.7.58 | NWE Electric Tracker | 7418d | 04/13/16 | 0.450 |
| D2013.5.33 | NWE Electric Tracker | 7283h | 05/13/16 | 8.530 |
| D2017.11.86 | NWE Tax Tracker | 7580a | 01/29/18 | 3.498 |
| D2016.5.39 | QF1 Rate Suspension | 7500 | 7/25/18 | 60.00 |
| Total | | | | 103.86 |

Appendix B



*Price/cost information for utility owned resources (CU4, Spion Kop, Hydros) are based on levelized revenue requirements over the life of the resource at the time of Commission preapproval. The lines do not reflect actual costs since preapproval.

*Standard rates for wind and solar reflect actual tariffed rates in Schedule QF-1. The rates for wind and hydro are the same until Order 6973d (April 2010), which is when the Commission established a separate rate for wind resources. The rates shown in the chart reflect the average rate based on typical energy production from wind and hydro resources. Wind rates are net of wind integration costs.