



# NorthWestern Energy's 2022 Regulatory Rate Review

*Brian Bird*  
*President and Chief Operating Officer*  
*NorthWestern Energy*  
August 31, 2022

# About our company



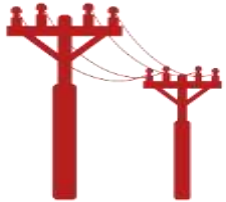
**743,000**

Customers



**1,530**

Employees



**318**

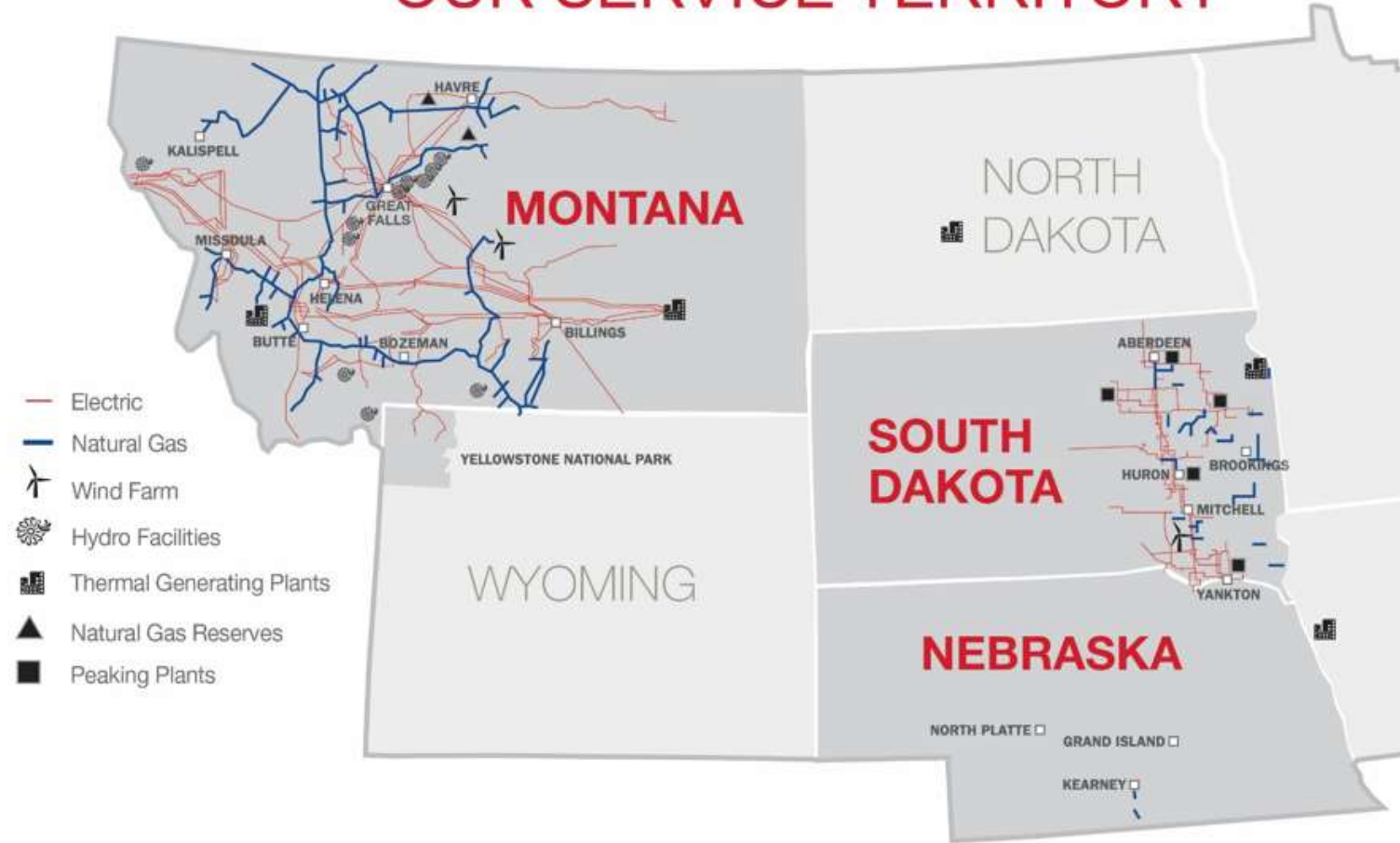
communities in Montana  
and South Dakota with  
electric service



**180**

communities in Montana,  
South Dakota and  
Nebraska with gas service

## OUR SERVICE TERRITORY



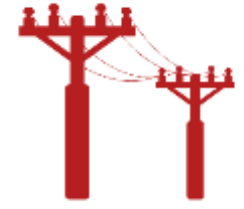
# Our Montana presence



**107,600**  
Square miles (73% of Montana's land area)



**1,187**  
Employees in Montana



**391,400**  
Electric customers in Montana

**~25,000**  
Miles of electric line



**206,600**  
Natural gas customers in Montana

**~7,000**  
Miles of natural gas pipeline



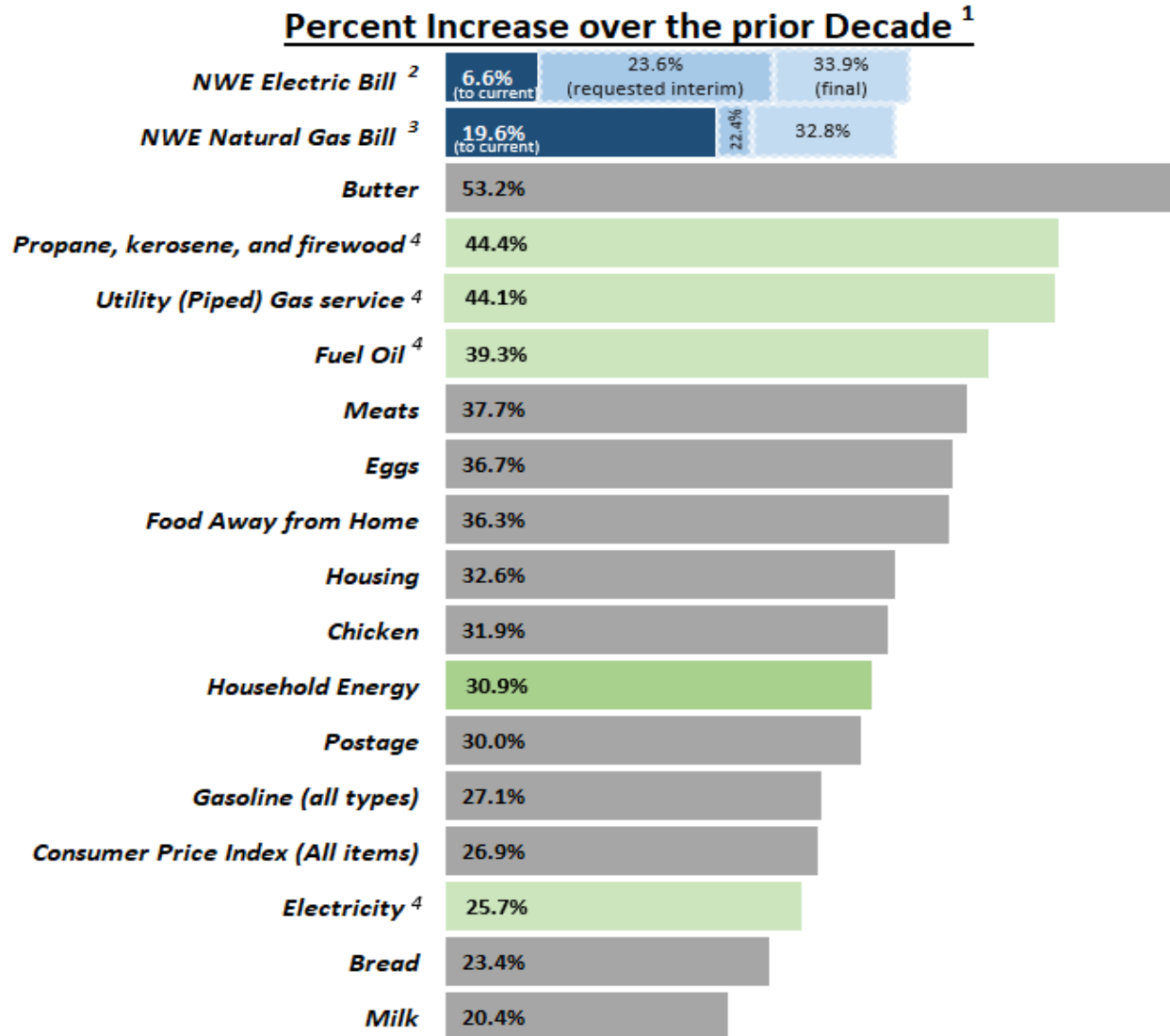
Many Montanans are facing challenging times, and no one wants to see rising electric and natural gas bills.





We know our customers count on us every day for safe, reliable energy service. We are strengthening our energy infrastructure to make it even more resilient to strong storms, extreme temperatures and cyber attacks

# We work to keep bills as low as possible



NorthWestern's infrastructure investment has more than doubled over the last decade. Increases to customer bills have remained well below inflation.

1. Based on U.S. Bureau of Labor Statistics Consumer Price Index for All Urban Consumers comparing June of 2013 to July of 2022.  
 2. Based on a typical 750 kWh monthly Montana residential electric bill, excluding deferred balance from prior periods (June 2013 - July 2022).  
 3. Based on a typical 65 therm monthly Montana residential natural gas bill (June 2013 - August 2022).  
 4. Sub-component of Household Energy



**Why are we requesting  
a rate review?**

Energy costs are expected to rise nationally

Excluding our electric  
and natural gas  
requests, there are  
currently

**113**

**pending rate reviews**  
(across 40 other states)







Current NorthWestern Energy rates for Montana were set using:

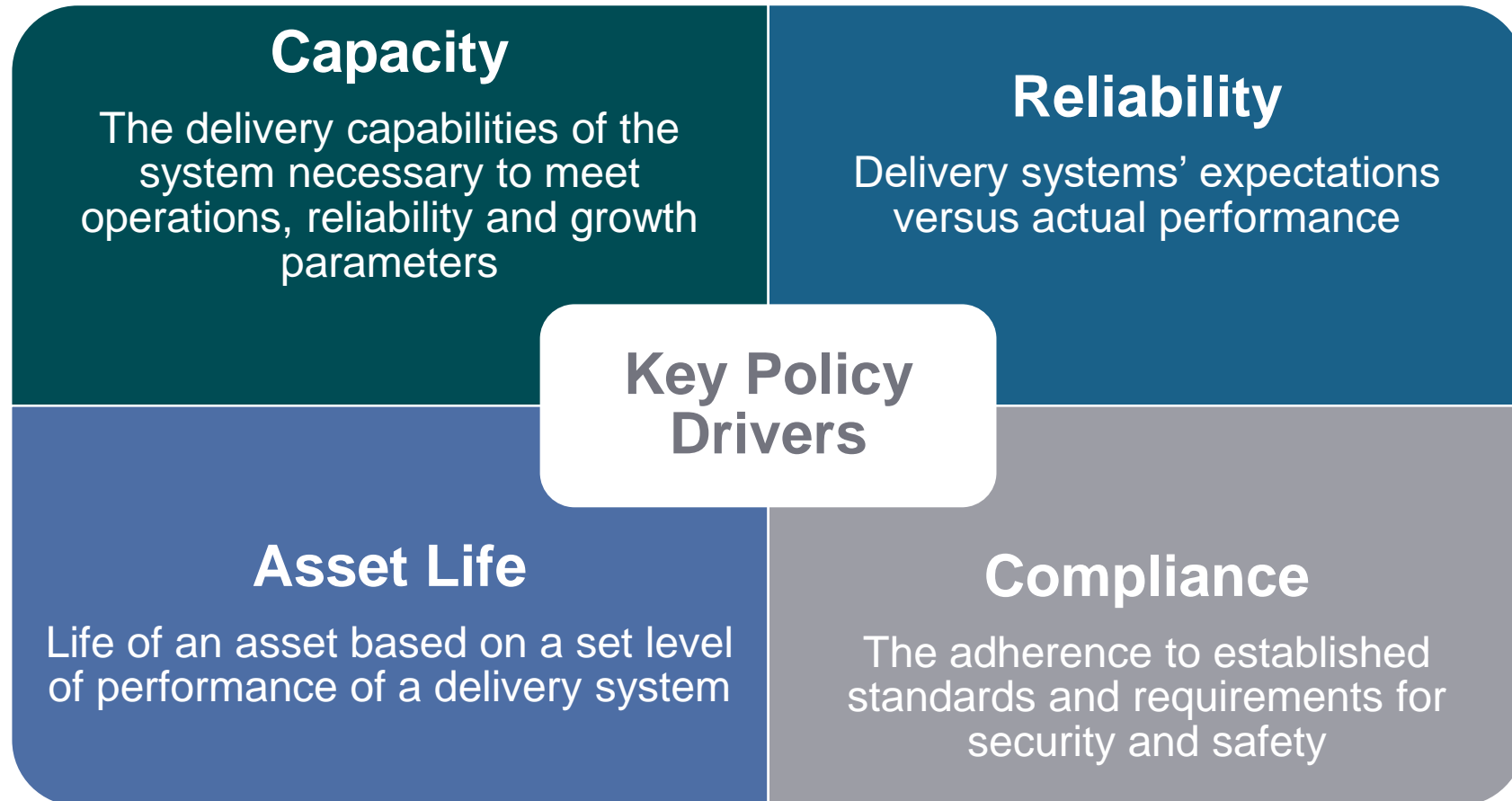
- cost information from 2017 for electric rates
- cost information from 2015 for natural gas rates



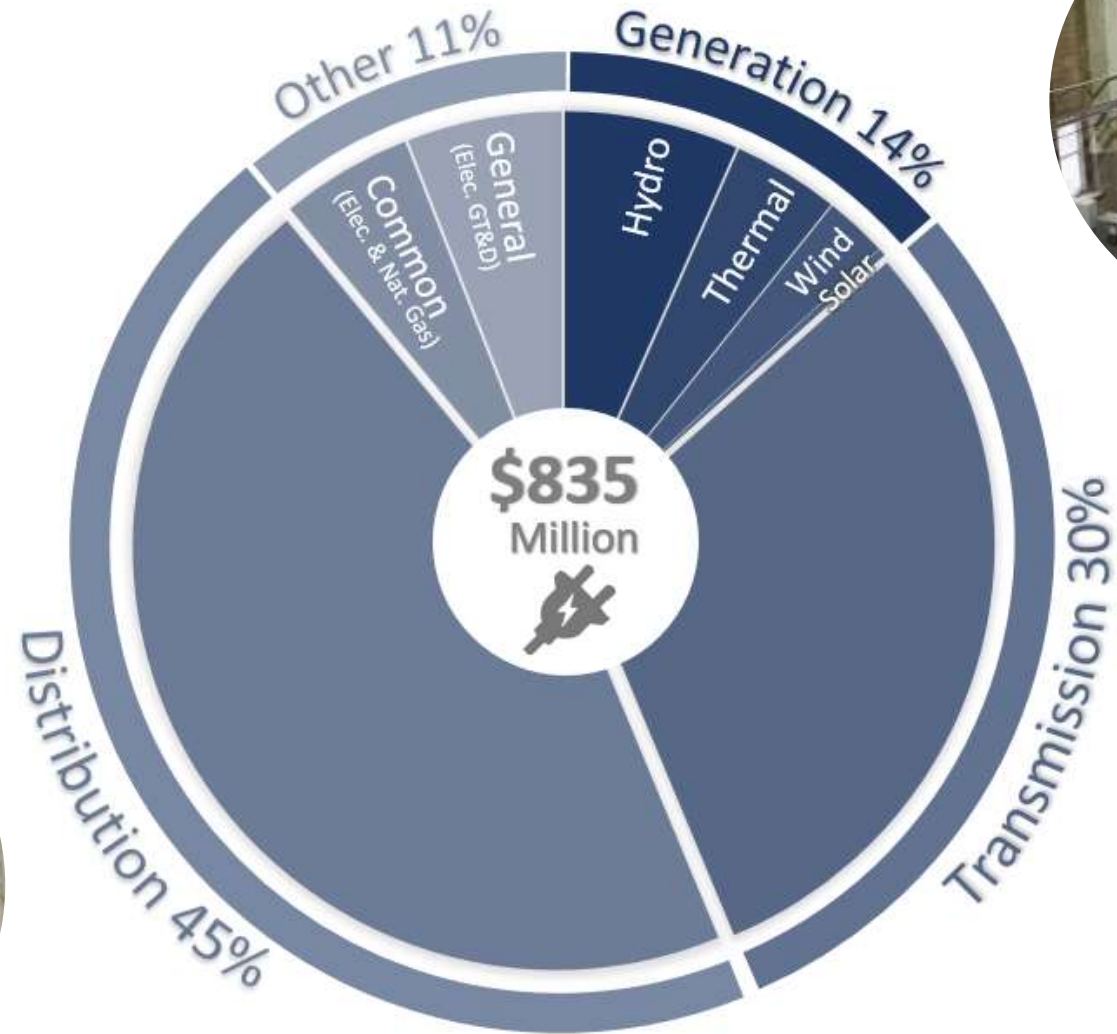
Since then,  
NorthWestern Energy  
has **invested more  
than \$1 billion** in our  
Montana electric and  
natural gas  
infrastructure.



# Four Key Policy Drivers for Investments

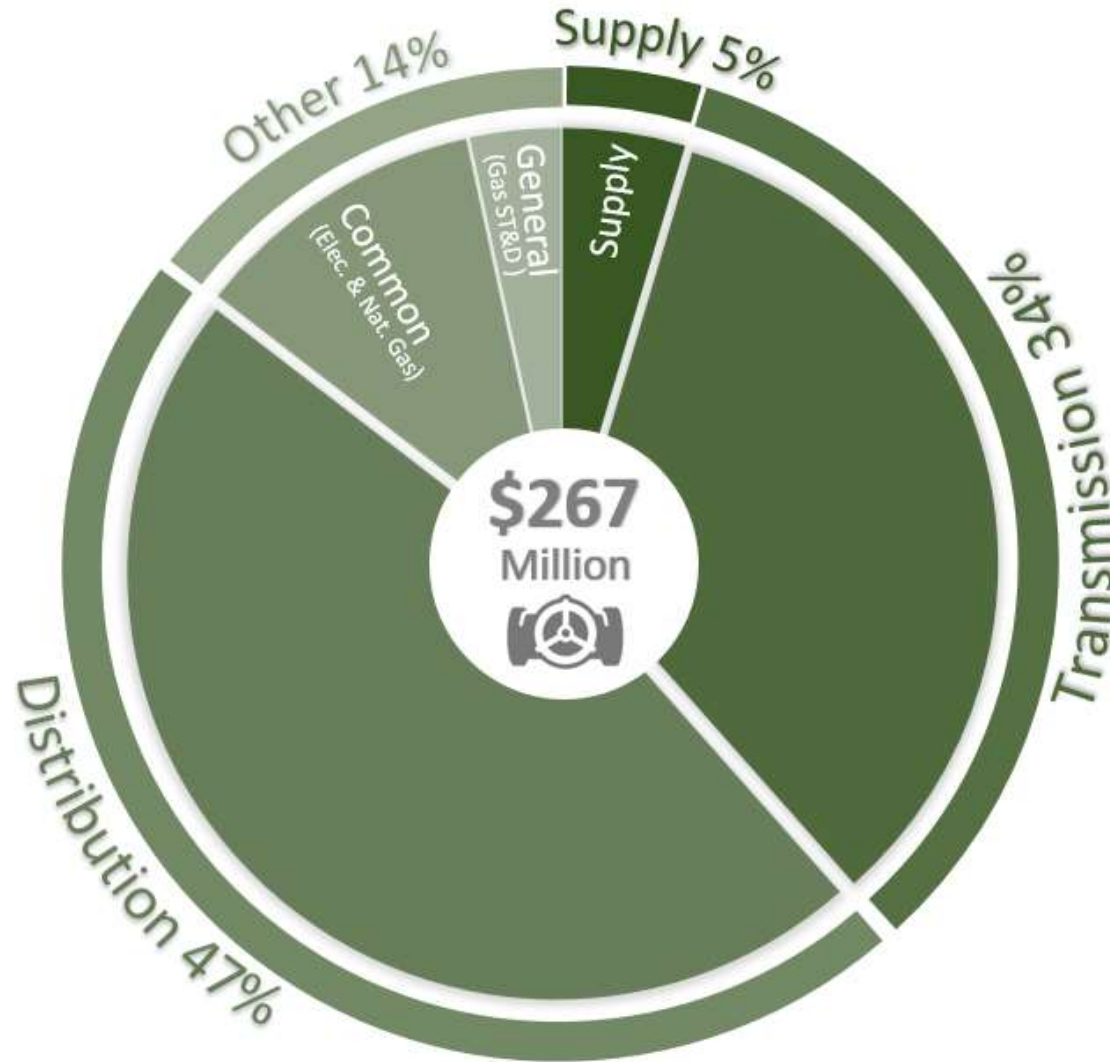


# Our electric investments



**Electric**  
(since 2017)

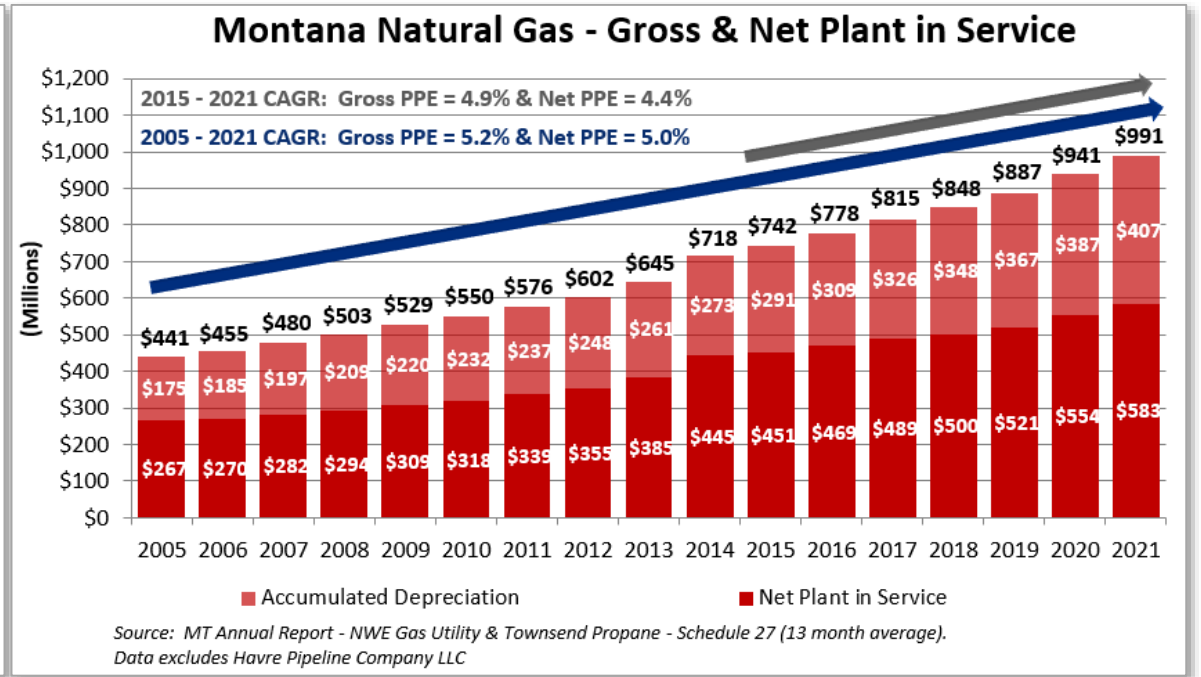
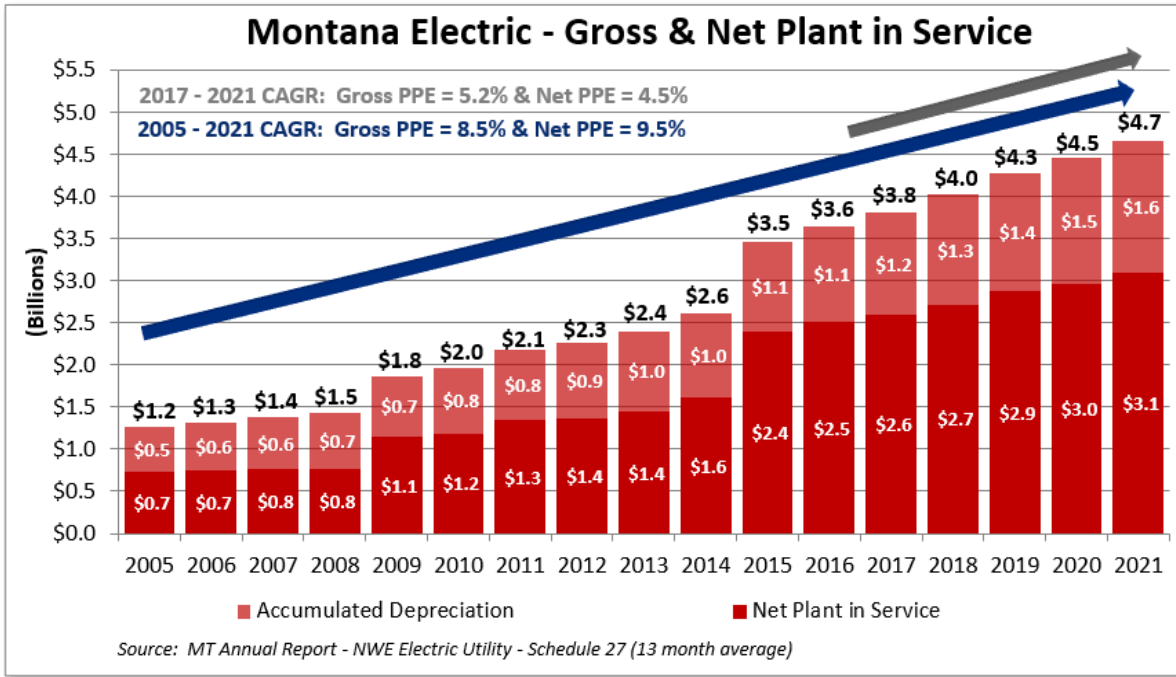
# Our natural gas investments



**Natural Gas**  
(since 2015)



# NorthWestern's investments in delivering safe and reliable service





These investments are critical to maintain reliability with sustainable energy, while working to keep bills as affordable as possible



# Reliability



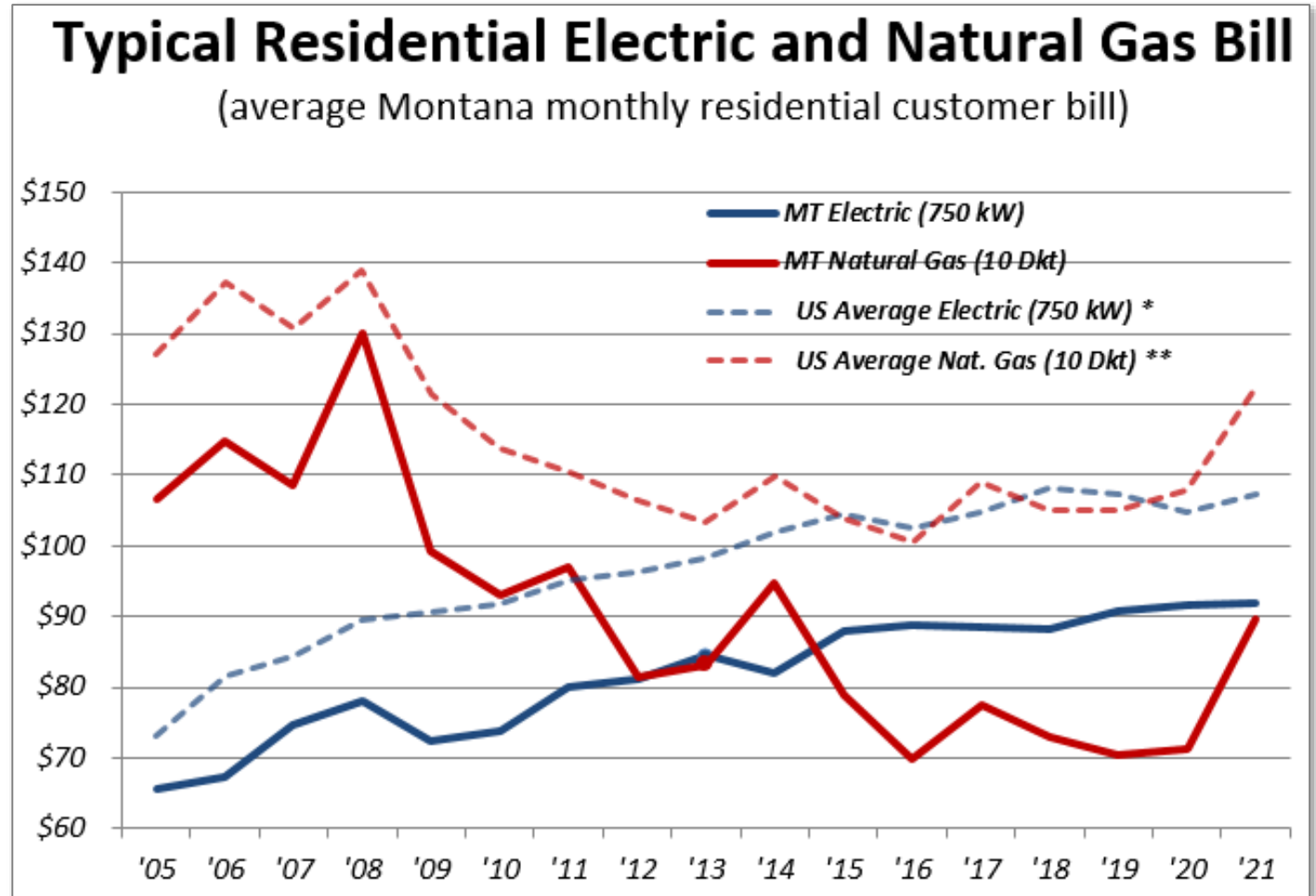
Our electric reliability and gas leaks are **better than our industry peers**, which is significant considering our large and rugged service territory.



Electric service for NorthWestern Energy's Montana customers is **99.97% reliable**.



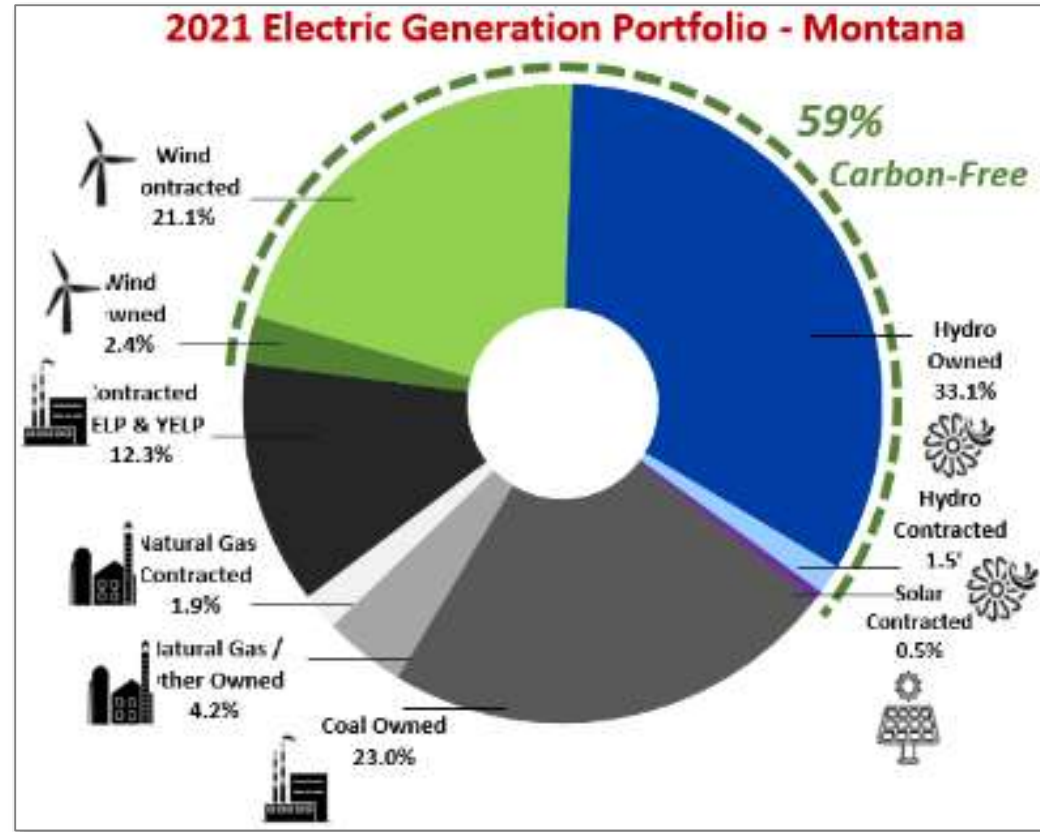
# Affordability



\* Electric - EEI Typical Bills and Average Summer and Winter Rates Reports 2008-2021

\*\* Natural Gas - EIA U.S. Price of Natural Gas Delivered to Residential Customers 2008-2021

# Sustainability





# Regulatory Rate Review Summary

# Montana Rate Review

**NorthWestern's Montana Rate Review includes the request to update our costs to provide safe and reliable service to our customers as well as updates to flow-through costs**

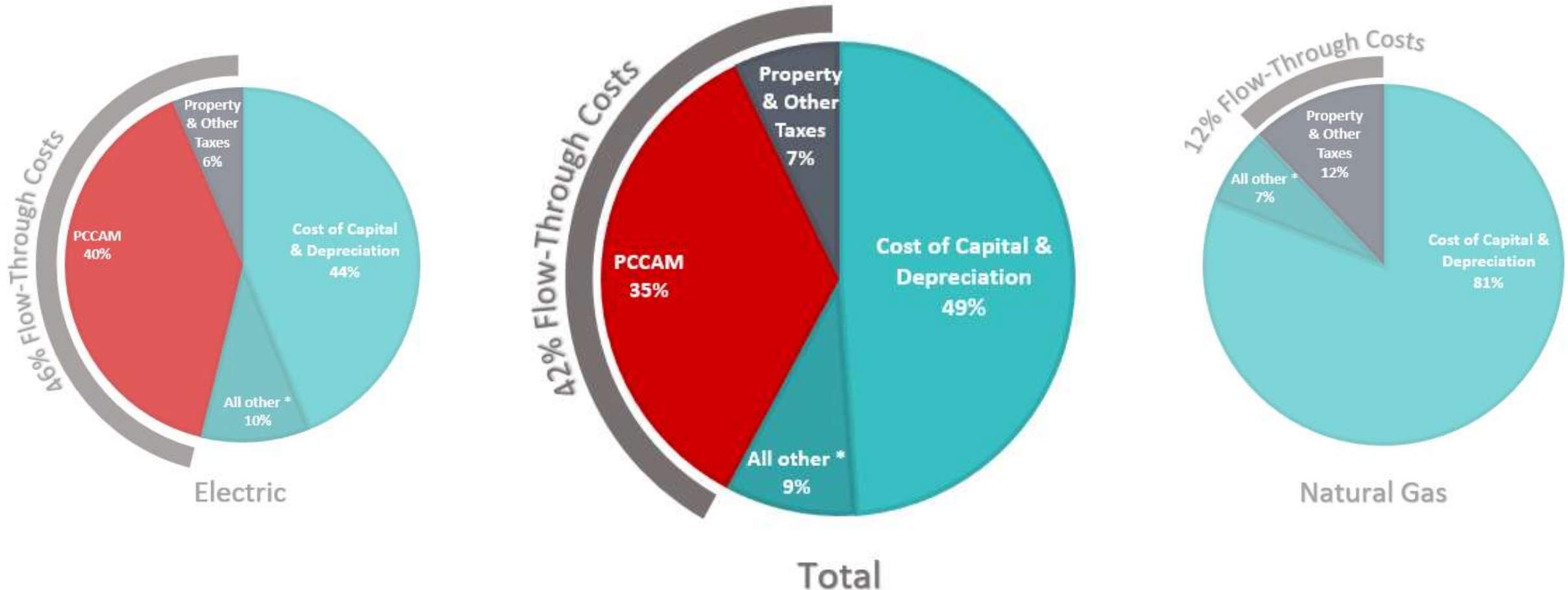
1. Requested base rate increase to deliver energy service to customers supports **more than \$1 billion invested in Montana critical infrastructure**, while keeping operating costs below the rate of inflation, since our last regulatory rate reviews.
2. Approximately **42% of the requested increase is driven by flow-through cost increases (46% of electric and 12% of natural gas)**, which includes market power purchases and property taxes that flow through to customers' bill.
3. Increases in the typical customer bill since the last rate review are **in line with inflation**.

# Montana Rate Review - Breakout of Costs

Operating and other costs increases are not driving this request.

49% of total requested increase is driven by capital investment.

42% is driven by increases in flow-through costs - PCCAM 35% and Property Taxes 7%.



\* All other base rate components, including operating costs, income taxes & offsetting miscellaneous revenue growth since last filing.



# Customer bill impact

## Customer bill impacts

Electric

**\$14.18**

Per month

Increase for an average residential electric customer if the interim rate is approved.

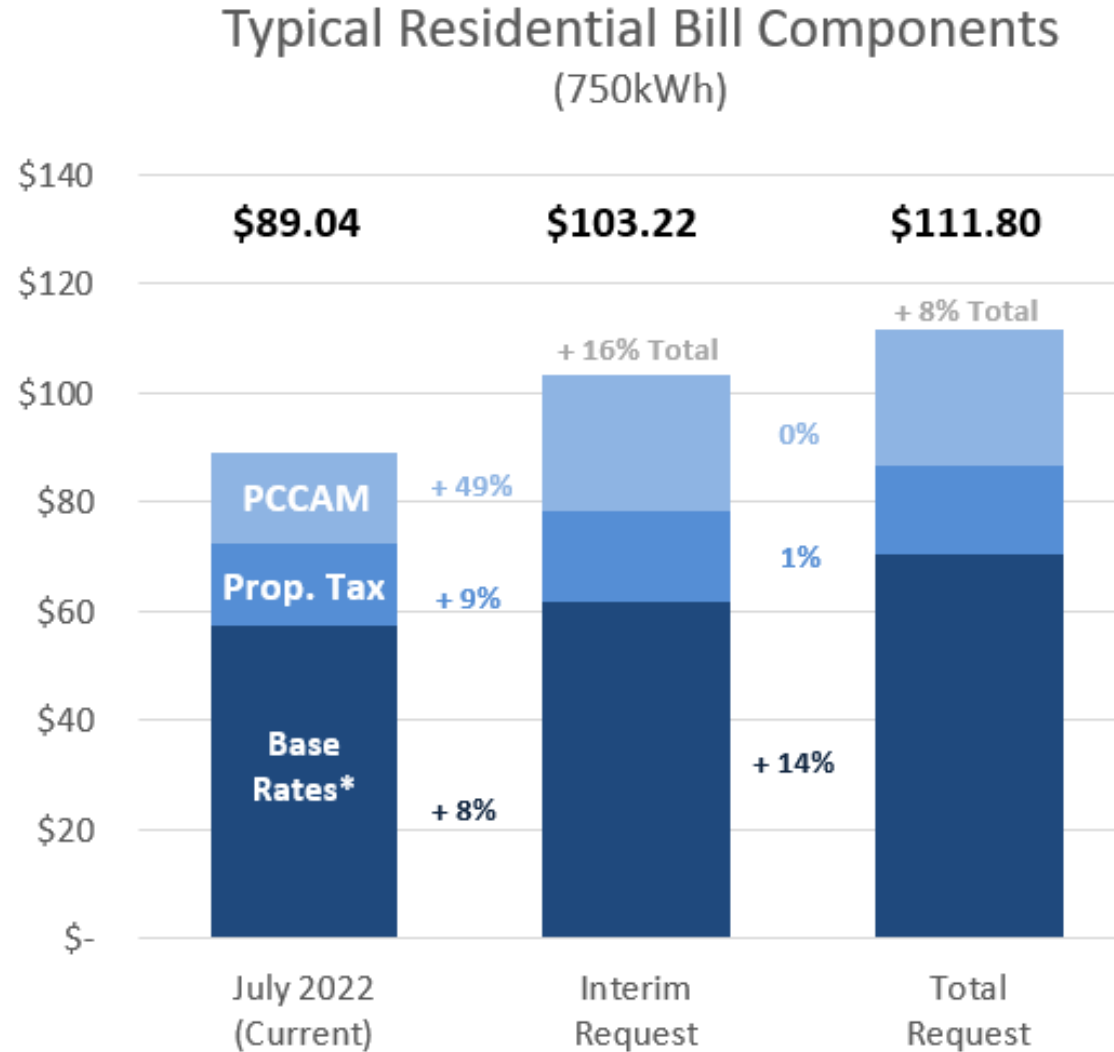
Natural Gas

**\$1.60**

Per month

Increase for an average residential natural gas customer if the interim rate is approved.

# Rate Review – What does that mean to electric customers?



Note:

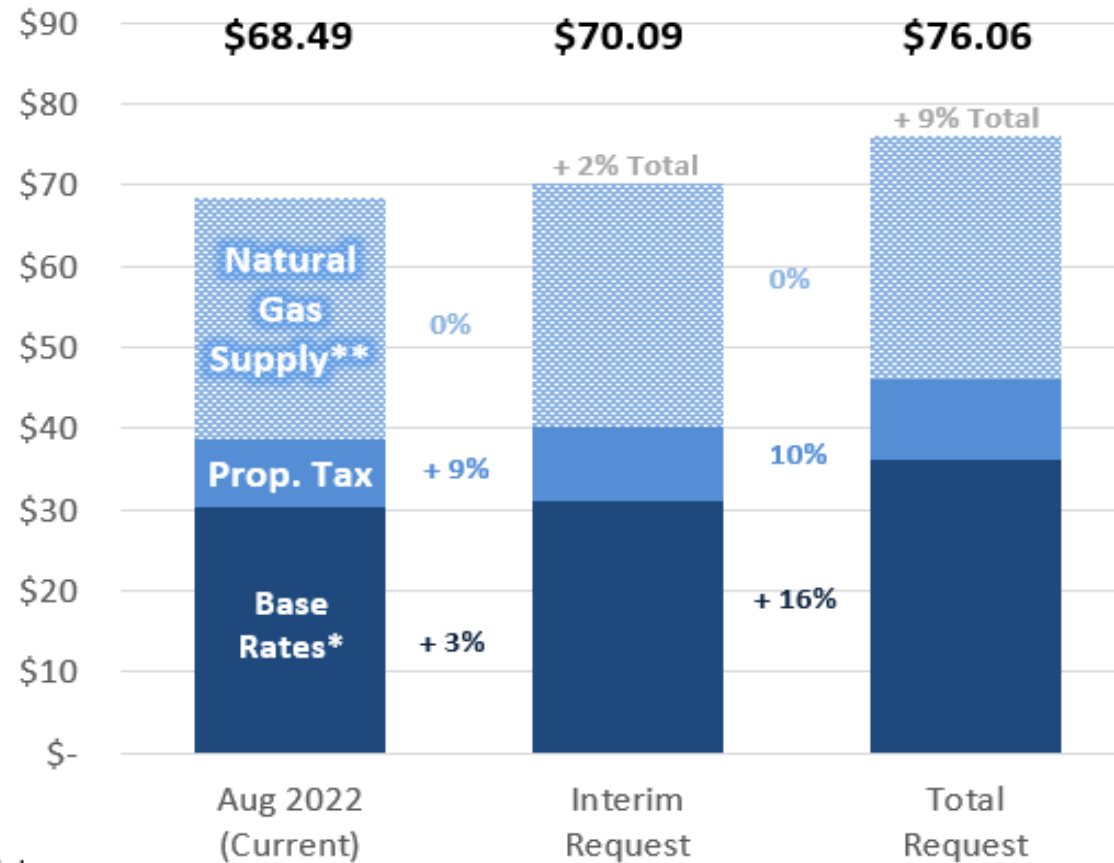
Typical bills, including interim and final rates, exclude deferred supply balances from prior periods.

\* Base Rates include transmission, distribution, and generation



# Rate Review – What does that mean to natural gas customers?

Typical Residential Bill Components  
(65 therms)



Note:

Adjustments to the natural gas supply portion of the bill are addressed in separate tracker filings.

\* Base Rates include transmission, distribution, storage and production.

\*\* Natural Gas Supply costs are recovered through a tracker that is reviewed separately from this rate review docket.



# Flow-through costs on customer bills

# Flow-Through Components - Power Cost and Credits Adjustment Mechanism

The Power Cost and Credits Adjustment Mechanism (PCCAM) recovers the flow-through costs of purchasing market energy and capacity services to meet electric supply customer's needs.

The current PCCAM does not allow for timely response to changes in market conditions.

NorthWestern proposes changes to better reflect market changes and manage customer bill volatility.

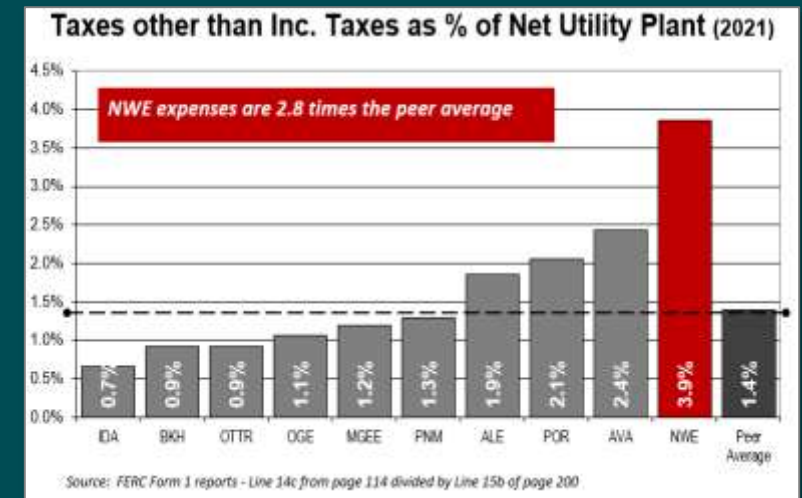
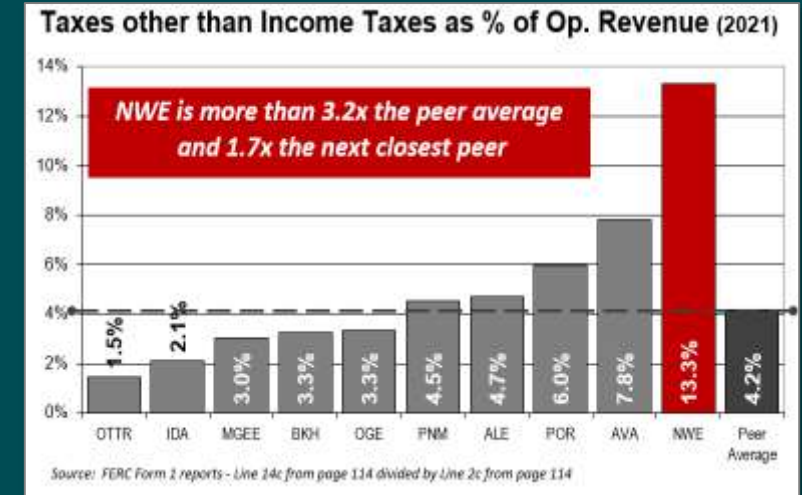


# Flow-Through Components –Property Taxes on Utility Bills in Montana

The amount of property taxes paid through utility bills in Montana is determined by the State.

NWE electric and gas customers are paying approximately three times the property taxes in their energy bills compared to our peer group average.

NWE electric and gas customers are paying more property taxes in their energy bills compared electric and gas customers of other energy service providers in Montana.

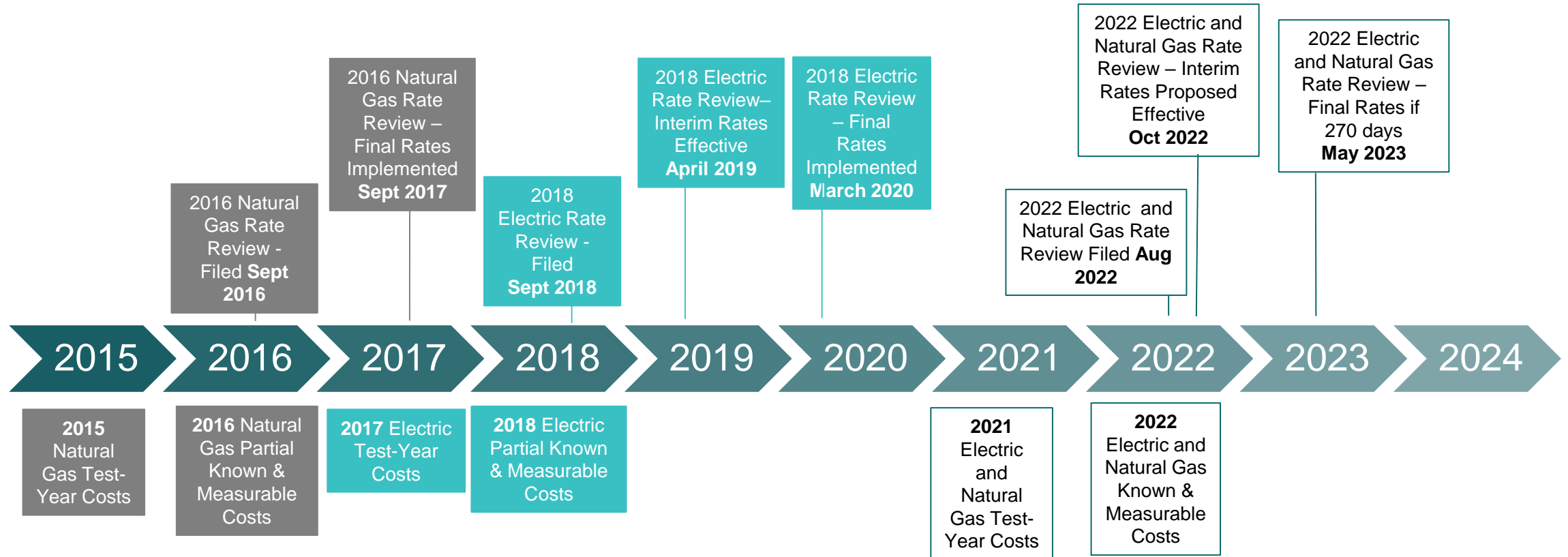




# Current regulatory environment challenges

# What do we mean by “regulatory lag”?

## Rate Review Timeline

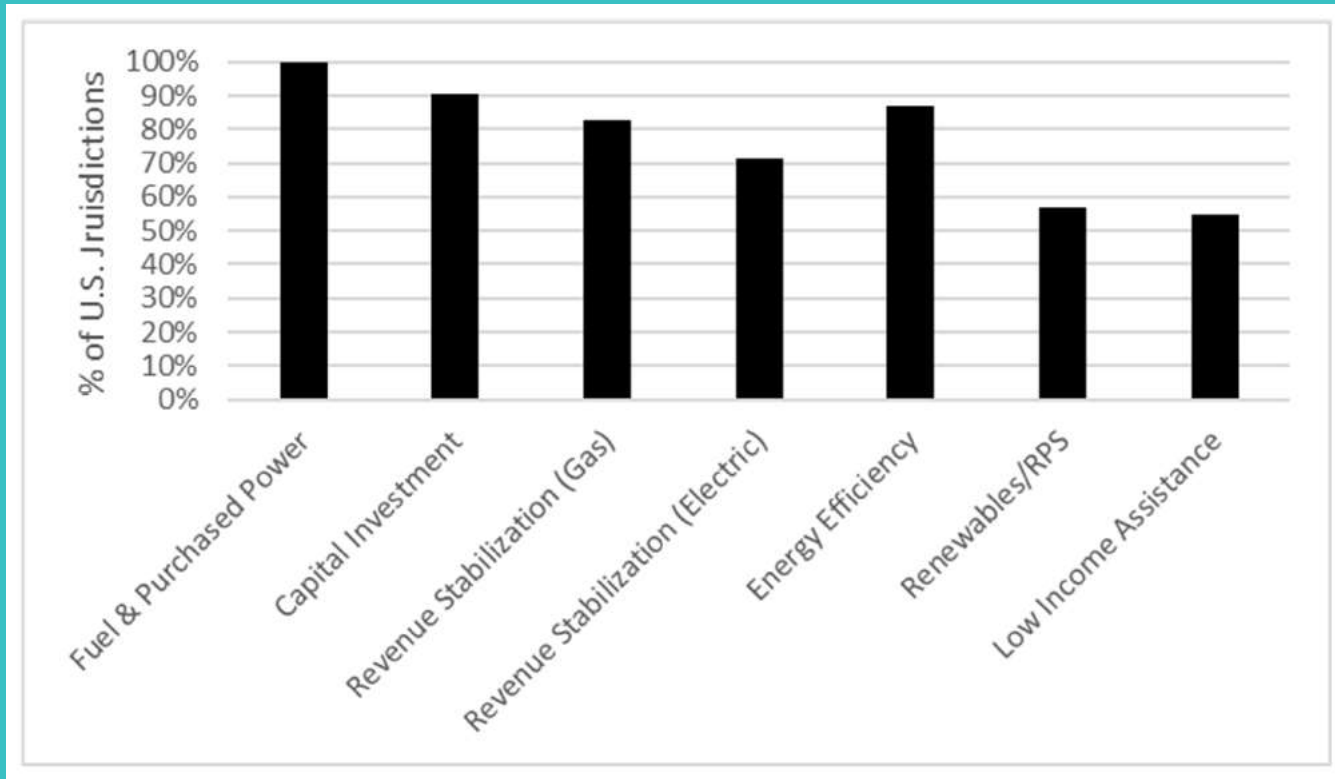




# Revenue Adjustment Mechanisms

# Why are Revenue Adjustment Mechanisms needed?

## Percentage of Regulatory Jurisdictions with Cost Recovery and Revenue Stabilization Mechanisms



In recent years, there has been increased interest in alternative regulation, mechanisms that allow for cost recovery and rate adjustments to occur outside of the traditional regulatory framework, due to rising and volatile utility costs, growth in non-revenue producing capital expenditures, and sluggish demand and sales growth.

Many of the investments required to maintain system integrity and reliability do not generate incremental revenue through additional volume growth, including investments for infrastructure replacement, grid modernization, resiliency and system hardening, and environmental compliance expenditures.



# New Revenue Adjustment Mechanisms

NorthWestern Proposes new revenue adjustment mechanisms to support three areas critical to safe and reliable service for our customers.

## Enhanced Wildfire Mitigation Plan

- Allows for the ability to adjust rates to reflect the recovery of the annual expenses and new capital in service associated with NorthWestern's 5-Year Enhanced Wildfire Mitigation Plan.
- Any differences between forecasted and actual costs would be trued up at the end of the 5-year period of 2024-2028.

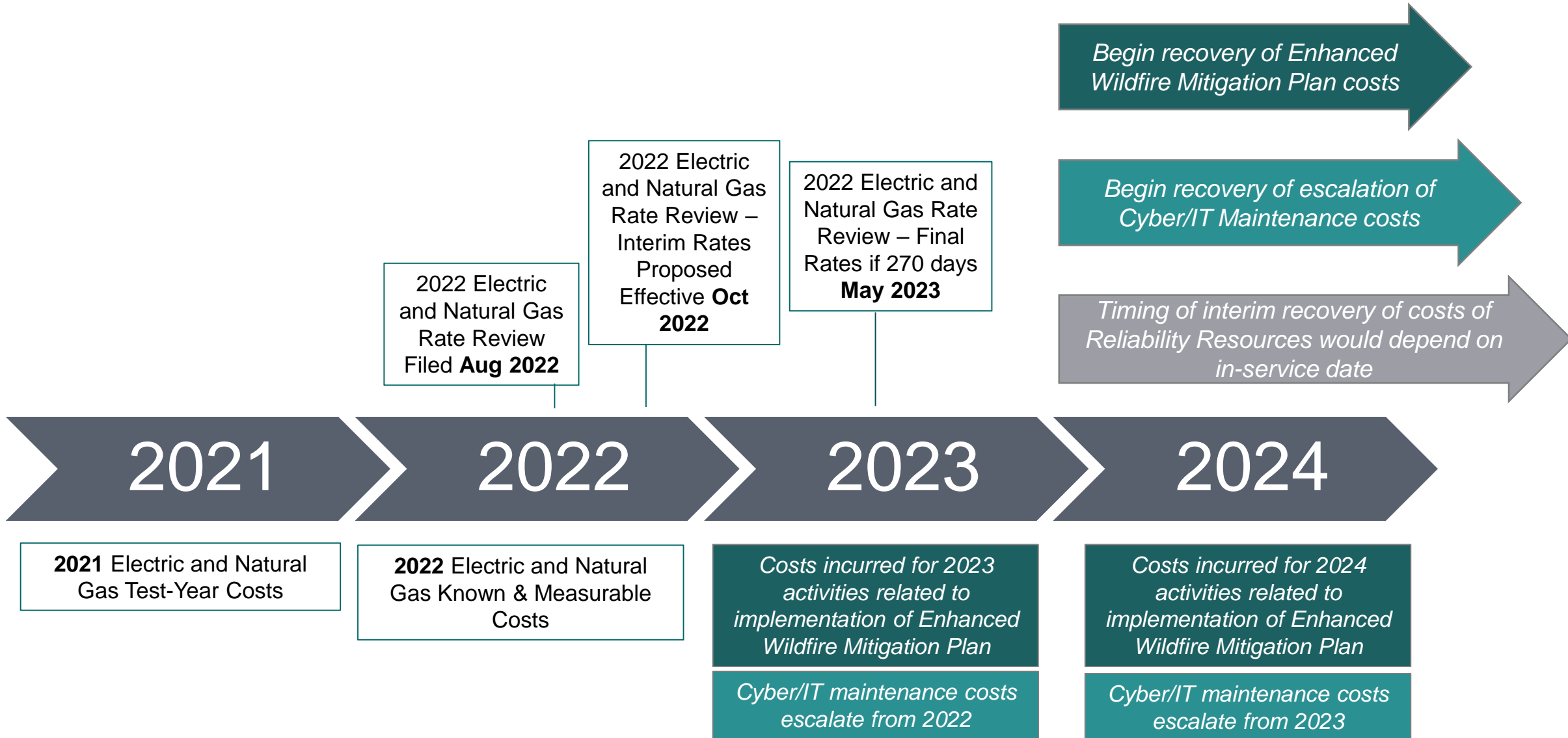
## Cyber/IT

- Allows for the ability to increase recovery of costs associated with maintenance and support agreements in between rate review based on escalation factor tied to inflation.
- The reasonableness of an inflation escalator would be reexamined in the next rate review.

## Reliability

- Allows for the ability to recover on an interim basis costs related to new Reliability resources **once in-service** in between rate reviews.
- Costs would be **subject to refund** and reviewed in the next rate review.
- NorthWestern seeks to include recovery of Yellowstone County Generating Station.

# Benefit of Revenue Adjustment Mechanisms



# The Four Objectives of the Enhanced Wildfire Mitigation Plan

## WILDFIRE MITIGATION PLAN OBJECTIVES



Reduction  
of Ignition  
Potential



System and  
Environmental  
Monitoring



Enhanced  
Vegetation  
Maintenance



Enriched Public  
Communication  
and Outreach

# Understanding How to Impact Risk

**The NorthWestern Energy Enhanced Wildfire Mitigation plan must focus on items that are measurable, attainable and provide positive impacts on reducing the risks.**

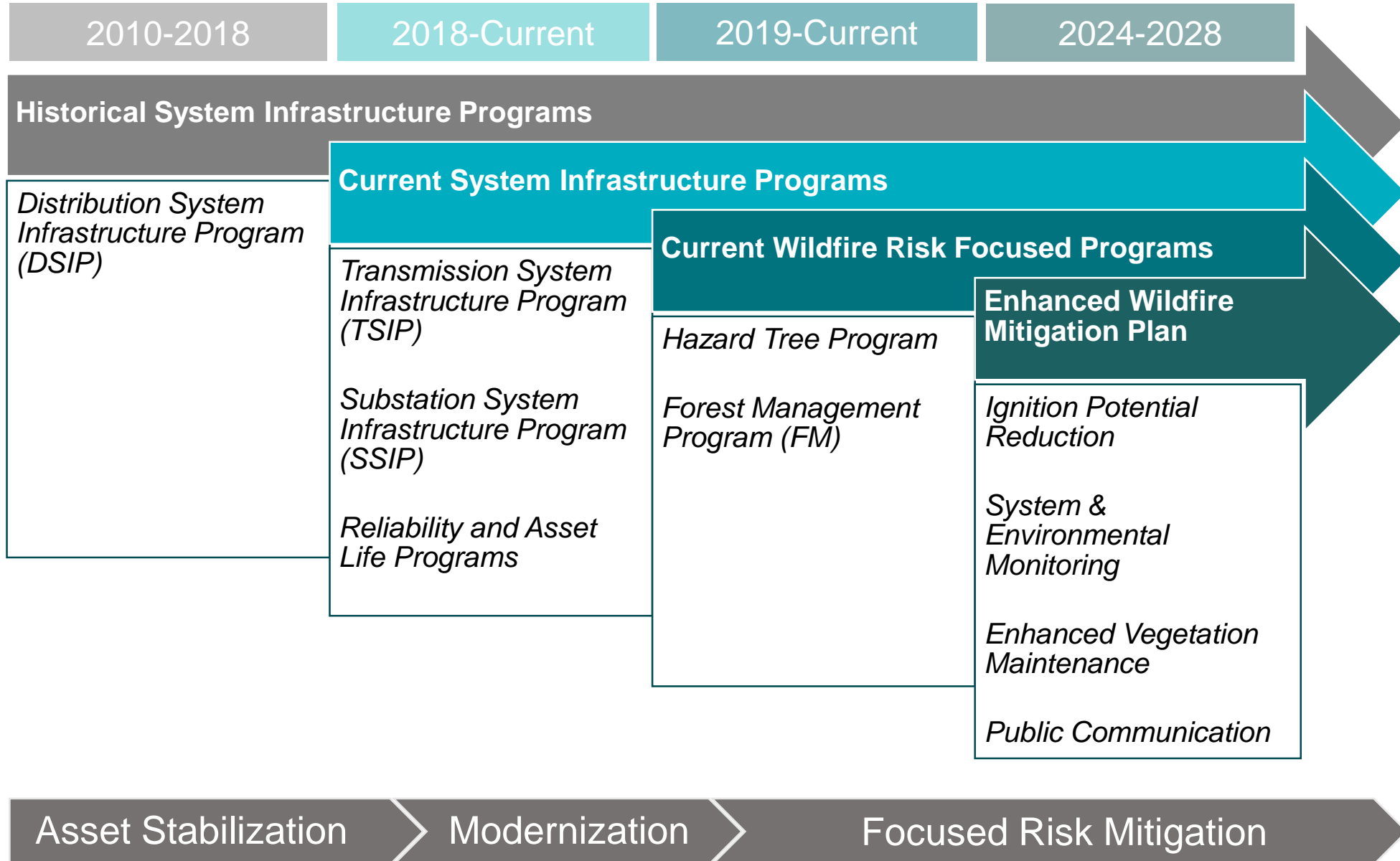
## We Cannot Control

- × Immediate Climate Impacts
  - × i.e. wind events, etc.
- × Population growth in Wildland Urban Interface (WUI)
- × Dispersed rural assets
- × Forest health cycles

## We Can Control

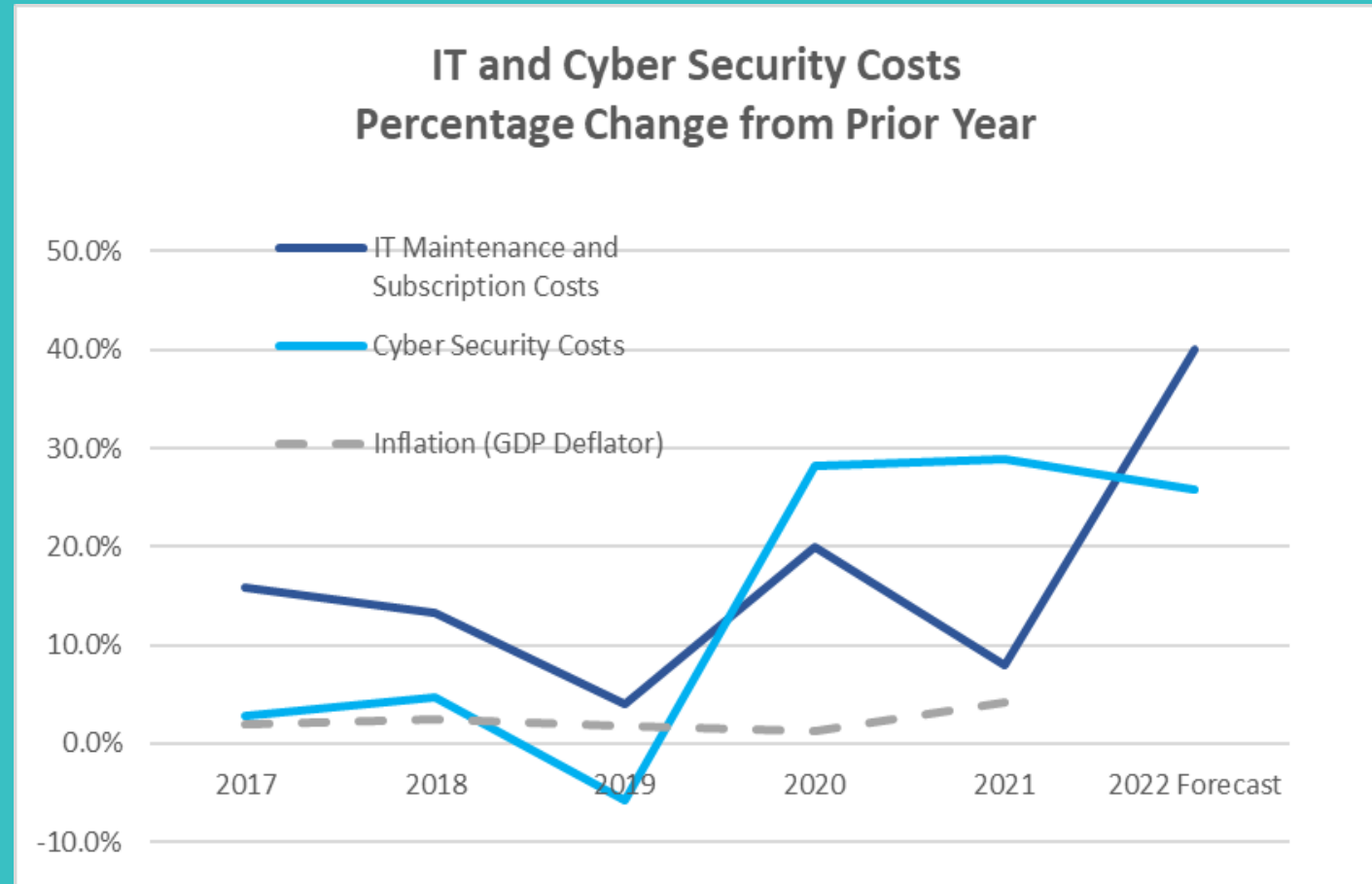
- ✓ Situational awareness of local environmental conditions
- ✓ Operational practices based on understanding of situational awareness
- ✓ Programs to reduce ignition potential
- ✓ Collaboration with external stakeholders
- ✓ Technology implementation
- ✓ Customer impacts and communication
- ✓ Plan adjustments to changing risks

# Safety and Reliability Programs to Date and Going Forward



# Why is a Cyber/IT Rider needed?

- The cost of Cyber/IT have increased significantly since the last rate review and are expected to continue to increase.
- There is currently no regulatory mechanism to account for those cost increases.

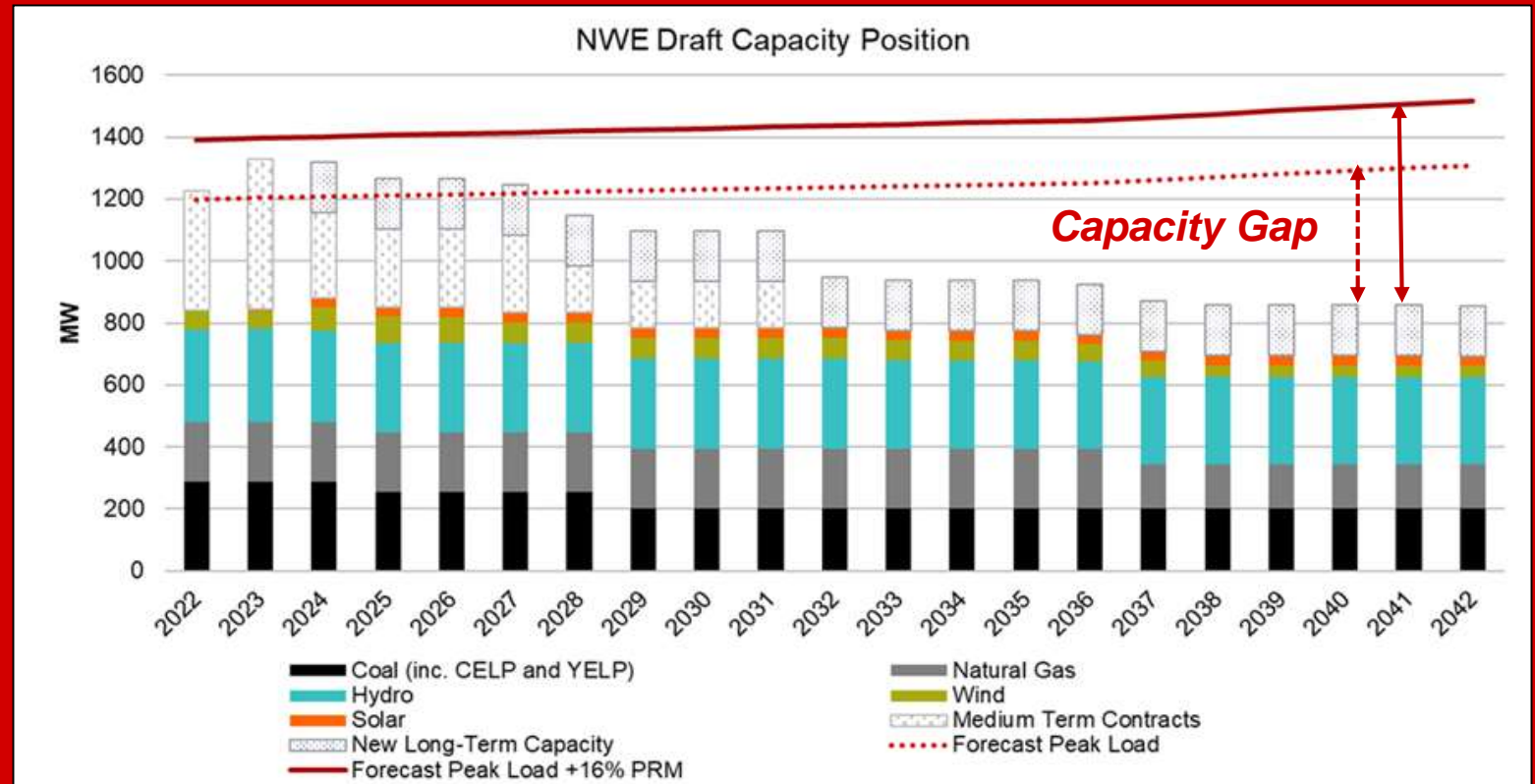


# Why is a Reliability Rider needed?

***Currently there is no mechanism to recover costs for investments in critical reliability resources between rate reviews.***

Yellowstone County Generating Station plays an important role in meeting the capacity needs of our Montana customers in the near term.

The ability to meet the capacity needs of our Montana customers will continue to be a priority issue for NorthWestern.



# Modifications to existing Revenue Adjustment Mechanisms

## *PCCAM Redesign Proposal*

The current PCCAM does not allow for timely response to changes in market conditions.

NorthWestern proposes:

- Annual updates to forecasted costs
- Monthly adjustments to outstanding balances
- More granular modeling to better capture the market

## *What is Decoupling?*

Decoupling, or the Fixed Cost Recovery Mechanism (FCRM), is a mechanism intended to eliminate a utility's incentive to discourage energy efficiency by establishing revenue based on an amount needed to cover established costs.

NorthWestern's current pilot design is flawed because it does not cover all customers or all fixed costs.

NorthWestern proposes to fix this to include all customers and all fixed costs.





# Rate Review: The Details

# Montana Rate Review

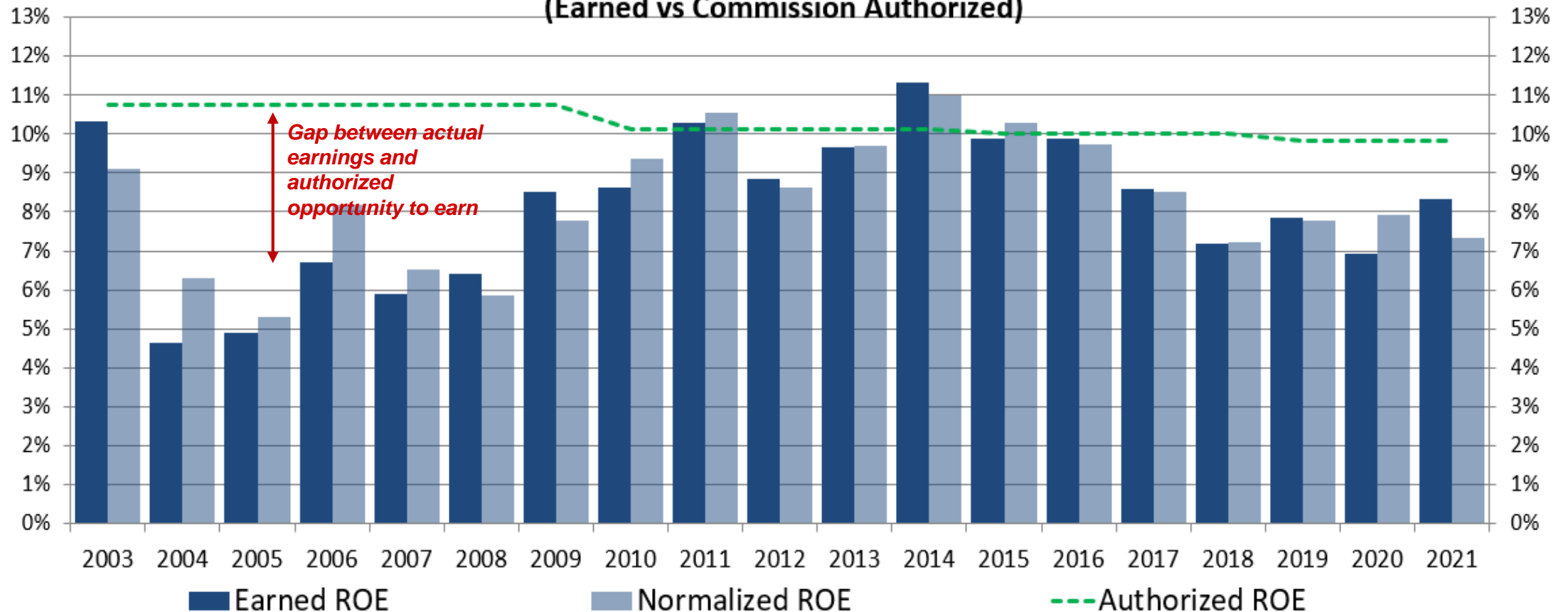
| Montana Rate Review  |                             |                       |                        |
|--|-----------------------------|-----------------------|------------------------|
|  | <i>Electric</i>             | <i>Natural Gas</i>    | <i>Total</i>           |
| <i>Current ROE</i>   | 9.65%                       | 9.55%                 |                        |
| <i>Current Equity Ratio</i>  | 49.38%                      | 46.79%                |                        |
| <i>Proposed ROE</i>  | 10.60%                      | 10.60%                |                        |
| <i>Proposed Equity Ratio</i>   | 48.02%                      | 48.02%                |                        |
| <i>Forecasted 2022 Rate Base</i>   | \$ 2,790 million            | \$ 575 million        | \$3,365 million        |
| <i>Net Rate Base Increase</i>  | \$ 453 million              | \$ 143 million        | \$596 million          |
| Requested Revenue Increase   |                             |                       |                        |
|  | <i>Electric</i>             | <i>Natural Gas</i>    | <i>Total</i>           |
| <b>Base Rates</b> - owned electric generation, natural gas production / storage, transmission and distribution | <b>\$91.8 million</b>       | <b>\$20.2 million</b> | <b>\$112.0 million</b> |
| <b>PCCAM</b> - Power Cost & Credit Adjustment Mechanism  | \$68.1 million <sup>2</sup> | n/a                   | \$68.1 million         |
| <b>Property Tax</b> (tracker true-up)  | \$11.1 million              | \$2.8 million         | \$13.9 million         |
| <b>Total</b>   | <b>\$171.0 million</b>      | <b>\$23.0 million</b> | <b>\$194.0 million</b> |

Flow-Through

# Rate Review – How have we been doing?

NorthWestern has continued to invest in the safe and reliable service for its customers despite actual earnings below our authorized opportunity to earn.

NorthWestern's Montana Electric Return on Equity  
(Earned vs Commission Authorized)

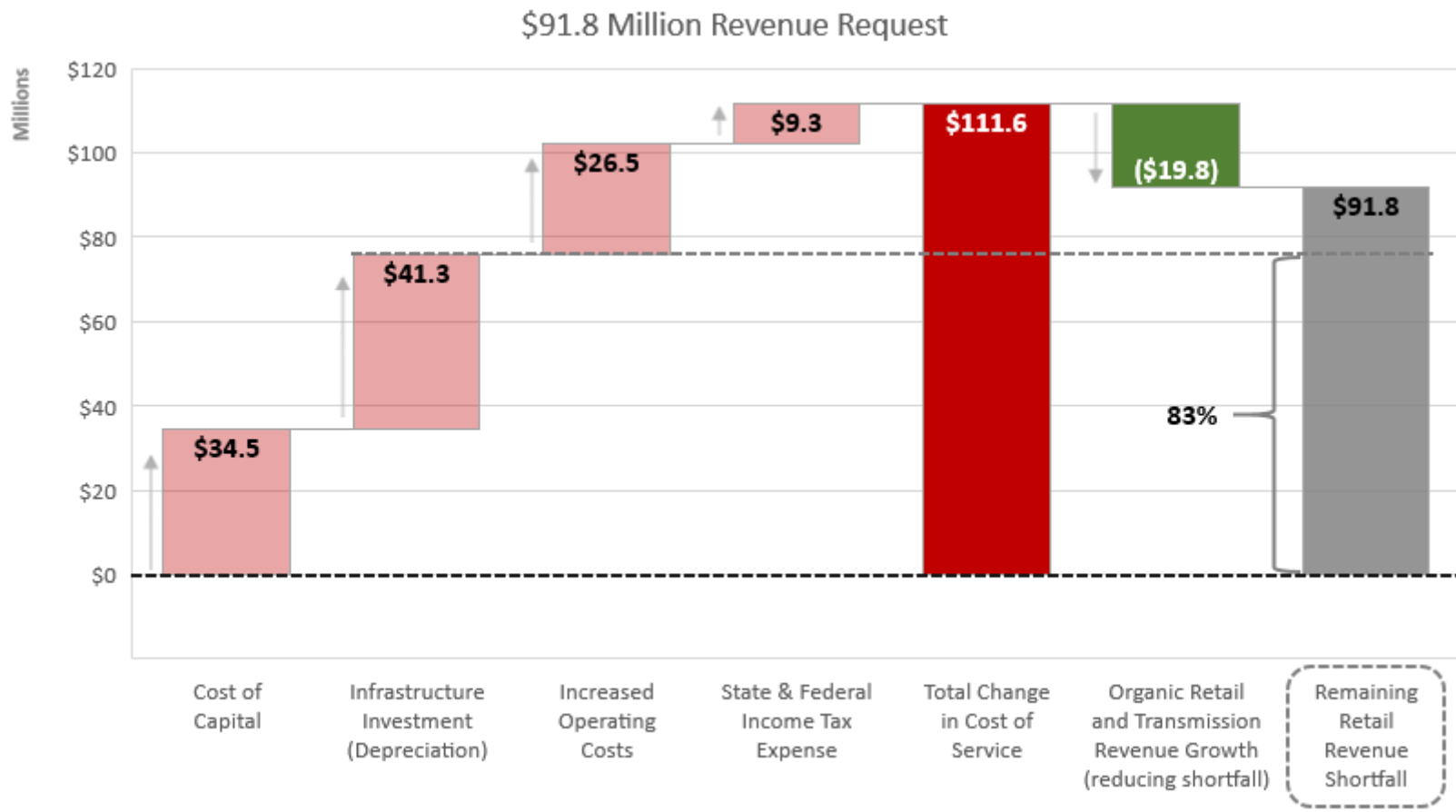


Note: Authorized ROE reflects simple average of high and lowest authorized ROE during respective year.

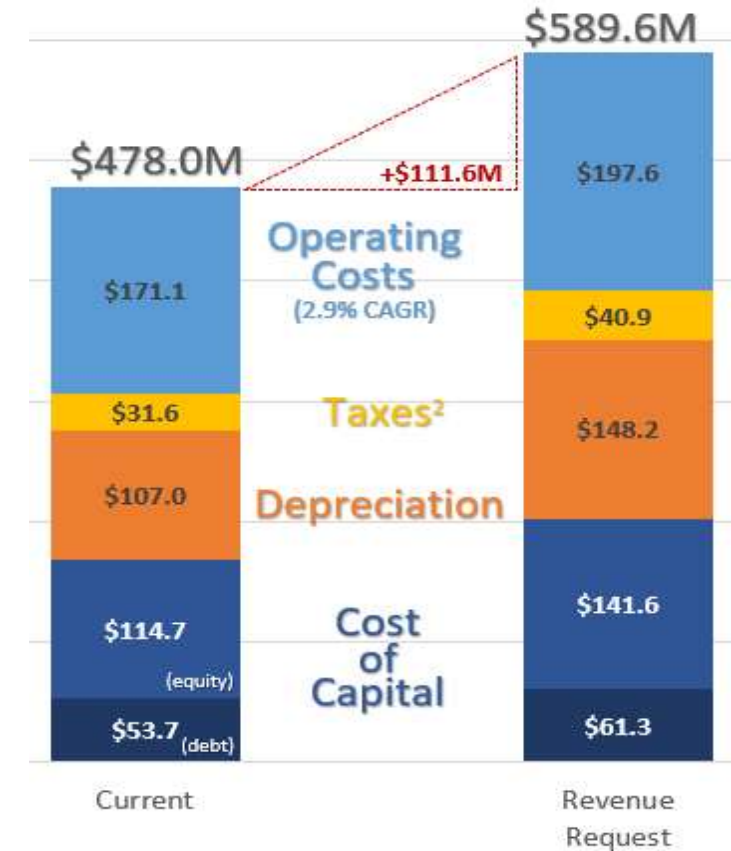
Source: SNL Financial and Company Data reported on Schedule 27 of the Annual Reports filed with the Montana Public Service Commission.

# Montana Electric Base Rate Request

Infrastructure investment drives 83%\* of requested base rate increase



Cost of Service Components<sup>1</sup>



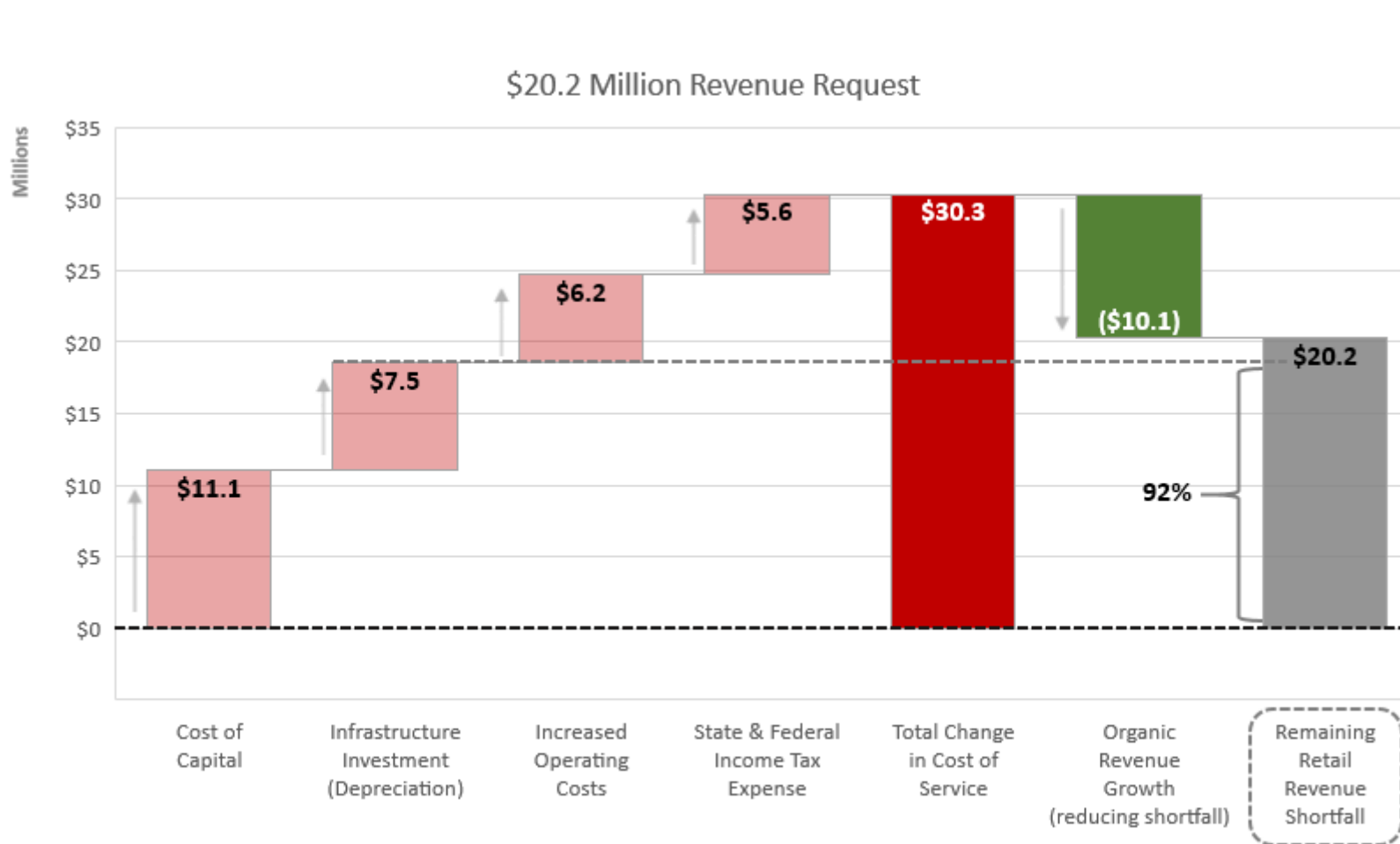
1. Excludes property taxes and supply costs recovered through trackers

2. State and federal income taxes

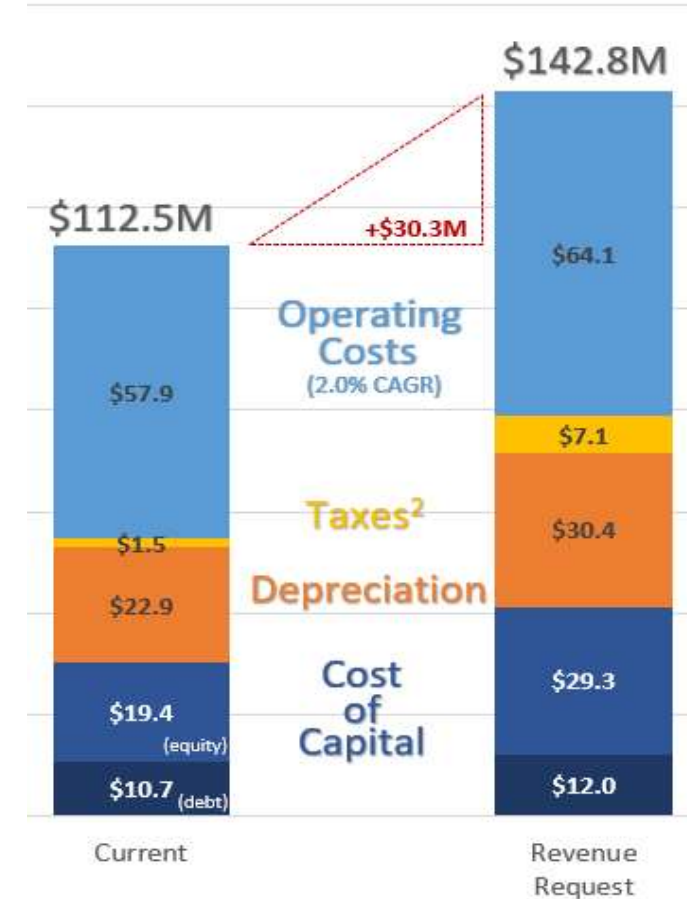
\* \$34.5 million Cost of Capital plus \$41.3 million Infrastructure Investment as a percent of \$111.6 million Total Change in Cost of Service.

# Montana Natural Gas Base Rate Request

Infrastructure investment drives 92%\* of requested base rate increase



Cost of Service Components<sup>1</sup>



1. Excludes property taxes and supply costs recovered through trackers  
 2. State and federal income taxes

\* \$11.1 million Cost of Capital plus \$7.5 million Infrastructure Investment as a percent of \$30.3 million Total Change in Cost of Service.



**We're here to help**

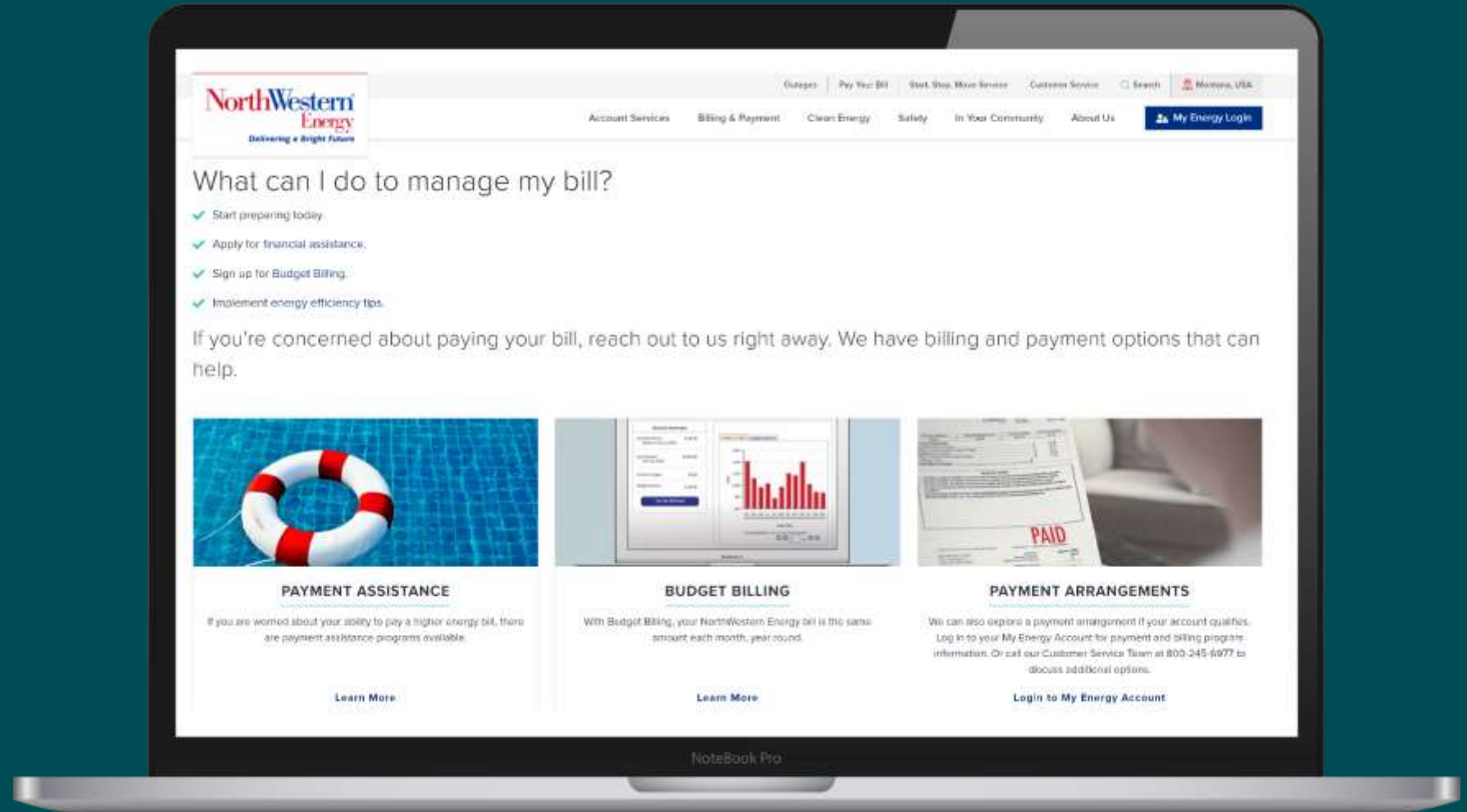
## What can customers do to manage their bill?

- Apply for **financial assistance**
- Sign up for **Budget Billing**
- Get a **free E+ Home EnergyCheck**
- Improve your home's **energy efficiency**
- Commercial and residential **E+ rebate programs** are available

Learn more at [NorthWesternEnergy.com/assistance](https://NorthWesternEnergy.com/assistance)



# Where to find additional resources







# Thank you



For more information about NorthWestern Energy's 2022 Montana Rate Review (Docket 2022.07.078)

[Rising Energy Prices \(northwesternenergy.com\)](https://www.northwesternenergy.com)

<https://www.northwesternenergy.com/billing-payment/ways-to-save/rising-energy-prices>