

4
5 **DIRECT TESTIMONY – REGULATORY PRIORITIES**
6 **OF CYNTHIA S. FANG**
7 **ON BEHALF OF NORTHWESTERN ENERGY**

8
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2

1 **Witness Information**

2 **Q. Please provide your name, employer, and title.**

3 **A.** My name is Cynthia (Cyndee) S. Fang. I am NorthWestern Corporation d/b/a
4 NorthWestern Energy's ("NorthWestern") Vice President of Regulatory.

5
6 **Q. Please provide a description of your relevant employment experience
7 and other professional qualifications.**

8 **A.** As Vice President of Regulatory for NorthWestern, my primary responsibility
9 is to oversee NorthWestern's regulatory affairs before its state regulatory
10 commissions including the Montana Public Service Commission
11 ("Commission"). Prior to joining NorthWestern in 2021, I held various
12 leadership roles at San Diego Gas & Electric ("SDG&E") including Manager of
13 Customer Pricing, overseeing rate strategy; Manager of Energy Research &
14 Analysis, overseeing electric load forecasting, research and analysis; and
15 Origination and Portfolio Design Manager, leading electric procurement
16 efforts. Before SDG&E, I was a Public Utilities Rates Analyst with the Energy
17 Division of the Minnesota Department of Commerce. I hold a Bachelor of
18 Science degree in Political Economics of Natural Resources and have
19 completed all of the coursework for a Ph.D. in Economics.

20

21

1 **Purpose of Testimony**

2 **Q. What is the purpose of your testimony in this docket?**

3 **A.** The purpose of my testimony is to present NorthWestern’s regulatory
4 proposals as part of this rate review. My testimony presents NorthWestern’s
5 regulatory proposals to ensure that the prices customers pay better align with
6 the value of the services they receive. Specifically, NorthWestern proposes
7 the following:

- 8 • Cost Recovery of Yellowstone County Generating Station (“YCGS”) to
9 better reflect the value customers will receive which includes:
 - 10 ○ NorthWestern proposes a bridge rate to address the timing gap
11 that would occur otherwise between the reduction in market
12 purchases needed through Power Costs and Credits
13 Adjustment Mechanism (“PCCAM”) resulting from YCGS
14 generation being in service and the recovery of YCGS costs
15 through base generation rates upon approval of final rates
16 effective in this docket.
 - 17 ○ NorthWestern proposes end of the period rate base treatment
18 for YCGS, rather than the use of simple average. This approach
19 would better recognize the full value customers receive from
20 YCGS going forward.
- 21 • New Balancing Accounts that will reduce the lag in cost recovery of
22 prudently incurred costs in between rate reviews for three critical
23 service areas:

- 1 ○ Cost associated with NorthWestern’s Wildfire Management
2 activities which include the execution of its Wildfire Mitigation
3 Plan and costs related to wildfire insurance;
4 ○ Certain Business Technology costs to support NorthWestern’s
5 proposal for the capitalization of these costs due to changing
6 conditions in how these products and services are provided and
7 criticality to supporting the ability to serve customers; and
8 ○ Compliance costs necessary to ensure the ability for Colstrip to
9 continue to provide reliable energy services for Montana
10 customers given recent changes in federal environmental
11 requirements.

12 In addition, I will provide an update on NorthWestern’s activities to date
13 resulting from the Commission’s Final Order No. 7860y in Docket No.
14 2022.07.078, which includes

- 15 • Deferred Accounting treatment for incremental wildfire expense,¹ small
16 natural gas production acquisitions,² and Sleepy Hollow.³;
17 • Share of Wallet calculations for Electric and Natural Gas residential
18 customers; and

¹ Final Oder No. 7860y, ¶ 272, Montana Public Service Commission Docket No. 2022.07.078 (2023).

² Final Oder No. 7860y, ¶ 318 - 320, Montana Public Service Commission Docket No. 2022.07.078 (2023).

³ Final Oder No. 7860y, ¶ 330 - 331, Montana Public Service Commission Docket No. 2022.07.078 (2023).

- 1 • Stakeholder Processes related to Low Income,⁴ Demand Side
2 Management (“DSM”),⁵ and Alternative Ratemaking.

3 In addition, I discuss NorthWestern’s approach to addressing the
4 Commission’s requirement for a full economic analysis of the expected
5 benefits of Advanced Metering Infrastructure (“AMI”) compared to the
6 stranded costs for existing metering infrastructure.⁶ I also discuss
7 NorthWestern’s request to initiate a rulemaking to amend Administrative
8 Rules (“ARM”) 38.5.1405 and 38.5.1405.

9
10 **Updates from Prior Requirements in 2022 Rate Review**

11 **Q. Please provide an update on NorthWestern’s activities resulting from**
12 **Final Oder No. 7860y from the 2022 Rate Review?**

13 **A. The Commission in Final Order No. 7860y deferred accounting treatment for**
14 **the following:**

- 15 • Small Natural Gas Production Acquisitions;⁷
16 • Sleepy Hollow;⁸ and
17 • Incremental wildfire expense.⁹

⁴ Order on Reconsideration No. 7860z, ¶ 82 - 83, Montana Public Service Commission Docket No. 2022.07.078 (2023).

⁵ Order on Reconsideration No. 7860z, ¶ 71 - 72, Montana Public Service Commission Docket No. 2022.07.078 (2023).

⁶ Final Oder No. 7860y, ¶ 336, Montana Public Service Commission Docket No. 2022.07.078 (2023).

⁷ *Id.* at Note 5.

⁸ *Id.* at Note 6.

⁹ *Id.* at Note 4.

1 Final Order No. 7860y also identified the need to initiate stakeholder
2 processes related to alternative rate-making mechanisms. Order on
3 Reconsideration No. 7860z further identified the need for additional
4 stakeholder processes to address DSM¹⁰ and low-income issues.¹¹

5
6 In addition, related to NorthWestern's AMI project, the Commission in Final
7 Order No. 7860y required NorthWestern in its next rate review to present a
8 full economic analysis of the expected benefits of AMI compared to the
9 stranded costs for existing metering infrastructure as well as demonstrate
10 how its management considered those benefits and costs in the decision-
11 making process that resulted in the AMI project.¹²

12
13 **Q. Please provide an update on the status of NorthWestern's use of the**
14 **deferred accounting mechanisms approved in the prior rate review.**

15 **A.** The direct testimony of Gregory F. Bailly and Elaine A. Rich discuss the
16 incremental wildfire activities and the associated deferred accounting
17 treatment, respectively. Incremental costs deferred through 2024 for wildfire
18 mitigation activities are included for recovery in the revenue requirement. As
19 discussed further below, NorthWestern is proposing continuing deferral
20 treatment of expense and a balancing account for wildfire mitigation activities
21 (capital and expense) and insurance costs going forward.

¹⁰ *Id.* at Note 3.

¹¹ *Id.* at Note 2.

¹² *Id.* at Note 7.

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With regard to costs associated with Small Natural Gas Production Acquisitions and Sleepy Hollow, there were no incremental costs to be included in the deferred accounting mechanism at this time. This is due to the timing of the last case and this case. The 2022 Rate Review addressed costs incurred during a 2021 test year and a 2022 known and measurable period while this 2024 Rate Review addresses costs incurred during a 2023 test year and investments expected in service during a 2024 known and measurable period. Going forward further ongoing activities related to Sleepy Hollow are expected to be normal operational inspection and maintenance activities that will be addressed in future rate reviews and therefore the deferred accounting treatment for Sleepy Hollow is no longer needed.

As this is still an important and helpful mechanism to NorthWestern, it seeks to continue deferred accounting for Small Natural Gas Production Acquisitions and Sleepy Hollow.

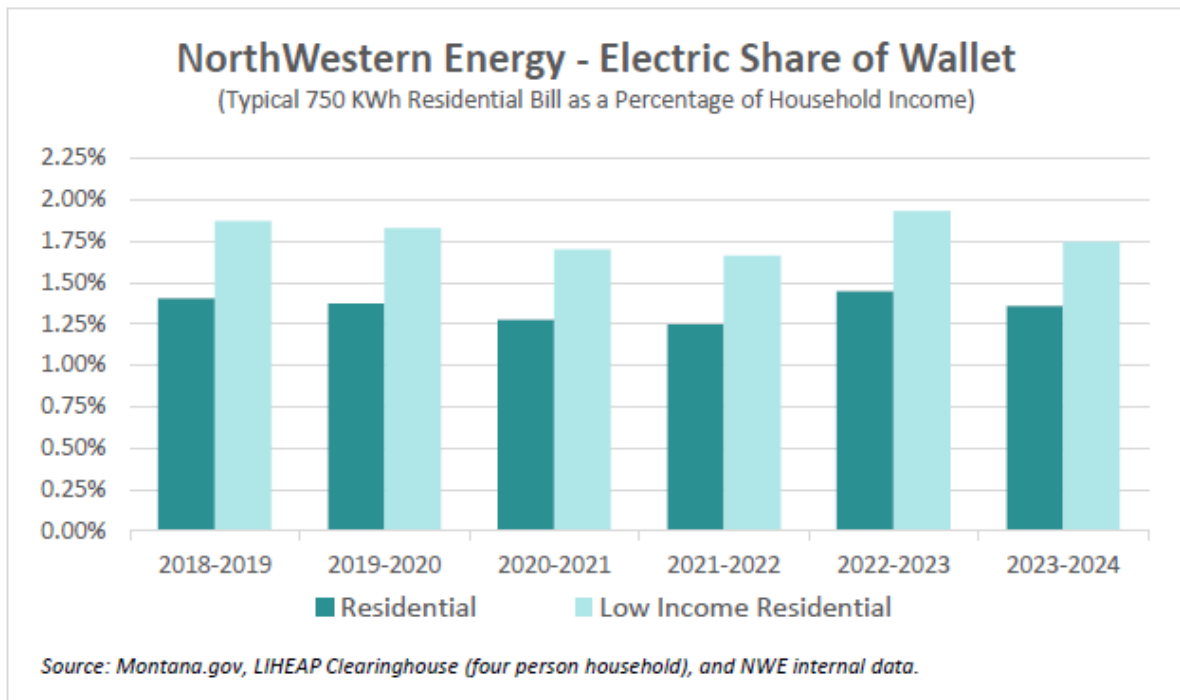
Q. Please provide an update on NorthWestern’s share of wallet.

A. In the Order on Reconsideration No. 7860z in NorthWestern’s 2022 Rate Review, the Commission required that NorthWestern file its “share of wallet” affordability calculations for the most recent five years. The Share of Wallet calculation measures a ratio of average bills to average income on an aggregate basis.

1 NorthWestern’s calculation of Electric and Natural Gas Share of Wallet was
2 included with its 2024 filings reporting on 2023 Universal System Benefits
3 activities for Electric¹³ and Natural Gas,¹⁴ respectively, as well as in the
4 docket for NorthWestern’s 2022 Rate Review¹⁵ and are provided below.
5 Charts 1 and 2 below show that over the past 5 years, electric and natural
6 gas service have remained below 2% of share of wallet for both residential
7 and low-income residential customers.

8

9 **Chart 1: Electric Share of Wallet as of February 28, 2024**



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¹³ See Attachment B “Electric Share of Wallet Calculations”, NorthWestern’s 2023 Electric Universal System Benefits (USB) Report, Montana Public Service Commission Docket No. 2024.01.003 (2024).

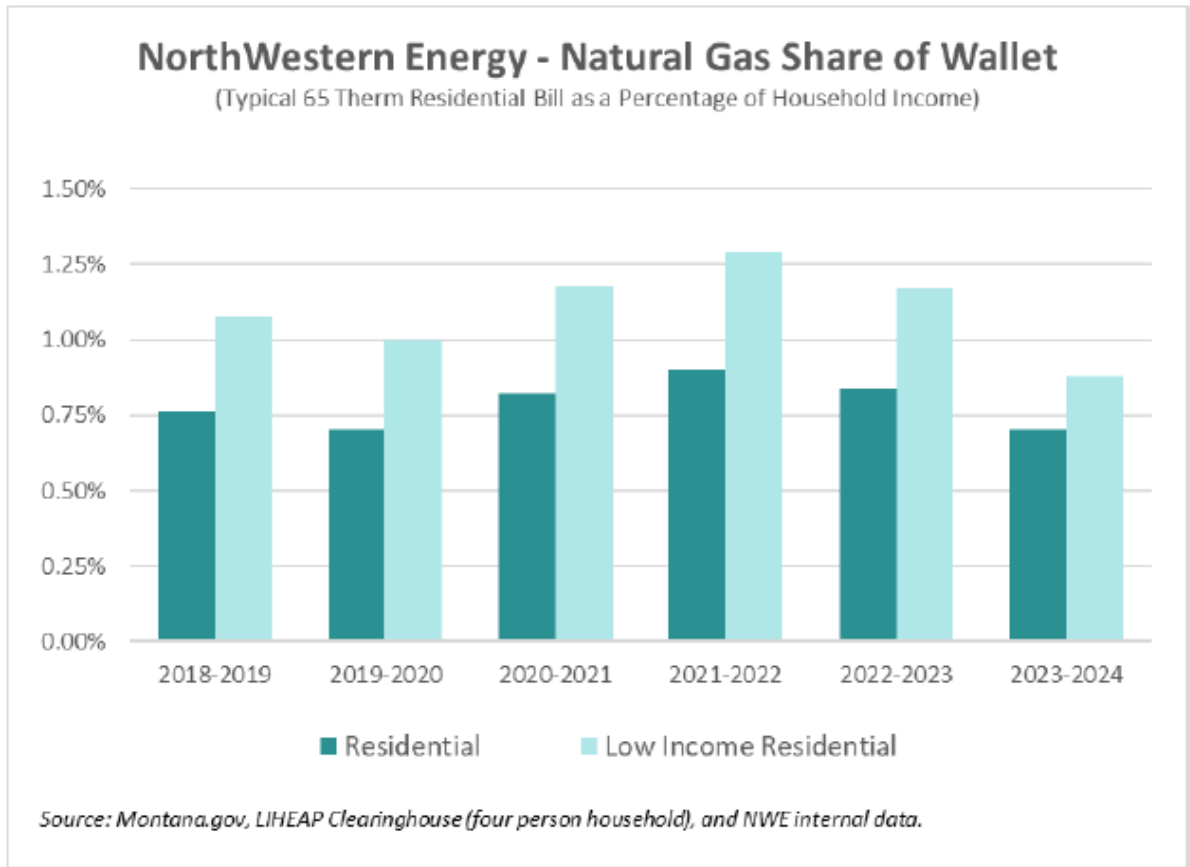
¹⁴ See Attachment B “Natural Gas Share of Wallet Calculations”, NorthWestern’s 2024 Natural Gas Universal System Benefits Charge Rate Adjustment, Montana Public Service Commission Docket No. 2024.04.048 (2024).

¹⁵ NorthWestern Energy Share of Wallet compliance filing per Order 7860z, ¶ 84 in Docket No. 2022.07.078 Electric and Natural Gas General Rate Review filed on April 25, 2024.

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Chart 2: Natural Gas Share of Wallet as of March 2024



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NorthWestern compares favorably. Generally, a household with 6% or greater energy burden is considered to be a high energy burden household¹⁶ and the average home energy burden is 2.4%.¹⁷

¹⁶ <https://www.energy.gov/scep/low-income-energy-affordability-data-lead-tool-and-community-energy-solutions>

¹⁷ ACEE Topic Brief: Combined Energy Burdens: Estimating Total Home and Transportation Energy Burdens, p. 5, May 2024

1 **Q. Please provide an update on the status of NorthWestern’s stakeholder**
2 **processes.**

3 **A.** In Final Order No. 7680y issued on October 27, 2023, the Commission
4 identified the need for a stakeholder process to discuss and seek to put
5 forward consensus-based solutions around alternative ratemaking
6 approaches, principles, and mechanisms.¹⁸

7
8 On November 3 and 6, 2023 various parties filed motions for reconsideration
9 which included questions around the new stakeholder process. On January
10 24, 2024, Commission issued Order on Reconsideration No. 7860z and (1)
11 provided clarification regarding the Commission’s direction regarding a
12 permanent DSM stakeholder group focused on DSM and other topics. The
13 Commission:

14 (1) clarified that “it expects NorthWestern to maintain a permanent
15 stakeholder group to evaluate and provide input on DSM planning and
16 acquisition policies and procedures, consistent with statutory
17 requirements.¹⁹” and

18 (2) determined that an evaluation of the efficacy of available low-
19 income energy assistance programs through a stakeholder process
20 was also warranted.²⁰

¹⁸ Final Oder No. 7860y, ¶ 304, Montana Public Service Commission Docket No. 2022.07.078 (2023).

¹⁹ Order on Reconsideration No. 7860z, ¶ 72, Montana Public Service Commission Docket No. 2022.07.078 (2023).

²⁰ Order on Reconsideration No. 7860z, ¶ 82, Montana Public Service Commission Docket No. 2022.07.078 (2023).

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On February 23, 2024, NorthWestern filed its Stakeholder Engagement Plans for the establishment of three advisory committees. The following summarizes NorthWestern’s stakeholder efforts to date since its filing in February 2024:

- On June 12, 2024, NorthWestern held an in-person kick off to initiate its Low-Income Advisory Committee which consists of representatives from:
 - Montana Public Service Commission Staff,
 - Montana Consumer Counsel
 - NW Energy Coalition
 - DPHHS of Montana
 - Montana League of Cities and Towns
 - Montana Community Action Network
 - Energy Share of Montana, and
 - Action Inc.

NorthWestern is in the process of scheduling the second meeting, expected to occur in August 2024.

- NorthWestern will be extending invites to members of the Electric Technical Advisory Committee and the prior DSM Advisory Group to determine interest and establish availability to kick off its DSM Advisory Committee.

- NorthWestern is still in the process of establishing its Alternative Ratemaking Advisory Committee.

NorthWestern's Stakeholder Engagement Plans previously filed in compliance with the Final Order in Docket 2022.07.078 are included as Exhibit CSF-1.

Q. Please describe how NorthWestern is responding to the Commission's requirement to present a full economic analysis of the expected benefits of AMI compared to the stranded costs for existing metering infrastructure.

A. The Direct Testimony of Jonathan R. Shafer presents an economic analysis of the expected benefits of AMI compared to the stranded costs for NorthWestern's existing metering infrastructure. The costs of existing metering infrastructure presented by Mr. Shafer focuses on the undepreciated value of Automated Meter Reading ("AMR"), the metering infrastructure that preceded AMI. The expected benefits of AMI include both operational and customer benefits, which are discussed in the Direct Testimonies of Jason C. Merkel and Bobbi L. Schroepfel, respectively, as well as Mr. Shafer. In addition, I discuss the potential to offer our customers more meaningful rate options as part of my Rate Design Policy testimony. These benefits include quantifiable and unquantifiable benefits.

1 **Q. Are there any operational benefits from AMI that NorthWestern hoped**
2 **would show up but have not?**

3 **A.** Yes. As discussed by Mr. Merkel, currently, NorthWestern is still required to
4 leave pre-termination and post-termination in-person door tag notices for
5 customers whose electric or and/or natural gas service is about to be shut off
6 for non-payment. This is a requirement of ARM 38.5.1405 and 38.5.1413,
7 and is reflected in our current Tariff Rules No 13-5 and 13-13. ARM
8 38.5.1405(2)(e) provides that

9
10 [p]rior to termination of service the utility must make a diligent
11 attempt to contact the customer, either in person or by
12 telephone, to apprise [the customer] of the proposed action. If
13 telephone or personal contact is not made, the utility employee
14 shall leave notice in a place conspicuous to the customer that
15 service will be terminated on the next business day unless the
16 delinquent charges have been paid.
17

18 It further provides that “[w]hen service is terminated, the utility employee
19 terminating service must also leave notice upon the premises in a place
20 conspicuous to the customer that service has been terminated which gives
21 the address and telephone number of the utility where the customer may
22 arrange to have service restored.” ARM 38.5.1405(3).

23
24 Additionally, ARM 38.5.1413(1) provides that “[a]ctual termination may not
25 take place until one day after personal or telephone notice or, in the
26 alternative, one business day after notice has been posted in a place

1 conspicuous to the customer when the customer was not contacted
2 personally or by phone.”

3

4 **Q. NorthWestern requested waiver of these rules in a prior docket. What**
5 **was the result of that docket?**

6 **A.** NorthWestern filed a petition in Docket No. 2021.08.109 asking for a partial
7 waiver of ARM 38.5.1405 and 38.5.1413, seeking to replace door tags with
8 notification by email or certified letter when the customer was not contacted
9 personally or by phone for both pre- and post-termination notices. The
10 Commission in Final Order No. 7812e in that docket denied NorthWestern’s
11 petition asserting that “modernization, modifications” of the rules was a more
12 appropriate remedy than granting a waiver. As a result, NorthWestern has
13 continued the practice of placing door tags both pre- and post-termination
14 when customers were not contacted personally or by phone prior to
15 disconnection for non-payment.

16

17 **Q. What is NorthWestern requesting now from the Commission concerning**
18 **the door tag requirement?**

19 **A.** Consistent with ¶ 20 in Final Order No. 7812e, NorthWestern requests that
20 the Commission initiate formal rulemaking to amend ARM 38.5.1405 and
21 38.5.1413 to bring these rules into the modern era of utility operations.
22 Besides providing for modern ways to communicate with customers, this
23 change will allow customers and NorthWestern to experience the full

1 operational benefits of AMI deployment in Montana. Given the employee
2 safety concerns discussed by Mr. Merkel, NorthWestern requests that the
3 Commission determine that the following processes adequately meet the
4 intent of ARM 38.5.1405 and 38.5.1413 in the interim, pending a full
5 examination of the issue in a rulemaking process.

- 6 • Pre-termination notice occur by certified mail or email for customers
7 that have opted in to E-bill.
- 8 • Post-termination notice occur by certified mail or email for customers
9 that have opted in to E-bill.

10 Overview of NorthWestern's Regulatory Proposals

11 **Q. Please describe NorthWestern's regulatory priorities for this rate review.**

12 **A.** In its 2022 Rate Review, NorthWestern identified three critical service areas –
13 Wildfire Mitigation, Business Technology, and Reliability – for the Commission
14 to consider proposals for alternative regulatory mechanisms that would allow
15 for more timely cost recovery beyond the historic test year and the known and
16 measurable period. Said differently, NorthWestern's proposals to reduce
17 regulatory lag, the time between when costs are incurred and when
18 NorthWestern has approval for the recovery of those costs. These same
19 three areas – Wildfire Mitigation, Business Technology, and Reliability –
20 remain critical service priorities that continue to be challenged by a historic
21 test-year rate review structure. NorthWestern's proposals to address more
22

1 timely cost recovery needs in between rate review filings for these three
2 critical service areas are discuss further below.

3

4 **Q. Are there benefits to regulatory lag?**

5 **A.** The direct testimonmy of Crystal D. Lail discusses the negative impact
6 regulatory lag can have on the financial health of a utility.

7

8 However, some parties believe that absent the presence of direct competition,
9 regulatory lag serves to create an incentive for utilities to operate efficiently.

10

11 Wildfire Mitigation, Business Technology, and reliability resources play critical
12 roles in ensuring safe and reliable delivery of essential energy services to our
13 customers that NorthWestern believes warrant more timely cost recovery.

14 NorthWestern's proposals seek to find the right balance in reducing regulatory
15 lag while maintaining transparency in utility investments for the Commission
16 and intervenors and providing the opportunity for the Commission to assess
17 the prudence of these investments.

18

1 **Q. Why is NorthWestern proposing new ratemaking mechanisms in this**
2 **rate review while the stakeholder process related to alternative**
3 **ratemaking is still in progress?**

4 **A.** NorthWestern recognizes the importance of stakeholder consensus for its
5 efforts to establish a more constructive regulatory framework and is
6 committed to these efforts.

7
8 NorthWestern’s challenge is how best to balance the necessary stakeholder
9 efforts with the current sense of urgency to address key critical service areas.
10 In recognition of the current status of those stakeholder efforts,
11 NorthWestern’s regulatory proposals in this rate review seek to achieve that
12 balance.

13
14 Under the current historic test-year structure of Montana rate reviews, a utility
15 may request updated base rates for changes in cost of service based on “a
16 test period consisting of 12 months actual experience ending no earlier than 9
17 months prior to the date of filing” with the ability to propose adjustments for
18 changes in costs that are “known with certainty and measurable with
19 reasonable accuracy at the time of the filing” that “will become effective within
20 12 months of the last month of the test period.”²¹ This creates a “lag”
21 between the time costs are incurred by the utility for service provided to
22 customers and when a utility can recover the costs of that service. In its 2022

²¹ ARM 38.5.106(1).

1 Rate Review, NorthWestern proposed revenue adjustment mechanisms, or
2 riders – the Enhanced Wildfire Mitigation Plan Rider, Business Technology
3 Maintenance Cost Escalation Rider, and Reliability Rider – that would
4 eliminate regulatory lag by allowing for recovery of costs to occur as
5 escalating costs were being incurred to serve customers in these three critical
6 service areas.

7
8 In this rate review, NorthWestern proposes to *reduce* rather than eliminate
9 regulatory lag that would occur in the same three critical service areas.
10 These proposals are discussed further below.

11

12 **Q. What else is NorthWestern doing to alleviate regulatory lag?**

13 **A.** In addition to the proposals described above and discussed further below, as
14 indicated in our 2022 Rate Review, more frequent rate reviews is one
15 mechanism to address regulatory lag. While historically more time has
16 passed between NorthWestern’s electric and natural gas rate reviews, this
17 2024 Rate Review follows our 2022 Rate Review by two years.

18

19 In addition, consistent with § 69-3-302, MCA, NorthWestern intends to
20 implement the base rates proposed in this filing effective April 10, 2025, nine
21 months after the file date of this rate review.

22

23

1 **Cost Recovery for Yellowstone County Generating Station**
2 **to reflect the value of services customer receive**

3
4 **Q. Please describe NorthWestern’s cost recovery proposals for YCGS.**

5 **A.** As discussed in the Direct Testimonies of John D. Hines and Bleau J.
6 LaFave, YCGS will play a critical role in providing reliable and affordable
7 energy services to NorthWestern customers in Montana. NorthWestern
8 requests the Commission approve two proposals to ensure the cost recovery
9 of YCGS to reflect the value of the critical energy services received.

10 Specifically, NorthWestern proposes:

- 11 • A Bridge Rate Proposal to address the cost recovery gap that occurs in
12 the time between when YCGS is in service and when a final order in
13 this rate review is received.
- 14 • End of period rate base for YCGS to allow for full recovery of the
15 authorized costs of YCGS going forward to better reflect the full value
16 of services received by customers.

17
18 **Q. Please explain NorthWestern’s proposal for a Bridge Rate.**

19 **A.** In this rate review, various witnesses present information for the Commission
20 to consider in conducting a full prudence review regarding the YCGS. While
21 YCGS is expected to be in service July/August 2024, cost recovery for YCGS
22 through base rates will not begin until a final order is issued by the
23 Commission in this rate review.

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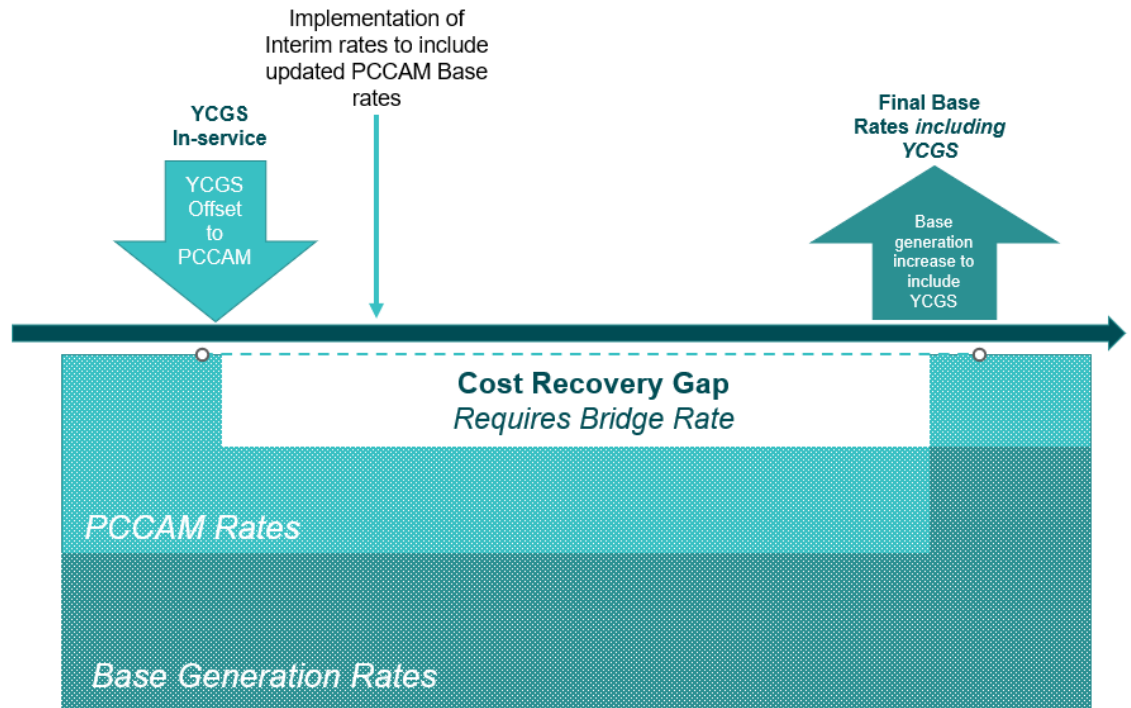
In addition, in this rate review, the Direct Testimony of Joseph M. Stimatz presents an update to NorthWestern’s PCCAM Base for the period beginning July 1, 2024, which includes the impact of YCGS in service. Mr. Stimatz explains that the PCCAM Base will decrease to reflect lower costs for market purchases, offset by the addition of YCGS fuel costs, resulting in a net benefit to customers of \$58,470,142. Consistent with prior practice, NorthWestern proposes that customers receive the benefit of the updated PCCAM Base effective with implementation of interim rates, in this instance effective October 1, 2024.

NorthWestern’s Bridge Rate Proposal is to address the timing gap between YCGS generation replacing power and capacity purchases in the PCCAM Base and when final base generation rates will become effective in this docket. Absent a bridge rate, customers would be benefitting from YCGS’s production but not paying for the cost of the resource between the implementation of updated PCCAM Base rates in 2024 and implementation of final fixed generation rates.

NorthWestern proposes a Bridge Rate, excluded from 90/10 sharing, based on the net market value of YCGS of \$58,470,142, to be in effect from October 1, 2024, until the implementation of updated base rates resulting from a final order in this rate review.

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Figure 1: Illustration of Cost Recovery Gap



3
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5 **Q. What additional proposals does NorthWestern present related to the**
6 **treatment of YCGS?**

7 **A.** NorthWestern proposes inclusion of YCGS in rate base using the end of the
8 known and measurable period balance, rather than the typical beginning and
9 ending average balance. ARM 38.5.125 provides for the use of “a beginning
10 and end of period basis averaged for the test period” when representing
11 functional classifications and total plant, implemented as an average of the
12 beginning and end of the period. Since YCGS will begin serving customers
13 mid-2024, the use of an average would result in customers only paying for
14 half of the approximate \$300 million investment associated with YCGS until

1 the next rate review while they receive the full benefits of YCGS. To provide
2 for more equitable cost recovery, NorthWestern asks that the Commission
3 approve the use of end-of-period rate base for YCGS. The rate base and
4 revenue requirement calculations are discussed further in the Direct
5 Testimonies of Jeffrey B. Berzina and Elaine A. Rich.

6

7 **Balancing Accounts to Support Critical Safety and Reliability Needs**

8 **Q. Please describe NorthWestern’s proposals for balancing accounts.**

9 **A.** As noted above, NorthWestern continues to identify three critical operational
10 areas where more timely cost recovery outside of rate reviews is needed –
11 Wildfire Mitigation, Business Technology, and Reliability. In its 2022 Rate
12 Review, NorthWestern proposed three riders in these three critical service
13 areas that would allow for the recovery of forecasted costs that would be true-
14 up to actual costs. In this rate review, NorthWestern requests approval for
15 balancing accounts for the recovery of certain incremental costs incurred
16 subject to prudence review by the Commission and interested parties,
17 specifically:

- 18 • Wildfire Management Balancing Account (Exhibit CSF-2),
- 19 • Business Technology Balancing Account (Exhibit CSF-3), and
- 20 • Reliability Compliance Balancing Account (Exhibit CSF-4).

21 NorthWestern’s proposed balancing accounts would materially reduce the lag
22 in cost recovery while maintaining the ability for the Commission and

1 interested parties to review costs incurred prior to implementation into
2 customer rates.

3

4 **Q. Please describe NorthWestern’s proposed Wildfire Management**
5 **Balancing Account.**

6 **A.** NorthWestern’s proposed Wildfire Management Balancing Account (“WMBA”)
7 would allow for the recovery of costs incremental to the amount reflected in
8 this revenue requirement, both capital and expense, associated with our
9 Wildfire Management activities which include the execution of our Wildfire
10 Mitigation Plan and costs related to wildfire insurance, on an annual basis in
11 between rate reviews. Specifically:

- 12 • NorthWestern would file annual updates no later than April 1 for rates
13 effective May 1 each year. No later than 15 days prior to the effective
14 date, the Utility will submit a tariff letter for WMBA rates to be effective.
- 15 • These annual filings would include: (1) adjustments for incremental capital
16 in-service during the prior year, (2) updated incremental annual expenses
17 incurred during the prior year, (3) the proposed revised WMBA rate; and
18 (4) resulting customer bill impacts from the proposed rate change.

19

20 In addition to these annual filings, NorthWestern will conduct informational
21 updates related to our wildfire mitigation efforts twice a year as discussed by
22 Mr. Merkel.

23

1 **Q. Why is the deferral of incremental wildfire expenses approved in Docket**
2 **No. 2022.07.078 not sufficient to support safe and reliable service?**

3 **A.** The historic test-year rate case structure does not allow for the recovery of
4 costs beyond the historic test year and known and measurable period outside
5 of a rate review. The deferral of incremental wildfire expenses provides a
6 material benefit by allowing the utility to track costs for recovery in a future
7 rate review. This mechanism, however, is limited to deferral of expenses, and
8 recovery is delayed until approval in a future rate review. Timely recovery of
9 these expected substantial costs will be critical and is discussed further in the
10 Direct Testimony of Crystal D. Lail. NorthWestern's Wildfire Mitigation Plan is
11 discussed by Mr. Merkel and in the Direct Testimony of Brandi L. Hellwinkel.

12
13 **Q. Please describe NorthWestern's proposed Business Technology**
14 **Balancing Account.**

15 **A.** NorthWestern's proposal to capitalize certain Business Technology costs
16 presented by Ms. Lail is partnered with a proposed balancing account. The
17 Direct Testimony of Jeanne M. Vold discusses the changes occurring in the
18 industry that justify NorthWestern's proposal to modernize the cost recovery
19 of Business Technology costs.

20
21 NorthWestern's proposed Business Technology Balancing Account ("BTBA")
22 would allow for the recovery of incremental costs associated with certain
23 Business Technology activities including (1) cloud services, (2) Software as a

1 Service (“SaaS”), and (3) software subscription agreements, on an annual
2 basis in between rate reviews. Specifically:

- 3 • NorthWestern would file annual updates no later than April 1 for rates
4 effective May 1 each year. No later than 15 days prior to the effective
5 date, the Utility will submit a tariff letter for BTBA rates to be effective.
- 6 • These annual filings would include: (1) adjustments for incremental capital
7 in-service during the prior year, (2) updated incremental annual expenses
8 incurred during the prior year, (3) the proposed revised BTBA rate; and (4)
9 resulting customer bill impacts from the proposed rate change.

10

11 **Q. Please describe why more timely cost recovery is needed for Reliability.**

12 **A.** The U.S. Environmental Protection Agency (“EPA”) promulgated two final
13 rules, effective July 8, 2024, to reduce pollution from fossil fuel-fired power
14 plants. Commonly referred to as “MATS” and “Greenhouse Gas,”²² the effect
15 of these two rules would accelerate the retirement of existing coal plants by
16 as soon as 2027 and 2031, respectively, absent significant investments to
17 meet more stringent compliance requirements.

18

²² *National Emission Standards for Hazardous Air Pollutants: Coal- and Oil-Fired Electric Utility Steam Generating Units Review of the Residual Risk and Technology Review*, 89 Fed. Reg. 38508 (May 7, 2024); *New Source Performance Standards for Greenhouse Gas Emissions from New, Modified, and Reconstructed Fossil Fuel-Fired Electric Generating Units; Emission Guidelines for Greenhouse Gas Emissions from Existing Fossil Fuel-Fired Electric Generating Units; and Repeal of the Affordable Clean Energy Rule*, 89 Fed. Reg. 39798 (May 9, 2024).

1 As discussed by Mr. Hines and Mr. LaFave, Colstrip plays a critical role in
2 providing reliable service to Montana customers. NorthWestern requests
3 approval of a Reliability Compliance Balancing Account to reduce the lag
4 between when compliance costs are incurred and when these costs can be
5 recovered pursuant to a general rate review.

6

7 **Q. Please describe NorthWestern’s proposed Reliability Compliance**
8 **Balancing Account.**

9 **A.** NorthWestern’s proposed Reliability Compliance Balancing Account (“RCBA”)
10 would allow for the annual recovery of incremental compliance costs, capital
11 and expense, necessary to continue to operate Colstrip in compliance with
12 these new EPA rules. Specifically:

- 13 • NorthWestern would file annual updates no later than April 1 for rates
14 effective May 1 each year. No later than 15 days prior to the effective
15 date, the Utility will submit a tariff letter for RCBA rates to be effective.
- 16 • These annual filings would include: (1) adjustments for incremental capital
17 in-service during the prior year, (2) updated incremental annual expenses
18 incurred during the prior year, (3) the proposed revised RCBA rate; and
19 (4) resulting customer bill impacts from the proposed rate change.

20

1 **Summary of Testimony**

2 **Q. Please summarize your testimony.**

3 **A.** My testimony presents NorthWestern’s regulatory proposals to ensure that
4 the prices customers pay better align with the value of the services they
5 receive. Specifically, my testimony requests that the Commission approve
6 the following proposals:

- 7 • Cost Recovery for YCGS to better reflect the value customers will
8 receive which includes:
 - 9 ○ NorthWestern Bridge Rate Proposal; and
 - 10 ○ NorthWestern proposal for end of the period rate base treatment
11 for YCGS.
- 12 • New Balancing Accounts to reduce the lag in cost recovery of
13 prudently incurred costs in between rate reviews for three critical
14 service areas:
 - 15 ○ Wildfire Management Balancing Account;
 - 16 ○ Business Technology Balancing Account; and
 - 17 ○ Reliability Compliance Balancing Account.
- 18 • NorthWestern’s proposal to maintain deferred accounting treatment for
19 small natural gas production acquisitions.
- 20 • NorthWestern’s request to initiate a rulemaking to amend
21 Administrative Rules (“ARM”) 38.5.1405 and 38.5.1405 and approve
22 NorthWestern’s request that the Commission determine that the
23 following processes adequately meet the intent of ARM 38.5.1405 and

1 38.5.1413 in the interim, pending a full examination of the issue in a
2 rulemaking process.

- 3 ○ Pre-termination notice occur by certified mail or email for
4 customers that have opted in to E-bill.
- 5 ○ Post-termination notice occur by certified mail or email for
6 customers that have opted in to E-bill.

7

8 **Q. Does this complete your direct testimony on these issues?**

9 **A.** Yes, it does.

10

Verification

This Direct Testimony of Cynthia S. Fang is true and accurate to the best of my knowledge, information, and belief.

/s/ Cynthia S. Fang
Cynthia S. Fang