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PSC DIRECTS NORTHWESTERN TO REFUND \$9.9 MILLION TO RATEPAYERS

Commission found NorthWestern acted imprudently in managing Colstrip plant's emissions.

HELENA, Montana — The Montana Public Service Commission on Tuesday trimmed \$9.4 million from an annual rate adjustment requested by NorthWestern Energy, after concluding the utility's imprudent supervision of the coal-fired power plant in Colstrip, Montana, led to its temporary shutdown in 2018. With interest, NorthWestern will be required to refund more than \$9.9 million to ratepayers.

For about two and a half months in the summer of 2018, the power plant had to be shut down after testing showed the plant's emissions exceeded federal pollution standards. Tests leading up to the outage showed the plant was operating at the maximum emissions limit. When a test in June 2018 exceeded the limit, the plant had to be shut down until it could be brought into compliance. NorthWestern, a co-owner of Colstrip Unit 4, was forced to buy power from other energy producers during the outage, at a higher price than the cost of production at Colstrip.

Each year, the Commission requires NorthWestern to request a rate adjustment to reflect actual costs the utility incurs to supply energy to its customers in Montana. NorthWestern's proposed adjustment for 2019 sought to collect \$23.8 million from Montana ratepayers, including costs related to the Colstrip outage.

The Montana Consumer Counsel, which represents the interests of ratepayers in Commission proceedings, and the Montana Environmental Information Center disputed NorthWestern's request and argued the outage costs resulted from imprudent management and supervision of the Colstrip plant.

On Tuesday, the Commission decided NorthWestern should bear the majority of the costs associated with the Colstrip outage. Specifically, the Commission determined NorthWestern's

supervision of the Colstrip plant was imprudent, and that a reasonable utility in NorthWestern's position would have taken more proactive steps to ensure compliance with emissions standards. As a result, the Commission determined NorthWestern should be liable for \$6,284,967 of replacement power costs, which represents the premium NorthWestern paid to buy energy from other producers instead of generating it at the Colstrip plant.

NorthWestern's original cost recovery request assumed the utility would be responsible for \$629,967 of the replacement costs under cost-sharing rules, so the Commission's decision increases NorthWestern's responsibility by nearly \$5.7 million.

The Commission's decision follows in the wake of similar findings regarding the Colstrip outage made by regulators in other states. Earlier this year, [Washington regulators denied \\$15.4 million in power replacement costs](#) requested by three utilities in that state.

NorthWestern's proposed rate adjustment also sparked debate over a new law that limits how much of the power supply costs the utility has to absorb before passing costs on to ratepayers. NorthWestern lobbied the 2019 Montana Legislature to pass a new law that bars the Commission from applying a "deadband" and other cost-sharing rules when calculating NorthWestern's annual rate adjustment. The Commission had instituted a deadband—a dollar range of power supply costs and savings that NorthWestern would absorb without a rate adjustment—to incentivize careful management of supply costs.

Although the new law became effective in May 2019, after the Colstrip outage costs were incurred, NorthWestern argued it barred the Commission from applying its deadband and cost-sharing rules when calculating the rate adjustment. The Consumer Counsel, however, argued the deadband had to be prorated based on the new law's effective date. The Commission agreed with the Consumer Counsel, concluding that the new law could not be applied retroactively, and held NorthWestern responsible for an additional \$3,765,739 of costs.

As a result of the Commission's decision, NorthWestern will be required to refund ratepayers \$9,422,209 it collected through an interim rate adjustment that was based on the full amount of its original request. Until the refund is fully paid, it will accrue interest at a rate of 10.25%, annually. As of Tuesday, interest owed to ratepayers totaled more than \$523,000.

During the Commission's deliberations on Tuesday, Commissioner Roger Koopman proposed an amendment based on the Consumer Counsel's proposed calculations that would have held NorthWestern responsible for an additional \$2.5 million in costs, but the amendment failed for lack of a second.

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