

## **NorthWestern Energy**

Each month when NorthWestern Energy and Montana-Dakota Utilities Co. customers receive a utility bill, they are also receiving a snapshot of Montana law. In some cases the law may be the reason for a charge, and in other cases those laws serve as a safeguard against additional charges. While the Montana Legislature passes and approves those energy policies that effect customer's bills, the Montana Public Service Commission (PSC) enforces those polices and oversees their implementation.

Every public utility is required to furnish reasonably adequate service and facilities. The charge made by any public utility for any heat, light, power, water, or regulated telecommunications service produced, transmitted, delivered, or furnished or for any service to be rendered as or in connection with any public utility shall be **reasonable and just**, and every unjust and unreasonable charge is prohibited and declared unlawful. 69-3-201, MCA.

It is the duty of the PSC to decide what is reasonable and just when it comes to the costs passed on to Montana utility customers. The Montana Consumer Counsel, a position required by the Montana Constitution, represents Montana public utility consumers before the PSC, state and federal courts, and administrative agencies in matters concerning public utility regulation.

The information provided below attempts to walk customers through a monthly bill and explain those charges, while tying that information back to Montana law and actions overseen by the Montana PSC.

Every public utility shall file with the commission, within a time fixed by the commission, schedules which shall be open to public inspection, showing all rates, tolls, and charges which it has established and which are in force at the time for any service performed by it within the state or for any service in connection therewith or performed by any public utility controlled or operated by it. Every public utility shall file with and as a part of such schedule all rules that in any manner affect the rates charged or to be charged for any service. 69-3-301, MCA.

### **NorthWestern Energy Bill -- Electricity**

NorthWestern Energy serves about 340,000 electric customers in Montana. Major changes to Montana energy policy largely brought NorthWestern to the state. In January 1997, the Montana Power Company (MPC) and a number of Montana's large energy customers brought forward Senate Bill No. 390, sponsored by Sen. Fred Thomas, to deregulate retail electricity supply in Montana. Montana decided to deregulate electricity supply and opted to allow some Montana consumers to choose, given a competitive market, their own electricity supplier. At the time, it was a fundamental policy shift for the state from regulating the price of electricity supply to allowing competitive markets to set the price of electricity supply.

MPC sold most of its generating units to PPL Montana at the end of 1999. The remainder of the generating units, contracts, and leases, as well as the entire distribution utility, was sold to NorthWestern Energy in February 2002.

Competitive choice, however, did not develop for small residential and commercial customers in the state, and in 2007, the Montana Legislature undid portions of the Electric Utility Industry Restructuring and Customer Choice Act. The "reregulation" bill, as it was often called, allows NorthWestern Energy to own electric power plants again and to dedicate the power it produces to Montana customers. House Bill No. 25, sponsored by Sen. Alan Olson, significantly tailored customer choice, limiting the ability of retail customers with a monthly demand of less than 5,000 kilowatts to migrate to other electricity suppliers if those customers were receiving electricity from a public utility prior to October 2007.

If you are a small customer of NorthWestern who did not choose an alternative electricity supplier prior to October 2007, you are now part of the electricity supply load that is regulated by the PSC. With changes made by the 2007 Legislature, NorthWestern Energy also is pursuing its own generation assets, and a new set of guidelines is in place for the PSC to follow in approving NorthWestern Energy's efforts to procure an electricity supply resource.

After deregulation and prior to "reregulation" MPC/NorthWestern customers had the option of buying their energy supply from a company other than MPC/NorthWestern. Regardless, MPC/NorthWestern always delivered that energy. Since 1998, NorthWestern Energy customers have paid three electric sub-rates including: electric supply rate, distribution rate, and transmission rate. An overview of a NorthWestern Energy bill accounts for this separation. NorthWestern provides its customers with what is called a "bundled" bill, although the bill does break out rates into delivery charges (which include distribution and transmission) and electric supply. **Figure 1** below provides an overview of the various components of residential electric rates.

The NorthWestern Energy bill used an example is from a 1,100 square foot home that uses baseboard electric heat and a small natural gas furnace in the lower level. The bill accounts for usage between December 10 and January 10. The total monthly usage at 1417 kWh is significantly higher than average residential usage, which is 750 kWh. The average, however, is based on an average of 12-months. Weather often dictates month-to-month use.

Calculating your NorthWestern electric bill, requires a review of two different bills. The billed usage is spread over 31 days, 10 in January 2014 and 21 in December 2013. On the bill provided, the rates displayed are only for January 2014. NorthWestern is required to display the current rates in effect. But rates can change from month-to-month for a variety of reasons. Rates from December 2013 and January 2014 are necessary to determine your actual costs.

To calculate the charges on a bill, a customer also must recognize that about 32 percent of the kWh was prorated on a per-day basis under the January 2014 rates and 68 percent of the kWh was prorated on a per-day basis under December 2013 rates. A

phone call to the company showed that 960 kWh were prorated to December and 457 kWh were prorated to January. The bill, however, does not show the breakdown by each month.

### Electricity Supply

#### Res. Supply:

(January) Res. Supply = 457 x \$0.0637790 = \$28.15

(December) Res. Supply = 960 x \$0.064298 = \$61.73

**Res. Supply for 12/10/13 – 01/10/14 = \$90.88**

Electricity supply service means the provision of electricity supply and related services through power purchase agreements, the acquisition and operation of electrical generation facilities, demand-side management, and energy efficiency programs. 69-8-103, MCA.

This charge is the residential electric supply, or the electricity consumed in the residence. A monthly bill is based on kWh used, in total, at the end of each month. One watt-hour is the equivalent of 1 watt of power used for 1 hour. On the NorthWestern Energy bill, the customer used 1417 kWh, but only 10 days of that was in January under the rate of \$0.0637790. Of the bill, 21 days were in December and the rate was \$0.06424980.

But how does NorthWestern Energy decide to charge those rates per kWh for electricity supply service? And why do they change month-to-month? NorthWestern Energy submits electric supply cost rate schedules and adjustments to the PSC. Much of the electric supply cost is based on long-term contracts NorthWestern has, for example, with PPL Montana, Citigroup Energy, Invenergy, and small qualifying power production facilities. Part of the charge is the amount NorthWestern collects from its customers to pay those electricity suppliers and producers. NorthWestern also has to plan for short-term purchases and spot market purchases to accommodate the needs of its customers – for example, when the temperatures reach triple digits, and air conditioners run 24 hours a day.

NorthWestern Energy also establishes fixed costs for its own generation – Colstrip Unit 4, the Dave Gates Generating Station, and the Spion Kop wind farm. The PSC approves \$/kWh rates for the generation owned by NorthWestern, allowing the utility to earn a reasonable profit while maintaining customers “just and reasonable” rates.

An example of the role of the PSC in implementing these laws and determining customer’s electricity supply rates is evident in the rates that took effect January 1, 2014 for NorthWestern customers. In 2013, the Dave Gates Generating Station was down for several months for repairs. NorthWestern requested that the PSC allow them to pass on a significant amount of the repair costs to customers. Some of those costs were passed on to ratepayers, but the PSC found that “to allow NorthWestern to recover an

additional \$1.4 million for incremental regulation costs would not result in just and reasonable rates for consumers.” (Docket No. D2012.5.49 Order No. 7219h).

Adjustments are made to electric supply rates for a variety of reasons.

NorthWestern, since 2004, has included energy conservation and efficiency programs in its portfolio. These programs are called demand-side management programs. The PSC approves rates that allow NorthWestern to earn a reasonable profit. Demand-side management programs then reduce these approved profits. This is often referred to as lost revenue, and NorthWestern files applications with the PSC to “true-up” these lost revenues.

NorthWestern adjusts its electric supply costs monthly and submits an annual “tracker” to the PSC to account for any over or under collection of costs through the year.

The PSC also must allow a public utility to file rate schedules containing provisions for the automatic adjustment and tracking of Montana state and local taxes and fees paid by the utility. (69-3-308, MCA). Part of those taxes and fees also include a fee that each utility pays to fund the Consumer Counsel (69-1-223, MCA) and the PSC. The PSC is required to allow immediate recovery of the fee by a utility in its rates and charges on an annual basis. (69-1-224, MCA). The change took effect in January, and the result is differing rates for not only supply, but also transmission, and distribution costs in December 2013 and January 2014. The change in rates is often referred to as a “tax tracker” docket at the PSC. The 2014 Electric and Natural Gas Tax Tracker uniformly decreased electric transmission and distribution rates by 0.25 percent. (Docket No.D2013.12.83). The tax tracker remains open.

The PSC in late January 2013 wrote NorthWestern a letter urging the utility to disclose, in a customer's bill, the amount of state and local taxes and fees assessed against the utility that the customer is paying. Montana law states that a utility “may” disclose those amounts, but a utility is not required to disclose them.

A public utility may separately disclose in a customer's bill the amount of state and local taxes and fees assessed against the public utility that the customer is paying. 69-3-308, MCA.

Res. Deferred Supply:

(Jan. and Dec. ) Res. Deferred Supply = 1417 kWh x \$.0003650 = - **\$.52**

**Res. Deferred Supply for 12/10/13 – 01/10/14 = -\$.52**

Rates are adjusted for the difference between the amount billed to customers and the amount NorthWestern pays during the year. In other words, this adjustment on your bill corrects over- and under-collections of electricity supply cost. The over or under recovery exists because of the difference between estimated and actual expenses, and estimated and actual customer loads.

The difference is accumulated as a deferred balance. At the end of the year, the balance is amortized over the succeeding year. NorthWestern does not earn a profit on this amount. In the example bill, the amount did not change between December and January.

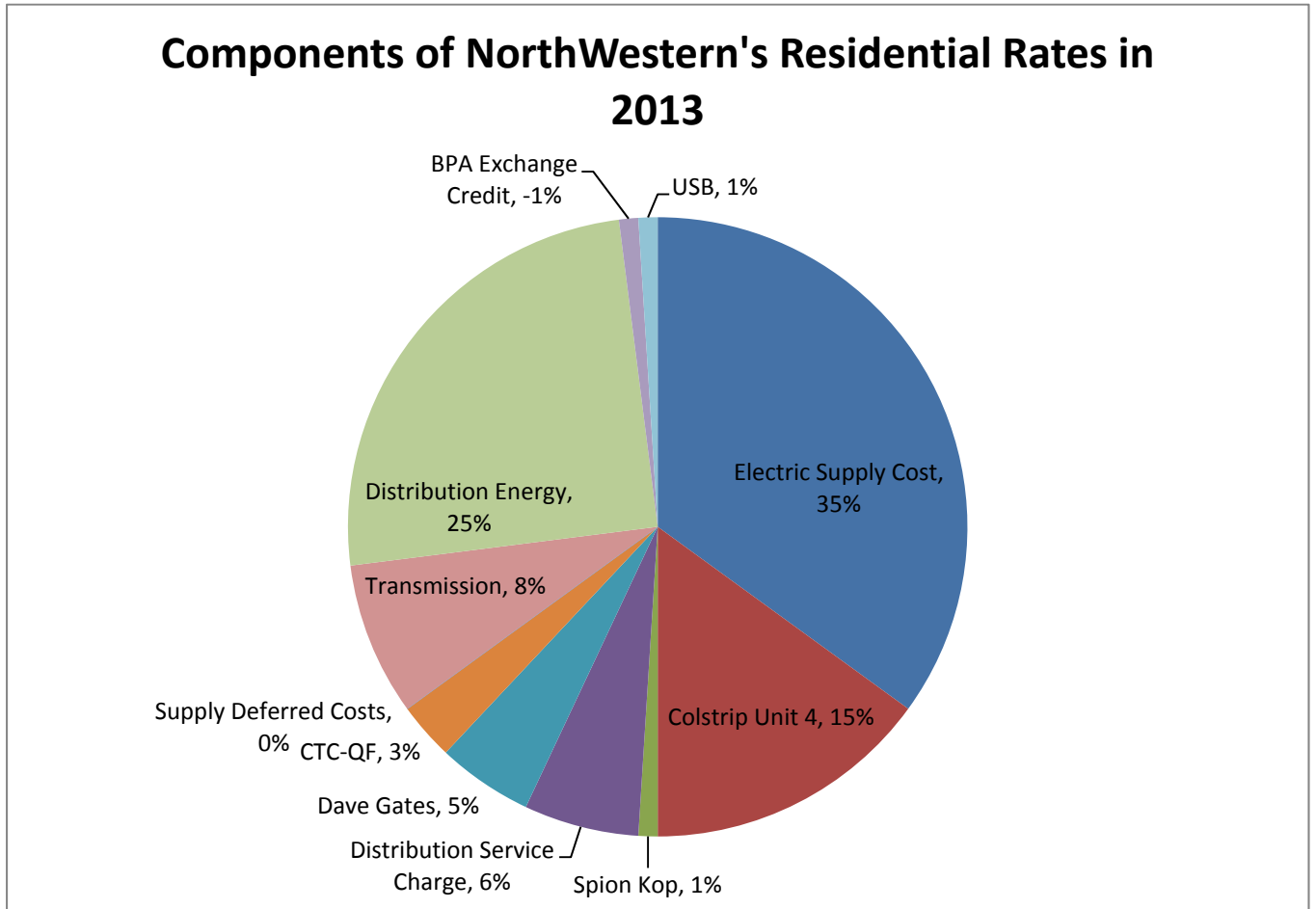


Figure 1: Source: NorthWestern Energy

**Total Electricity Supply = \$90.88 - \$.52 = \$90.36**

## Electric Delivery

### Service charge:

#### **(Jan. and Dec.) Service charge = \$5.25**

This is not related to how much energy you use. The basic fee is sometimes called a “meter”, fee and it can include the costs of maintaining and reading your meter. It is a flat fee for your interconnection to NorthWestern’s system.

### Res. Distribution Delivery:

(January) Res. Distribution Delivery =  $457 \times \$0.0285290 = \$13.04$

(December) Res. Distribution Delivery =  $960 \times \$0.0286010 = \$27.46$

#### **Res. Distribution Delivery for 12/10/13 – 01/10/14 = \$40.50**

This charge is the cost to deliver electricity through power lines strung on utility poles, across transformers, to a residence. The rate also accounts for repair crews and emergency services. Rates are calculated using the original cost of the infrastructure, minus depreciation, plus the day-to-day expenses. Additional items, such as taxes and fees are also factored into this amount.

This charge is a separate line on a customer’s bill, but it is tracked by the PSC through electric supply rates. In NorthWestern’s total residential electric rate in 2013, for example, about 25 percent was attributed to distribution.

The rate, usually, doesn’t change month to month. In the example above, the December and January rate are different. The rate was set at \$.0285290 in January, compared to \$.028610 in December. The slight difference is attributable to a change in NorthWestern’s taxes and changes submitted to the PSC in the company’s annual “tax tracker.” Lost transmission and delivery revenue is also “trued up” based on actual program activity.

### Res. BPA Exchange Credit:

#### **(Jan. and Dec.) Res. BPA Exchange Credit = $1417 \text{ kWh} \times \$0.020720 = -\$2.94$**

As part of the Pacific Northwest Electric Power Planning and Conservation Act, a “Residential Exchange Program” was created to provide residential customers of utilities in the Pacific Northwest a form of access to low-cost power. NorthWestern Energy customers share the benefits of that low-cost federal hydropower provided by the Bonneville Power Administration. BPA provided low-cost supply to the region, including much of western Montana, until the 1970s when, because of increased demand, it did not renew contracts with some utilities. Congress established the residential exchange program to address BPA’s inability to satisfy power demands.

NorthWestern files an annual request with the PSC to set the tariff. For example, in May 2013, NorthWestern requested the PSC adjust its rate credits to reflect an amount of

\$2,973,482 to be credited to customers for the period July 1, 2013 through June 30, 2014. The request was approved (Docket No. D2013.6.42 Order No. 7287).

Res. CTC – QF:

**(Jan. and Dec.) Res. CTC – QF = 1417 kWh x \$0.0033500 = \$4.75**

Qualifying small power production facility means a facility that: (a) produces electricity by the use, as a primary energy source, of biomass, waste, water, wind, or other renewable resource, or any combination of those sources; or (b) produces electricity and useful forms of thermal energy, such as heat or steam, used for industrial, commercial, heating, or cooling purposes through the sequential use of energy known as cogeneration; and (c) has a power production capacity that together with any other facilities located at the same site is not greater than 80 megawatts; and (d) is owned by a person not primarily engaged in the generation or sale of electricity other than electric power from a small power production facility. 69-3-601, MCA.

This fee was first applied in July 2002 under the jurisdiction of the PSC. The fee recovers out-of-market costs associated with Qualifying Facilities (QF) power contracts. This fee is also known as “stranded costs,” or charges that cover some supply-related costs incurred by NorthWestern tied to deregulation.

QFs are a creature of Congress. The PSC implements federal rules and Montana statutes adopted pursuant to the federal Public Utility Regulatory Policies Act of 1978 (PURPA). PURPA requires electric utilities, like NorthWestern, to buy energy and capacity offered by qualifying cogeneration and small power production facilities. In 1981, the Montana Legislature enacted a PURPA-related law sometimes referred to as “mini-PURPA.” Montana law authorizes QFs to contract for the sale of electricity to regulated public utilities.

Most QF costs are captured in electric supply rates. But after deregulation, MPC in 2002 sold its electric transmission and distribution utility operations to NorthWestern. NorthWestern assumed MPC’s default electricity supplier obligations, including certain QFs. A portion of these “Tier II” rates are captured in electric supply rates, and the remainder of the “Tier II” rates are shown in the additional fee. A “CTC” charge is referred to as a “competition transition charge”

Res. Transmission Delivery:

(January) Res. Transmission Delivery =  $457 \times \$0.0091650 = \$4.19$

(December) Res. Transmission Delivery =  $960 \times \$0.0091880 = \$8.82$

**Res. Transmission Delivery for 12/10/13 – 01/10/14 = \$13.01**

This is the cost to bring high-voltage electricity from power plants to distribution points near to you and includes the cost of high-voltage power lines and towers, as well as monitoring equipment. Additional items, such as taxes and fees are also factored into this amount.

This charge is a separate line on a customer's bill, but it is tracked by the PSC through electric supply rates. NorthWestern's total residential electric rate in 2013, included about 8 percent of the total for transmission. This is another rate that doesn't generally change month-to-month, but between December and January changed because of the tax tracker adjustment. The December rate was \$0.0091880 and the January rate was slightly less at \$0.0091650. Lost transmission and delivery revenue is also "trued up" based on actual program activity.

When transmission, distribution and supply rates are set, NorthWestern also assumes a loss factor for different types of customers. NorthWestern, for example, assumes that 8.5 percent of the supply delivered to the system is lost before it reaches residential customers.

Res. USBC:

**(Jan. and Dec.) Res. USBC =  $1417 \text{ kWh} \times \$0.0013340 = \$1.89$**

Universal system benefits programs are established for the state of Montana to ensure continued funding of and new expenditures for energy conservation, renewable resource projects and applications, and low-income energy assistance. 69-8-402, MCA.

The Universal System Benefits program (USB) requires all utilities in Montana to spend money on activities related to energy conservation, renewable energy projects, and low-income energy assistance. On a NorthWestern Energy bill, the residential charge is noted under electric delivery at \$.0013340 per kWh.

USB legislation was enacted in 1997 at the time of electric deregulation in an effort to ensure the continued existence of public purpose programs by regulated utilities. The Legislature determined that a minimum 17 percent of total USB funds should be dedicated to low-income programs. There are no minimal funding requirements for conservation and renewable projects.

USB money is collected through customer bills and began in 1999. Each interim, the Energy and Telecommunications Interim Committee of the Legislature is required to review the USB programs and, if necessary, submit recommendations regarding these programs to the Legislature.



For electricity, the base funding level for each utility is fixed: 2.4 percent of the utility's annual retail sales revenue in Montana for calendar year 1995. The customer's distribution utility is required to collect USB funds from the customer. The PSC sets USB rates for utilities.

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### **Summary of NorthWestern Energy Bill -- Electricity**

#### Electricity Supply

Total Res. Supply for 12/10/13 – 01/10/14 = \$28.15 + \$61.37 = **\$90.88**

Res. Deferred Supply = 1417 kWh x \$.0003650 = - **\$.52**

**Total Electricity Supply = \$90.36**

#### Electricity Delivery

Service charge = **\$5.25**

Res. Distribution Delivery for 12/10/13 – 01/10/14 = \$13.04 + \$27.46 = **\$40.50**

Res. BPA Exchange Credit = 1417 kWh x \$0.020720 = -**\$2.94**

Res. CTC – QF = 1417 kWh x \$0.0033500 = **\$4.75**

Res. Transmission Delivery for 12/10/13 – 01/10/14 = \$4.19 + \$8.82 = **\$13.01**

Res. USBC = 1417 kWh x \$0.0013340 = **\$1.89**

**Total Electricity Delivery = \$62.46**

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**Total Electricity = \$90.36 + \$62.46 = \$152.82**

## **NorthWestern Energy Bill – Natural Gas**

NorthWestern serves about 182,000 natural gas customers, most of which are in central and western Montana. In 1997, at the same time that electricity deregulation legislation was moving through the Legislature, similar legislation, Senate Bill No. 396, natural gas deregulation, was also making its way through the legislative process. The “Natural Gas Utility Restructuring and Customer Choice Act”, sponsored by Sen. Mike Foster, allowed Montana Power Company to offer its customers a choice of supplier and provide open access to its transmission, storage, or distribution facilities. MPC could then unbundle services and remove natural gas production and gathering from the rate base. MPC/Northwestern Energy began a pilot choice program in November 1998 and offered natural gas supplier choice to approximately 11,000 of its residential and small commercial customers. According to the PSC, there were few participants in the choice programs.

The 2009 Legislature, two years after partially reregulating electricity sales, passed and approved House Bill No. 294, sponsored by Rep. Gary MacLaren, allowing a natural gas utility that had restructured pursuant to the Natural Gas Utility Restructuring and Customer Choice Act and didn’t own natural gas production and gathering resources to acquire those facilities and apply for PSC approval to rate-base them prior to their acquisition.

State law still requires separation between natural gas supply and natural gas transmission and storage functions. Consistent with that requirement and the fundamental shifts in policy related to customer choice, your natural gas bill accounts for a variety of separate fees.

Except as provided in 69-3-1413 through 69-3-1416, a natural gas utility that provides customer choice and open access on its system shall:

- (a) functionally separate its natural gas production and gathering resources from its natural gas transmission, storage, and distribution services and remove natural gas production and gathering resources 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; and
- (c) provide emergency natural gas supply and related services to the extent necessary to maintain the operational integrity of the transmission system as determined by the commission. 69-3-1404, MCA.

The separation is evident in a NorthWestern Energy bill analyzed below. The NorthWestern Energy bill used as an example is from a 1,100 square foot home that uses baseboard electric heat and a small natural gas furnace in the lower level. The bill accounts for usage between December 10 and January 10. The total monthly usage is 63 therms, which is less than the average residential usage of 100 therms a month. As

noted earlier, the average is determined over a year, with higher use in the winter months and minimal use in the summer.

Calculating your NorthWestern natural gas bill, actually requires a review of two different bills. The billed usage is spread over 31 days, 10 in January 2014 and 21 in December 2013. On the bill, the rates shown are only for January 2014 as they were the rates in effect at the time the bill was printed. Rates from December 2013 and January 2014 are necessary to determine your costs.

To calculate the charges on a bill, a customer also must recognize that about 32 percent of the therms were prorated on a per day basis under the January 2014 rates and 68 percent of the therms were prorated on a per-day basis under the December 2013 rates. A phone call to the company showed that the customer was prorated 43 therms in December and 20 therms in January. The bill, however, does not show the breakdown by each month.

### **Natural Gas Supply**

#### **Res. Supply:**

(January) Res. Supply = 20 x \$0.4356400 = **\$8.71**

(December) Res. Supply = 43 x \$0.4013700 = **\$17.26**

**Res. Supply for 12/10/13 – 01/10/14 = \$25.97**

This charge is the natural gas supply, or the amount gas consumed at the residence. A monthly bill is based on therms used, in total, at the end of each month. A therm is equal to about 100 cubic feet of natural gas. Your use or consumption is the basis of this charge. On the NorthWestern bill, the customer used 63 therms, but only 10 days of that was in January under the rate of \$.4356400. Of the bill, 21 days were in December, and the rate was \$.4013700.

But how does NorthWestern Energy decide to charge those rates per therm for natural gas supply? And why do they change?

NorthWestern procures and manages a natural gas portfolio of natural gas contracts and NorthWestern-owned production from various sources to meet the needs of its customers. The majority of its supply contracts is firm and priced by reference to a market index. The PSC does not regulate the wholesale market price of gas. Those prices are set in the national wholesale market, which was deregulated by the federal government in 1978.

NorthWestern-owned production is also included in natural gas supply rates at a cost of service that is authorized by the PSC. In 2010, NorthWestern purchased the Battle Creek Natural Gas Field in Blaine County. Two-years later, the company bought natural gas production interests in northern Montana's Bear Paw Basin. In late 2013 NorthWestern purchased other natural gas production interests in northern Montana's Bear Paw Basin from Devon Energy Production Company. The purchase included

Devon's 82 percent interest in the Havre Pipeline Company. Costs associated with Bear Paw and the Devon acquisition are included in rates on an interim basis until the PSC issues a final order regarding treatment of these assets in a separate filing, so this is something that could change in a future bill.

Just like electricity, natural gas supply costs are tracked with the PSC and “trued up” annually. When the price of gas goes up or down, natural gas utilities make a filing with the PSC called a gas tracker. These can occur on a month-to-month basis. Trackers are then reviewed on an annual basis.

The PSC also must allow a public utility to file rate schedules containing provisions for the automatic adjustment and tracking of Montana state and local taxes and fees paid by the utility. (69-3-308, MCA). Part of those taxes and fees also include a fee that each utility pays to fund the Consumer Counsel (69-1-223, MCA) and the PSC. The PSC is required to allow immediate recovery of the fee by a utility in its rates and charges on an annual basis. (69-1-224, MCA). The change took effect in January, and the result is differing rates for not only supply, but also transmission, and distribution costs in December 2013 and January 2014. The change in rates is often referred to as a “tax tracker” docket at the PSC. The 2014 Electric and natural Gas Tax Tracker increases natural gas distribution, transportation, and storage rates by 0.15 percent. (Docket No. D2013.12.83). The docket remains open before the PSC.

The PSC in late January 2013 wrote NorthWestern a letter urging the utility to disclose, in a customer's bill, the amount of state and local taxes and fees assessed against the utility that the customer is paying. Montana law states that utility “may” disclose those amounts, but a utility is not required to disclose them.

A public utility may separately disclose in a customer's bill the amount of state and local taxes and fees assessed against the public utility that the customer is paying. 69-3-308, MCA.

#### Res. Deferred Supply:

**Res. Deferred Supply = 63 therms x \$0.00000 = \$0.00**

Similar to the electricity deferred supply rate, this amount is either a deduction or a surcharge added to the bill. In the example, NorthWestern did not need to apply a surcharge or credit. If NorthWestern had collected more money from customers than its actual gas supply costs, the customer would see a credit on the bill during the next year. If the utility didn't recover enough to cover the full cost of energy procured for customer, then a surcharge would be added to the bill during the next year. This was the same for both December 2013 and January 2014.

**Total Natural Gas Supply = \$25.97 - \$0.00 = \$25.97**

## Natural Gas Delivery

Service charge:

**(Jan. and Dec.) Service charge = \$7.35**

This is a flat fee that a customer pays each month, regardless of how much natural gas a customer uses. It is a fee for interconnection to the utility's service. It can include the costs of reading and maintaining a meter.

Res. Distribution Delivery:

(January) Res. Distribution Delivery = 20 therms x \$0.2110598 = \$4.22

(December) Res. Distribution Delivery = 43 therms x \$0.2107436 = \$9.06

**Res. Distribution Delivery for 12/10/13 – 01/10/14 = \$13.28**

This is the cost of the natural gas pipelines in the streets and alleys that bring gas to a home.

An example of the role of the PSC in implementing these laws and determining customer's natural gas rates is that in 2012 NorthWestern requested authority from the PSC to increase natural gas delivery service rates. The company requested an increase of \$15.7 million to account for investments in its natural gas transmission, distribution, and storage systems and to implement pipeline integrity and infrastructure improvements, as well as to cover increased expenses. The PSC authorized the increases, but not to the full extent requested by NorthWestern.

The Montana Consumer Counsel and a group of large customers intervened in the rate case. An agreement was reached with the interveners, and the PSC allowed NorthWestern Energy a total annual increase of \$11.5 million, or about \$4 million less than the company first requested. The stipulated agreement also included a return of equity calculated at 9.8 percent. The increase was not just applicable to the delivery rate for natural gas. It also provided for increases in the service charge, and other charges related to natural gas delivery. (D2012.9.94 Order No. 7249e)

The rate, usually, doesn't change month to month. In the example above, the December and January rate are different. The rate was set at \$. 2110598 in January, compared to \$0.2107436 in December. The slight difference is attributable to a change in NorthWestern's taxes and changes submitted to the PSC in the company's annual "tax tracker." Lost transmission and delivery revenue is also "trued up" based on actual program activity.

Res. CTC – RA Credit:  
Res. CTC – GP Credit:

**(Jan. and Dec.) Res. CTC – RA and Res. CTC -- GP = 63 therms x \$0.0000 = \$0.00**

These items relate to natural gas deregulation in the late 90s. Both credits expired in March 2012 and should no longer appear as a credit on your natural gas bill. These are both competition transition charges. The first credit or “RA” stands for “regulatory assets” and is related to the costs incurred by the MPC for natural gas conservation programs. “GP” stands for gas production and dealt with stranded costs associated with MPC’s company-owned natural gas fields.

Res. USBC:

**(Jan. and Dec.) Res. USBC = 63 therms x \$0.0161585 = \$1.02**

The USB charge for natural gas in Montana is established in statute but is not as clear as the electric requirement. (69-3-1408, MCA) The law requires the PSC to determine the actual charge, but it requires that at least .42 percent of the natural gas utility's annual revenue in gas sales be dedicated to low-income weatherization and low-income energy bill assistance.

PSC rules currently require natural gas utilities to spend at least 1.12 percent of their previous year's natural gas revenues on USB programs. The natural gas USB, because of the flexibility afforded in adjusting the rate, has been the subject of much discussion in the past at the PSC.

Most recently, NorthWestern Energy has requested a natural gas USB charge rate adjustment. In the 2013 filing, NorthWestern proposed rates be decreased, resulting in a decrease for a typical residential customer using 100 therms of natural gas per month of about 58 cents or \$6.69 a year.

A natural gas utility shall implement, upon commission approval and subject to ongoing commission oversight and direction, a universal system benefits program.69-3-1408, MCA.

Res. Storage-Delivery:

(January) Res. Storage-Delivery = 20 therms x \$0.0380448 = \$.76

(December) Res. Storage-Delivery = 43 therms x \$0.0379878 = \$1.63

**Res. Storage-Delivery for 12/10/13 – 01/10/14 = \$2.39**

This rate covers NorthWestern’s costs for owning and operating three underground natural gas storage reservoirs (Cobb, Dry Creek, and Box Elder). The reservoirs are used to make sure that the company has available natural gas for customers during peak usage when demand for natural gas exceeds the capacity of pipelines from the gas fields. The reservoirs also provide the utility the ability to “hedge” the prices of

natural gas by purchasing gas when prices are low, putting it into storage, and selling it to customers during periods when gas prices at the wellhead are more expensive.

NorthWestern has storage capacity for about 9 billion cubic feet of gas. The company's annual gas load is about 20 billion cubic feet.

This rate does not generally change month-to-month. In the example above, the December and January rate are different. The rate was set at \$.0380448 in January, compared to \$.0379878 in December. The difference is attributable to a change in NorthWestern's taxes and changes submitted to the PSC in the company's annual "tax tracker."

Res. Transmission Delivery:

(January) Res. Transmission Delivery = 20 therms x \$0.1225840 = \$2.45

(December) Res. Transmission Delivery = 43 therms x \$0.1223968 = \$5.26

**Res. Transmission Delivery for 12/10/13 – 01/10/14 = \$7.71**

This charge is based on the cost of building and operating high-pressure gas pipelines that move gas from gas fields to the distribution system. A substantial volume of natural gas is produced in close proximity to the NorthWestern transmission pipeline system in Montana. In addition to this "on-system production," NorthWestern transmission pipeline has connections to major third party pipelines.

This rate does not generally change month-to-month. In the example above, the December and January rate are different. The rate was set at \$0.1225840 in January, compared to \$0.1223968 in December. The difference is attributable to a change in NorthWestern's taxes and changes submitted to the PSC in the annual "tax tracker."

**Summary of NorthWestern Energy Bill-- Natural Gas**

Natural Gas Supply

Total Res. Supply for 12/10/13 – 01/10/14 = **\$8.71 + \$17.26 = \$25.97**

Res. Deferred Supply = 63 therms x \$.0000 = **\$0.00**

**Total Natural Gas Supply = \$25.97**

Natural Gas Delivery

Service charge = **\$7.35**

Res. Distribution Delivery for 12/10/13 – 01/10/14 = \$4.22 + \$9.06 = **\$13.28**

Res. CTC-RA Credit = 63 therms x \$0.000 = **\$0.00**

Res. CTC – GP Credit = 63 therms x \$0.000 = **\$0.00**

Res. USBC = 63 therms x \$0.0161585 = **\$1.02**

Res. Storage-Delivery for 12/10/13 – 01/10/14 = \$0.76 + \$1.63 = **\$2.39**

Res. Transmission Delivery for 12/10/13 – 01/10/14 = \$2.45 + \$5.26 = **\$7.71**

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**Total Natural Gas Delivery = \$31.75**

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**Total Natural Gas = \$25.97 + \$31.75 = \$57.72**

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**Total NorthWestern Energy bill = Total Electricity (\$152.82) + Total  
Natural Gas (\$57.72) = \$210.54**