

October 16, 2009

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

RE: Docket No. D2009.9.129 – Application by NorthWestern Energy for Authority to Establish Increased Natural Gas and Electric Delivery Service Rates and Implement Allocated Cost of Service and Rate Design Proposals

Dear Ms. Whitney:

NorthWestern Energy (“NorthWestern” or “NWE”) hereby submits to the Montana Public Service Commission (“MPSC” or “Commission”) an Application for Authority to Establish Increased Natural Gas and Electric Delivery Service Rates and Implement Allocated Cost of Service and Rate Design Proposals (“Application”).

NorthWestern is a Delaware corporation providing electric and natural gas utility services in Montana and is subject to the jurisdiction of the Commission. NorthWestern makes this Application pursuant to Mont. Code Ann. §§ 69-3-301 – 69-3-330 (2009) regarding the rates of public utilities and Mont. Code Ann. §§ 2-4-101 – 2-7-711 regarding administrative proceedings, and Administrative Rules of Montana (“ARM”) §§ 38.5.101 – 38.5.195 regarding this Commission’s rules for minimum rate case filing standards for public utilities. The filed cost of service includes the information required in ARM §§ 38.5.103 through 38.5.175 and 38.5.179 through 38.5.183, the Allocated Cost of Service (“ACOS”) includes the information required in ARM § 38.5.176 and the rate design information meets the requirements of ARM § 38.5.177.

For NorthWestern’s Natural Gas Utility, this filing addresses the transmission, distribution and storage cost of service, for serving MPSC jurisdictional customers. For NorthWestern’s Electric Utility, this filing addresses the transmission and distribution cost of service for serving MPSC jurisdictional customers. This filing also includes ACOS and rate design proposals for the Natural Gas and Electric Utilities.

Finally, this filing includes proposed inclining block rate design for Natural Gas and Electric Supply residential customers, which would be revised monthly as part of NorthWestern's monthly natural gas and electric supply tracker filings.

APPLICATION

NorthWestern's Natural Gas Utility transmission, distribution and storage services revenue deficiency is \$1,966,400 and the Electric Utility transmission and distribution services revenue deficiency is \$15,517,645. The revenue deficiency for each utility is calculated for the test period, which is the 12-months-ended December 2008, adjusted for normalized and known and measurable changes in accordance with ARM § 38.5.106.

In addition to the marginal cost information recognized by ARM § 38.5.176, NorthWestern has submitted Natural Gas and Electric ACOS models based upon embedded costs. NorthWestern and other interested parties have determined that ACOS studies based upon embedded costs are easier to understand and more transparent. NWE's delivery service rate design proposals are based on the moderated results of the embedded cost studies. NorthWestern requests the Commission process this filing utilizing the embedded cost allocated class cost of service materials submitted by NorthWestern. The marginal cost studies have been provided to ensure that this Application comports with Commission rules.

Certain forecasted financial data concerning 2009-2014 expenses, used as inputs to the Natural Gas and Electric marginal cost studies included in this filing, are redacted because NWE considers such information confidential. Forecasted financial data for 2009 through 2012 was protected per Commission Order 6852c in Docket D2007.7.82, Phase II. It is NWE's understanding that the Commission intends to consolidate this docket with D2007.7.82, Phase II. Once these dockets are formally consolidated, NWE will provide the 2009-2012 protected forecasted information to the Commission and those parties that have signed and provided to NWE a properly executed non-disclosure agreement as determined by Order 6852c. NWE has filed a motion to protect the 2013 and 2014 forecasted information.

DOCUMENTS SUBMITTED WITH THIS APPLICATION

The following materials are submitted with this Application:

1. The Application with present and proposed natural gas and electric delivery service rates attached in summary as Appendices A and B, respectively,
2. A proposed Notice of Interim Rate Adjustment Request and a Certificate of Service of Notice of Interim Rate Adjustment Request to the media,
3. Prefiled testimony and exhibits of NWE's witnesses; and

4. All material required by the Commission's filing requirements, ARM §§ 38.5.101 through 38.5.175 and 38.5.178 through 38.5.183 including the ACOS and rate design material contained in ARM § 38.5.176 and ARM § 38.5.177, respectively.

SERVICE

An original and fifteen copies of the above are submitted with this filing, and five copies are being transmitted to the Montana Consumer Counsel ("MCC"). One copy of this filing is also being mailed to each of the parties on the service list from Docket D2007.7.82, NorthWestern Energy's last general rate filing.

All of the above materials will be available for public inspection at the following locations:

The Montana Public Service Commission
1701 Prospect Avenue
Helena, Montana 59620-2601
www.psc.state.mt.us/eDocs/CurrentInterest/

Montana Consumer Counsel
616 Helena Avenue, 3rd Floor
Helena, Montana 59620-2601

NorthWestern Energy
40 East Broadway
Butte, Montana 59701

NorthWestern requests that the Commission publish legal notice to inform the public that this Application has been made.

EFFECT ON CUSTOMERS

The estimated number of natural gas delivery service customers whose cost of service will be affected, and the annual amounts of the increase to each class of customers are as follows:

<u>Customer Classification</u>	<u>Average No. Customers</u>	<u>Annual Increase Cost of Service</u>
Residential	155,409	\$1,671,939
General Service	22,146	\$0
Utility	3	\$6,118
DBU – Transportation	216	\$83,915
TBU – Transportation	23	\$197,543
Storage	N/A	\$0
DBU – Interruptible Trans.	N/A	\$297
TBU – Interruptible Trans.	2	\$7,650

The natural gas increase represents an overall percentage change in delivery services of 1.89%, totaling \$1,966,400. However, the overall bill impact to individual customer classes depends upon the type of customer. For a typical residential customer using 10 Dkt per month of natural gas, the total bill impact will be approximately \$0.08 per month or 0.09%.

The estimated number of electric delivery service customers whose cost of service will be affected, and the annual amounts of the increase to each class of customers are as follows:

<u>Customer Classification</u>	<u>Average No. Customers</u>	<u>Annual Increase Cost of Service</u>
Residential	265,929	\$8,600,826
General Service 1	59,550	\$5,482,599
General Service 2	72	\$383,192
Irrigation	1,319	\$335,361
Lighting	3,816	\$716,010

The electric increase represents an overall percentage change in delivery services of 6.98%, totaling \$15,517,645. However, the overall bill impact to individual customer classes depends upon the type of customer. For a typical residential customer using 750 kWh per month of electricity, the total bill impact will be approximately \$2.41 per month or 3.35%.

NORTHWESTERN CONTACTS

The NorthWestern employee responsible for answering questions concerning this rate change request or for inquiries to the appropriate members of the utility staff is:

Mr. Patrick R. Corcoran, Vice President
Government and Regulatory Affairs
NorthWestern Energy
40 East Broadway
Butte, Mt 59701
pat.corcoran@northwestern.com

NorthWestern's attorney in this matter is:

Mr. Jason Williams
NorthWestern Energy
40 East Broadway
Butte, MT 59701
jason.williams@northwestern.com

NorthWestern asks that the names of Patrick Corcoran, Nedra Chase, Jason Williams and Joe Schwartzenberger appear on all service lists in this proceeding.

INTERIM RATE ADJUSTMENT

As part of this filing, NWE is also requesting interim increases for uniform changes to the adjusted natural gas and electric delivery services rates pursuant to ARM §§ 38.5.501 – 508 and as shown in the Interim Section of this filing. The requested interim revenue requirement increase in delivery service for Natural Gas Utility customers is \$1,758,208 or a 1.69% increase. The interim revenue requirement increase in delivery service for Electric Utility customers is \$12,428,133, or a 5.59% increase.

Pursuant to ARM § 38.5.503, notice has been served on the MCC as part of this filing and on all parties on the service list in Docket D2007.7.82, NorthWestern's last general rate case filing. Notice has also been mailed to the media for general dissemination throughout NWE's electric and natural gas service areas. The rates that would generate the requested interim revenue increases for the Natural Gas and Electric Utilities are also included in the Interim Section of the filing.

In contrast to the request for final rate approval, the interim rates for the Natural Gas and Electric Utilities have been calculated based on the respective costs of equity resulting from Docket D2000.8.13. They are as follows: an overall Natural Gas Rate of Return on rate base of 8.23% and a Cost of Equity of 10.75%; and an overall Electric Rate of Return on rate base of 8.23% and a Cost of Equity of 10.75%. Finally, the interim requests include several other adjustments, which are detailed in the Interim workpapers.

Respectfully Submitted,



Patrick R. Corcoran
Vice President
Government and Regulatory Affairs

Enclosures