



August 8, 2022

Mr. Will Rosquist  
Administrator, Regulatory Division  
Montana Public Service Commission  
1701 Prospect Ave  
Helena, MT 59620-2601

RE: Docket No. 2022.07.078 – Application by NorthWestern Energy for Authority to Increase Retail Electric and Natural Gas Utility Service Rates and for Approval of its Electric and Natural Gas Service Schedules and Rules and Allocated Cost of Service and Rate Design

Dear Mr. Rosquist:

NorthWestern Energy (“NorthWestern”) submits to the Montana Public Service Commission (“Commission”) an Application for Authority to Increase Retail Electric and Natural Gas Utility Service Rates and for Approval of its Electric and Natural Gas Service Schedules and Rules and Allocated Cost of Service and Rate Design (“Application”). NorthWestern files this Application pursuant to §§ 69-3-301, *et seq.*, MCA, and the Commission’s minimum rate case filing standards found in ARM 38.5.101, *et seq.*

### **DESCRIPTION AND REASONS FOR PROPOSED RATE CHANGES**

NorthWestern’s current rates are no longer just and reasonable rates, as they do not recover NorthWestern’s current cost of providing electric and natural gas service to its customers. Since the last rate reviews, NorthWestern has invested over a billion dollars in our combined Montana electric and natural gas critical infrastructure business and is currently not recovering the costs of these investments. Approximately 40% of the requested rate relief represents recovery of flow-through costs driven by market power purchases and property taxes. NorthWestern must pay these flow-through costs but does not have control over them. With the requested rate relief, our total customer bills will increase in line with inflation, including the substantial increase in flow-through costs.

In this Regulatory Rate Review, NorthWestern seeks to update electric and natural gas rates to reflect the following changes to cost of service:

- An update to NorthWestern’s base revenue requirements for both electric and natural gas to recover fixed transmission, distribution, and generation costs for electric service delivery and fixed transportation, distribution, storage, and production costs for natural gas service delivery incurred in 2021, with adjustments for 2022 known and measurable costs, to provide safe and reliable service to customers;

- An update to Power Costs and Credits Adjustment Mechanism (“PCCAM”) Base Costs and Credits to recover 2022 forecasted flow-through costs of purchasing energy and capacity services to meet electric supply customers’ needs; and
- An update to the property tax base costs<sup>1</sup> to reflect full flow-through of estimated 2022 property taxes<sup>2</sup> for both electric and natural gas service.

NorthWestern’s current electric rates reflect the costs of providing electric service from its 2018 Electric Rate Review, which was based on a 2017 test year. NorthWestern’s current natural gas rates reflect the costs of providing natural gas service from its 2016 Natural Gas Rate Review, which was based on a 2015 test year.

NorthWestern requests approval of an increase in its electric base revenue requirement in the amount of \$91,770,273, including a return on equity of 10.6% and an overall rate of return of 7.17%<sup>3</sup> and an increase in its electric base property tax costs in the amount of \$11,122,925. NorthWestern also requests approval of an increase in its natural gas base revenue requirement in the amount of \$20,244,592, including a return on equity of 10.6% and an overall rate of return of 7.17% and an increase in its natural gas base property tax costs in the amount of \$2,747,699. These rate increases are necessary to recover the costs incurred to serve our customers safely and reliably through the test period. In accordance with ARM 38.5.106, the 12-months-ended December 31, 2021, adjusted for normalized and known and measurable changes through December 31, 2022, represents the test period in this case. NorthWestern also requests approval of an allocated cost of service and rate design to apportion the cost of providing safe and reliable service and collect it from the various customer classes.

NorthWestern also requests approval of an increase in its PCCAM Base Power Costs and Credits in the amount of \$68,060,183, for the tracker period July 1, 2022 through June 30, 2023.

In this Regulatory Rate Review, NorthWestern seeks the ability to more timely recover its costs of providing safe and reliable service for its customers. NorthWestern includes, among other things, in this Regulatory Rate Review, the following proposals to support our continued track record of safe and reliable service to our customers:

- An Enhanced Wildfire Mitigation Plan (“Plan”) to address growing wildfire risks in the State, which includes a proposed five-year budget to implement the Plan;
- A proposal for the recovery of the escalating costs of Business Technology (“BT”) /

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<sup>1</sup> Property tax base costs are defined as costs included in NorthWestern’s general rate reviews for Montana state and local taxes that are annually adjusted through NorthWestern’s Electric and Natural Gas Tax Tracker.

<sup>2</sup> 2022 property tax costs are estimated as actual tax costs are not yet available. NorthWestern will update to actual 2022 property tax costs with its rebuttal testimony.

<sup>3</sup> This excludes Colstrip Unit 4. Consistent with ¶ 264 of Order No. 6925f in Docket No. D2008.6.69, Colstrip Unit 4 has a return on equity of 10% and a rate of return of 8.25%.

Cyber Security;

- A Reliability Rider for the more timely recovery of critical reliability investments;
- A proposal to redesign NorthWestern’s PCCAM to better capture evolving market conditions;
- A proposal to redesign NorthWestern’s Fixed Cost Recovery Mechanism (“FCRM”) pilot to effectively implement decoupling;
- A proposal to simplify NorthWestern’s lighting tariffs to better reflect the new services provided resulting from the implementation of NorthWestern’s LED Lighting Project; and
- An increase to the monthly service charge for non-residential customers, excluding electric Schedule GS-1 Non-Demand.

A more comprehensive listing of NorthWestern’s proposals is included in the Application with detailed discussion by NorthWestern’s subject matter experts presented in the expert testimonies.

In conjunction with the Application, NorthWestern submits an application for an interim revenue requirement increase (“Interim Application”) in the amount of \$114,704,788 for total electric service and \$5,766,786 for total natural gas service. The Interim Section of this filing contains the material required by ARM 38.5.501 through 38.5.506, including a separate transmittal letter. As further explained in the Interim Section of this filing, NorthWestern seeks approval of interim rates for rates effective October 1, 2022, so that it may be allowed to recover its costs of providing electric and natural gas services. Customers are fully protected because they will receive refunds, with interest, if the Commission ultimately issues an order establishing final rates that are lower than the proposed interim rates.

### **DOCUMENTS SUBMITTED WITH THIS FILING**

NorthWestern submits the following materials with this filing:

1. The Application, including the current base rates<sup>4</sup> and proposed Electric and Natural Gas Utility service rates attached as Appendix A and a summary of the residential customer bill impact of the proposed rates as Appendix B;
2. Marked-up tariffs showing all proposed changes to existing tariffs as well as copies of the new tariff schedules proposed in this filing;

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<sup>4</sup> Rates exclude the property tax tracker deferred balance from Order No. 7580b in Docket No. D2017.11.86.

3. Pre-filed direct testimonies and exhibits of NorthWestern's witnesses;
4. All material required by the Commission's minimum rate case filing standards, including but not limited to, a comparison of sales, services, and revenues; a comparison of rates; an analysis of system costs; and all statements and work papers (certain information has been redacted from the electric marginal cost study portion of Statement L pending a Commission ruling on a motion for protective order); and
5. All material required for an interim rate increases.

### **SERVICE**

Per ARM 38.2.1205, NorthWestern filed this Application through the Commission's electronic database for docket information. Per ARM 38.2.1209, NorthWestern will provide limited paper copies of the initial application, interim rate request, marked-up tariffs, testimonies, and supporting exhibits and statements to the Commission and the Montana Consumer Counsel upon request after its initial electronic filing.

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 electric delivery service and generation customers and natural gas delivery service and supply customers whose cost of service will be affected, and the annual amounts of the increase or decrease to each class of customers are as follows:

Electric Utility:

<u>Customer Classification</u>	<u>Average No. Customers</u>	<u>Delivery Service Annual Change Incr/(Decr) Cost of Service</u>
Residential	311,769	\$ 35,969,894
General Service 1	71,269	\$ 28,563,283
General Service 2	42	\$ 2,529,201
Irrigation	1,927	\$ 178,587
Lighting	3,547	\$ 2,869,513
Rounding		\$ 12,139
Total Delivery		<u>\$ 70,122,617</u>

<u>Customer Classification</u>	<u>Average No. Customers</u>	<u>Generation/Supply Annual Change Incr/(Decr) Cost of Service</u>
Residential	311,769	\$ 44,825,752
General Service 1	71,269	\$ 48,606,569
General Service 2	42	\$ 4,987,388
Irrigation	1,927	\$ 1,805,576
Lighting	3,547	\$ 691,917
Rounding		(\$ 86,438)
Total Generation/Supply		<u>\$ 100,830,764</u>

<u>Customer Classification</u>		<u>Total Annual Change Incr/(Decr) Cost of Service</u>
Residential	311,769	\$ 80,795,646
General Service 1	71,269	\$ 77,169,852
General Service 2	42	\$ 7,516,589
Irrigation	1,927	\$ 1,984,163
Lighting	3,547	\$ 3,561,430
Rounding		(\$ 74,299)
Total Electric		<u>\$ 170,953,381</u>

Natural Gas Utility:

<u>Customer Classification</u>	<u>Average No. Customers</u>	<u>Delivery Service Annual Change Incr/(Decr) Cost of Service</u>
Residential	179,817	\$ 13,716,684
General Service	25,408	\$ 4,154,968
Utility	8	\$ 49,056
DBU – Transportation	240	\$ 495,442
TBU - Transportation	30	\$ 4,100,809
Storage		\$ 194,481
DBU - Interruptible		\$ 8,342
TBU - Interruptible		\$ 448,452
Rounding		\$ 9,895
Total Delivery		<u>\$ 23,178,129</u>

<u>Customer Classification</u>	<u>Average No. Customers</u>	<u>Production Annual Change Incr/(Decr) Cost of Service</u>
Residential	179,817	(\$ 615,227)
General Service	25,408	\$ 396,646
Utility	8	\$ 32,743
DBU – Transportation	240	
TBU - Transportation	30	
Storage		
DBU - Interruptible		
TBU - Interruptible		
Rounding		
Total Production		<u>(\$ 185,838)</u>

<u>Customer Classification</u>		<u>Total Annual Change Incr/(Decr) Cost of Service</u>
Residential	179,817	\$ 13,101,457
General Service	25,408	\$ 4,551,614
Utility	8	\$ 81,799
DBU – Transportation	240	\$ 495,442
TBU - Transportation	30	\$ 4,100,809
Storage		\$ 194,481
DBU - Interruptible		\$ 8,342
TBU - Interruptible		\$ 448,452
Rounding		\$ 9,895
Total Natural Gas		<u>\$ 22,992,291</u>

NorthWestern is requesting:

- For electric service, an increase of \$170,953,381, of which \$91,770,273, or 53.7% reflects an increase to NorthWestern’s base revenue requirements, and \$79,183,108, or 46.3%, reflects updated flow-through costs over which NorthWestern has little control. This is an

overall increase for electric service of 22.4%, or an average annual increase of 5.6%<sup>5</sup> since the last electric rate review in Docket No. 2018.02.012.

- For natural gas service, an increase of \$22,992,291, of which \$20,244,592, or 88.0% reflects an increase to NorthWestern's base revenue requirements, and \$2,747,699, or 12.0%, reflects updated flow-through costs over which NorthWestern has little control. This is an increase for natural gas service of 14.8%, or an average annual increase of 2.5%<sup>6</sup> since the last natural gas rate review in Docket No. D2016.9.68.

NorthWestern's interim rate requests represent 67% of NorthWestern's base revenue requirement requests for electric service and 25% for natural gas service in its Regulatory Rate Review. The additional impact of NorthWestern's full request for rate relief will be an additional increase of 6.4% for electric service and 10.7% for natural gas service above the interim requests.

A residential electric customer using 750 kilowatt-hours per month would see a total monthly increase of \$22.76 or 25.6%, or an annual average increase of 6.4%<sup>7</sup> since the last electric rate review in Docket No. 2018.02.012 from this rate review request. This would be an \$8.58, or 8.3%, increase from NorthWestern's interim request. A residential natural gas customer using 65 therms per month would have a total monthly increase of \$7.57 or 11.1%, or an annual average increase of 1.8%<sup>8</sup> since the last natural gas rate review in Docket No. 2016.09.068 from this rate review request. This would be a \$5.97, or 8.5%, increase from NorthWestern's interim request.

### **NORTHWESTERN CONTACT**

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

Cynthia Fang, Director - Regulatory Affairs  
NorthWestern Energy  
208 N Montana Ave, Suite 200  
Helena, MT 59601  
cyndee.fang@northwestern.com  
Tel. (406) 443-8981

In addition to Ms. Fang and the attorneys noted in the Application, please add Glenda Gibson and Tracy Killoly to the official service list in this docket to receive copies of all documents.

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<sup>5</sup> If we consider 2018-2022, a 4 year period, the average annual increase is 5.6%. If we consider 2017-2022, a 5 year period, the average annual increase is 4.5%.

<sup>6</sup> If we consider 2016-2022, a 6 year period, the average annual increase is 2.5%. If we consider 2015-2022, a 7 year period, the average annual increase is 2.1%.

<sup>7</sup> If we consider 2018-2022, a 4 year period, the average annual increase is 6.4%. If 2017-2022, a 5 year period, the average annual increase is 5.1%.

<sup>8</sup> If we consider 2016-2022, a 6 year period, the average annual increase is 1.8%. If we consider 2015-2022, a 7 year period, the average annual increase is 1.5%.

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NorthWestern also requests that all electronic correspondence related to this filing be sent to [glenda.gibson@northwestern.com](mailto:glenda.gibson@northwestern.com) and [tracy.killoy@northwestern.com](mailto:tracy.killoy@northwestern.com).

Respectfully Submitted,

*Cynthia Fang*

Cynthia Fang

Director, Regulatory Affairs

Enclosures