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**DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA**

IN THE MATTER OF NorthWestern Energy's )  
Application for Authority to Increase Retail ) REGULATORY DIVISION  
Electric and Natural Gas Utility Service Rates )  
and for Approval of Electric and Natural Gas ) DOCKET NO. 2024.05.053  
Service Schedules and Rules and Allocated Cost )  
of Service and Rate Design )

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**NORTHWESTERN ENERGY'S APPLICATION FOR INTERIM RATE  
INCREASES & BRIDGE RATE**

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With this rate review, NorthWestern Corporation d/b/a NorthWestern Energy ("NorthWestern") respectfully moves the Montana Public Service Commission ("Commission") to approve an increase to electric and natural gas rates on an interim and refundable basis. NorthWestern also requests the Commission approve a bridge rate for an asset that will be serving customers upon the effective date of such rate. NorthWestern proposes all rates requested in this Application, except those to recover property taxes, be effective for service rendered on October 1, 2024.

For property taxes, NorthWestern proposes the adjustments to these base rates be effective on January 1, 2025, concurrent with changes as part of NorthWestern's annual property tax tracker filing.

For rates effective on and after October 1, 2024, NorthWestern specifically requests an interim increase to its base rates that reflect the (i) electric revenue requirements for fixed transmission and distribution ("T&D") and generation; and (ii) natural gas revenue requirements for fixed transmission, distribution, and storage ("TD&S") and production. NorthWestern also requests, coincidentally with the proposed interim rate change, to update Power Costs and Credits Adjustment Mechanism ("PCCAM") rates to reflect an updated PCCAM Base, a decrease from \$208,282,098 to \$119,007,402.

NorthWestern additionally requests an interim increase to its base property tax rates through its annual tax tracker docket for rates effective on January 1, 2025.

Any over-collection of the interim base rates as determined by the Commission's final order in this rate review would be subject to refund with interest to customers. NorthWestern will implement any change between updated base amounts and approvals from a final order in the associated tracker filings.

NorthWestern further requests a bridge rate effective on October 1, 2024 to address the cost recovery gap associated with the decrease to the PCCAM Base resulting from the addition of the Yellowstone County Generating Station ("YCGS"), a new generation resource that will serve NorthWestern's customers with safe,

affordable, and reliable energy and is reducing the need for market purchases of electricity. For the reasons below, the Commission should grant the rate changes proposed in this Application.

### LEGAL AUTHORITY

The Commission has broad discretion to approve interim, or temporary, rate adjustments pending a hearing or final decision on an application. *See* Mont. Code Ann. § 69-3-304; Admin. R. Mont. 38.5.502–.506. An order approving or denying an interim rate increase or decrease “shall be based upon consistent standards appropriate for the nature of the case.” Mont. Code Ann. § 69-3-304.

“[G]enerally established principles of utility rate regulation, and those established in Mont. Admin R. 38.5.506,” guide the Commission in evaluating interim rate requests. Doc. 56, Dkt. 2022.07.078. The guideposts for interim rate increases are whether the petitioning utility has shown: 1) expenses are clearly identifiable costs; 2) a match of the proposed rate increase and the known increased expenses; 3) irreparable financial harm would occur absent interim rate relief; and 4) the supporting documentation required by the Commission’s rules.<sup>1</sup> Admin. R. Mont. 38.5.506(3).

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<sup>1</sup> NorthWestern respectfully requests a waiver of Admin. R. Mont. 38.5.505(2), which requires the submission of paper copies of this interim rate request and other supporting materials. The Commission retains discretion to waive any rule related to interim rate requests. Admin. R. Mont. 38.5.508. Good cause exists for a waiver of this requirement because the Commission has implemented a comprehensive electronic filing and docketing system (REDDI), and the Commission and all interested parties will be served with this application and all supporting documentation. *See id.*; *see also id.* 38.2.305. Electronic filing will accommodate the supporting materials and electronic files and reduce the need for cumulative paper waste. Additionally, in 2021, the Commission amended an administrative rule that had required paper copies of all documents and pleadings filed with the

Coupled with its authority to grant interim rates, the Commission has permitted temporary bridge rates “through its generic supervisory and ratemaking authority.” Order 7282d, ¶¶ 36–37, Dkt. D2014.05.47 (citing Order 7282b, ¶¶ 14–15, Dkt. D2013.05.34) (reauthorizing use of bridge rates); *see also id.*, ¶ 40. A bridge rate is a temporary cost recovery mechanism that lessens the impact rate changes have on customers from the timing gap between utilities making new essential investments that serve customers and the inclusion of these investments in rate base. For example, NorthWestern previously requested, and the Commission approved, bridge rates for certain natural gas production assets purchased by NorthWestern. *See id.*, ¶ 56. Similarly, the Commission has also approved a bridge rate for an electric resource. *See* Doc. 470, ¶¶ 132–134, Dkt. 2018.02.012; Order 7606, Dkt. 2017.07.057.

### **REQUEST FOR INTERIM RATES**

The Commission should exercise its authority to approve the interim requests in this Application because NorthWestern’s current rates are no longer just and reasonable and do not allow NorthWestern an opportunity to recover its cost of providing service to customers. Crucially, NorthWestern faces irreparable financial harm without the ability to increase rates on an interim basis, subject to refund. For example, as explained in the Direct Testimony of Crystal D. Lail, NorthWestern continues to invest while being impacted by higher interest rates and continued inflation, resulting in pressure on credit metrics and continued under-earning.

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Commission to only having to provide paper copies upon request of the Commission. *See* ARM 38.2.1209.

Approval of interim base rates is a reasonable means of providing interim relief to NorthWestern allowing it to maintain its financial health. *See* Doc. 56, Dkt. 2022.07.078 (NorthWestern’s last rate review); *cf.* Doc. 17, Dkt. 2022.11.099 (MDU’s last electric rate review); Doc. 101, Dkt. 2020.06.076 (MDU’s last natural gas rate review).

Commission approval of the interim requests for base rates is in the public interest. As explained by Ms. Lail, NorthWestern has been under earning for both its electric and natural gas services, and an opportunity to earn an authorized return and recover costs in a timely manner is critical to maintaining the financial health of the utility. As reflected in the testimonies and statements accompanying this application, the primary drivers of the base rate increases are necessary investments in electric and natural gas infrastructure. These increases are necessary for the continued safe and reliable provision of electric and natural gas services to NorthWestern’s customers.

Commission approval of the interim base requests balances NorthWestern’s and customers’ interests because the approval will address NorthWestern’s ability to provide safe and reliable service at the lowest cost possible, while protecting customers’ interests through the allowance of a refund with interest. The request follows the standards set forth in *FPC v. Hope Natural Gas*, 320 U.S. 591 (1944) and *Bluefield Waterworks v. West Virginia Public Service Commission*, 262 U.S. 679 (1923), which strongly guide the Commission’s analysis here. *Hope* and *Bluefield* “set three basic standards for appropriate ROE [Return on Equity]: the utility ROE

should be commensurate with other businesses of similar risk, the ROE should be sufficient to maintain the financial integrity of the company, and the ROE should be adequate such that the utility can attract investors and capital on reasonable terms,” as the Commission has articulated. *See* Doc. 101, ¶ 10, Dkt. 2020.06.076.

NorthWestern will be irreparably harmed if the requests for interim base rates are not timely granted because NorthWestern will continue to lack the ability to earn its authorized return and timely recover its costs, which damages its financial integrity. Approval of interim base rates is the ratemaking mechanism that allows NorthWestern to recover its costs during the pendency of a rate review while concurrently protecting customers as the increased rates are interim and refundable. Approval is appropriate here.

### **Base Revenue Requirement**

NorthWestern requests approval of increases of \$50,609,797 for the electric revenue requirements for fixed T&D and generation and \$21,371,273 for the natural gas revenue requirements for fixed TD&S and production for rates effective on October 1, 2024. If the Commission approves the interim requests, NorthWestern will increase rates on a uniform percentage basis for all customer classes, subject to refund pursuant to a final order in this docket. NorthWestern calculated the interim electric base rates and interim natural gas base rates based on the last approved overall rates of return from Final Order 7860y in Docket 2022.07.078. These calculations were computed pursuant to the requirements of ARM 38.5.501 through 38.5.506.

### **PCCAM Base**

NorthWestern requests approval to decrease the PCCAM Base from \$208,282,098 to \$119,007,402 as of July 1, 2024 for PCCAM Base rates effective October 1, 2024. As explained in the Direct Testimony of Joseph M. Stimatz, NorthWestern's proposed PCCAM Base update is an overall net decrease from the current PCCAM Base of \$208,282,098 with approximately \$58 million of the decrease due to lower market purchases because of YCGS. If the Commission approves this interim decrease, NorthWestern will decrease PCCAM rates on a uniform percentage basis for all supply customers. NorthWestern will implement any differences in the proposed interim base update and a final approved base in the PCCAM tracker. NorthWestern calculated the interim PCCAM rates using the volumes and net costs for the tracking period of July 1, 2024 through June 30, 2025, as explained by Mr. Stimatz.

### **Property Tax Base**

NorthWestern requests approval of an increase of \$7,409,982 to the property tax tracker base rates for electric and \$241,654 to the property tax base rates for natural gas to be effective on January 1, 2025. If the Commission approves these interim increases, NorthWestern will implement the proposed property tax base rates in its 2025 annual tax tracker docket on an interim basis, subject to true-up pursuant to a final order in this docket.

## REQUEST FOR BRIDGE RATE

YCGS is a critical component of NorthWestern's diverse electric generation portfolio. NorthWestern expects to bring YCGS online in July/August 2024, at which time the resource will provide essential energy supply to NorthWestern's customers, as Bleau J. LaFave and John D. Hines discuss in their direct testimonies. While the Commission is evaluating NorthWestern's application in the underlying docket, NorthWestern seeks temporary rate recovery, in the form of a bridge rate, for the value of providing customers with safe and reliable energy from YCGS that NorthWestern would otherwise need to procure from the market.

While providing safe and reliable service to customers, YCGS provides value to customers through a reduction in market energy purchases, which NorthWestern recovers in the PCCAM. Mr. Stimatz testifies that the PCCAM Base will be decreased because of YCGS's addition to NorthWestern's portfolio of generation resources, resulting in a reduction to market purchases recovered through the PCCAM. Mr. Stimatz estimates that the market benefit from the inclusion of YCGS in NorthWestern's portfolio is an approximately \$58 million reduction to the PCCAM Base.

From the time interim rates with a lower PCCAM Base become effective on October 1, 2024, until NorthWestern implements final rates in this docket, NorthWestern's customers will receive the value of YCGS's inclusion in its portfolio. Yet they would not compensate NorthWestern for this value, absent a bridge rate. A temporary bridge rate effective October 1 through implementation of the final rates



approved by the Commission would help alleviate this mismatch and “bridge” the gap between them. Therefore, NorthWestern requests a bridge rate and temporary adjustment to PCCAM rates effective October 1, 2024 to allow 100% recovery of \$58,470,142 until NorthWestern implements final rates approved by the Commission, as discussed by Mr. Stimatz and in the Direct Testimony – Regulatory Priorities of Cynthia S. Fang.

The Commission has recognized the importance of utilizing a bridge rate for prior investments that provide value to customers. Related to NorthWestern’s acquisition of natural gas production facilities, NorthWestern explained that a bridge rate helps “better match the time when [NorthWestern] makes investments and customers commence receiving the benefits.” *See NorthWestern Energy’s 2010 Natural Gas Biennial Procurement Plan*, Commission Comments, ¶ 13, Dkt. N2010.12.111 (July 27, 2011). When commenting on NorthWestern’s proposal, the Commission stated that a bridge rate “is an appropriate way for [NorthWestern] to bridge between the time of the acquisition and a future filing by the company to include the production in rate base.” *Id.*, ¶ 48. Related to electric facilities, NorthWestern in 2018 purchased the Two Dot Wind Farm, previously a qualifying facility (“QF”) for which the power purchase agreement (“PPA”) rates were directly passed through to customers and trued up in NorthWestern’s then-existing electricity supply tracker. *See* Doc. 470, ¶¶ 131–132, Dkt. 2018.02.012. Recognizing NorthWestern’s decision to acquire and own this resource to serve customers and to preserve the status quo ante, the Commission authorized NorthWestern to

reclassify and recover, on an interim basis (i.e., bridge), the costs of owning Two Dot in the electricity supply tracker using the prior QF PPA rate until a final order in NorthWestern's 2018 electric rate review. *See id.*, ¶¶ 132–134.

Without approval of a bridge rate equal to the value YCGS provides customers through a reduction of market purchases, NorthWestern will experience significant regulatory lag that will affect its financial health. Ms. Fang discusses how this proposal helps address regulatory lag in her direct testimony while Ms. Lail explains how regulatory lag can negatively impact NorthWestern's financial health, which, in turn, can lead to higher costs for customers.

In summary, NorthWestern requests that the Commission grant temporary rate recovery of the value YCGS will provide to customers because of reduced market purchases of energy. NorthWestern's bridge rate seeks to protect its financial health that also provides benefits to customers through lower financial costs.

## OVERALL IMPACTS

Overall, the above request for interim base rates, an updated PCCAM Base, and the proposed bridge rate,<sup>2</sup> if granted, result in the following bill impacts for service on and after October 1, 2024:

1. For a typical residential electric customer using 750 kWh a month, the expected impact would be an increase to their monthly electric bill from \$110.07 to \$112.16, or \$2.09 or 1.90% a month; and

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<sup>2</sup> Note that the last two proposals only affect electric rates.

2. For a typical residential natural gas customer using 65 therms a month, the expected impact would be an increase to their monthly natural gas bill from \$51.89 to \$56.70, or \$4.81 or 9.28% a month.

When compared to rates in effect on October 1, 2024, the request for interim property tax base rate increases result in the following bill impacts for service on and after January 1, 2025:

1. For a typical residential electric customer using 750 kWh a month, the expected impact would be an increase to their monthly electric bill from \$112.16 to \$112.44 or \$0.28, or 0.26% a month; and
2. For a typical residential natural gas customer using 65 therms a month, the expected impact would be an increase to their monthly natural gas bill from \$56.70 to \$57.27, or \$0.57 or 1.01% a month.

### **AFFECTED TARIFFS**

The following Electric Utility tariffs are affected by the requests made in this Application:<sup>3</sup>

<b>Schedule</b>	<b>Description</b>	<b>Sheet No.</b>
REDS-1	Residential Electric Delivery Service	10.1
GSEDS-1	General Service Electric Delivery Service	20.1 through 20.2 (inclusive)
GSEDS-2	General Service Substation/Transmission Electric Delivery Service	21.1
ISEDS-1	Irrigation Pumping & Sprinkling Electric Delivery Service	30.1
ELDS-1	Electric Lighting Delivery Service	40.1 through 40.7 (inclusive)
ESS-1	Electric Supply Service	60.1 through

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<sup>3</sup> NorthWestern will file updated tariffs in compliance with a Commission decision on this Application.

		60.2 (inclusive)
EPCC-1	Annual Power Costs and Credits Adjustment Mechanism	67.1 through 67.4 (inclusive)

The following Natural Gas Utility tariffs are affected by the requests in this Application:<sup>4</sup>

<b>Schedule</b>	<b>Description</b>	<b>Sheet No.</b>
D-RG-1	Residential Natural Gas Service	10.1
D-RGCA-1	Residential Gas Core Aggregation Service	11.1
D-GSG-1	General Natural Gas Service	20.1
D-GSGCA-1	General Service Gas Core Aggregation	21.1
D-FTG-1	Firm Transportation Natural Gas Service	25.1
D-ITG-1	Interruptible Transportation Natural Gas Service	27.1
T-FUGC-1	Firm Utility Gas Contract Service	30.1
F-FTG-1	Firm Transportation Natural Gas Service	80.1
T-ITG-1	Interruptible Transportation Natural Gas Service	85.1
T-FSG-1	Firm Storage Natural Gas Service	90.1
GTC-1	General Terms and Operating Conditions	95.3 through 95.26 (inclusive)
AGTC-1	Aggregation General Terms and Conditions	96.1 through 96.4, 96.8 through 96.11, 96.15 through 96.18 (inclusive)

## CONCLUSION

NorthWestern requests that the Commission use its discretion and grant the requests in this Application, including the interim base rate requests, updated PCCAM rates to reflect NorthWestern’s proposed lower PCCAM Base, and a bridge rate for YCGS, and authorize the rates to become effective for service rendered on


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<sup>4</sup> Again, NorthWestern will file updated tariffs in compliance with a Commission decision on this Application.

and after October 1, 2024. NorthWestern further requests that the Commission grant the request to increase property tax base rates for electric and natural gas to become effective for service rendered on and after January 1, 2025. Lastly, NorthWestern requests that the Commission waive Admin. R. Mont. 38.5.505(2) and not require the submission of paper copies of this application and supporting materials.

RESPECTFULLY SUBMITTED this 10th day of July 2024.

NORTHWESTERN CORPORATION  
d/b/a NORTHWESTERN ENERGY

By:   
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