



September 1, 2020

Kimberly D. Bose, Secretary  
Federal Energy Regulatory Commission  
888 First Street N.E.  
Washington, DC 20426

via eFiling

ER20-2795-000

Re: *NorthWestern Corporation (South Dakota)*, Docket No. ER20-\_\_\_\_-000  
**Revisions to Formula Rate Template**

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d, and 18 C.F.R. § 35.13(a)(2)(iii), NorthWestern Corporation d/b/a NorthWestern Energy hereby submits for filing and acceptance revisions to its Formula Rate Template for South Dakota (“South Dakota Template”). NorthWestern’s South Dakota Template and Formula Rate Protocols are on file with the Commission as Attachment H, Addendum 27 to the Southwest Power Pool (SPP) Open Access Transmission Tariff (OATT).<sup>1</sup>

## I. Background

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### A. NorthWestern Energy

NorthWestern is a public utility engaged in the generation, transmission, and distribution of electricity and the supply and transportation of natural gas. Its facilities are located primarily in Montana and South Dakota. In South Dakota, NorthWestern is a transmission owner within the Southwest Power Pool, Inc. and has transferred functional control of its electric transmission facilities to SPP. In Montana, NorthWestern is a transmission owner/operator and balancing authority area operator within the Western Electricity Coordinating Council. NorthWestern’s Montana and South Dakota transmission facilities are not physically connected and are not in the same electric reliability region. This filing and the associated Formula Rate concern only NorthWestern’s South Dakota transmission facilities.

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<sup>1</sup> Southwest Power Pool, Inc., FERC FPA Electric Tariff, Open Access Transmission Tariff, Sixth Revised Volume No. 1, Att. H Add. 27 NW Corp., Attachment H Addendum 27 (NorthWestern Corporation (South Dakota)).



## B. SPP

SPP is a Commission-approved Regional Transmission Organization (RTO).<sup>2</sup> It is an Arkansas non-profit corporation with its principal place of business in Little Rock, Arkansas. SPP currently has 102 members, including 16 investor-owned utilities, 14 municipal systems, 20 generation and transmission cooperatives, 8 state agencies, 16 independent power producers, 12 power marketers, 12 independent transmission companies, 1 federal agency, 2 large retail customers, and 1 alternative power/public interest. As an RTO, SPP: (1) administers, across the facilities of SPP's Transmission Owners, open access transmission service over approximately 68,000 miles of transmission lines covering portions of Arkansas, Iowa, Kansas, Louisiana, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, and Wyoming; and (2) administers the Integrated Marketplace, a centralized day-ahead and real-time Energy and Operating Reserve market with locational marginal pricing and market-based congestion management.<sup>3</sup>

## C. South Dakota Formula Rate

On June 29, 2015, NorthWestern submitted its South Dakota Template and Formula Rate Protocols (together, the "Formula Rate") and an initial Annual Transmission Revenue Requirement (ATRR) for NorthWestern to be collected by SPP as part of the Upper Missouri Zone (UMZ) under the SPP OATT.<sup>4</sup> Subsequently, SPP submitted a filing to incorporate NorthWestern's Formula Rate into the SPP OATT.<sup>5</sup> The Commission consolidated these dockets and accepted the Formula Rate for filing effective October 1, 2015, subject to refund and interest, and established hearing and settlement judge procedures.<sup>6</sup> Ultimately, the parties reached a settlement that resolved all issues. This was approved by the settlement judge as an uncontested settlement,<sup>7</sup> and subsequently by the Commission.<sup>8</sup> The revised Formula Rate reflecting the changes made in the settlement were incorporated into the SPP OATT, effective October 1, 2015.<sup>9</sup>

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<sup>2</sup> See *Sw. Power Pool, Inc.*, 109 FERC ¶ 61,009 (2004), order on reh'g, 110 FERC ¶ 61,137 (2005).

<sup>3</sup> See *Sw. Power Pool, Inc.*, 146 FERC ¶ 61,130 (2014) (order approving the start-up and operation of the Integrated Marketplace effective March 1, 2014).

<sup>4</sup> Docket No. ER15-2069-000, Accession No. 20150629-5293.

<sup>5</sup> Docket No. ER15-2075-000, Accession No. 20150630-5175.

<sup>6</sup> *NorthWestern Corp.*, 152 FERC ¶ 61,260 (2015).

<sup>7</sup> *NorthWestern Corp.*, 156 FERC ¶ 63,046 (2016).

<sup>8</sup> *NorthWestern Corp.*, 157 FERC ¶ 61,008 (2016).

<sup>9</sup> *Southwest Power Pool, Inc.*, ER15-2075-001 (Feb. 24, 2017) (delegated letter order) (accepting SPP's submittal of revisions to update the transmission formula rate template and implementation protocols of NorthWestern to reflect the settlement approved by the Commission, effective October 1, 2015).



NorthWestern employs a historical Formula Rate to calculate its ATRR for jurisdictional service under the SPP OATT. On or before March 1 of each year, NorthWestern recalculates the ATRR for the upcoming Rate Year (April 1 through March 31).<sup>10</sup> This Annual Update is based on NorthWestern's Form No. 1 for the most recent calendar year, and upon NorthWestern's books and records.<sup>11</sup> NorthWestern submits an Informational Filing of its Annual Update to the Commission by December 15 of each year.<sup>12</sup>

#### **D. Docket No. ER20-1090-000**

On February 26, 2020, pursuant to Order No. 864,<sup>13</sup> NorthWestern submitted revisions to its South Dakota Template to account for changes caused by the Tax Cuts and Jobs Act in Docket No. ER20-1090-000. In addition to addressing the directives in Order No. 864, NorthWestern proposed to use a beginning-of-year (BOY) / end-of-year (EOY) average balance to compute accumulated deferred income taxes (ADIT). This proposed revision would align ADIT with gross plant and accumulated depreciation, as required by IRS normalization rules.<sup>14</sup>

On June 8, Missouri River Energy Services (MRES) filed an out-of-time motion to intervene and protest.<sup>15</sup> MRES did not oppose NorthWestern's proposed changes. Instead, MRES argued that NorthWestern should also revise its South Dakota Template to: (1) use BOY/EOY averaging for Prepayments and Materials & Supplies; (2) use the "Transmission under SPP Factor"<sup>16</sup> to allocate the Materials & Supplies expense to transmission and SPP ratepayers; and (3) provide better descriptions for certain worksheets and correct a specific formula description. Thereafter, NorthWestern and MRES agreed that NorthWestern would propose the revisions outlined by MRES in its protest in a separate Section 205 filing in exchange for MRES withdrawing its protest in Docket No. ER20-1090.<sup>17</sup> MRES withdrew its protest,<sup>18</sup> and NorthWestern now submits this Section 205 filing.

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<sup>10</sup> Formula Rate Protocols, p. 1.

<sup>11</sup> Formula Rate Protocols, § II.B.

<sup>12</sup> Formula Rate Protocols, § VI.A.

<sup>13</sup> *Public Utility Transmission Rate Changes to Address Accumulated Deferred Income Taxes*, 84 FED. REG. 65,281, 169 FER. REG. ¶ 61,139 (2019) (Order No. 864).

<sup>14</sup> See discussion in NorthWestern's transmittal letter, pp. 7–8 (Accession No. 20200226-5346).

<sup>15</sup> Accession No. 20200608-5209.

<sup>16</sup> This factor is calculated on *Attachment 5 – Cost Support*, Line 1a of the South Dakota Template.

<sup>17</sup> Accession No. 20200623-5272.

<sup>18</sup> Accession No. 20200626-5157.



## II. Description of Filing

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As discussed above, NorthWestern proposes revisions to its South Dakota Template to address concerns raised by MRES in Docket No. ER20-1090-000 regarding (1) use of BOY/EOY averaging for Prepayments and Materials & Supplies; (2) allocation of Materials & Supplies expense to transmission and SPP ratepayers; and (3) adequacy of descriptions for certain worksheets and correction of a specific formula description. In addition, NorthWestern proposes other ministerial “clean-up” revisions.

The proposed revisions do not change the input data from NorthWestern’s financial reporting or property records, return on equity, depreciation rates, or the SPP qualifying facilities. As shown below, two of the revisions — use of BOY/EOY averages and allocation of Materials & Supplies expense — reduce NorthWestern’s Annual Transmission Revenue Requirement (ATRR). The other revisions do not impact the ATRR or the operation of the Template. NorthWestern does not propose to change substantive issues underlying the settlement agreement in which the South Dakota Template was adopted or the 2020 Annual Update through this filing.

### A. Beginning of Year (BOY) / End of Year (EOY) Average Balance

NorthWestern’s original South Dakota Template<sup>19</sup> used year-end balances for ADIT, gross plant, and accumulated depreciation; however, during settlement proceedings, NorthWestern agreed to revise the Template to BOY/EOY average balances for gross plant and accumulated depreciation. In its Order No. 864 compliance filing,<sup>20</sup> NorthWestern proposed revisions to *Attachment 1 – Accumulated Deferred Income Taxes* to use a BOY/EOY average balance to compute ADIT. NorthWestern also proposed BOY/EOY average balances in the Rate Base Adjustment Mechanism.

Now, NorthWestern proposes to also use BOY/EOY average balances, rather than year-end balances, for Prepayments and Materials & Supplies. Like ADIT, these are adjustments to rate base and should be treated consistently. The calculations for these proposed revisions are shown on *Attachment 5 – Cost Support* of the South Dakota Template. NorthWestern has also revised the *Formula Rate Template Inputs* tab to reflect these changes.<sup>21</sup>

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<sup>19</sup> Docket No. ER15-2069-000.

<sup>20</sup> Docket No. ER20-1090-000.

<sup>21</sup> *Formula Rate Templates Inputs*, Page 1 of 5, Lines 1, 1a, 34 & 36.



## B. Materials & Supplies Allocation

The South Dakota Template allocates transmission plant between assets that are under the SPP tariff and assets that do not qualify as “transmission facilities” under Attachment AI of the SPP tariff. This “Transmission under SPP Factor” is calculated by dividing the “Transmission under SPP” by “Total Transmission.”<sup>22</sup> In the 2020 Annual Update, this allocation factor is 34.92%.

The allocation factor is used to assign certain transmission-related costs to rate base and cost of service consistent with the overall ratio of SPP tariff facilities to total South Dakota transmission plant. For example, Operations & Maintenance (O&M) costs are allocated proportionately.<sup>23</sup> NorthWestern’s current Template assigns 100% of Materials & Supplies to SPP. NorthWestern proposes to revise its Template to allocate Materials & Supplies using the “Transmission under SPP Factor.” This is shown on *Attachment 5 – Cost Support*, Line 41, in the “Transmission under SPP%” column. This proposed revision reduces rate base and the ATRR, as shown in Section III-H, below.

## C. Better Descriptions

NorthWestern proposes additional revisions that do not impact the ATRR or the operation of the Template, but are designed to increase transparency and ease of use. These changes, which are highlighted in the marked version of the Template included as Exhibit No. SPP-0002 to this filing, address MRES’s concern about adequacy of descriptions for certain worksheets and correction of a specific formula description.

First, NorthWestern has corrected a formula description on *Appendix A*, Line 106.<sup>24</sup> This error was noticed by MRES during the Annual Update process and impacted only the description, not the working of the Template.

Second, to address MRES’s request for better descriptions on the ADIT worksheets, NorthWestern has added a column to each of the ADIT-related tabs<sup>25</sup> that identifies the location on the *Formula Rate Template Inputs* tab where the data is entered. This addition will make it easier for interested parties to crosscheck NorthWestern’s Annual Update. These columns are highlighted on Exhibit No. SPP-0002.

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<sup>22</sup> See *Attachment 5 – Cost Support*, “Adjustments to Transmission Plant for only assets under SPP tariff.”

<sup>23</sup> See *Attachment 5 – Cost Support*, “Adjustments to Transmission O & M,” Lines 49–52.

<sup>24</sup> Total Income Taxes = (Line 105 – Line 104 – [Line 103e](#)).

<sup>25</sup> See *Attachment 1 – Accumulated Deferred Income Taxes* through *Attachment 1.6.2a – Tax Change Income Tax Allowance Adjustment Mechanism*.



## D. Other Ministerial Revisions

NorthWestern also proposes ministerial “clean-up” revisions. These revisions, which are outlined below and highlighted in Exhibit No. SPP-0002, do not impact the ATRR or the function of the Template.

- *Formula Rate Template Inputs*, Heading: NorthWestern has revised the month for the beginning of the rate year from “October” to “April.”<sup>26</sup>
- *Formula Rate Template Inputs*, FF1 Page Location: NorthWestern has updated the references to the FERC Form No. 1 pages and footnotes where the input data can be located.
- *Formula Rate Template Inputs*, Page 2 of 5, Lines 29 & 30: NorthWestern proposes to delete these lines, as they are not used.
- *Appendix A*, Line 124: NorthWestern proposes to change the text from “WAPA Integrated System (IS) True-Up of Previous Rate Year” to “Line left intentionally blank.” The adjustment for the WAPA IS true-up was only needed when NorthWestern first transitioned to SPP and is no longer applicable.
- *Attachment 3 – Revenue Credits*, Lines 8 & 9: NorthWestern desires to add a line in the Template to accommodate future sources of revenue credits that may arise. Currently, the line will be left blank, but adding this line will provide flexibility in the future.
- *Attachment 10 – Depreciation Rates*: NorthWestern proposes to revise the column heading for the depreciation rates from specific years to “20xx.”<sup>27</sup>
- *Attachment 11 – Facilities*, Lines 64–66: NorthWestern has added three categories of equipment to the section that crosschecks the total in Line 56.

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<sup>26</sup> NorthWestern’s initial rate year was a partial rate year, beginning on October 1, 2015, when NorthWestern integrated with SPP. Under NorthWestern’s Protocols, NorthWestern’s rate year begins on April 1. See Section I-B, above.

<sup>27</sup> NorthWestern’s depreciation rates were approved by the Commission in its October 4, 2016 Order in Docket No. ER15-2069-000. However, due to administrative error, the depreciation rates were not included in the November 2, 2016 compliance filing submitted by SPP, on behalf of NorthWestern, in Docket No. ER15-2075-000.



### III. General Information

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Pursuant to 18 C.F.R. §§ 35.13(b) and (c), NorthWestern provides the following information:

#### A. List of Documents Submitted<sup>28</sup>

This filing includes this transmittal letter and the following documents:

- Exhibit No. SPP-0001: clean version of the revised South Dakota Template (unpopulated);
- Exhibit No. SPP-0002: marked version of the South Dakota Template;
- Exhibit No. SPP-0003: an illustrative version of the revised South Dakota Template populated for the 2020 Rate Year (with 2019 actual data); and
- Exhibit No. SPP-0004: the current South Dakota Template populated for the 2020 Rate Year (with 2019 actual data), which is posted on the Member Related Postings section of the SPP OASIS.

#### B. Proposed Effective Date<sup>29</sup>

NorthWestern respectfully requests an effective date of November 1, 2020, which is at least 61 days after filing.

#### C. Notice & Service<sup>30</sup>

NorthWestern will provide electronic notice of this filing to Interested Parties on the Formula Rate Posting Information Notification List maintained by SPP and to the South Dakota Public Utilities Commission. NorthWestern will also ask SPP to post the filing on the Member Related Postings section of SPP's OASIS. In addition, this filing is available for public inspection at NorthWestern's Corporate Office, 3010 West 69th Street, Sioux Falls, South Dakota.

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<sup>28</sup> 18 C.F.R. § 35.13(b)(1).

<sup>29</sup> 18 C.F.R. § 35.13(b)(2).

<sup>30</sup> 18 C.F.R. § 35.13(b)(3).



#### **D. Description of the Rate Change<sup>31</sup>**

A description of the rate change is set forth above, and specific revisions are shown in Exhibit No. SPP-0002.

#### **E. Reason for the Rate Change<sup>32</sup>**

NorthWestern's proposed revisions address concerns raised by MRES in its protest filed in Docket No. ER20-1090-000 and during the Annual Update process.

#### **F. Agreement to the Rate Change<sup>33</sup>**

NorthWestern is not required to obtain agreement from any additional party in order to make this filing. NorthWestern reviewed the proposed revisions with MRES and incorporated additional suggestions provided by MRES. NorthWestern has confirmed with MRES that the proposed revisions to the Template resolve the issues raised by MRES in its protest filed in Docket No. ER20-1090-000 and during the Annual Update process.

#### **G. Statement as to Expense and Costs<sup>34</sup>**

There are no expenses or costs that have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative, or unnecessary that are demonstrably the product of discriminatory employment practices.

#### **H. Information Relating to the Effect of the Rate Change<sup>35</sup>**

To illustrate the effect of the rate change, NorthWestern has populated the revised Template with 2019 data.<sup>36</sup> For the 2020 Rate Year, the result is an ATRR reduction of \$124,842. Of this amount, \$10,081 is from using a BOY/EOY average balance for Materials & Supplies and Prepayments. The remaining \$114,760 is due to allocating Materials & Supplies by the percentage of transmission assets under SPP functional control. The overall rate impact is summarized in the following chart.

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<sup>31</sup> 18 C.F.R. § 35.13(b)(4).

<sup>32</sup> 18 C.F.R. § 35.13(b)(5).

<sup>33</sup> 18 C.F.R. § 35.13(b)(6).

<sup>34</sup> 18 C.F.R. § 35.13(b)(7).

<sup>35</sup> 18 C.F.R. § 35.13(c).

<sup>36</sup> Compare Exhibit No. SPP-0003 with Exhibit No. SPP-0004.





	<b>Current Template</b>	<b>Revised Template</b>	<b>Difference</b>
<b>Total Net Property, Plant &amp; Equipment</b>	40,288,617	40,288,617	
ADIT	(5,554,598)	(5,554,598)	
Prepayments	757,779	682,764	(75,015)
Materials & Supplies	2,171,300	\$741,909	(1,429,391)
Cash Working Capital	155,434	155,434	
Non-Escrowed Funds	38,563	38,563	
<b>Total Adjustment to Rate Base</b>	2,508,648	4,013,054	(1,504,406)
<b>Transmission Rate Base in SPP</b>	37,779,969	36,275,563	(1,504,406)
Rate of Return on Rate Base (ROR)	7.01%	7.01%	
Investment Return (Rate Base x ROR)	2,647,761	2,542,327	(105,434)
Total Transmission O&M	1,243,469	1,243,469	
Total Transmission Depreciation	2,139,697	2,139,697	
Total Taxes Other than Income	386,827	386,827	
Total Income Taxes	368,577	349,170	(19,407)
<b>Gross Revenue Requirement</b>	6,786,331	6,661,490	(124,842)
Revenue Credits	(308,607)	(308,607)	
Prior Period Adjustment	523,417	523,417	
<b>Net Revenue Requirement</b>	7,001,141	6,876,299	(124,842)

NorthWestern respectfully requests waiver of the requirements of 18 C.F.R. § 35.13(c) to provide revenue comparison data for the 12 months immediately before and immediately after the proposed effective date of the rate change. NorthWestern employs a historical Formula Rate to calculate its ATRR for jurisdictional service under the SPP OATT. Therefore, using the illustrative version of the revised South Dakota Template populated for the 2020 Rate Year (Exhibit No. SPP-0003) and the current South Dakota Template populated for the 2020 Rate Year (Exhibit No. SPP-0004) provides an apples-to-apples comparison of the two versions of the Template using actual inputs.

In addition, to the extent necessary, NorthWestern seeks waiver of any other requirements of Part 35 of the Commission’s regulations not satisfied by this filing, including the requirement to submit the proposed tariff revisions through eTariff. SPP administers the SPP OATT, and SPP will



make an eTariff filing on behalf of NorthWestern to incorporate the proposed revisions into Attachment H, Addendum 27 of the SPP OATT. This is consistent with the second option for filing revisions to shared tariffs outlined in Order No. 714.<sup>37</sup>

## IV. Communications

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Communications concerning this filing should be directed to the following representatives:

Michael Cashell  
Vice President – Transmission  
NorthWestern Energy  
11 East Park  
Butte, MT 59701  
Phone: (406) 497-4575  
michael.cashell@northwestern.com

M. Andrew McLain  
Director – Transmission Market Strategy &  
FERC Compliance Officer  
NorthWestern Energy  
11 East Park Street  
Butte, MT 59701  
Phone: (406) 443-8987  
andrew.mclain@northwestern.com

## V. Conclusion

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For the reasons set forth above, NorthWestern respectfully requests the Commission accept the proposed revisions to its South Dakota Template, effective November 1, 2020.

Respectfully submitted,

s/ *M. Andrew McLain*

**M. Andrew McLain**

*Director – Transmission Market Strategy & FERC Compliance Officer*

andrew.mclain@northwestern.com

○ (406) 443-8987

Attachments

cc: Formula Rate Posting Information Notification List  
South Dakota Public Utilities Commission

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<sup>37</sup> *Electronic Tariff Filings*, 124 FERC ¶ 61,270, at P 67 (2008) (Order No. 714) (“ISOs and RTOs can agree to make all filings on behalf of the members in order to maintain administrative control over the tariff.”).



## Certificate of Service

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I hereby certify that I have this day served the foregoing document upon each person designated in the foregoing transmittal letter, in accordance with Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.2010.

Dated this 1<sup>st</sup> day of September, 2020.

*s/ Dori L. Quam* \_\_\_\_\_

Dori Quam

Lead – Transmission Regulatory Support

dori.quam@northwestern.com

September 1, 2020

The Honorable Kimberly D. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First St., N.E.  
Washington D.C. 20426

Re: Southwest Power Pool, Inc., Docket No. ER20-\_\_\_\_-000  
Revisions to Formula Rate of NorthWestern Corporation (South Dakota)

Dear Secretary Bose:

Southwest Power Pool, Inc. (“SPP”), on behalf of NorthWestern Corporation d/b/a/ NorthWestern Energy (“NorthWestern”), submits for filing proposed revisions to NorthWestern’s Template and Formula Rate Protocols for South Dakota contained in Addendum 27 to Attachment H of the SPP Open Access Transmission Tariff (“Tariff”).<sup>1</sup>

Pursuant to the SPP Membership Agreement, SPP Members retain the right to submit changes to rates for transmission service over the Member’s transmission facilities, and “[n]o approval from SPP is required for such filings.”<sup>2</sup> NorthWestern has requested that SPP submit the Tariff changes proposed herein under NorthWestern’s letterhead with supporting materials supplied by NorthWestern. With this filing, SPP is not independently supporting or justifying the revision proposed by NorthWestern; but rather, as administrator of the Tariff, SPP makes the eTariff filings necessary to incorporate such changes to rates and revenue requirements.<sup>3</sup>

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<sup>1</sup> Southwest Power Pool, Inc., Open Access Transmission Tariff, Sixth Revised Volume No. 1.

<sup>2</sup> Southwest Power Pool, Inc., Membership Agreement, First Revised Volume No. 3 at Section 3.10.

<sup>3</sup> See *Westar Energy, Inc.*, 122 FERC ¶ 61,268, at P 105 (2008) (requiring SPP to include each transmission owner’s rate formula in the Tariff).

The Honorable Kimberly D. Bose

September 1, 2020

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In addition to the individuals designated for service in NorthWestern's filing, SPP requests that all correspondence and communications with respect to this filing be sent to, and SPP requests that the Secretary include on the official service list, the following:

Nicole Wagner  
Manager-Regulatory Policy  
Southwest Power Pool, Inc.  
201 Worthen Drive  
Little Rock, AR 72223  
Telephone: (501) 688-1642  
Fax: (501) 482-2022  
[jwagner@spp.org](mailto:jwagner@spp.org)

Luke B. Hill  
Attorney  
Southwest Power Pool, Inc.  
201 Worthen Drive  
Little Rock, AR 72223  
Telephone: (501) 482-2375  
Fax: (501) 482-2022  
[lhill@spp.org](mailto:lhill@spp.org)

Respectfully submitted,

/s/ Luke B. Hill

Luke B. Hill  
Southwest Power Pool, Inc.  
201 Worthen Drive  
Little Rock, AR 72223  
Telephone: (501) 482-2375  
[lhill@spp.org](mailto:lhill@spp.org)

**Attorney for  
Southwest Power Pool, Inc.**