

NorthWestern Energy  
Universal System Benefits Activities  
2008 Annual Report

# NorthWestern<sup>TM</sup> Energy

## Executive Summary

*NorthWestern Energy is committed to administering Universal System Benefits (USB) programs and activities to efficiently deliver public purpose benefits to its Montana distribution customers to the fullest extent possible.*

Electric customers in NorthWestern Energy's Montana distribution territory have funded \$87,663,109 of public purpose activities since the implementation of Universal System Benefits activities and programs in January of 1999. USB has resulted in increased funding for low income activities, conservation and market transformation programs have been sustained, and new renewable generation opportunities have been initiated for NorthWestern Energy's customers.

In 2008, a total of \$9,625,630 was collected from NorthWestern Energy's electric distribution customers.

A mix of low income, conservation, market transformation and renewable programs and activities similar to those provided in 2007, were continued in 2008. As reported in the past, some local conservation and market transformation activities previously funded with USB dollars are now, with direction from the Montana Public Service Commission (MPSC), funded as part of NorthWestern Energy's electric supply portfolio as demand side management (DSM) programs or activities.

Funds have been allocated to the categories consistent with MPSC Interim Order 6679a to meet low income program obligations, including the natural gas USB revenue shortfall related to the NWE natural gas low income discount. Increased funding allocations to low income in 2007 resulted in a significant amount of 2007 funds committed to Free Weatherization being carried forward to fund the free weatherization work completed in 2008. As a result, the amount of 2008 funds committed to free weatherization was reduced. The overall average funding of low income activities for 2007 and 2008 is comparable with 2006 and is consistent with the allocation guidelines in Order 6679a. Of the total 2008 electric USB revenues, \$3,408,329, or 35% were allocated to low income activities. After the low income obligations had been met, the remaining funds

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were committed to renewable activities, and local conservation and market transformation activities.

Large customers self-directed 4% of their 2008 electric USB funds to low income activities, and Northwestern Energy reallocated \$47,162 of unspent large customer funds to low income, bringing the total of 2008 electric USB funds directed to low income to \$3,582,919.

NorthWestern Energy implements its USB programs and activities consistent with the requirements of legislation for USB, the Department of Revenue (DOR) administrative rules for USB Programs, and tariffs and orders of the MPSC. NorthWestern Energy's allocation decisions for 2008 are consistent with well established past practices. To the extent that substantial programmatic or funding levels have been made, these changes are noted in the appropriate activity summary.

The activities for 2008 are summarized and the qualifying expenditures and credits claimed by NorthWestern Energy are documented with this report. *No funds are being released to the Statewide USB fund(s).* Large Customers that self-direct their funds are required to separately report those activities. To the extent that a Large Customer has informed NorthWestern Energy that they have directed funds to low income activities, the totals have been reported. Unspent Large Customer dollars have been reallocated to low income by the utility consistent with MPSC direction and are noted in this report.

This report includes brief highlights of activity in each category, a summary of the allocations of 2008 electric USB funds by category and activity, and a summary of the energy savings and resources resulting from the 2008 allocations. The report also includes updates on previous years' activities, and a summary by public purpose category of electric USB funding from 1999-2008.

As noted in the 2007 report, an independent evaluation of NorthWestern Energy's USB and DSM programs was completed in 2007. The evaluation concluded that these programs are well-run, follow many best practices, and should be continued.

In 2008, the MPSC initiated a proceeding regarding NorthWestern Energy's electric and natural gas USB activities. Order 6679e sustained the low income bill discount levels. As outlined in the order, allocation changes to electric USB activities will be made in 2009. NorthWestern Energy will document the changes in its 2009 report.