

SECTION 2. SEPARATION OF NATURAL GAS SUPPLY, TRANSMISSION, AND STORAGE

Code of Conduct and Functional Separation

Statute, tariffs and rules all require separation between Natural Gas Supply and the Natural Gas Transmission and Storage functions. The following discussion provides an overview of the structure under which Energy Supply operates.

Section 69-3-1404 (1), MCA provides, in part, as follows:

- (1) A natural gas utility that provides customer choice and open access on its system shall:
 - (a) functionally separate its natural gas production and gathering from its natural gas transmission, storage, and distribution services and remove natural gas production and gathering from the rate base;
 - (b) adopt and comply with commission-approved standards of conduct to be included in a tariff to govern its natural gas transmission, storage, and distribution services...

Consistent with (b), The Montana Power Company (“MPC”) submitted, and the Commission approved, Natural Gas Tariff, Schedule No. GTC-1, General Terms and Operating Conditions (“GTC-1”), that contains provisions implementing this section of law.

Under statute, MPSC rules, and tariffs, the Storage function is separated from the Energy Supply function. Storage capacity is calculated and allocated by the Transmission division. The Energy Supply unit communicates, at arms-length (according to GTC-1, section 21), with the NWE Gas Transmission division to ensure adequate supply and reliability.

NWE Energy Supply personnel receive the same information that others in the market receive. Therefore, the Energy Supply function does not have access to daily information that other marketers do not have; does not have access to

detailed storage information that other marketers do not have; and, in general, operates independently of the transmission and storage function.

SECTION 3. NWE NATURAL GAS SYSTEM

Pipeline Interconnections

A substantial volume of natural gas is produced in close proximity to the NWE transmission pipeline system in Montana. In addition to this “on-system production,” NWE transmission pipeline has connections to major third party pipelines, as listed in Table 1. (Please refer to the system map at Attachment 1.)

Table 1

NWE Pipeline Connections				
Pipeline	Connection Point	Capacity Dkt/d	Total Contract Dkt/d	Energy Supply Contracted Dkt/d
TCPL (NOVA)	Carway	81,600	70,000	53,105
Aden	Aden Border	50,000	19,000	17,500
Havre Pipeline	Blaine Co. #3 / #1	30,000	20,000	16,000
Colorado Interstate (CIG)	Grizzly	40,000*	20,000	0
Williston Basin	Warren	20,000*	0	0

* Interruptible capacity only.

On-System Storage

Energy Supply, as part of its portfolio approach to natural gas procurement, utilizes its natural gas storage to: reliably meet peak day requirements; mitigate market price fluctuations through seasonal price diversity; and provide economic benefit to ratepayers.

Natural gas storage is a physical tool that allows Energy Supply to accumulate natural gas during periods (the injection season) when prices are often lower than the forward prices for the following heating season, and to withdraw the natural gas during the period when consumption and prices may be higher.