



May 2, 2014

Ms. Kate Whitney
Montana Public Service Commission
1701 Prospect Avenue
P.O. Box 202601
Helena, MT 59620-2601

RE: Docket No. D2010.2.14
Gruba et al. Complaint
MCC Set 1 Requests (001-005)

Dear Ms. Whitney:

Enclosed for filing is a copy of NorthWestern Energy's responses to Montana Consumer Counsel Set 1 Requests. A hard copy will be mailed to the most recent service list in this Docket this date. The Montana Public Service Commission and the Montana Consumer Counsel will be served by hand delivery this date. These data responses will also be e-filed on the PSC website and emailed to appropriate parties per Procedural Order 7084h.

Should you have questions please contact Joe Schwartzberger at 406 497-3362.

Sincerely,

Tracy Lowney Killoy
Administrative Assistant
Regulatory Affairs

CC: Service List

CERTIFICATE OF SERVICE

I hereby certify that a copy of NorthWestern Energy's responses to Montana Consumer Counsel Set 1 (001-005) Requests in Docket No. D2010.2.14 has been hand delivered to the Montana Public Service Commission and to the Montana Consumer Counsel this date. They will be e-filed on the PSC website and served on the most recent service list by mailing a copy thereof by first class mail, postage prepaid. They will also be emailed to appropriate parties per Procedural Order No. 7084h.

Date: May 2, 2014



Tracy Lowney Killoy
Administrative Assistant
Regulatory Affairs

Utility Docket Service List
Docket D2010.2.14
Gruba Complaint

Russell L. Doty
4957 W 6th St.
Greeley CO 80634-1256

Kate Whitney
Public Service Commission
1701 Prospect Ave
P O Box 202601
Helena MT 59620-2601

Tracy Lowney Killoy
NorthWestern Energy
40 E Broadway
Butte MT 59701-9394

Mary Wright
Montana Consumer Counsel
111 N Last Chance Gulch Suite 1B
PO Box 201703
Helena MT 59620-1703

Sarah Norcott
NorthWestern Energy
208 N Montana Suite 205
Helena MT 59601

**NorthWestern Energy
Docket No. D2010.2.14
Gruba et al. Complaint**

**Montana Consumer Counsel (MCC)
Set 1 (001-005)**

Requests served by email April 4, 2014

MCC-001 RE: Street Lighting Rate Base
Witness: All Relevant Witnesses

Please explain the discrete level at which rate base is calculated in order to derive street lighting ownership charges? Is it at the level of individual light pole and fixture cost ranges throughout NWE's service territory, at the level of individual street lighting districts, or otherwise?

RESPONSE:

The witness is unknown at this time. NorthWestern will identify its witnesses upon filing of its testimony.

Tariff LS-1 that included the ownership charge was initially approved by the Montana Public Service Commission (Commission) in Docket No. D96.3.33, a contested docket that addressed allocated cost of service and rate design among other items. The ownership charge is one of several lighting rate components that were designed to produce the portion of the test period revenue requirement, or class revenue responsibility, assigned to the lighting classes in that docket (at that time, there were three lighting classes delineated by service – street lighting, yard lighting and post top lighting). Class revenue requirement responsibilities were not determined directly from rate base. Rather, class revenue requirement responsibilities were informed by an allocated cost of service study based on marginal costs.

Regulation requires that rates must be designed to produce the revenues the utility is allowed an opportunity to collect – the test period revenue requirement. Because the marginal costs did not equal the test period revenue requirement, it was necessary to reconcile the marginal costs study results to the test period revenue requirement. The reconciled class revenues were then moderated to mitigate class billing impact concerns. For example, the reconciled marginal costs indicated that the three lighting classes should receive increases in revenue requirement responsibilities ranging from approximately 44% to 51% depending on the class. The moderation step reduced the increase for all three lighting classes to 10%. Please see the Prefiled Direct Testimony of Phillip E. Maxwell (Maxwell Direct Testimony) in Docket No. D96.3.33 for a description of the development of marginal costs, reconciliation of the marginal costs to the revenue requirement, and moderation adjustments.

The ownership charge consolidated the various lighting classifications or groups of lights whose rates had previously been based on physical characteristics such as lamp wattage, pole type and service. In order to design the ownership charges, the then-current estimated cost of installation (marginal cost) per light for each lighting group was identified. The per-unit marginal cost was multiplied by the number of lights in each group on NorthWestern's system to produce a total installed cost for each group of lights. Each group was then placed into the appropriate cost

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MCC-001 cont'd

range (\$200-\$399, \$400-599, etc.) based on the estimated installed cost per unit. In certain instances, installation costs were such that more than one group of lights fell into the same cost range. The total cost in each cost range was divided by the total number of lights in the range to arrive at an average cost per light. The annual ownership charge per light for each ownership charge range was then computed by multiplying the average cost per unit for the cost range by the appropriate carrying charge. The annual ownership charges were then divided by 12 to arrive at a monthly ownership charge by ownership cost range. Please see the Prefiled Direct Testimony of Ceil A. Orr, page 3, line 30 through page 4, line 11 and Exhibit__(CA)-1) in Docket No. D96.3.33 for additional detail regarding development of the ownership charge. Refer to the Maxwell Direct Testimony, page 13, line 18 through page 15, line 3 for an explanation of the appropriate carrying charge.

While the basic lighting rate design has remained the same since Docket No. D96.3.33, adjustments to the ownership charge component of the lighting tariff have been considered and approved by the Commission as part of NorthWestern's general rate filings and the associated contested case proceedings in Docket Nos. D2000.8.113, D2007.7.82 and D2009.9.129. A brief summary of the rate-making methods used by the Commission in each of those dockets follows. Please see the Commission's website to view documents filed and orders issued in these dockets and in Docket No. D96.3.33.

In Docket No. D2000.8.113, the Commission approved a uniform percent increase to electric rates based on the increase in revenues approved by the Commission in that docket.

The Commission approved bifurcation of Docket No. D2007.7.82 into two phases: Phase 1- the overall revenue requirement and Phase 2- the allocated cost of service and rate design. The Commission ordered that electric rates be increased on a uniform percentage basis to reflect the increase in revenues approved in Phase 1. The Commission subsequently ordered that the Phase 2 hearing be vacated to allow parties in the docket to engage in settlement discussions, and in the event a settlement could not be achieved, that Phase 2 be consolidated with NorthWestern's next general rate case. A settlement was not reached, and Phase 2 was consolidated with Docket No. D2009.9.129.

In Docket No. D2009.9.129 the Commission approved a revenue requirement, class revenue requirement responsibilities and associated rate designs. Class revenue requirement responsibilities related to NorthWestern's delivery systems, including electric lighting delivery service, were informed primarily by allocated cost of service studies based on embedded costs. Rates were increased by a uniform percent increase to reflect the revenue requirement responsibility allocated to the respective class.

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MCC-001 cont'd

As has occurred in the past, because the cost of providing electric lighting delivery service is part of NorthWestern's overall revenue requirement, it is appropriate to consider lighting rate design and adjustments to lighting rates in future NorthWestern general rate cases.

In addition, adjustments to electric rates are made annually to reflect changes in property taxes paid by NorthWestern between general rate cases. The adjustments have been made to rates on a uniform percentage basis.

The lighting tariff was renamed ELDS-1 in Docket No. D2001.10.144. Ownership charges did not change as a result of this docket.

In summary, the Commission initially considered and approved Tariff LS-1 which, among other things, included the ownership charge, and it has considered and approved all subsequent adjustments to Tariff LS-1 and its successor, Tariff ELDS-1, including the ownership charges, in contested case dockets. The methodologies used to establish rates in those dockets have been consistent with cost allocation and rate design principles normally applied by the Commission.

Please also see the responses to C-005, C-035, MCC-002 and MCC-003.

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**Montana Consumer Counsel (MCC)
Set 1 (001-005)**

Requests served by email April 4, 2014

MCC-002 RE: Street Lighting Rate Base
Witness: All Relevant Witnesses

How is it determined into what street lighting ownership charge cost ranges new items are placed in rate base? Is it determined by the cost of each new individual pole and light fixture or by the average cost per item of an installation done at one time or otherwise?

RESPONSE:

The witness is unknown at this time. NorthWestern will identify its witnesses upon filing of its testimony.

NorthWestern does not account for lighting plant on an ownership charge cost range basis. Rather, actual total cost of all new lights is recorded to FERC Plant Account 373.1 Street Lighting. Please see the response to C-032.

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**Montana Consumer Counsel (MCC)
Set 1 (001-005)**

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MCC-003 RE: Establishment of Ownership Charges
Witness: All Relevant Witnesses

How are the ownership charges for an individual street lighting district determined? Is it done through bilateral negotiations or by the ownership charge schedule in place at the time an agreement is reached with a municipality, or otherwise?

RESPONSE:

The witness is unknown at this time. NorthWestern will identify its witnesses upon filing of its testimony.

Please see the response to C-033 for a description of how new lights are placed in ownership cost ranges for purposes of determining the ownership charge. To be clear, consistent with Tariff ELDS-1, the ownership charge is assigned based on the average estimated installed cost of the lights per project. The number of lights included in a particular project is based on the project specific agreement signed by the customer. As a result, a project may constitute all of the lights in a street lighting district or it may include only a few lights or even one light as subsequent additions or changes to an existing street lighting district. NorthWestern determines the ownership charge for new lights in accordance with the current Commission-approved Tariff ELDS-1 and the ownership charge schedule included in it.

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**Montana Consumer Counsel (MCC)
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MCC-004 RE: Ownership Charges
Witness: All Relevant Witnesses

How often and by what process are new ownership charges for street lighting established?

RESPONSE:

The witness is unknown at this time. NorthWestern will identify its witnesses upon filing of its testimony.

Please see the response to MCC-001.

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Docket No. D2010.2.14
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**Montana Consumer Counsel (MCC)
Set 1 (001-005)**

Requests served by email April 4, 2014

MCC-005 RE: Derivation of Rate Base(s)
Witness: All Relevant Witnesses

Please provide the detail showing the composition and changes to the rate bases used to determine the \$400-\$599 and the \$1200-\$1399 related ownership charges over the periods 2009-2013.

RESPONSE:

Please see the responses to MCC-001 and MCC-002.