



April 26, 2017

Mr. Will Rosquist  
Administrator, Regulatory Division  
Montana Public Service Commission  
1701 Prospect Avenue  
PO Box 202601  
Helena, MT 59620-2601

RE: Docket No. D2016.12.98 – General Electric Rate Filing Inquiry

Dear Will:

In Docket No. D2016.1.8 Order No. 7476a<sup>1</sup>, the Montana Public Service Commission (“MPSC”) required NorthWestern Energy (“NorthWestern”) to provide, concurrent with the filing of its next Electric Utility annual report, an indication of whether it plans to file a consolidated general electric rate filing in 2017. This letter provides this information.

The results shown in the latest Electric Utility Schedule 27 – Montana Earned Rate of Return, which is included in NorthWestern’s 2016 Annual MPSC Electric Utility Report, reflect electric utility returns lower than the MPSC-authorized ROE. Nevertheless, NorthWestern does not plan to make a general electric rate filing this year. NorthWestern’s 2016 Electric Schedule 27<sup>2</sup> shows an actual rate of return on average equity (“ROE”) of 9.758%. After a number of typical normalizing adjustments, including weather, the adjusted ROE is 9.376%. While neither of these figures reflect precisely what an earned ROE would be in an actual electric filing, they are reliable calculations of a reasonable range. Both of these returns are significantly lower than the 10.05% ROE currently authorized for NorthWestern’s consolidated Montana electric utility.

NorthWestern’s decision to not make a Montana electric rate filing was based primarily on three reasons. First is that NorthWestern is already committed to numerous other proceedings and filings, and NorthWestern has limited resources. For example, NorthWestern’s natural gas rate case is scheduled for a lengthy hearing, starting May 9, 2017. NorthWestern is also committed to completing its natural gas allocated cost of service/rate design filing, as well as a number of mid-year tracker filings.

Second is the need to coordinate NorthWestern’s next MPSC consolidated electric utility general rate filing with a corresponding Federal Energy Regulatory Commission (“FERC”) transmission filing. These two filings will involve gathering, evaluating, and preparing an extensive amount of data and information, aside from actually preparing the associated filings. These filings include:

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<sup>1</sup> Paragraphs 23 to 26.

<sup>2</sup> Consolidated Electric Transmission, Distribution, and Generation Utility Service.

*Montana Public Service Commission Filing:*

- Revenue Requirement
  - Distribution, Transmission, and Generation
- Allocated Cost of Service
  - Embedded and Marginal Costs
- Rate Design

*Federal Energy Regulatory Commission Filing:*

- Open Access Transmission Tariff ("OATT") Cost of Service
- Ancillary Services Cost of Service
  - Regulation Service under OATT Schedule 3
  - Operating Reserves under OATT Schedules 5 and 6
  - Imbalance Service under OATT Schedules 4 and 9
- Cost allocation and rate design

Third is the need to complete a number of comprehensive studies and analyses in advance of NorthWestern's next general electric filing. These studies and analyses, which are required to support cost allocations and rate designs, simply cannot be done in time for a filing this year. They include:

- Regulation Resource Allocation Study, which includes the Dave Gates Generating Station allocation
- Renewable Integration and Load Variability Study
- Net Energy Metering Cost/Benefit Study (in support of a new Distributed Energy Resources customer class and rates)
- Potential Electric Utility Decoupling Proposal Study
- Potential participation in an Energy Imbalance Market (related costs/cost recovery)

We are in the process of preparing requests for proposals to firms that could assist NorthWestern in conducting the majority of these studies. We do not expect most study results to be available until the first quarter of 2018.

In summary, while NorthWestern is currently under-earning its authorized electric rate of return as shown in Schedule 27, the most valuable steps at this time involve completing the preparation work described above. To that end, NorthWestern will make a general electric filing using a 2017 test year, by September 30, 2018.

Sincerely,



Patrick R. Corcoran  
Vice-President of Government and Regulatory Affairs