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**DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA**

IN THE MATTER OF NorthWestern Energy’s)	REGULATORY DIVISION
Application for Authority to Increase Retail)	
Electric and Natural Gas Utility Service Rates)	DOCKET NO. 2022.07.078
and For Approval of Electric and Natural Gas)	
Service Schedules and Rules and)	
Allocated Cost of Service and Rate Design)	

NORTHWESTERN ENERGY’S APPLICATION

NorthWestern Corporation d/b/a NorthWestern Energy (“NorthWestern”) respectfully submits this Application for Authority to Increase Retail Electric and Natural Gas Utility Service Rates and for Approval of Electric and Natural Gas Service Schedules and Rules and Allocated Cost of Service and Rate Design (“Application”)¹ for approval by the Montana Public Service Commission (“Commission”).

With this Application, NorthWestern urges the Commission to help it continue providing safe and reliable service to Montanans at affordable rates while conservatively looking to the future in setting rates. Even though NorthWestern is currently providing safe and reliable service

¹ Pursuant to Administrative Rule of Montana (“ARM”) 38.5.502, NorthWestern is filing a separate Application for Interim Rate Increase in conjunction with this Application.

to customers, as evidenced by this filing, NorthWestern’s financial health is at risk. For the last several years, NorthWestern has failed to earn its authorized return for both its electric and natural gas services. This under-earning occurred despite NorthWestern’s management operating the utility in a cost-effective manner and is exacerbated by rising costs. To continue to provide reliable service at just and reasonable rates benefiting customers, it is necessary for NorthWestern to continue to invest substantial capital in infrastructure. Since NorthWestern’s last electric rate review in 2018 and through 2021, it has invested approximately \$835 million in electric transmission, distribution, and generation assets to benefit customers. Similarly, since NorthWestern’s last natural gas rate review in 2016 through 2021, it has invested approximately \$267 million. These assets are serving customers, yet NorthWestern is not recovering this investment from customers in today’s approved rates. NorthWestern’s filing proposes to rectify the current shortfall and set the foundation for a healthy utility.

Timely recovery of costs is critical to NorthWestern’s financial health. NorthWestern proposes to more fully utilize options found in existing Commission regulations to make adjustments for capital investments that are “known and measurable” in 2022. NorthWestern also asks for recovery of costs expected to be incurred in two critical service areas – wildfire mitigation and Business Technology (“BT”) / Cyber Security – that if not adequately funded could result in devastating impacts for Montana and NorthWestern’s customers. Next, NorthWestern proposes a new regulatory mechanism, a Reliability Rider, that will allow for the interim cost recovery of critical reliability investments needed to serve customers safely and reliably. Given evolving market conditions, NorthWestern also seeks changes to its existing Power Costs and Credits Adjustment Mechanism (“PCCAM”). Finally, NorthWestern proposes a redesigned electric Fixed Cost Recovery Mechanism (“FCRM”) pilot program that effectively

implements decoupling that benefits both NorthWestern and customers. After receiving the evidence and hearing the arguments, NorthWestern urges the Commission to approve the requests sought in this filing because they benefit customers and result in just and reasonable rates in compliance with Montana law.

In accordance with ARM 38.2.1202, NorthWestern provides the following:

I. Contact Information

NorthWestern's full name and post office address are:

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NorthWestern requests that all electronic correspondence related to this filing also be sent to Tracy Killoy at tracy.killoy@northwestern.com and Glenda Gibson at glenda.gibson@northwestern.com.

II. Factual Background

NorthWestern is a Delaware corporation doing business as a public utility in the states of Montana, South Dakota, and Nebraska. As a public utility, Montana law provides the Commission with statutory authority to set the rates and charges as well as service terms. *See* Mont. Code Ann. § 69-3-301, *et seq.* NorthWestern's currently authorized rates for its electric and natural gas services are no longer just and reasonable rates as they do not allow NorthWestern to recover its costs of providing electric and natural gas supply and delivery services nor do they provide NorthWestern an opportunity to earn a fair and reasonable return on its investments. The current electric and natural gas rates were set using data and cost information from 2017 and 2015, respectively. As explained in NorthWestern's testimony accompanying this Application, the last seven years brought substantial change to the energy industry and Montana. NorthWestern presents thoughtful and forward-thinking proposals and requests for corresponding actions to address this evolving energy environment.

NorthWestern files with this Application its cost of providing electric and natural gas services in Montana based upon a 2021 test year, adjusted for known and measurable changes, including changes in utility plant balances through December 31, 2022, and setting rate base using an average derived from the beginning and ending balances during the applicable 12-month periods. NorthWestern also incorporates an application for approval of an allocated cost of service and rate design with this filing. The cost of service filed concurrently with this Application establishes that NorthWestern has a revenue deficiency for its electric utility of

\$102,893,198 (\$94,101,231 for transmission and distribution and \$8,791,967 for fixed generation). It also establishes that NorthWestern has a revenue deficiency for its natural gas utility of \$22,992,291 (\$23,416,652 for transmission, distribution, and storage less \$424,361 for production).

The factual support for NorthWestern’s proposals and requested relief in this docket is provided in the pre-filed testimony, exhibits, and workpapers of its 29 witnesses. NorthWestern’s Chief Operating Officer, Brian B. Bird, provides a brief summary of each witness’s pre-filed testimony. NorthWestern provides Appendix A, attached hereto, which summarizes the current base rates, excluding the tax tracker balance from Docket No. 2021.11.129, and the proposed base rates resulting from this filing. Appendix B, which is also attached, summarizes the typical bill impact of the proposed rates for the residential customer class using 750 kilowatt-hours of electricity and 65 therms of natural gas.

A. COMPLIANCE WITH MINIMUM FILING REQUIREMENTS

In Table 1 below, NorthWestern provides a list of where it addresses each of the minimum filing requirements found in ARM 38.5.101 through 38.5.195, including which witness sponsors and/or testifies about the requirement, if applicable.

Table 1

Administrative Rule of Montana	NorthWestern Witness
38.5.101	Letter of Transmittal
38.5.102 ²	Application

² NorthWestern provided notice to the Commission on July 15, 2022 that paper copies of this Application and the required information were not going to be filed at the time of application in light of the Commission’s recently promulgated rule, ARM 38.2.1205, requiring only electronic filings when initiating a case. Nevertheless, NorthWestern will provide the Commission with paper copies of this filing after the filing date, upon request.

38.5.103	Appendix A to the Application
38.5.104	Appendix B to the Application
38.5.106	Pre-filed Direct Testimonies of Jeffrey B. Berzina and Andrew D. Durkin
38.5.107	Data provided in Statements & Workpapers volume
38.5.108	Not applicable
38.5.109	Not applicable ³
38.5.111	Workpapers provided with initial filing
38.5.112	Pre-filed Direct Testimony of Jeffrey B. Berzina
38.5.121	Statement A
38.5.122	Statement B
38.5.123	Statement C
38.5.124	Statement C workpapers
38.5.125	Statement C workpapers
38.5.126	Statement C workpapers
38.5.127	Statement C workpapers
38.5.128	Not applicable
38.5.129	Statement C workpapers
38.5.133	Statement D
38.5.134	Statement D workpapers
38.5.135	Pre-filed Direct Testimony of Ronald White and Statement D workpapers

³ In the same notice discussed supra in footnote 2, NorthWestern indicated that it would be filing electronic copies of all workpapers for applicable statements with the filing and would provide paper copies of such workpapers, if requested and feasible.

38.5.136	Pre-filed Direct Testimony of Jeffrey B. Berzina
38.5.141	Statement E
38.5.142	Statement E workpapers
38.5.143	Statement E workpapers
38.5.146	Pre-filed Direct Testimony of Crystal D. Lail and Statement F
38.5.147	Statement F workpapers
38.5.148	Not applicable
38.5.149	Statement F workpapers
38.5.150	Statement F workpapers
38.5.151	Statement F workpapers
38.5.152	Not applicable
38.5.156	Statement G
38.5.157	Statement G workpapers
38.5.158	Statement G workpapers
38.5.159	Statement G workpapers
38.5.160	Statement G workpapers
38.5.164	Statement H
38.5.165	Statement I
38.5.166	Statement I workpapers
38.5.169	Statement J
38.5.170	Statement J workpapers
38.5.171	Statement J workpapers

38.5.172	Statement J workpapers
38.5.173	Statement K
38.5.174	Statement K workpapers
38.5.175	Statement G and Statement K
38.5.176 ⁴	Statement L
38.5.177(1)	Statement M
38.5.177(2)	Statement M and Appendix B
38.5.179	Statement N
38.5.180	Not applicable
38.5.181	Noted
38.5.182	Noted
38.5.183	Noted
38.5.184	Noted
38.5.190	Statement O
38.5.194 ⁵	Application
38.5.195	Noted

B. APPLICABLE TARIFFS

The following described tariff sheets are the Electric Utility tariff sheets affected by the proposals in this Application that are presently in effect in Montana and on file with the Commission.

⁴ On April 15, 2022 in Docket No. 2022.01.010, the Commission granted NorthWestern’s request to waive the requirement found in ARM 38.5.176 to prepare and file a marginal cost of service study for its natural gas service in Montana.

⁵ See footnote 2 *supra* for the notice provided related to the requirement found in 38.5.194(5) to provide paper copies at the time of filing.

<u>Schedule</u>	<u>Description</u>	<u>Sheet No.</u>
REDS-1	Residential Electric Delivery Service	10.1
GSEDS-1	General Service Electric Delivery Service through 20.2 (inclusive)	20.1
GSEDS-2	General Service Substation/ Transmission Electric Delivery Service	21.1
ISED-1	Irrigation Pumping & Sprinkling Electric Delivery Service	30.1
ELDS-1	Electric Lighting Delivery Service through 40.7 (inclusive)	40.1
ESS-1	Electricity Supply Service through 60.2 (inclusive)	60.1
EPCC-1	Annual Power Costs and Credits Adjustment Mechanism through 67.4 (inclusive)	67.1
Rule 3	Service Agreements	R-3.1
Rule 4	Establishment of Credit through R-4.4 (inclusive)	R-4.3
Rule 5	Service Conditions and R-5.4 through R-5.5 (inclusive)	R-5.1
Rule 9	Metering through R-9.3 (inclusive)	R-9.1

The following described tariff sheets are new Electric Utility tariff sheets based on the proposals in this Application.

<u>Schedule</u>	<u>Description</u>	<u>Sheet No.</u>
ERR-1	Reliability Rider	69.1
EWMPR-1	Enhanced Fire Mitigation Plan Rider	86.1
EBTR-1	Business Technology Maintenance Cost Escalation Rider	68.1
FCRM-1	Electric Fixed Cost Recovery Mechanism	87.1

The following described tariff sheets are the Natural Gas Utility tariff sheets affected by the proposals in this Application that are presently in effect in Montana and on file with the Commission.

<u>Schedule</u>	<u>Description</u>	<u>Sheet No.</u>
D-RG-1	Residential Natural Gas Service	10.1
D-RGCA-1	Residential Gas Core Aggregation Service	11.1
D-GSG-1	General Natural Gas Service	20.1
D-GSGCA-1	General Service Gas Core Aggregation	21.1
D-FTG-1	Firm Transportation Natural Gas Service	25.1
D-ITG-1	Interruptible Transportation Natural Gas Service	27.1

T-FUGC-1	Firm Utility Gas Contract Service	30.1
T-FTG-1	Firm Transportation Natural Gas Service	80.1
T-ITG-1	Interruptible Transportation Natural Gas Service	85.1
T-FSG-1	Firm Storage Natural Gas Service	90.1
GTC-1	General Terms and Operating Conditions	95.3
		through 95.26 (inclusive)
AGTC-1	Aggregation General Terms and Conditions	96.1
		through 96.4, 96.8 through 96.11, 96.15 through 96.18 (inclusive)
Rule 1	Definitions	R-1.1
		through R-1.2 (inclusive)
Rule 3	Service Agreements	R-3.1
Rule 4	Establishment of Credit	R-4.2
		through R-4.4 (inclusive)
Rule 5	Service Conditions	R-5.3
		through R-5.4 (inclusive)
Rule 7	Customer's Installation	R-7.1
		through R-7.3 (inclusive)
Rule 9	Metering	R-9.1
		through R-9.3 (inclusive)

The following described tariff sheets are new Natural Gas Utility tariff sheets based on the proposals in this Application.

<u>Schedule</u>	<u>Description</u>	<u>Sheet No.</u>
NGBTR-1	Business Technology Maintenance Cost Escalation Rider	60.1

Finally, the following described tariff sheet is the Propane tariff sheet affected by the proposals in this Application that are presently in effect in Montana and on file with the Commission.

<u>Schedule</u>	<u>Description</u>	<u>Sheet No.</u>
Rule 9	Metering	R-9.1
		through R-9.3 (inclusive)

The applicable rates and rate changes, excluding the changes to the Rules for these tariff sheets, are summarized in Appendix A. Due to changes in the language proposed for certain tariffs, there may be new pages in the tariff. A complete set of the proposed revised tariffs is provided with this Application. The following NorthWestern witnesses support proposed changes to the listed tariffs: Michael R. Cashell, Cynthia S. Fang, Jason M. McClafferty,

Nathaniel P. Linder, Andrew D. Durkin, and Glenda J. Gibson.

III. Waiver Request of ARM 38.5.106 for Wildfire Mitigation and BT/Cyber Security.

Pursuant to ARM 38.5.102(3), NorthWestern seeks a waiver of ARM 38.5.106 to allow for the inclusion of costs beyond 2022 in rates to ensure two critical safety concerns are adequately funded. The Commission may grant a waiver of its minimum filing requirements for good cause. ARM 38.5.102(3). As shown in the pre-filed testimonies accompanying this application, there is good cause to grant a waiver and permit NorthWestern to include these costs in rates for two critical areas impacting service to customers. Risks of wildfires and cyber security attacks are increasing. NorthWestern's obligation to provide safe and reliable service to its customers means that it must take steps to mitigate these risks. NorthWestern is taking these steps. Granting this waiver will allow NorthWestern to advance these initiatives while maintaining its financial health, which is also critical to NorthWestern continuing to provide safe and reliable service.

Wildfire mitigation, as explained by Mr. Curtis T. Pohl, NorthWestern's Vice President of Distribution, is critical to protecting our service area in Montana from suffering significant damage from wildfires. NorthWestern's current programs are designed to mitigate these risks to a degree. For example, the current Hazard Tree Program was authorized in our last electric rate review. However, more must be done as "changing conditions have created a much greater risk posed by fire ignition, spread, and damage." *See* Pre-filed Direct Testimony of Curtis T. Pohl, p. 12. As a result, NorthWestern developed the Enhanced Wildfire Mitigation Plan with the goal of mitigating these broader risks. Messrs. Gregory F. Bailly and Nathaniel P. Linder provide testimony explaining the steps NorthWestern has taken to mitigate these wildfire risks, including the associated costs estimated to be incurred from 2024 through 2028. NorthWestern requests the

enhanced wildfire mitigation costs be included in rates today in order to ensure NorthWestern has adequate funds to continue providing safe and reliable service to its customers.

Threats to NorthWestern's technology systems and data are significant. As Ms. Jeanne M. Vold, NorthWestern's Vice President of Technology, testifies, "our ability to identify, detect, defend, respond, and recover is essential." *See* Pre-filed Direct Testimony of Jeanne M. Vold, p. 3. NorthWestern must "invest in tools to thwart the ever-evolving threats" to protect its technology network, its critical physical infrastructure, and provide reliable service. *Id.* Mr. Sean M. Cleverly explains the costs associated with necessary cyber security investments and the critical role they play in maintaining the current service level. Both Ms. Vold and Mr. Cleverly explain how technology costs are rising exponentially across the industry, but how the expenses are necessary to maintain the integrity of and protect the system. While these costs are rising more than today's cost of inflation, NorthWestern requests the ability to include an incremental, annual adjustment to the electric and natural gas revenue requirements equal to the cost of today's inflation rate. This will allow for timely recovery of costs for this critical service area benefitting customers. Protecting assets that provide services that are critical to life (i.e., heat, light, etc.) is good cause to grant the waiver and allow NorthWestern to include future costs in today's rates.

IV. Legal Authority

Pursuant to ARM 38.2.1202(1)(a), the Commission has legal authority to grant the requested relief found in this Application. Specifically, Mont. Code Ann. § 69-3-102 provides the Commission "with full power of supervision, regulation, and control of such public utilities." Additionally, Mont. Code Ann. § 69-3-302 provides the Commission with authority to approve all tariff schedule changes proposed by NorthWestern and promulgate rules to administer that

process. The Commission, in turn, has adopted regulations that control this docket, including ARM 38.5.101 through 38.5.195, which are addressed above in Section II (A).

V. Requested Relief


Based on the legal authority provided above, NorthWestern respectfully requests that the Commission approve:

1. an increase in the electric revenue requirement in the amount of \$102,893,201, a return on equity of 10.60% and an overall rate of return of 7.17% for electric utility assets except for Colstrip Unit 4, which the Commission set at a 10.00% return on equity and 8.25% rate of return for the life of the plant in ¶ 264 of Order No. 6925f in Docket No. D2008.6.69;
2. an increase in the natural gas revenue requirement in the amount of \$22,992,291, a return on equity of 10.60% and an overall rate of return of 7.17% for natural gas utility assets;
3. NorthWestern's proposed allocated cost of service and rate design for both the electric and natural gas utility services, including the proposed changes to street lighting rate design;
4. a waiver of ARM 38.5.106 to allow for recovery of costs beyond 2022 for NorthWestern's Enhanced Wildfire Mitigation Plan and BT/Cyber Security and the proposed riders for each program;
5. the Reliability Rider;
6. reset the property tax base for both electric and natural gas services;
7. a new baseline of costs and credits for the PCCAM as well as the redesigned PCCAM;
8. a redesigned electric FCRM pilot and applicable new tariff;
9. an increase to monthly service charges for non-residential, non-GS-1 non-demand customers;
10. capitalization of Demand Side Management costs and approval of the related regulatory asset;
11. depreciation rates based on the depreciation study submitted in this docket;
12. approval of the proposed revisions to the natural gas production revenue requirement step-down;

13. approval of regulatory assets for small natural gas acquisitions and the recent Sleepy Hollow natural gas acquisition;
14. continued use of the revenue crediting methodology as applied to retail transmission rates;
15. NorthWestern's proposed revisions to existing tariffs; and
16. any other approvals as necessary in response to this filing.

Respectfully submitted this 8th day of August 2022.

NORTHWESTERN ENERGY

By: 

Sarah Norcott
Attorney for NorthWestern Energy