



June 8, 2017

Mr. Will Rosquist
Administrator, Regulatory Division
Montana Public Service Commission
P.O. Box 202601
Helena, MT 59620-2601

RE: Docket No. D2017.5.39 – The Montana Public Service Commission’s Review of Rates to Recover NorthWestern Energy’s Electricity Supply Costs – PowerSimm Modeling

Dear Mr. Rosquist:

As required by the Montana Public Service Commission’s (“Commission”) Notice of Commission Action (“NCA”) dated May 18, 2017, NorthWestern provides the Commission with projected costs for purchased power and fuel derived from PowerSimm™ supply cost modeling for the time period July 1, 2017 to June 30, 2018.

NorthWestern performed the modeling pursuant to the directives in the NCA. The modeling undertaken as prescribed by the Commission, however, does not further the Commission’s goal, as stated in the NCA, of establishing an interim tracker that is “simpler and less burdensome” than the current tracker. PowerSimm is sophisticated production cost modeling software that NorthWestern utilizes for long-term resource planning. In contrast, electricity supply costs are matched to rates for a one-year period using principles of deferred accounting. Introducing the complexities of production cost modeling to a deferred accounting procedure does not necessarily enhance the ability to accurately project purchased power and fuel costs. The PowerSimm modeling conducted pursuant to the NCA only produces output of fuel costs, purchases, and sales, i.e. a portfolio view rather than an accounting view. The PowerSimm modeling, as currently developed, does not include the following costs that are included in the current supply cost tracking mechanism:

Prior Year(s) Deferred Expense	Operating Reserves
Ancillary Cost	Wind Other Costs
Modeling	Administration
Trading & Marketing	

The files listed and described below, which include information related to Colstrip Unit No. 4 (“Colstrip”), Dave Gates Generating Station (“DGGS”), Spion Kop Wind Generation Project (“Spion Kop”), and Hydro Generation Assets (“Hydro”) are included on the enclosed CD. The

PowerSimm output was input into Excel spreadsheets that have been used in previous electric supply tracker filings to calculate total portfolio supply costs.

- Electric Supply PowerSimm mean - The projected load, supply, and related electricity supply costs for the 12-month tracker period July 1, 2017 through June 30, 2018 based on the modeled mean;
- Electric Supply PowerSimm p5 - The projected load, supply, and related electricity supply costs for the 12-month tracker period July 1, 2017 through June 30, 2018 based on the modeled 5th percentile;
- Electric Supply PowerSimm p95 - The projected load, supply, and related electricity supply costs for the 12-month tracker period July 1, 2017 through June 30, 2018 based on the 95th percentile;
- Colstrip - The projected load and CU4 variable costs for the 12-month period July 1, 2017 through June 30, 2018 based on the modeled mean, the 5th percentile, and the 95th percentile;
- DGGS - The projected load and DGGS net variable costs for the 12-month period July 1, 2017 through June 30, 2018 based on the modeled mean, the 5th percentile, and the 95th percentile;
- Spion Kop - The projected load and Spion variable costs for the 12-month period July 1, 2017 through June 30, 2018 based on the modeled mean, the 5th percentile, and the 95th percentile;
- Hydro - The projected load and Hydro variable costs for the 12-month period July 1, 2017 through June 30, 2018 based on the modeled mean, the 5th percentile, and the 95th percentile;
- PowerSimm Model Supply Cost Table - The Electricity Supply Market Purchases/Sales Net information in the first two columns and the CU4, DGGS, Spion, and Hydro Variable columns (Asset Variable) are based on the PowerSimm modeled mean results input into each of the Excel spreadsheets described above. Property taxes and rate rounding were added to the PowerSimm results in the Asset Variable spreadsheets. The Asset Fixed column is the basis of the rates for the fixed costs of the owned generation assets included in the May 31, 2017 Electric Tracker Filing. The property tax component of both variable and fixed costs also remains unchanged from the May filing.
- PowerSimm output 6.7.17.

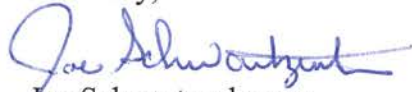
NorthWestern personnel will be available at the June 9, 2017 discovery conference to respond to questions regarding these modeling results. To be clear, NorthWestern believes many changes

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need to be incorporated into the PowerSimm model, including changes to inputs, in order for this model to be equivalent to the relatively straight forward model currently used in developing the tracker.

Feel free to contact me at (406) 497-3362 if you have questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "Joe Schwartzenberger". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Joe Schwartzenberger
Director of Regulatory Affairs

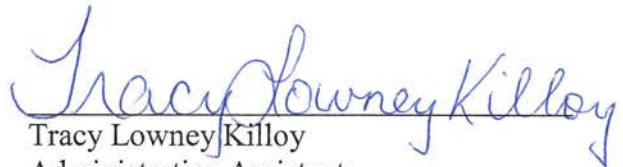
Cc: Chuck Magraw
MCC

Enclosure

CERTIFICATE OF SERVICE

I hereby certify that five copies of this letter and CD regarding the Montana Public Service Commission's Review of Rates to Recover NorthWestern Energy's Electricity Supply Costs – PowerSimm™ Modeling in Docket No. D2017.5.39 have been hand delivered to the Montana Public Service Commission this date. One copy of this letter and CD has also been hand delivered this date to the Montana Consumer Counsel and to Chuck Magraw, who filed comments in this docket on behalf of the Human Resource Council, District XI and the Natural Resources Defense Council. This letter has also been e-filed on the PSC website.

Date: June 8, 2017



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