



August 8, 2022

Mr. Will Rosquist
Administrator, Regulatory Division
Montana Public Service Commission
1701 Prospect Ave.
Helena, MT 59620-2601

RE: Docket No. 2022.07.078– Application for Interim Increase in Electric and Natural Gas Utility Rates

Dear Mr. Rosquist:

In conjunction with its Application for Authority to Increase Retail Electric and Natural Gas Utility Service Rates and for Approval of Electric and Natural Gas Service Schedules and Rules and Allocated Cost of Service and Rate Design, NorthWestern Energy (“NorthWestern”) submits to the Montana Public Service Commission (“Commission”) an Application for Interim Increase in Electric and Natural Gas Utility Rates (“Interim Application”). NorthWestern files this Application pursuant to § 69-3-304, MCA, and ARM 38.5.502 through 38.5.505.

DESCRIPTION AND REASONS FOR PROPOSED RATE CHANGES

NorthWestern’s current effective rates are no longer just and reasonable rates as they do not recover NorthWestern’s current cost of providing electric and natural gas service to its customers.

In this Regulatory Rate Review, NorthWestern seeks to update electric and natural gas rates to reflect the following changes to cost of service:

- An update to NorthWestern’s base revenue requirements for both electric and natural gas to recover fixed transmission, distribution, and fixed generation costs for electric (“electric service”) and fixed transportation, distribution, storage, and production costs for natural gas (“natural gas service”) incurred in 2021 to provide safe and reliable service to customers with adjustments for 2022 known and measurable costs as permitted by ARM 38.5.506;
- An update to Power Costs and Credits Adjustment Mechanism (“PCCAM”) Base Power Costs and Credits to recover 2022 forecasted flow-through costs of purchasing energy and capacity services to meet electric supply customers’ needs; and

- An update to the property tax base costs¹ to reflect full flow-through of estimated 2022 property taxes² for both electric service and natural gas service.

A more comprehensive discussion of NorthWestern's proposals are included in its Application for Authority to Increase Retail Electric and Natural Gas Utility Service Rates and for Approval of its Electric and Natural Gas Service Schedules and Rules and Allocated Cost of Service and Rate Design.

NorthWestern's current electric rates reflect the costs of providing electric service from its 2018 Electric Regulatory Rate Review, based on a 2017 test year. NorthWestern's current natural gas rates reflect the costs of providing natural gas service from its 2016 Natural Gas Regulatory Rate Review, based on a 2015 test year.

As permitted under § 69-3-304, MCA, and ARM 38.5.502 through 38.5.505, NorthWestern seeks interim rate relief that would allow for the timely recovery of NorthWestern's costs to provide safe and reliable service to its customers. NorthWestern's interim request includes a request to begin recovery for rates effective October 1, 2022:

- An update to NorthWestern's base revenue requirements for both electric and natural gas to recover costs incurred in 2021 to provide safe and reliable service to customers with *limited*³ adjustments for 2022 known and measurable costs; and
- An update to flow-through costs related to updating the purchased energy supply and capacity needs in the property tax base costs and, for electric service, the PCCAM Base Power Costs and Credits.

NorthWestern is requesting an interim increase for electric service of \$114,704,788, of which \$35,521,680, or 31% reflects an increase to NorthWestern's base revenue requirements, and \$79,183,108, or 69%, reflects the updated flow-through costs over which NorthWestern has little control. NorthWestern is also requesting an interim increase for natural gas service of \$5,766,786, of which \$3,019,087, or approximately 52% reflects an increase to NorthWestern's base revenue requirements, and \$2,747,699, or approximately 48%, reflects updated flow-through costs noted immediately above. This is an overall increase for electric service of 15%, or an average annual increase

¹ Property tax base costs are defined as costs included in NorthWestern's general rate reviews for Montana state and local taxes that are annually adjusted through NorthWestern's Electric and Natural Gas Tax Tracker.

² 2022 property tax costs are estimated in the Application as actual tax costs are not yet available. NorthWestern will be updating to actual 2022 property tax costs with its rebuttal filing in this docket.

³ ARM 38.5.506(2) The Commission shall calculate all interim rate increase requests in a general rate increase proceeding in the following manner:

- (a) Test year booked net utility operating income and test year average rate base will be normalized and annualized, when such test year data is available.
- (b) Any adjustments that were made in the most recent Commission general rate order of the utility will also be made using the methodology and rate of return on equity from that order, and applied to the filed test year amounts. These adjustments may be modified and other adjustments made as deemed appropriate by the Commission.

of 3%⁴ since the last electric rate review in Docket No. 2018.02.012, and for natural gas service of less than 4%, or an average annual increase of less than 1% since the last natural gas rate review in Docket No. D2016.9.68. NorthWestern's interim requests represent approximately 67% of NorthWestern's base revenue requirements request for electric service and approximately 25% for natural gas service in its Regulatory Rate Review. With approval of this Interim Application, a residential electric customer using 750 kilowatt-hours per month would have a monthly increase of \$14.18 or 15.9%. A residential natural gas customer using 65 therms per month would have a monthly increase of \$1.60 or 2.3%. Consistent with § 69-3-304, MCA, the Commission's approval of NorthWestern's interim request would represent a temporary approval of this increase, being subject to refund contingent upon the Commission's final decision in NorthWestern's Regulatory Rate Review. Customers are fully protected because they will receive refunds, with interest, if the Commission ultimately issues an order establishing final rates that are lower than the proposed interim rates. Timely approval of this interim request by the Commission would provide NorthWestern with immediate relief to costs incurred while ensuring customers continue to receive safe and reliable service.

DOCUMENTS SUBMITTED WITH THIS FILING

Pursuant to ARM 38.5.505(2), NorthWestern submits this letter of transmittal, the Application, rate schedules showing current and proposed rates, a proposed Interim Order, Notice of Interim Request, the attestation regarding the notice of the interim request to the media, supporting workpapers as required by the administrative rule, and a certificate of service demonstrating service of notice to parties and interested parties.⁵

Respectfully submitted,

Cynthia Fang

Cynthia Fang
Director, Regulatory Affairs

Enclosures

⁴ If we consider 2017-2022, a 5 year period, the average annual change is 3%. If we consider 2018-2022, 4 year period, than the average annual increase is less than 4%.

⁵ ARM 38.5.503 requires that:

The utility will issue notice of all applications it makes for interim rate increases. The notice will be transmitted to the Montana Consumer Counsel, and all parties to the permanent rate case of which the request for temporary relief is a part, to media of general dissemination in the area affected by the increase in rates, and to interested parties that participated in the most recent general rate increase application of the particular utility. The notice shall emphasize that any response should be made speedily.