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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	)	

NORTHWESTERN ENERGY'S POST-HEARING OPENING BRIEF – PUBLIC VERSION[1]

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[1] Confidential information on pages 15 and 16 has been redacted.

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NorthWestern Corporation d/b/a NorthWestern Energy ("NorthWestern") respectfully submits this *Post-Hearing Opening Brief* ("Brief") for consideration by the Montana Public Service Commission ("Commission") in the above-captioned docket.

I. Introduction

Montana customers and policy makers expect NorthWestern to provide safe, reliable, and affordable electricity and natural gas service. NorthWestern continues to satisfy this obligation by efficiently operating, maintaining, and, where necessary, enhancing its electric and natural gas systems. Montana law requires the Commission to impose just and reasonable rates for NorthWestern's services, which requires careful balancing of customer's and the utility's interests. In this case, approving the filed settlements and adopting NorthWestern's positions on the limited remaining contested issues satisfies the Commission's obligations while allowing NorthWestern to continue to meet its obligations as well.

NorthWestern filed this case seeking an increase in its customer rates to allow it to recover its increased costs, needed investments in its systems, and to recognize changes in its energy supply resources between 2022 and 2024. NorthWestern reached four settlements in this docket, with the parties signing these settlements representing all classes of Montana customers. These settlements resolve the substantive issues raised by NorthWestern except for two: the extent of the recovery of costs associated with the Yellowstone County Generating Station

("YCGS") and setting a reasonable Power Costs and Credits Adjustment Mechanism ("PCCAM") Base. Based on the substantial evidence, the Commission should accept NorthWestern's position on both contested issues. YCGS is a critical, cost-effective resource NorthWestern needs to reliably serve customers. The evidence submitted in this matter demonstrates there was not a reasonable alternative to NorthWestern's construction of YCGS, that its full costs were reasonable and prudent, and the plant provides significant benefits to customers and should be recovered in rates. Additionally, the PCCAM Base must include market purchases for extreme weather events to reflect anticipated market purchases and appropriately balance the risk of those anticipated market purchases between customers and NorthWestern.

After consideration of the entire record, NorthWestern requests that the Commission find that substantial evidence supports approving the four settlements in their entirety without modification, approving inclusion of YCGS in rate base at NorthWestern's proposed revenue requirement, and setting a PCCAM Base of $119 million, which includes $38.4 million for market purchases during extreme market events. Granting NorthWestern's request will result in rates that are just and reasonable with electric and natural gas rates remaining below the national average.

II. Facts

Between 2022 and 2024, NorthWestern invested and placed into service more than $1 billion in its electric and natural gas systems to meet its obligations to provide safe and reliable service to customers. Direct Test. of Brian B. Bird on Behalf of NorthWestern Energy ("Bird Direct"), Ex. NWE-1, 5. For major projects, on the electric side, this investment includes approximately $159 million in transmission, $197 million in distribution, and $391 million in generation, including the costs incurred to build YCGS. *See* NorthWestern's August 9 Supplemental Filing, Statement C-9 – Plant Activity over $1M; *see also* Rebuttal Test. of Jeffrey B. Berzina on Behalf of NorthWestern Energy ("Berzina Rebuttal"), Ex. NWE-8, Ex. JBB-11. Similarly, for natural gas major projects, NorthWestern invested $106 million in transmission and $39 million in distribution projects. *Id*; *see also* Berzina Rebuttal, Ex. NWE-8, Ex. JBB-12. These investments contribute to NorthWestern providing electric service that is 99.98% reliable and natural gas service that is even more reliable at nearly 100% while customer rates remain below the national average. Bird Direct, Ex. NWE-1, 8-9, 13; Tr. 120:5-14 and 473:3-10 (testimony that NorthWestern's electric and natural gas rates rank among some of the lowest in the nation).

On July 10, 2024, NorthWestern filed this case seeking to recover its costs and the substantial investments discussed above. For electric customers, NorthWestern originally sought an increase in its revenue requirement of $156,503,585, plus an increase to base property tax rates along with a partially offsetting decrease of $94,522,047 in PCCAM Base revenues.[2] Direct Test. of Elaine

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[2] The difference between the last approved PCCAM Base and the PCCAM Base requested in this docket is approximately $89 million. This difference is due to variations in loads. *See* NorthWestern Energy's Responses to PSC Set 2 (009-018) Data Requests, Data Req. Resp. PSC-009.

A. Rich on Behalf of NorthWestern Energy ("Rich Direct"), Ex. NWE-37, 4. NorthWestern's application also included proposals for three new balancing accounts, which would allow recovery of costs incurred for three specific areas critical to continued safe and reliable service: wildfire mitigation, business technology ("BT"), and environmental regulation compliance. Direct Test. – Regulatory Priorities of Cynthia S. Fang on Behalf of NorthWestern Energy, Ex. NWE-25, 23. NorthWestern also originally requested an increase to the natural gas revenue requirement of $28,633,763 and a base property tax increase. Rich Direct, Ex. NWE-37, 4. NorthWestern proposed cost allocation to move customer rates for these services towards cost-of-service ratemaking while recognizing that rate shock would likely result for some customers if all costs were assigned to the cost causer. Direct Test. – Rate Design Policy of Cynthia S. Fang on Behalf of NorthWestern Energy, Ex. NWE-26, 15-20. Based on NorthWestern's original application, the total rate impact to the average residential electric customer using 750 kilowatt-hours per month was an increase of $9.11 per month or 8.28% and $8.84 per month or 17.04% for the average residential natural gas customer using 65 therms per month. Appl. App. A, Ex. NWE-28, 2, 4.

Twelve parties intervened in this matter representing customers and other interest groups. NorthWestern and the customer intervenors reached settlement on all but two issues raised by NorthWestern. The settlements include the Partial

Electric Settlement and Natural Gas Settlement with the Settling Parties,[3] the Standby Tariff Settlement with the University of Montana, and the settlement with the Northern Cheyenne Tribe ("Tribe").

The Partial Electric Settlement reduced the revenue requirement increase to $66,449,279, exclusive of YCGS. *See* Electric Settlement Test. of Crystal D. Lail on Behalf of NorthWestern Energy ("Lail Electric Settlement"), Ex. NWE-5, Ex. CDL-12, 1. The compromise reached by the Settling Parties includes:

- maintaining NorthWestern's currently authorized electric Return on Equity ("ROE") of 9.65% for all assets, including YCGS but excluding Colstrip Unit 4 ("Colstrip");[4]
- acceptance of NorthWestern's proposed rebuttal capital structure to calculate the rate of return for all assets, including YCGS but excluding Colstrip;[4]
- agreement to reduce the electric depreciation accrual by $7,651,468, excluding YCGS, with new depreciation rates taking effect on January 1, 2026;
- reduction to the base revenue requirement by $3 million ($2.8 million for transmission and distribution and $200,000 for generation) for the Federal Energy Regulatory Commission revenue credit;
- unspecified reduction to the base revenue requirement of $800,000;
- acceptance of NorthWestern's tax positions;
- agreement that the base property taxes would be reflective of the rates effective on January 1, 2025, which represented a decrease of $5,219,856 from NorthWestern's original request;

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[3] The Settling Parties are NorthWestern, the Montana Consumer Counsel ("MCC"), the Large Customer Group ("LCG"), the Federal Executive Agencies, and Walmart Inc.

[4] Colstrip's ROE of 10.0% and rate of return are not subject to change per the Commission's decision in Final Order No. 6925f, Dkt. No. D2008.6.69, ¶ 264 (Nov. 13, 2008).

- creation of a wildfire mitigation expense balancing account with collection of the previously deferred wildfire expenses granted in Final Order No. 7860y in Dkt. No. 2022.07.078 over a 4-year period;

- withdrawal of the BT and environmental regulation balancing accounts; and

- agreement on cost allocation options.

Id. at Ex. CDL-12.

NorthWestern seeks cost recovery of YCGS in this docket. With the Partial Electric Settlement that reduces the ROE for YCGS to 9.65%, NorthWestern requests a revenue requirement for YCGS of $43,929,468. Lail Electric Settlement, Ex. NWE-5, 9. In the Partial Electric Settlement, LCG proposes one adjustment to the YCGS revenue requirement for accumulated depreciation of $801,982 resulting in a total revenue requirement for YCGS of $43,127,486, while the MCC proposes a revenue requirement of $32,286,394 given its positions on alleged cost overruns. *Id.* at Exs. B & C; *see also* Tr. 1176: 8-9.

Since the extent of YCGS cost recovery remains a contested issue, the Settling Parties stipulated to three alternative electric cost allocations. Lail Electric Settlement, Ex. NWE-5, 4. If the Commission accepts NorthWestern's position on YCGS, the resulting total base revenue requirement increase, including property taxes, is $109,135,842 with cost allocation reflected in Exhibit D to the settlement. *Id.* If the Commission accepts the LCG's position on YCGS, the resulting total base revenue requirement increase, including property taxes, is $108,268,092 with cost allocation reflected in Exhibit E to the settlement. *Id.* Finally, if the Commission accepts the MCC's position on YCGS, the resulting total base revenue requirement increase, including property taxes, is $96,929,392 with cost allocation reflected in Exhibit F to the settlement. *Id.*

In its filing, NorthWestern requested to reduce the PCCAM Base from approximately $208 million to $119 million. Direct Test. of Joseph M. Stimatz on Behalf of NorthWestern Energy ("Stimatz Direct"), Ex. NWE-21, 9. This decrease is due to lower forecasted market prices and fewer market purchases given changes in NorthWestern's generation portfolio, notably the addition of YCGS. *Id.* at 5-6. To forecast a reasonable PCCAM Base, NorthWestern included $38.4 million in market purchases given its recent experience with periods of very significant market purchases of energy to reliably serve customers during extreme weather events. Rebuttal Test. of Joseph M. Stimatz on Behalf of NorthWestern Energy, Ex. NWE-22, 5.

The Natural Gas Settlement with the Settling Parties resolves all issues related to natural gas service in this case. The Natural Gas Settlement reduces NorthWestern's base revenue requirement increase, including property taxes, from approximately $28 million to an increase of $18,112,701. *See* Settlement Test. of Crystal D. Lail on Behalf of NorthWestern Energy ("Lail Gas Settlement"), Ex. NWE-4, Ex. CDL-11, 1. Similar to the Partial Electric Settlement, it includes the following terms and conditions:

- increasing NorthWestern's natural gas ROE from 9.55% to 9.60% for all assets;
- acceptance of NorthWestern's proposed rebuttal capital structure to calculate the rate of return for all assets;

- agreement to reduce the natural gas depreciation accrual by $3,376,721, with new depreciation rates taking effect on January 1, 2026;

- unspecified reduction to the base revenue requirement of $1 million;

- acceptance of NorthWestern's tax positions;

- agreement that the base property taxes would be reflective of the rates effective on January 1, 2025; and

- agreement on cost allocation and rate design.

Id. at 2-3.

With these two settlements and acceptance of NorthWestern's position on the two contested issues impacting electric service, average residential customer bills result in single digit increases to rates. For electric service, the average residential customer bill moves from $110.07 per month on July 1, 2024 to $114.70 or a 4.21% increase[5] while the average residential natural gas bill will increase from $51.89 per month on July 1, 2024 to $56.63 or 9.1%.

The remaining two settlements reached by NorthWestern with intervenors in this docket represent resolution of two discrete issues. First, the Standby Tariff Settlement resolves all issues with NorthWestern's proposal to add a new standby tariff for service to certain applicable customers. Second, NorthWestern entered into a settlement with the Tribe to address issues it raised concerning the future of Colstrip and its involvement in transition planning when the decision is made to

[5] With the Commission's decision in Interim Order No. 7968e, the average electric residential bill impact is higher as the Commission decreased rates to approximately $95 per month effective December 1, 2024.

retire the plant. Because the settlements are in the public interest as demonstrated below, the Commission should approve them as presented.

III. Standard of Review

The Commission must resolve contested cases and make decisions based exclusively on the evidence and controlling law. MONT. CODE ANN. § 2-4-623 (2023). Decisions must be based on reliable, probative, and substantial evidence. *Id.* § 2-4-704(2)(a)(v). The Commission must follow the standards in its own rules. Those rules mandate that NorthWestern must acquire resources to serve the full load requirements of its customers and the Commission must allow NorthWestern to recover all costs it prudently incurs to perform this function. ADMIN. R. MONT. 38.5.8220(2) (2022).

Neither Commission rules nor Montana statutes require a utility to seek preapproval before acquiring a resource. Preapproval is an optional path for NorthWestern. *See 350 Mont. v. State*, 2023 MT 87, ¶¶ 4-5, 412 Mont. 273, 529 P.3d 847.

The prudence standard requires evidence that raises serious doubt that a utility unjustly or unreasonably incurred costs. *Ind. Mun. Power Agency v. FERC*, 56 F.3d 247, 253 (D.C. Cir. 1995). When evaluating that evidence, the Commission may not use hindsight to evaluate whether NorthWestern's costs are prudent. The use of hindsight has no place in proper regulatory evaluation. *In the Matter of Battle Creek Natural Gas Production*, Order 7210b, ¶ 86; Dkt. D2012.3.25 (Nov. 15, 2012).

Rather, a prudence review considers the decisions made at the time, without the use of hindsight. *City of New Orleans v. FERC*, 67 F.3d 947, 954 (D.C. Cir. 1995).

Public utilities like NorthWestern must provide "reasonably adequate service" to their customers at "reasonable and just" rates. MONT. CODE ANN. § 69-3-201 (2023). It is well-settled that ratemaking requires a careful balance of "investor and consumer interests"; government rate-setters should try to protect consumers from exploitation while also ensuring a utility's stability by allowing sufficient return on investment and revenue for capital and operating expenses. *See, e.g., Fed. Power Comm'n v. Hope Nat. Gas Co.,* 320 U.S. 591, 603 (1944).

To approve settlements, the Commission must ascertain whether the settlements are fair, reasonable, and in the public interest. *See generally In re NorthWestern Energy Application to Increase Rates,* Reconsideration Order No. 7604v, Dkt. No. 2018.02.012 (May 20, 2020) ("*2018 NorthWestern*"); *In re Mont.-Dakota Utils. Co.*, Order No. 7741e, ¶ 22, Dkt. No. 2020.06.076 (Feb. 16, 2021) ("The revenues, rate design, and other issues addressed in the Settlement are just and reasonable, and provide a fair resolution of the issues in this case. Mont. Code Ann. §§ 69-3-201, -302. The Commission concludes that the public interest is served by the balance of interests reflected in the Settlement.").

When determining whether settlements result in just and reasonable rates, the Commission has also approved settlements impacting electric and natural gas rates if they are within a range of reasonableness. *See, e.g.*, *In the Matter of NorthWestern Energy's Application to Increase Rates*, Order No. 7860y, ¶¶ 13, 21, Dkt. No. 2022.07.078 (Oct. 27, 2023) ("*2022 NorthWestern*") (approving settlement terms that fell within a "zone of reasonableness"); *In re Mont.-Dakota Utils. Co.* at ¶¶ 15-16 (approving a settlement that was within a "reasonable range"). The Commission has used the initial positions of the parties and expert testimony to determine the lower and upper bounds of that range of reasonableness. *2018 NorthWestern,* ¶¶ 10-12 and 19-20; *In re Mont.-Dakota Utils. Co.*, ¶¶ 15-16. If a settlement falls within the range of reasonableness, the Commission has concluded that it results in just and reasonable rates and should be approved. *2022 NorthWestern*, ¶ 345.

IV. Argument

Substantial, credible evidence supports approval of NorthWestern's requests in this docket, including

1. approval of a YCGS revenue requirement, excluding property taxes, of $43,929,486;

2. a PCCAM Base of $119,007,402, which includes $38.4 million in market purchases for extreme market events; and

3. approval of the four settlements.

In the following sections, NorthWestern demonstrates this support requiring the Commission to find in its favor.

A. YCGS was the best resource to meet NorthWestern's legal obligation to ensure reliability for customers.

The Montana Legislature passed the Reintegration Act in 2007, which required NorthWestern to assume the obligation to serve most customers in its territory, similar to the obligation of The Montana Power Company prior to deregulation. Since then, NorthWestern has been working to build its electric generation portfolio and meet customer demand. From 2008 to 2018, NorthWestern assembled a diverse portfolio of both owned[6] and contracted hydroelectric, coal, wind, natural gas, and solar resources. Despite these efforts, in 2019, NorthWestern did not have sufficient owned or controlled energy resources to meet customer need during peak hours and transmission capacity from energy market supplies were limited. *In the Matter of Electricity Supply Resource Procurement Plan,* 2019 Electricity Supply Resource Procurement Plan ("2019 Plan"), Vol.1, 6-10, Dkt. No. 2019.08.052 (Sept. 3, 2019). As a result, NorthWestern's planning process showed it needed to add substantial capacity to meet its legal obligations to ensure reliable service to customers. To address the deficiency, in 2020, NorthWestern issued a Request for Proposals ("RFP") seeking generation to fill part of the identified capacity deficit, which resulted in selection of three resources, one of which was YCGS.

Now, some of the intervenors request the Commission should deny NorthWestern full recovery of the reasonable and prudently incurred costs incurred to build YCGS based on hindsight and retroactive application of unsupported standards. By applying the correct prudency standard of what NorthWestern knew at the time, the Commission must determine that NorthWestern's requested revenue requirement is prudent. The substantial evidence establishes NorthWestern's decision to build YCGS, and the costs it incurred were necessary,

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[6] These resources include Colstrip, Dave Gates Generating Station, Spion Kop, the Hydroelectric facilities, including 11 hydro facilities, and Two Dot.

reasonable, and prudent. In the absence of contradictory evidence from any party establishing NorthWestern failed to consider a reasonable alternative or the costs were imprudent, the Commission must approve the full revenue requirement, excluding property taxes, for YCGS of $43,929,468.

1. <u>NorthWestern Needed Long-Duration Capacity to Serve the Full Load Requirements of its Customers.</u>

It is indisputable that in 2020, NorthWestern needed to conduct an RFP to evaluate potential new resources. The Commission supported NorthWestern's plan to issue an RFP, explicitly acknowledging that NorthWestern's resource portfolio did not provide sufficient capacity and energy to satisfy typical industry standards for adequacy and reliability. *See In the Matter of Electricity Supply Resource Procurement Plan*, Commission Comments, ¶ 99, Dkt. No. 2019.08.052 (July 1, 2020).[7]

NorthWestern identified a need for sufficient capacity to serve customers during peak load events. *See In the Matter of Electricity Supply Resource Procurement Plan*, 2019 Plan, Vol. 1, p. 1-1, Dkt. No. 2019.08.052 (Sept. 3, 2019). In the planning process, NorthWestern recognized that in Montana, peak load events, such as the cold weather events in February and March 2019, occur over days, not hours. *See id.* at Vol. 1, App. B, p. 4; *see also* 2020 Supplement to 2019 Plan, Section 3.1.2. These events, which occurred before NorthWestern issued the 2020 capacity RFP, support NorthWestern's determination that it was reckless to assume there

[7] The Commission took administrative notice of the 2019 Plan and the Commission's Comments at the hearing. Tr. 56:23 – 57:11.

would be power available for NorthWestern to purchase from the market to fill in the gaps during these long-duration events and that failing to acquire additional capacity could have severe reliability consequences. *Id.*, 2019 Plan at Vol. 1, p. 1-2.

Despite these actual long-duration events, the Joint Parties argue that NorthWestern should not have included the 20-hour duration tier in the RFP. Pre-Filed Direct Test. of Michael Goggin on Behalf of Joint Parties, Ex. MEIC-2, 39. Instead, the Joint Parties concluded that the effective load carrying capability ("ELCC") method for determining capacity contribution, without the duration tier, was sufficient to evaluate resources. *Id.* at 3, 39. They also challenge the duration tier as not consistent with industry standard.

Several expert witnesses disagree with the Joint Parties' conclusion that calculating a resource's ELCC to NorthWestern's portfolio was sufficient to determine whether a resource could address a long-duration event. These experts include external consultants and NorthWestern employees. Rebuttal Test. of Scott A. Leigh on Behalf of NorthWestern Energy, Ex. NWE-18-C, 6-7; Rebuttal Test. of Bleau J. LaFave on Behalf of NorthWestern Energy, Ex. NWE-15, 5-6. As these experts explained, due to NorthWestern's unique capacity deficit, it was reasonable for NorthWestern to use duration as a criterion in addition to ELCC. Tr. 721:4 – 723:10. Even the MCC, which opposed NorthWestern's construction of YCGS, agreed that NorthWestern's use of the 20-hour duration tier in the RFP was reasonable. *Id.* at 1271:1-16. Furthermore, while other utilities do not need to use duration tiers because they do not have portfolios with the same capacity deficit as

NorthWestern's in 2020, the Southwest Power Pool is evaluating using the Expected Unserved Energy metric, and regional transmission organizations are evaluating additional measures in order to address the duration issue. *Id.* at 601:1-5.

In summary, the 2019 Plan and the majority of expert testimony in this docket confirm that NorthWestern's best alternative for addressing its significant capacity shortage was a resource that could satisfy the 20-hour duration tier in the RFP.

2. <u>There Was No Reasonable Alternative to YCGS to Provide Long-Duration Capacity.</u>

The MCC asserts that constructing a new plant was too risky so the Commission should disallow any costs above NorthWestern's original estimates as imprudent. Direct Test. of David E. Dismukes, Ph.D. on Behalf of the Montana Consumer Counsel ("Dismukes Direct"), Ex. MCC-3, 46. The MCC was not able, however, to offer a reasonable alternative to new construction. According to the MCC, NorthWestern could have delayed addressing its capacity needs until nearly 2027 and then acquired an existing resource located out of state with limited ability to deliver power to NorthWestern's system. *See id*. The MCC's proposal places cost over all other considerations, including whether the resource would allow NorthWestern to serve the full load requirements of its customers.

First, the MCC's alternative resource was even more risky than YCGS because it lacked the ability to move generation [redacted] to NorthWestern's Montana service territory. The MCC's alternative to YCGS was a gas-fired plant already operating [redacted]. Dismukes Direct, Ex. MCC-3, 48. The MCC conceded that although the RFP required it, the bidder failed to include transmission arrangements to get the power from the [redacted] to NorthWestern's system. Tr. 1191:19-24. The MCC diminished the requirement, suggesting that the bidder could work that out later, or even that NorthWestern should be responsible for solving the problem for the bidder. *Id.* at 1194:4-17. The MCC even conceded that NorthWestern's Vice President of Transmission explained that during the January 2024 peak load event the available transmission capacity to import from [redacted] was zero. Tr. 379:12, 1192:3-8. In total, the MCC's position is contradictory because it posits that YCGS was too risky because of unforeseen events while also asserting that lacking transmission to deliver into an area with known transmission constraints is not risky.

Second, the MCC's proposed alternative would have delayed NorthWestern acquiring more capacity until almost 2027. The MCC recognized that due to [redacted]. Tr. 1189:23 – 1190:1. Based on what it knew at the time about the lack of available capacity in the Pacific Northwest, NorthWestern could not delay acquiring a capacity resource until almost 2027. Tr. 557:12-18.

Like the MCC, the Joint Parties were not able to offer a reasonable alternative to constructing YCGS. These parties recommend that the Commission cap NorthWestern's recovery of costs for YCGS to the cost of a Power Purchase Agreement ("PPA") for a solar plus battery hybrid resource, which they referred to as Alternative 1.[8] *See* Pre-Filed Direct Test. of Chelsea Hotaling on Behalf of Joint Parties, Ex. MEIC-3, 2; *see also* Montana Environmental Information Center, *et al.*'s Responses to Data Requests PSC-164 through PSC-167, Data Req. Resp. PSC-166.

A PPA for a solar plus battery resource was not the best resource to address NorthWestern's 20-hour duration tier since the characteristics of a solar plus battery resource do not allow for the same level of performance as natural gas generation. Tr. 665-671. Actual battery performance shows a higher forced outage rate than experts would have assumed. *Id.* at 715:19-23. The MCC agrees that battery technology has a number of operational limitations compared to natural gas-fired generation. *Id.* at 1196:10-13. Notably, even the Joint Parties admit that imported energy onto NorthWestern's system is needed to supplement batteries to address long-duration events, explicitly recognizing that a battery is not intended to meet the demand in those types of events. *Id.* at 1587-1589.

As shown, there was no reasonable alternative to constructing YCGS to fill NorthWestern's capacity need and reliably serve customers.

3. <u>NorthWestern's Costs to Construct YCGS are Prudent.</u>

NorthWestern's costs to construct YCGS exceeded original estimates despite NorthWestern taking all reasonable steps to mitigate the risks of new construction

[8] At the hearing, the Joint Parties agreed that the only alternative to YCGS was Alternative 1, since NorthWestern had already selected the Powerex PPA. Tr. 1686:15-1687:15.

during a time of global supply chain constraints, the COVID-19 pandemic, 100-year Yellowstone River flood, and litigation of the air permit by environmental groups, which resulted in demobilizing and remobilizing construction. First, the Commission must appreciate that NorthWestern did not have the option to wait for global construction hurdles or litigation to end and delay acquiring a resource to address its capacity deficit. Neither the global events nor litigation relieved NorthWestern of its obligation to acquire resources to serve the full load requirements of its customers. *See* ADMIN. R. MONT. 38.5.8220(2) (2022). As previously explained, there was no reasonable alternative to proceeding with constructing YCGS. Furthermore, the Joint Parties agree, and hindsight shows, that if NorthWestern had waited to construct *any* project, the costs would have increased over the original contract prices. Cross-Answering Test. of Amanda Levin on Behalf of the Joint Parties, Ex. MEIC-6, 7; Rebuttal Test. of Joseph J. Egan on Behalf of NorthWestern Energy ("Egan Rebuttal"), Ex. NWE-19, 10-17.

Satisfying its obligation to acquire resources and mitigate against risk, NorthWestern entered a fixed-price Engineering, Procurement, and Construction ("EPC") contract with Burns & McDonnell in April 2021. In the definition of *Force Majeure*, that contract explained, "Contractor has included all of the known COVID-19 Pandemic impacts in establishing the Contract Price." Egan Rebuttal, Ex. NWE-19, Ex. JJE 2, 4. This provision alone shows that NorthWestern considered the potential costs for the pandemic based on all the information known at the time.

The Commission should reject the MCC's proposal to disallow prudently incurred costs based on the claim that in 2021 NorthWestern could predict the future effect of supply chain disruptions, inflation, increased wages, and labor and equipment availability, when there is no evidence supporting this claim. It is only through hindsight that the MCC can suggest it could identify the financial risk of a global pandemic better than Burns & McDonnell, a top ten ranked EPC firm with decades of experience building power plants. Egan Rebuttal, Ex. NWE-19, 12. In fact, Joseph Egan, the only construction expert to testify in this case, concluded that NorthWestern's fixed-price contract with Burns & McDonnell protected customers against the risks associated with new construction at that time. *Id*. at 12-13. As Mr. Egan testified, a sophisticated company like Burns & McDonnell would not assume the risk of a fixed-price contract unless it believed the contract price was achievable. *Id.*

Even without the unique circumstances of events like the pandemic, Ukraine war, and global supply chain disruptions, it is routine for a project the size of YCGS with a fixed-price contract to experience change orders. *Id*. at 19. NorthWestern prudently managed the change orders by following the change order process established in the contract with Burns & McDonnell, which was consistent with industry practices. *Id*. at 20. Specifically, NorthWestern closely reviewed all change orders, asked clarifying questions, verified documentation, and evaluated the cost and schedule impacts. *See id.*; *see also* Tr. 565:7-17; Data Resp. PSC 019-031 of NorthWestern, Data Req. Resp. PSC-023.

To ensure that it did not pay any unwarranted costs, NorthWestern employed project managers and an owner's engineer, HDR, Inc. (a top engineering firm with extensive construction oversight experience), to oversee the project on-site, review documentation, meet with contractors, and follow other standard project management practices in the construction industry for similar projects. Egan Rebuttal, Ex. NWE-19, 21-24. NorthWestern also disputed several Burns & McDonnell change order requests. *Id.* at 18. For example, for Change Order ("CO")-01, Burns & McDonnell agreed to reduce the cost of the change order by 50% after NorthWestern verified the work. Tr. 807:8-14. In some instances, NorthWestern paid the full amount of the change order, as in the case of CO-02, but only after confirming it was the result of a force majeure claim for supply chain disruptions. *Id.* at 807:15-25. But as the project continued, Burns & McDonnell failed to adequately support the costs associated with change orders and informed NorthWestern that that it was extending the Guaranteed Substantial Completion Date to February 2025. Egan Rebuttal, Ex. NWE-19, 26. Burns & McDonnell did not include the price for over half of their proposed change orders. *Id.* at 24. Consequently, the cost of the outstanding change orders substantially exceeded $61 million. *Id.* In addition, consistent with the outstanding change orders, Burns & McDonnell provided NorthWestern with an estimated project cost of $180 million instead of the original contracted amount of $99 million. Data Resp. PSC 019-031 of NorthWestern, Data Req. Resp. PSC-031d.

Due to the number of disputed change orders, change orders that did not include a cost estimate, and Burns & McDonnell's $180 million estimate with a 2025 completion date, NorthWestern changed contractors. While changing contractors was a difficult decision, it is a decision that is not uncommon in the industry, especially during the pandemic. Tr. 786. With the new contractor, Fagen, Inc. ("Fagen"), NorthWestern paid a total of $135 million for the EPC contract and reached substantial completion in October 2024. Egan Rebuttal, Ex. NWE-19, 10. As NorthWestern anticipated, switching EPC contractors resulted in lower costs of at least $45 million ($135 million versus $180 million) and more timely completion (October 2024 versus February 2025) than staying with its original contractor. By changing contractors, NorthWestern successfully mitigated the risk of additional costs and delays. Tr. 780-788. The transition from Burns & McDonnell to Fagen did not result in any additional costs or delays. *Id.* at 762:6. NorthWestern described the transition as "switch of a hard hat" in that the transition was seamless with just hard hats changing to Fagen. *Id.* at 801:14-22. Furthermore, NorthWestern eliminated the likely expensive and lengthy process of litigating the disputes with Burns & McDonnell. Egan Rebuttal, Ex. NWE-19, 25.

NorthWestern prudently managed the project and kept costs as low as possible by actively monitoring the project, employing an owner's engineer to provide construction management services, and changing contractors to resolve disputes and prevent additional costs and delays. *Id.* at 24.

4. The Acquisition of YCGS is the Result of an Industry-Standard RFP.

NorthWestern's acquisition of YCGS was the result of years of planning, evaluation, and construction centered around an industry-standard RFP process, consistent with the Commission's rules. After identifying a capacity deficit of more than 600 megawatts ("MW") in its 2019 Plan, NorthWestern issued an RFP to begin addressing that need with approximately 280 MW of capacity resources. Direct Test. of Bleau J. LaFave on Behalf of NorthWestern Energy, Ex. NWE-14, 6-7, 13. NorthWestern retained an RFP Administrator with expertise in conducting electric utility RFPs. Leigh Direct, Ex. NWE-17, 4. Consistent with industry standards, NorthWestern and the RFP Administrator established communications protocols and evaluation methodology and criteria to ensure a fair and impartial solicitation. *Id.* at 5, 14, 16. NorthWestern gave the Commission and its electric technical advisory committee an opportunity to review the RFP before issuance. *See In the Matter of NorthWestern Energy's Information Regarding a Competitive Solicitation,* NorthWestern Energy's Notice of Intent to Submit Information Regarding Competitive Solicitation, Dkt. No. 2019.11.093 (Nov. 13, 2019). The RFP Administrator issued the RFP, which communicated substantial information including NorthWestern's resource needs and the proposal evaluation criteria to potential bidders. Leigh Direct, Ex. NWE-17, Ex. SAL-3. The proposal evaluation criteria included 50% weight applied to price factors and 50% weight applied to non-price factors. This weighting is consistent with industry standards. NorthWestern Resp. to PSC Set 4, Data Req. Resp. PSC-041; Tr. 741:1-20. At the hearing, the

MCC's witness acknowledged that the weighting depends on the utility and the location. *Id.* at 1273:16-1274:5.

Through the RFP, NorthWestern requested EPC proposals for a natural gas generation project. NorthWestern informed bidders that NorthWestern would procure the reciprocating internal combustion engine ("RICE") equipment directly from the equipment supplier. NorthWestern selected Caterpillar Power Generation Systems, LLC ("Caterpillar") as that equipment supplier based on Caterpillar's score in the evaluation. Direct Test. of John D. Hines on Behalf of NorthWestern Energy, Ex. NWE-13, 9; Data Resp. PSC 216-247 of NorthWestern, Data Req. Resp. PSC-224d. In addition, NorthWestern had worked with Caterpillar in the past and Caterpillar was able to offer an operations and maintenance agreement for YCGS's operations. Tr. 576:5-18. NorthWestern's selection of the Caterpillar RICE equipment followed industry standard practice. *Id.* at 753:1-6. In fact, when asked directly, the MCC's witness did not dispute that NorthWestern's process for selecting the RICE equipment was reasonable. *Id.* at 1265:23-1266:6.

Since NorthWestern acquired YCGS through this competitive RFP, informed by the planning process and its need for capacity, the Commission should approve NorthWestern's selection of YCGS. The Commission should also recognize that NorthWestern prudently managed construction of the project by eliminating any unjustified costs and approve the requested revenue requirement.

B. Including the Cost of Extreme Market Events is Necessary to Forecast a Reasonable PCCAM Base.

The PCCAM allows NorthWestern to recover, outside of a rate review, fuel and purchased power costs incurred to serve customers and provides a credit to customers for market sales made by NorthWestern with regulated generation assets. Stimatz Direct, Ex. NWE-21, 3. Because NorthWestern's PCCAM contains a sharing component, NorthWestern must "draw a line in the sand" and forecast a base level of costs and credits it expects to incur. Tr. 957:14-16, 1025:25. The Commission requires reset of the PCCAM Base only in rate reviews. *Id.* at 1025:15-17; *see also In the Matter of NorthWestern Energy*, Order No. 7788f, ¶ 55, Dkt. No. 2021.04.047 (Dec. 2, 2021). This fact results in the PCCAM Base being "in place for multiple years, not just one year." Tr. 979:2-3. Forecasting the PCCAM Base can be challenging given "there is going to be variability around [it] in any year." *Id.* at 967:10-12.

While actual costs may be higher or lower in a tracker year, the goal when setting the PCCAM Base is to reasonably set what NorthWestern expects to incur for market purchases and sales based on current forecasts. *Id.* at 978:17-18, 1026:12-15, 1042:4-6. NorthWestern uses the PowerSIMM™ model to "forecast some of the expected costs and credits." Stimatz Direct, Ex. NWE-21, 9. PowerSIMM, however, does not fully capture times when the region may be tight on energy resulting in market prices rising to extreme levels. Tr. 1045:2-9; *see also* Stimatz Direct, Ex. NWE-21, 10. To meet the goal of setting a reasonable PCCAM Base, NorthWestern had to estimate an amount to include in the PCCAM Base for these extreme market events.[9] Using "reasonable quantities and durations and prices[,]" NorthWestern determined that $38.4 million (4 events lasting 48 hours and 200 MW each for $1,000 per MWh) should be added to the PCCAM Base to account for these extreme market events. Tr. 976:14-16, 1042:6-8.

This historical data supports NorthWestern's proposal to include $38.4 million of market purchases for extreme market events in the PCCAM Base. In the last two tracker years (July through June), NorthWestern incurred market purchases exceeding $500 per MWh for 11 days each year totaling $23.9 million in the 2022-2023 tracker period and $40.6 million in the 2023-2024 tracker period. *See* Data Resp. MCC 197-262 of NorthWestern, Data Req. Resp. MCC-260b. These actual extreme market events in comparison to those proposed to be included in the PCCAM Base in this docket are reflected in the graph below.

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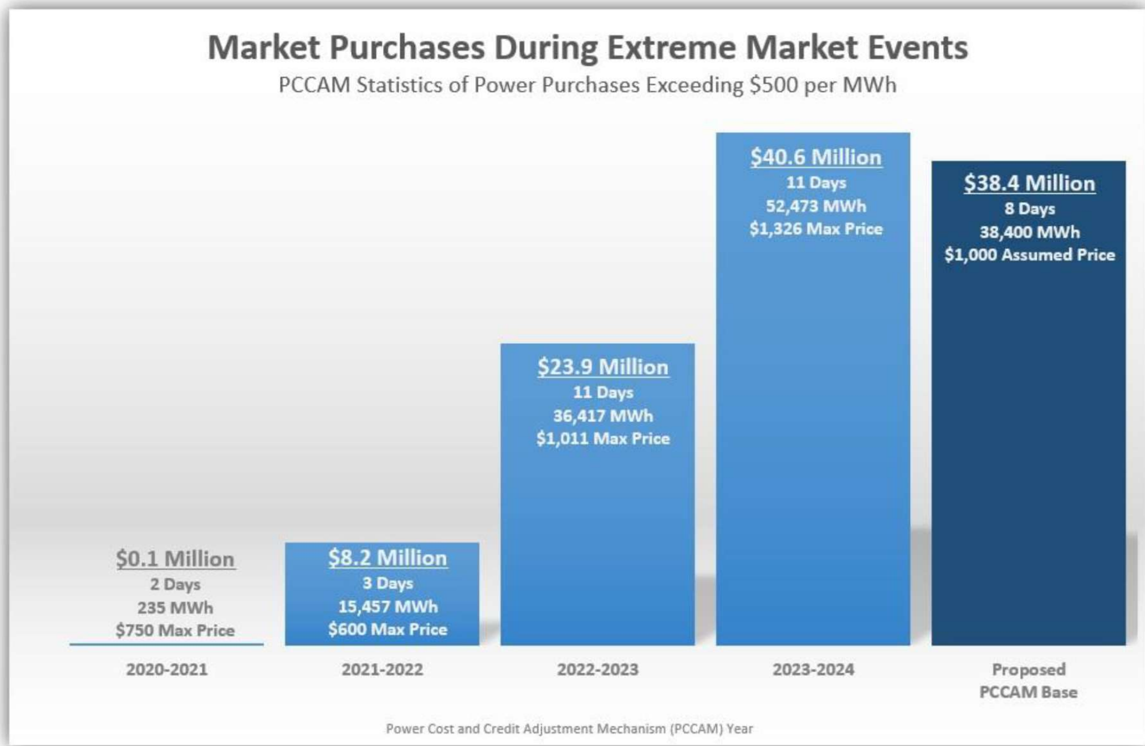
[9] For purposes of this docket, NorthWestern defines extreme market events as market purchases of energy where the price per megawatt-hour ("MWh") is $500 or more.



Id. As shown in the graph above, year over year, NorthWestern was experiencing extreme market events that "were longer and larger in magnitude." *See* Tr. 1041:21-22; *see also id.* at 976:6-8 (Stimatz testimony that "we saw an increase each year in those events and the amount we were paying for them[.]"). If NorthWestern failed to include these extreme market events in the PCCAM Base, Mr. Stimatz testified that the PCCAM Base would be "too low" and would not be properly estimated. *Id.* at 1045:24-1046:4. Given NorthWestern's actual experience, to estimate a reasonable PCCAM Base, the $38.4 million of market purchases for extreme market events must be included.

C. The Settlements are in the Public Interest, Supported by Substantial Evidence, and Result in Just and Reasonable Rates.

The settlements reached in this docket meet the standards articulated by this Commission for approval. *2018 NorthWestern*. They present a fair resolution of the contested issues in this docket. All four settlements were the product of extensive negotiations between engaged customer representatives and stakeholders. The parties signing the settlements represent the interests of Montana customers, and the ultimate settlements reflect a give-and-take between NorthWestern and these parties. The Commission should approve all four settlements because they are fair, reasonable, and in the public interest.

There is also substantial evidence to support NorthWestern's requests in this docket and approval of the settlements. As previously stated, and detailed below, NorthWestern sought significant base revenue requirement increases given investments it made to ensure safe and reliable service for customers. NorthWestern supported these requests with testimony from 26 expert witnesses as well as the required financial statements detailing NorthWestern's books and records. At the hearing, NorthWestern introduced 65 exhibits to support its requests in this docket and heard additional evidence about them over the 8-day hearing held in June 2025. *See generally* Transcript. In light of the entire evidentiary record before the Commission, the Commission can confidently find that there is substantial evidence to support NorthWestern's requests.

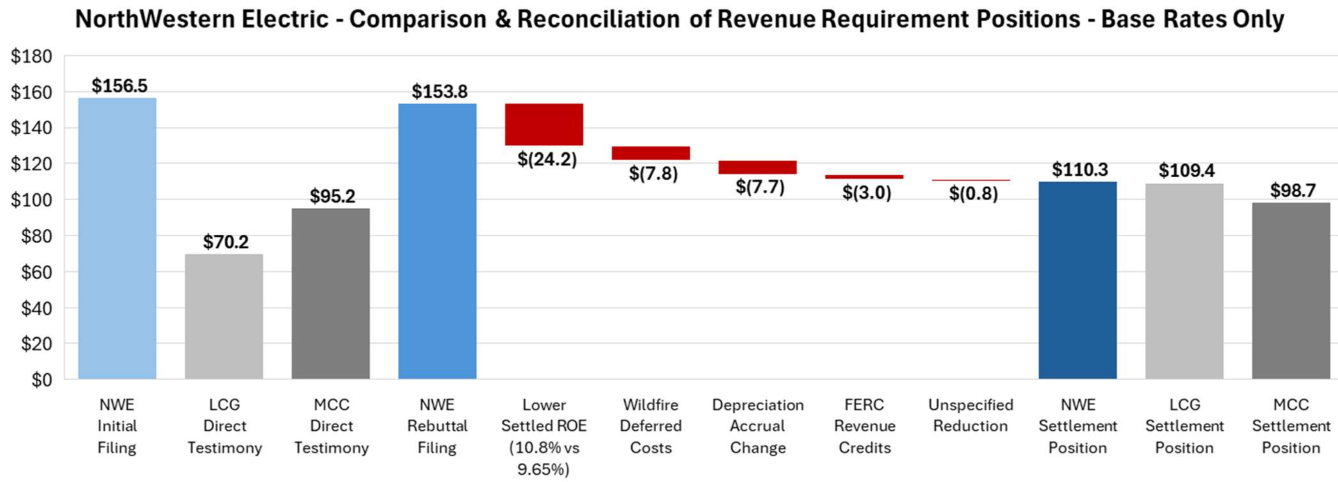
Finally, the Partial Electric Settlement, Natural Gas Settlement, and Standby Tariff Settlement result in just and reasonable rates. As discussed below, these settlements fall within a range of reasonableness established by the parties' positions in this case. Since these settlements meet this standard, the Commission should approve them. *2022 NorthWestern,* at ¶ 345.

For these reasons, NorthWestern urges the Commission to approve all four settlements.

1. The Partial Electric Settlement Meets the Reasonableness Standard.

The Commission should approve the Partial Electric Settlement as it falls within the range of reasonableness standard established by the Commission. The range of reasonableness is first established by consulting the parties' positions. *2018 NorthWestern,* ¶¶ 10-12. As LCG's expert, Mr. Higgins, testified, the settlements do fall between LCG's and NorthWestern's positions and in his opinion "represent a fair compromise on these issues." Tr. 1179:15-1180:18. In this case, the positions of the Settling Parties that filed testimony seeking adjustments to

NorthWestern's proposed electric base revenue requirement increases, excluding property taxes,[10] are reflected in the following graph in the far-right columns.[11]



As seen above, for the electric base revenue requirement increase, excluding the property tax base change but including YCGS, the high end of the range is $156.5 million reflecting NorthWestern's original requests, and the low end of the range reflects LCG's position of $70.2 million increase with MCC's position falling between the two at a $95.2 million increase. *See* Direct Test. and Exs. of Kevin C. Higgins on Behalf of Montana Large Customer Group ("Higgins Direct"), Ex. LCG-1, 8 (value in testimony reflects a total increase of $77.6 million that includes property taxes of $7.4 million); *see also* Direct Test. of Ralph C. Smith on Behalf of

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[10] In NorthWestern's rebuttal filing, base property taxes for transmission, distribution, and generation excluding YCGS was a decrease of $5.2 million and an increase of $4 million for YCGS. *See* Lail Electric Settlement, Ex. NWE-5, Ex. CDL-12. The $5.2 million decrease to base property taxes for all investment but YCGS was agreed to by the Settling Parties. *See* Lail Electric Settlement. *Id.* at 1. For YCGS, MCC also argues that approximately $600,000 in property taxes should reduce the revenue requirement increase. *Id.* at Ex. C.

[11] Again, these values exclude the base property taxes referenced in footnote 8 *supra*. The values in ¶¶ 12-14 of the Partial Electric Settlement can be derived by subtracting the net of these base property taxes from the values in the graph.

the Montana Consumer Counsel ("Ralph Direct"), Ex. MCC-1, 9. After consideration of the adjustments due to the Partial Electric Settlement (shown in red columns above), the resulting base revenue requirement increases are between $98.7 million and $110.3 million. These settled electric base revenue requirement increases, with NorthWestern's position on YCGS, are approximately 28% less than NorthWestern's rebuttal request and approximately 36% more than the LCG's position and only 14% more than the MCC's position. The settled base revenue requirement increases clearly fall within the range of reasonableness as seen in the graph and reflect compromise on behalf of the Settling Parties. While all three settlement positions fall within the range of reasonableness, the Commission should approve NorthWestern's proposed base revenue requirement increase of $110.3 million given the reasons articulated above concerning YCGS.

The settled electric ROE also falls within the range of reasonableness. The Settling Parties agreed that NorthWestern's ROE will remain at 9.65%. Lail Electric Settlement, Ex. NWE-5, 7-8. An ROE of 9.65% is significantly lower than NorthWestern's proposal of 10.8%, but higher than the 9.0% initially recommended by the MCC and LCG. *See* Direct Test. of Adrien M. McKenzie, CFA on Behalf of NorthWestern Energy ("McKenzie Direct"), Ex. NWE-52, 8; Direct Test. and Exs. of David J. Garrett on Behalf of The Montana Consumer Counsel and Montana Large Customer Group ("Garrett Direct"), Ex. LCG-MCC-1, 2. The settled electric ROE is also below the average for comparable utility companies and is a continuation of the ROE previously approved by the Commission in NorthWestern's last rate review.

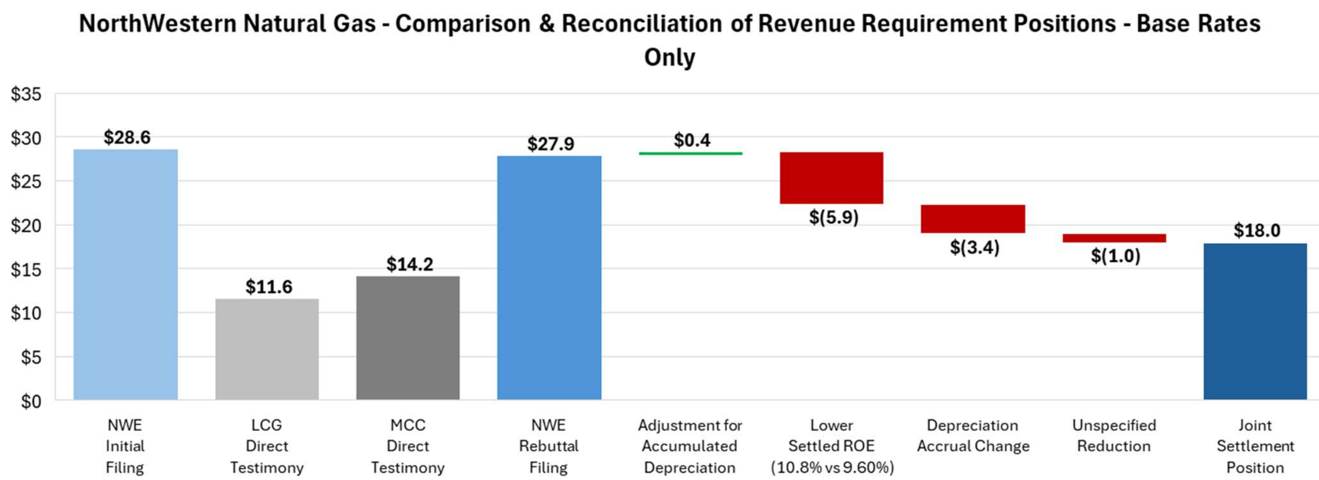
McKenzie Direct, Ex. NWE-52, 10; *see 2022 NorthWestern* at ¶ 133. For all these reasons, the settled electric ROE is reasonable as it falls within the range of reasonableness.

The cost allocation and moderation proposals reflected in the Partial Electric Settlement move towards a more cost-based approach to ratemaking and fall within the range of reasonableness. The Partial Electric Settlement incrementally moves the assignment of costs among the customer classes to better reflect the drivers of those costs and account for the subsidization by certain classes. NorthWestern's cost allocation study showed that residential customers do not pay their full costs to provide service resulting in non-residential customers subsidizing the residential class. Fang Direct Rate Design, Ex. NWE-26, 17. In order to balance moving towards cost-based rates with avoidance of rate shock, NorthWestern proposed a cap to any class increase of 35% in its original request resulting in a residential class increase of 31%. *Id.* at 20. In its rebuttal filing, NorthWestern reduced the cap on any class to 28.5% with a residential class increase of 25.4%. Rebuttal Test. of Charles R. Lane on Behalf of NorthWestern Energy ("Lane Rebuttal"), Ex. NWE-30, 9. LCG, the only intervenor to conduct an electric cost of service study, proposed a cap to any class of 16.6% with the residential class increase at that cap. Direct Test. and Exs. of Justin Bieber on Behalf of Montana Large Customer Group ("Bieber Direct"), Ex. LCG-4, 9. Falling between NorthWestern's and LCG's positions, the Partial Electric Settlement results in a cap increase to any class of 24.2% with a residential class increase of 20.1%. *See* Electric Settlement Test. of Charles R. Lane on Behalf of NorthWestern Energy, Ex. NWE-32; Ex. CRL-16.

Overall, the terms and conditions found in the Partial Electric Settlement fall within the low and high end of the proposals before the Commission. For these reasons, the Commission should approve the Partial Electric Settlement and find that they result in just and reasonable rates. *2022 NorthWestern*, ¶ 345.

2. The Natural Gas Settlement Meets the Reasonableness Standard.

Turning to the Natural Gas Settlement, the Commission should also approve it as it presents a similar story to the electric settlement by falling within the range of reasonableness. As seen below, for the natural gas base revenue requirement increase, excluding the property tax base increase, the high end of the range is $28.6 million reflecting NorthWestern's original request, and the low end of the range reflects LCG's position with a $11.6 million increase with MCC's position falling between the two at a $14.2 million increase. *See* Higgins Direct, Ex. LCG-1, 11 (value in testimony reflects a total increase of $11.9 million that includes property taxes of $241,654); *see also* Smith Direct, Ex. MCC-1, 12.



After consideration of the adjustments due to the Natural Gas Settlement (shown in green and red columns above), the resulting base revenue requirement increase is $18.0 million. The settled natural gas base revenue requirement increase is approximately 33% less than NorthWestern's rebuttal request and approximately 55% more than the LCG's position and only 27% more than the MCC's position. The settled base revenue requirement increase clearly falls within the range of reasonableness as seen in the graph and reflects compromise of the parties' positions.

The settled natural gas ROE also falls within the range of reasonableness. The Settling Parties agreed that an ROE of 9.60% for natural gas service is appropriate. Lail Gas Settlement, Ex. NWE-4, Ex. CDL-11, 2. Like the electric ROE, the settled natural gas ROE is significantly below the 10.8% requested by NorthWestern, and greater than the 9.0% initially recommended by the MCC and LCG. *See* McKenzie Direct, Ex. NWE-52, 8; Garrett Direct, Ex. LCG-MCC-1, 2. Therefore, the 9.60% ROE is within the range of reasonableness as established by expert testimony from the parties that addressed this issue.

Like the Partial Electric Settlement, the cost allocation and moderations resulting from the Natural Gas Settlement meet the range of reasonableness standard. In order to collect revenue increases from customers, cost allocation studies are necessary to determine how to spread the costs among the various customer classes. Fang Direct Rate Design, Ex. NWE-26, 5-6. NorthWestern proposed a cap to any class increase of 30% in its original request resulting in a residential class increase of 25%. *Id.* at 22. In its rebuttal filing, NorthWestern reduced the cap on any class to 18.8% with a residential class increase of 18.4%. Lane Rebuttal, Ex. NWE-30, 9. LCG proposed a cap to any class of 26.1% with the residential class increase at 21.7%. Bieber Direct, Ex. LCG-4, 9. The MCC proposed a cap to any class of 24.07% with the residential class increase at 20.88%. Dismukes Direct, Ex. MCC-3, Ex. DED-14. The Natural Gas Settlement results in a cap increase to any class of 14.4% with the residential class increase of 11.7%. *See* Lane Electric Settlement, Ex. NWE-32; Ex. CRL-16. Overall, the terms and conditions found in the Natural Gas Settlement fall within the low and high end of the proposals before the Commission. For these reasons, the Commission should approve the Natural Gas Settlement.

3. The Stand-by Tariff Settlement Protects All Customers.

NorthWestern proposed a new tariff in this case to be applicable to general service customers who have certain types of generation behind their meters. Fang Direct Rate Design, Ex. NWE-26, 34. Since these customers have generation to serve their needs, NorthWestern is considered in standby to serve them when the customer's generation is not available. *Id*. This arrangement places NorthWestern in a position that it needs to have necessary facilities to serve the customer, but that customer may not be paying its full cost-of-service for NorthWestern's facilities. Fang Direct Rate Design, Ex. NWE-26, 35. Consistent with Commission administrative rules, NorthWestern presented analysis showing the costs incurred for standby service and justifying the new tariff. Direct Test. of Steven W. Wishart on Behalf of NorthWestern Energy, Ex. NWE-55, 21. To this end, NorthWestern proposed a standby tariff to ensure these customers pay for the costs they require NorthWestern to incur. *Id.* at 1. The only party to raise concerns with NorthWestern's standby tariff was the University of Montana, who would be a customer subject to the new standby tariff with the construction of a Combined Heat and Power ("CHP") project. The Standby Tariff Settlement between NorthWestern and the University of Montana resolves all contested issues regarding the new tariff for standby electric service.

The Commission should approve the Standby Tariff Settlement because it is in the public interest protecting both standby and non-standby customers and results in just and reasonable rates. The Standby Tariff Settlement revises the proposed tariff to address some of the concerns raised by the University of Montana and results in a tariff that falls between the parties' positions. *Compare* Settlement Test. of Charles R. Lane on Behalf of NorthWestern Energy ("Lane Gas Settlement"), Ex. NWE-31, Ex. CRL-12 *with* Intervenor Test. of Jamie Scripps on Behalf of the University of Montana, Ex. UM-1, 30-32, 35, 37. The Standby Tariff

Settlement presents equitable rates for standby customers resolving NorthWestern's concerns with being a backup source of energy without sufficient cost recovery from the cost causer. Lail Gas Settlement, Ex. NWE-4, 8. The University of Montana supports the Standby Tariff Settlement testifying that the resulting rates in the new tariff "will allow [it] to operate its CHP project." Prefiled Test. of Tim Gauthier on Behalf of the University of Montana in Support of Settlement on Schedule SESS-1, Ex. UM-2, 2. The Standby Tariff Settlement also protects non-standby customers by preventing them from paying costs incurred by NorthWestern to serve standby customers. Overall, the Commission should approve the Standby Tariff Settlement as it is in the public interest resulting in just and reasonable rates for customers.

4. <u>The Settlement with the Tribe is a Reasonable Path Forward to Address Concerns Raised by the Tribe.</u>

The Tribe is a federally recognized, sovereign Indian tribe in southeast Montana. Lail Gas Settlement, Ex. NWE-4, Ex. CDL-10, 1. Given its location, the Tribe is impacted by the operation of Colstrip, including approximately 150 Tribal members who have worked at the plant. *Id.* For these reasons, the Tribe intervened in this docket. *Id.* The Tribe filed testimony explaining the impact the operation, and potential closure, of the plant has or would have on Tribal members. Pre-filed Direct Test. of Tribal President Gene Small on Behalf of the Northern Cheyenne Tribe, Ex. NCT-1, 1.

While NorthWestern has not proposed to close Colstrip, it believes working with the Tribe to resolve their concerns is important to maintaining a beneficial relationship with them. *See* Rebuttal Test. of Crystal D. Lail on Behalf of NorthWestern Energy, Ex. NWE-3, 23; *see also* Lail Gas Settlement, Ex. NWE-4, 8. Thus, to address the Tribe's concerns, NorthWestern agreed to meaningful tribal participation in transition planning for Colstrip when the plant nears closure and to meet annually with the Tribe to update members on Colstrip plans and discuss other matters of mutual interest. Lail Gas Settlement, Ex. NWE-4, Ex. CDL-10, 2. NorthWestern also agreed to encourage Colstrip operators to continue to provide the Tribe with employment and training opportunities and, where allowed by law, share relevant information with the Tribe related to Colstrip. *Id.* at 2. Considering NorthWestern's agreements, the Tribe withdrew its request for the Commission to open a Colstrip-related docket and acknowledged NorthWestern's important role in ensuring the continued operation of Colstrip with a commitment to responsible stewardship, long-term energy reliability, and economic sustainability for the region. Lail Gas Settlement, Ex. NWE-4, 5-6.

The Settlement with the Tribe reflects a balance of competing interests that the Commission should conclude is reasonable and in the public interest. *In re Mont.-Dakota Utils. Co.*, ¶ 22. Specifically, the Settlement addresses the Tribe's concerns and will benefit NorthWestern and the public by providing input from this sovereign stakeholder in the future of Colstrip. Tr. 304:15-305:11. For all of the above reasons, the Commission should find the Settlement with the Tribe is in the public interest and approve it.

D. Approval of the Settlements and NorthWestern's positions on YCGS and the PCCAM Base Result in Modest Rate Increases for Customers.

With a final decision in this case, average residential customer rates will only increase by single digit percentages. Approval of the Partial Electric Settlement with resolution of the two contested issues in NorthWestern's favor in this case will result in a 4.2% increase to the average electric residential customer resulting in a typical monthly bill of $114.70 compared to bills in July 2024 of $110.07. Lail Electric Settlement, Ex. NWE-5, Ex. CDL-12; Lane Electric Settlement, Ex. NWE-32, 6. The Natural Gas Settlement results in similar bill impacts. Approval of the Natural Gas Settlement results in a bill increase of 9.1% to the average residential natural gas customer resulting in a typical monthly bill of $56.63 compared to bills in July 2024 of $51.89.[12] Rate increases limited to single digits despite significant capital investment of over $1 billion in infrastructure to continue providing safe and reliable service are reasonable outcomes warranting approval by the Commission.

On the electric side, rates are staying relatively stable despite the significant investment by NorthWestern between the last rate review and this docket. As detailed at hearing, Mr. Lane testified on behalf of NorthWestern showing the history of the average residential electric customer's monthly bill since approval of

[12] The actual bill impact to customers from approval of the Natural Gas Settlement is substantially less than the 9.1% as the Commission approved interim rates in November 2024 and property tax rates changed on January 1, 2025, resulting in cost recovery of close to the settled revenues of $18,112,701. Thus, the average residential natural gas customer will see a bill increase of only $0.39 per month or a 0.69% increase with approval of the Natural Gas Settlement. Lane Gas Settlement, Ex. NWE-31, 5.

NorthWestern's last electric rate review. Tr. 1428:16-1429:14. This history is detailed in the table below.

Table 1 – Historical Average Residential Electric Monthly Bills

Nov. 1, 2023	July 1, 2024	Dec. 1, 2024	Apr. 1, 2025	Settlement Rates
$112.95	$110.06	$95.64	$101.14	$114.70

Id. While rates change regularly, providing customers with some rate stability where possible is critical. NorthWestern believes that approval of the settlements in this case along with NorthWestern's position on the two contested issues maintains rate stability for customers. In light of these facts, the Commission should find in favor of NorthWestern's requests in this docket.

1. <u>Refunds Provided to Customers from the Difference between Current Electric Rates and Final Electric Rates Should be Refunded by Customer Class.</u>

By operation of law, NorthWestern filed tariffs in early May reflecting electric rates consistent with its proposed application filed in July 2024. Unless waived by the utility, Montana law requires rates to change to reflect the utility's requests if the Commission has not issued a final order within 9 months from when the filing was found to be adequate. Mont. Code Ann. § 69-3-302(2) (2023). If this statute is implicated, rates collected are subject to rebate subject to interest at a rate no greater than the last approved ROE if the final decision is lower than the rates implemented at 9 months. *Id.* In this case, with the passage of 9 months from when the Commission found NorthWestern's application to be complete on August 23, 2024, rates changed effective May 23, 2025, to reflect NorthWestern's original requests for electric service in this docket. *See* Admin. Rec. Nos. 564, 565, and 590. NorthWestern then filed on June 20, 2025, and Commission Staff stamped, revised electric tariffs to reflect the Partial Electric Settlement and NorthWestern's position on the contested issues. *See* Admin. Rec. Nos. 609-611 and 613. These rates became effective July 2, 2025, again by operation of law. *Id.*

Under questioning from Staff and the LCG, NorthWestern presented a refund methodology during the hearing as these rates, both the initially requested rates and the settlement rates, may be higher than the final rates approved by the Commission. NorthWestern is proposing that any refund be calculated and then dispersed by customer class as if the final order had been in effect as of May 23, 2025. NorthWestern will track the revenue collected for each current rate in effect during these periods by rate class. This revenue by rate class is then compared against what would have been collected by each rate had the final order been in effect for these periods. Tr. 1111: 6-16. This approach helps put the customer classes paying these rates back in the position they would have been in otherwise if a final order was in place by 9 months or May 23, 2025, in this case. Tr. 1112:1-14. LCG supported this refund approach. *Id.* at 1234:6-25 (testimony that the approach was reasonable). No other party has contested it. *See generally* Tr. Given the reasonableness of the approach, the Commission should adopt the methodology proposed by NorthWestern to refund, with interest at 9.65% (NorthWestern's last approved ROE), any difference between rates effective on May 23, 2025, and after with the final rates approved in this docket.

V. Conclusion

Based on the substantial evidentiary record before the Commission, NorthWestern respectfully requests that the Commission approve the four settlements finding they are in the public interest, conclude that NorthWestern prudently selected and incurred the costs to construct YCGS and authorize a base revenue requirement for the facility of $43,929,468, and, finally, approve a PCCAM Base of $119 million, inclusive of the market purchases for extreme weather events.[13]

Respectfully submitted this 21st day of July 2025.

NORTHWESTERN ENERGY

By: /s/ Sarah Norcott
Sarah Norcott
Counsel for NorthWestern Corporation

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[13] NorthWestern also requests that the Commission approve termination of the compliance requirement to report annually on the Hazard Tree Program as ordered in Dkt. No. 2018.02.018. NorthWestern will continue reporting on its annual vegetation management costs incurred for wildfire mitigation in the newly created Wildfire Mitigation Balancing Account.

CERTIFICATE OF SERVICE

I hereby certify that NorthWestern Corporation d/b/a NorthWestern Energy's Post-Hearing Opening Brief – Public Version in Electric and Natural Gas Rate Review Docket No. 2024.05.053 has been e-filed with the Montana Public Service Commission and sent to the email list below.

Date: July 21, 2025

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