**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE APPLICATION OF NORTHWESTERN ENERGY PUBLIC SERVICE CORPORATION DBA NORTHWESTERN ENERGY FOR AUTHORITY TO INCREASE RATES FOR NATURAL GAS UTILITY SERVICE IN SOUTH DAKOTA

STAFF MEMORANDUM SUPPORTING SETTLEMENT STIPULATION

DOCKET NG24-005

Commission Staff (Staff) submits this Memorandum in support of the Settlement Stipulation (Settlement) of December 4, 2024, between Staff and NorthWestern Energy Public Service Corporation dba NorthWestern Energy (NorthWestern or Company) in the above-captioned matter.

BACKGROUND

On June 21, 2024, the Company filed an application with the South Dakota Public Utilities Commission (Commission) requesting approval to increase rates for natural gas service to customers in its South Dakota retail service territory by approximately $6.0 million annually or approximately 9.10%. A typical residential natural gas customer using 100 therms per month would see a bill increase of $8.38 per month, or 7.92% under NorthWestern's proposed rates.

NorthWestern's proposed increase was based on a historical test year ended December 31, 2023, adjusted for what NorthWestern believed to be known and measurable changes, a 10.70% return allowance on common equity, and a 7.75% overall rate of return allowance on rate base.

NorthWestern's last natural gas base rate increase application was filed on May 20, 2011[1]. NorthWestern states[2] that since then, NorthWestern has invested $82.1 million in South Dakota natural gas infrastructure to continue its commitment to providing reliable, sustainable energy service at the most affordable rates possible for customers. Investments include automated meter reading technology to replace manually read meters and maintenance of 1,747 miles of natural gas distribution pipeline in South Dakota. NorthWestern states a rate increase is necessary in order to ensure that customers will continue to be served by a financially sound company with access to low-cost capital to continue efficient investments that ensure reliable, safe energy service for customers.

The Commission officially noticed NorthWestern's filing on June 27, 2024, and set an intervention deadline of August 19, 2024. On July 8, 2024, the Commission issued an Order Assessing Filing Fee; Order Suspending Operation of Proposed Rates; Order Authorizing Executive Director to Enter into Consulting Contracts.

[1] See Docket NG11-003.
[2] See Notice of Proposed Changes of Rates and Charges

On November 8, 2024, after extensive discovery, Staff provided NorthWestern with its draft revenue requirement determination. Thereafter, Staff and NorthWestern (jointly, the Parties) engaged in settlement discussions in an effort to arrive at a mutually acceptable resolution of the issues presented in NorthWestern's filing. Ultimately, the Parties reached a comprehensive agreement on NorthWestern's overall revenue deficiency and other issues presented in this case including, but not limited to, class revenue responsibilities, rate design, and tariff concerns.

OVERVIEW OF SETTLEMENT

Staff's revenue requirement determination is the result of a comprehensive analysis of NorthWestern's filing and information obtained during discovery. Staff accepted some Company adjustments, made corrections where necessary, modified other adjustments, and rejected those that did not qualify as known and reasonably measurable. Lastly, Staff introduced new adjustments not reflected in NorthWestern's filed case.

Company and Staff positions were discussed thoroughly at the settlement conferences. As a result, some positions were modified, and others were accepted where consensus was found. Ultimately, the Parties agreed on a comprehensive resolution of all issues. Staff believes the settlement is based on sound regulatory principles and avoids additional costly and unnecessary litigation.

The Parties agree NorthWestern's revenue deficiency recovered through base rates is $4,599,335. The revenue requirement and supporting calculations described in this Memorandum and attachments depict Staff's positions regarding all components of NorthWestern's South Dakota jurisdictional revenue requirement.

STAFF OVERVIEW OF BASE RATE SETTLEMENT

Staff's settlement revenue requirement determination begins with total Company test year costs for the twelve months ended December 31, 2023, and allocates those amounts to the South Dakota natural gas retail jurisdiction. Staff then adjusted the December 31, 2023, test year results for known and measurable post-test year changes. Staff Exhibit___(PJS-1), Schedule 3 illustrates Staff's determination of NorthWestern's *pro forma* operating income under present rates. Staff Exhibit___(PJS-2), Schedule 2 illustrates Staff's calculation of NorthWestern's South Dakota retail rate base, and Staff Exhibit___(PJS-1), Schedule 2 and Staff Exhibit___(PJS-2), Schedule 1 summarize the positions. Staff Exhibit___(PJS-1), Schedule 1 summarizes Staff's determination of NorthWestern's base rate revenue deficiency and total revenue requirement.

The base revenue increase by rate schedule is shown on Staff Exhibit___(BAM-6), Schedule 2. Staff Exhibit___(BAM-6), Schedules 3-1 through 3-4 reflect the settlement base rates for each rate schedule. The comparison between present and settlement rates and resulting bill impacts for the Residential Service Rate 81 rate schedule and Small Commercial Service Rate 82 is shown on Exhibit___(BAM-6), Schedule 4. Exhibit___(BAM-6), Schedule 1 compares the settlement revenue increase to the revenue increase requested in NorthWestern's filing.

Below is a brief discussion of the issues that Staff identified in the case and Staff's view of the resulting settlement of each issue. Unless otherwise noted, all changes discussed below are changes from the Company's filed position. It should be noted that for most of the issues in this case, NorthWestern's initial position on the issue was identical to how the issue was settled in the Company's last electric rate case, docket EL23-016. This was greatly appreciated by Staff, as it made for more efficient processing of this rate case. In addition, this means that NorthWestern's requested increase was smaller than it would otherwise have been. This results in a lesser reduction from the proposed request to the settlement determination than we have generally seen in other cases.

RATE BASE AND OPERATING INCOME ADJUSTMENTS

Weather Normalization – NorthWestern proposed an adjustment to normalize revenues and gas costs based on weather normalized volumes. Staff determined, however, that the difference in test year heating degree days (HDDs) compared to the National Oceanic and Atmospheric Association (NOAA) normal HDDs was not statistically significant. Therefore, Staff rejected the Company's adjustment as no weather adjustment is warranted in this case. This adjustment reduced operating revenues by approximately $61,000 and reduced operating expenses by approximately $49,000, resulting in a net increase to the revenue deficiency of approximately $12,000.

Book to Bill – NorthWestern proposed an adjustment to actual revenues booked during the test year to account for the variance between booked revenue and billed revenues in the test year. These revenues differ because of situations such as pro-rated billing cycles, account close-outs, meter misreads, and out-of-period adjustments that affect the amount of revenues booked by the Company versus the revenues billed. The billed revenues were determined based on the test year billing determinants for each rate element multiplied by the tariff rates in effect during the test year. Staff accepts this adjustment, with minor corrections. These corrections reduced operating revenues and increased the revenue deficiency by approximately $5,000.

Remove Management Fee – The Company proposed an adjustment to remove the test year annual management fee income that NorthWestern receives from several large customers served pursuant to contracts with deviations. As part of these contracts with deviations, NorthWestern receives a management fee that represents NorthWestern's return for serving these customers. Absent this adjustment, all of NorthWestern's other customers would receive this revenue through the cost of service instead of NorthWestern's shareholders. Staff accepts this adjustment.

Contract Renewal Revenue Change – NorthWestern proposed an adjustment to reduce test year revenues for changes in contract with deviation rates occurring during and post test-year. Staff revises this adjustment to correct certain rates that were inconsistent with the contracts with deviations. This results in a decrease to operating revenues and an increase to the revenue deficiency of approximately $4,000.

New Customer Revenue – The Company proposed an adjustment to reflect additional revenues associated with a new contract with deviations customer who began service during the test year. While Staff generally does not normalize revenues due to sales growth as it is difficult to determine a known and measurable revenue adjustment that adheres to the matching principle, given the base rates in this contract consist of **[Begin Confidential]** [redacted] **[End Confidential]** does not create any matching concerns. Therefore, Staff accepts this adjustment.

MGP Recovery Reduction – In NG07-013, the Commission approved rates designed to collect from customers $1,425,400 annually for the Company's recovery of on-going costs incurred to remediate the site of the former Aberdeen manufactured gas plant (MGP). The settlement agreement required the

Company to track the costs actually incurred and to credit ratepayers for any shortfall in the remediation expenditures. In NG11-003, the Commission approved continued recovery of ongoing remediation costs, estimated at $2 million annually, reduced by a five-year amortization of the cumulative over-collections for the time period NG07-013 rates were in effect. This resulted in rates designed to allow for the recovery of $1,739,886 annually in MGP remediation costs. The settlement stipulation again required the recovery to be tracked so that any over-collection would be returned to customers in the Company's next rate case.

Since that time, system sales volumes increased, resulting in higher recoveries, and actual remediation costs at the Aberdeen site were less than forecasted. With NG11-003 rates still in effect recovering the higher estimated costs, a balance started accumulating. In Docket NG16-010, the Commission approved a refund plan to return to customers the over-recovered balance through a bill credit. The Commission approved this refund plan annually since that time. By refunding the over-collection to customers each year, the Company avoided a large balance that would have needed to be returned to customers in this current rate case, and allowed current customers who paid the rates to be credited for the overage instead of giving the refund to future customers.

In the 2023 test year, NorthWestern recovered $2,174,459 associated with the Aberdeen MGP remediation. NorthWestern offset these revenues in full by regulatory amortization of $2,174,459. In this docket, NorthWestern proposed an adjustment to reduce the MGP revenues and regulatory debits/credits based on the average expense expected for 2025-2029, $355,000. This average expense is based on the forecast provided by Arcadis, which is the company who monitors the MGP sites. This resulted in a proposed adjustment to reduce revenues and regulatory debits/credits by $1,819,459.

The Company again proposed to track the actual recoveries compared to the estimate. Therefore, Staff was agreeable to the Company's adjustment and the settlement generally accepts the adjustment[3] with one correction resulting in an adjustment to reduce revenues and regulatory debits/credits by $1,817,334 in lieu of the Company's proposed adjustment of $1,819,459. The 2023 test year regulatory amortization debit/credit amount was $2,211,580[4]. This balance less the adjustment of $1,817,334 results in an annual MGP recovery amount of $394,245 included in base rates.

The Company also requested in its testimony to establish a separate tracker and rate to recover these costs in lieu of recovery through base rates. Staff did not oppose the Company's request to establish a tracker given the Company previously had a MGP tracker beginning in 1996[5] before the recovery was moved to base rates in NG07-013, and the process of tracking the recovery in base rates and issuing a refund to customers as has been done in recent years essentially operates as a tracker. However, NorthWestern proposed that the separate tracker rate would be adjusted monthly and filed alongside the Purchased Gas Adjustment (PGA) filing. Staff did not agree the separate MGP rate could be adjusted monthly automatically without Commission approval and suggested an annual filing instead should NorthWestern desire to have a separate MGP rate. Following settlement discussions, NorthWestern and Staff agree to continue recovery of the MGP costs through base rates with an annual refund or surcharge filing, if necessary, should costs vary significantly from what is being recovered through base rates.

---

[3] The settlement corrects the therms used for Rate 87B to exclude two contract with deviations customer volumes. However, the adjustment still results in a net $0 impact to operating income.

[4] See Statement M, line 12, column (c).

[5] Docket NG96-015.

NorthWestern also proposed to move the balance of remediation costs associated with other MGP sites in Woonsocket, Mitchell, and Yankton to the MGP recovery/expense account. Staff has no issue with the Company recovering these costs, which totaled under $100,000 at the time NorthWestern filed this rate case. A regulatory asset was established for the Mitchell and Yankton sites in 2007[6] and in 2013 for Woonsocket. There is no ongoing or planned remediation at these sites.

Labor – NorthWestern proposed this adjustment to recognize the contracted union salary increases of 4.00% in 2024 and 4.00% in 2025 as well as the actual average non-union increases of 4.74% in 2024. Staff has reviewed salary studies which indicate NorthWestern's pay increases are in line with industry averages. Therefore, Staff accepts this adjustment.

401k – NorthWestern proposed a corresponding adjustment to recognize the 2024 and 2025 pay increases as they pertain to 401k contributions. Staff accepts this adjustment.

Payroll Taxes – NorthWestern proposed a corresponding adjustment to recognize the 2024 and 2025 pay increases as they pertain to Social Security, Medicare, Federal Unemployment Tax, and State Unemployment Tax contributions. Staff accepts this adjustment.

FPP Amortization – NorthWestern proposed this normalizing adjustment to the test year to remove an actuarial gain related to its now terminated Family Protector Plan. NorthWestern recorded an actuarial gain in 2021 and began amortizing it over three years from 2021-2023. With the amortization ending in 2023, a normalizing adjustment of $90,916 has been made as this amortization will not exist after 2023. Staff accepts this adjustment.

Medical Costs – NorthWestern proposed this adjustment to recognize increased medical costs they have experienced in 2024. NorthWestern proposed to reflect the actual costs incurred in the twelve months ending May 31, 2024. The settlement updates this adjustment to reflect actual expenses in the most recent twelve months ending October 31, 2024. The effect of this adjustment increased the revenue deficiency by approximately $25,000.

General Advertising and Sponsorships – NorthWestern proposed an advertising adjustment to remove the South Dakota State Fair Sponsorship, sponsorship of sporting events such as SDSU and Stampede Hockey games, sponsorship of Leadership South Dakota, a contribution to the DEX building on the State Fairgrounds, and other non-jurisdictional or economic development related items that are capped under our current Economic Development policy. The settlement accepted this adjustment and further removed additional advertising costs which do not provide for the provision of safe, adequate, and reliable natural gas service for South Dakota ratepayers. Additional expenses removed included promotional and electric advertising. The effect of this adjustment reduced the revenue deficiency by approximately $5,000.

Promotional Advertising – NorthWestern proposed an adjustment to remove all promotional, institutional, and non-jurisdictional advertising expenses from account 913. The settlement accepted this adjustment.

Economic Development – The Company proposed to increase its budget for Economic Development from the current $30,000 split 50/50 with shareholders and ratepayers to $50,000 split 50/50 with shareholders and ratepayers. This increases the Economic development in base rates by $10,000 from

[6] NorthWestern has been incurring costs since prior to 1995 for these two sites.

$15,000 to $25,000. This adjustment removed all costs over the $25,000 natural gascustomer share from the test year plus. This settlement accepts this adjustment as for the increase in budget. This adjustment then removed additional costs over the $25,000 cap for ratepayers. The effect of this adjustment reduced the revenue deficiency by approximately $6,000.

Board Dividends – NorthWestern proposed this adjustment to remove the costs associated with board of Director deferred compensation plans. Staff accepted this adjustment.

Bad Debt – NorthWestern proposed an adjustment to increase bad debt expense based on a 5-year uncollectible rate average applied to adjusted retail revenues. The settlement modifies this adjustment to 1) use a 3-year uncollectible rate average by removing 2020 and 2021 from the calculation to remove the impact the COVID collection suspension had on the uncollectible rate, and 2) use the settlement amount of adjusted retail revenues. This modification decreases operating expense and the revenue deficiency by approximately $15,000.

Spousal Travel and Lineman's Rodeo Trip on Aircraft – NorthWestern proposed an adjustment to remove the aircraft costs related to spouses riding on the NorthWestern aircraft and all aircraft costs related to the trip to attend the National Lineman's Rodeo. This adjustment uses the same methodology that was used in the recent electric rate case. Staff accepts this adjustment.

Rate Case Expense – The Company proposed to amortize projected rate case costs of $124,421 over a three-year period and include the average unamortized amount of $62,210 in rate base. This settlement reflects a three-year amortization of $52,282 in actual costs incurred as well as the inclusion of the average unamortized amount of $26,141 in rate base. The effect of this adjustment decreases the amortization expense by approximately $24,000 and decreases rate base by approximately $36,000. This adjustment decreases the revenue deficiency by approximately $27,000.

Incentive Compensation – NorthWestern offers its officers, managers, and employees opportunities to earn incentive compensation in addition to their base salaries and wages. The Company offers these opportunities under three separate plans: the Long-Term Incentives Plan (LTIP); the Employee Incentive Compensation Plan; and the Retirement Savings Plan Incentive Match. In prior South Dakota gas and electric rate cases, stipulations recommended by Staff have eliminated incentive compensation expenses that were awarded based on achieving financial targets were approved by the Commission. In the instant proceeding, NorthWestern proposed to exclude $221,420 from incentive compensation via the LTIP, STIP, and associated 401k match removal. This is the amount that was awarded during the test year for achieving financial performance targets. The remaining incentive expense in the test year is the portion related to safety, customer satisfaction, and reliability. Staff accepts the Company's filed Incentive Compensation adjustments with the condition that if the Company does not pay the remaining Short Term Incentive Plan (STIP) during any given year, the total amount of STIP expenses included in base rates for each year STIP is not paid will be entered into an account and be refunded to ratepayers in the Company's next rate case. The treatment reflected in the settlement in this proceeding is consistent with Staff's and the Commission's treatment of incentive compensation expenses in recent prior electric and gas proceedings.

Claims and Property Insurance – The Company proposed an adjustment to reflect twelve months ended June 2024 expenses for Claims & Injury Comp. as well as updated the Property Insurance Expense to include months from the current policy amount. In response to Staff's discovery, the Company updated the insurance expense portion of the Claims & Injury Comp. to the new policy expense for a full year. The remaining three subaccounts in the Claims & Injury account were averaged over five years. Also in discovery, the Company updated the Property Insurance portion of the update to reflect a full year of expenses for the new policy. The settlement reflects this revised adjustment, increasing operating expense and the revenue deficiency by approximately $429,000.

Postage – The Company proposed an adjustment to reflect increases in postage costs due to the increase in the cost of stamps. This settlement adjusts for the increase in postage costs due to stamp price increases and also takes into account the reduced number of bills that get mailed. An average annual decrease in the number of bills mailed to customers over five years was deducted from the adjusted postage expense. This adjustment decreases operating expense and the revenue deficiency by approximately $2,000.

NSF Charge – The Company proposed an adjustment to reflect an increase in the nonsufficient funds (NSF) charge. The Company proposed to change the charge from $15 to $30. The settlement accepts the increase in the charge but reflects a three-year average of NSF counts for the expense above the test year expense. This adjustment increases revenues and increases the revenue deficiency by approximately $500.

Depreciation for New Rates – NorthWestern proposed an adjustment to depreciation expense to reflect the impact of its proposed depreciation rates. The Company's proposed depreciation rates were based on the depreciation study performed by NorthWestern's consultant, Mr. John Spanos. Staff carefully reviewed Mr. Spanos' depreciation study and proposed certain adjustments. However, for settlement purposes, the Parties agreed to a depreciation expense adjustment reflecting a compromise between Staff's proposed depreciation rates and the Company's proposed depreciation rates. This adjustment decreases depreciation expense by approximately $857,000 and increases rate base by approximately $616,000 for a net decrease to the revenue deficiency of approximately $803,000.

Normalizing Additions/Retirements During Test Year – The Company proposed an adjustment to annualize test year plant additions that were completed during the test year. The settlement determination revises the Company's adjustment to: 1) update depreciation rates to reflect those determined in this case; 2) use a twelve month calculation for depreciation expense; and 3) update the first year tax depreciation rate to match the MACRS tables. The net effect of these changes is to increase rate base by approximately $24,000 and reduce depreciation expense by approximately $7,000. This adjustment decreases the revenue deficiency by approximately $5,000.

Interest Synchronization – NorthWestern proposed an adjustment to synchronize the tax deduction for interest expense with the weighted cost of long-term debt and the historic test year rate base as adjusted for known and measurable changes. The settlement modifies this adjustment to use the settlement weighted cost of long-term debt and pro-forma rate base. This modification decreases tax expense and the revenue deficiency by approximately $36,000.

Carrying Charge – NorthWestern proposed an adjustment to remove the recorded interest income from customers calculated on under-collected tracker balances as it is not guaranteed or known for any periods beyond the test year. Staff accepted this adjustment.

Income Tax Adjustment – The Company's filing included pro forma adjustments to income tax for true up items and tax adjustments for temporary differences. The settlement accepts this adjustment.

Cash Working Capital – NorthWestern's proposed rate base included an allowance for cash working capital based on a lead-lag analysis. A lead-lag analysis examines the timing of the Company's receipt of service revenues from customers in relation to the Company's payment of expenses to vendors and employees. Staff carefully examined NorthWestern's revenue lag and expense lead day determinations and made the following modifications:

1. Revised the lead days for labor to remove non-labor items from weighted average;
2. Revised the lead days for federal income tax to correct an error in the formula;
3. Revised the revenue lag days to reduce collection lag to 20 days per ARSD 20:10:15:02(8);
4. Revised expense per day to incorporate into the lead-lag analysis the impacts of the settlement pro forma operating expense.

These modifications decreased rate base by approximately $257,000 and the revenue deficiency by approximately $22,000.

Tax Collections Available – Staff proposed, and the settlement includes, an adjustment to reduce rate base for tax collections NorthWestern receives in advance of turning the related payments over to the taxing authorities. This adjustment reduces rate base by approximately $149,000 and the revenue deficiency by approximately $13,000.

Other Working Capital – NorthWestern proposed an adjustment to remove the accumulated provision for uncollectibles and the accumulated provision for injuries and damages from rate base, because these items have already been properly captured in the lead-lag study in the cash working capital adjustment. The settlement accepts these removals and updates material and supplies, fuel stocks, customer deposits, and prepayments to reflect a more recent 13-month average. These updates increase rate base by approximately $393,000 and the revenue deficiency by approximately $34,000.

COST OF CAPITAL AND RATE OF RETURN

NorthWestern's filing incorporated a required overall rate of return (ROR) of 7.75 percent, based on a capital structure of 46.87 percent long-term debt and 53.13 percent common equity, with a claimed embedded cost of debt of 4.42 percent and a requested return on equity (ROE) of 10.70 percent. In last year's electric rate case, Docket No. EL23-016, NorthWestern proposed a pro forma capital structure of 49.50 percent long-term debt and 50.50 percent common equity that included anticipated changes from the impending reorganization to a holding company structure. **[Begin Confidential]** [redacted]

[redacted]

[redacted]

[redacted]

[redacted] **[End Confidential]** the settlement overall rate of return is 6.91 percent. The reduction in the overall rate of return reduces the revenue deficiency by approximately $1,017,000.

RATE DESIGN ISSUES

The settlement position reached between Staff and NorthWestern on all issues regarding rate design and the class revenue distribution is discussed below.

Class Cost of Service/Spread of the Increase – NorthWestern prepared a class cost of service study (CCOSS). A CCOSS is useful in aiding the analyst in assigning a utility's revenue requirement to customer classes based on cost causation. The fundamental principle underlying cost allocation studies is that costs are attributed to customer groups based on the costs to serve those groups or on the relative benefits received by the groups. Costs examined in a cost study may be either directly assigned or allocated to the customer classes. Rationally allocated costs are an important factor to consider, but not the sole factor, in establishing class revenue targets.

The CCOSS NorthWestern prepared utilized the methods employed in previous NorthWestern natural gas rate cases. NorthWestern's study showed that present rates in the Residential class were generating rates of return above the rates of return being generated in the other classes. The Company's proposed class rate increases were designed to equalize the rates of return for all classes.

Staff reviewed NorthWestern's CCOSS and has no significant concerns with the way in which the study was conducted. However, Staff identified a calculation error that once corrected revealed that present rates in the Residential class were generating rates of return slightly below the rates of return being generated in the other classes. Staff also agrees with the general proposition that, barring overriding concerns that are not present in this proceeding, equalized class rates of return result in just and reasonable rates. Therefore, Staff did not oppose distributing the increase among the rate classes so as to equalize class rates of return, as proposed by NorthWestern. The settlement increase was spread among the classes accordingly so that each customer class generates rates of return at the settlement rate of return. The resulting increases per class in accordance with the settlement are summarized on Exhibit___(BAM-6) Schedule 2.

Residential Customer Charge – Presently, NorthWestern's Residential monthly customer charge is $8.00 per month. NorthWestern proposed to increase the residential customer charge by $2.00 to $10.00 per month. Given the passage of time since NorthWestern's last natural gas rate increase, Staff agrees a $2.00 increase and the resulting $10.00 monthly customer charge is reasonable.

Released Capacity and Balancing Surcharge – NorthWestern proposed to update the Released Capacity and Balancing Surcharge for Rates 84, 85, and 86. This rate is associated with costs charged by the upstream pipelines, Northern Border and Northern Natural Gas (NNG), and is charged for all therms taken above the customer's elected firm demand. The rate was established as part of Rate 84 and 86 and per the tariff is added to the Gas Commodity Charge on Section No. 3, Sheet No. 9a. Per Section No. 3, Sheet No. 9b, the rate is also charged to Rate 85 customers. Costs have increased since the time the rate was implemented in 1996, necessitating the change proposed in this case.

NorthWestern passes the revenue received from this surcharge back to customers through the PGA, as the associated costs are included in the PGA. Therefore, the proposed rate change does not result in additional revenues for NorthWestern. The change, however, more appropriately allocates these costs to those customers using more than their elected firm demand. Staff and NorthWestern agreed that the surcharge rate should be removed from the Rate 84 and 86 tariffs, and instead be included directly in the PGA for all three rate schedules, given the rate is directly associated with upstream pipeline charges. This change will allow the rate to be updated routinely with the PGA filings.

Milbank Demand Charge – The Company proposed to update the Milbank Transmission Line Demand Rate. This rate was initially established as contracts with deviations in Docket NG11-001. Subsequently, in rate case Docket NG11-003, this rate was established as part of Rate 87 in NorthWestern's tariff. In 2011, NorthWestern purchased the 55-mile Milbank Pipeline from NNG. The four large customers served off this pipeline are charged a demand rate associated with this firm service. It was necessary for NorthWestern to update this rate from the rate established in 2011 due to a SD DOT project that required this pipeline to be moved in 2022. The rate changed from the current rate of $1.08 to a proposed rate of $1.20. However, during settlement discussions, Staff and NorthWestern agreed to certain changes regarding the calculation of this demand charge.

First, the carrying charge was updated to reflect the settlement rate of return in lieu of the Company's proposed rate of return, reducing the demand rate. Second, the capacity/balancing surcharge revenue collected from these four customers was credited to the Milbank demand charge calculation. NorthWestern and Staff agreed that allocated share of surcharge revenue should go back to this group of customers as opposed to the entire group of Rate 87 customers. These customers are paying for part of this pipeline through this demand rate. They also pay a released capacity/balancing surcharge when they transport volumes in excess of their contract demand. This revenue is in addition to the demand charge and results in additional pipeline cost recovery. Ultimately the four large customers receive about half of the credit, which reduces the demand rate. The resulting settlement Milbank Demand Charge rate is $0.92.

Rate 89 – NorthWestern proposed a new rate schedule, Rate 89, High Volume Transport Customers. This tariff rate would apply to customers whose annual volumes exceed 10,000,000 therms, who have a direct connect to an upstream pipeline, and whose pipeline installation costs were recovered through a contract with deviation. The goal of this proposed rate was to move several high-volume customers from contracts with deviations to a tariff rate. NorthWestern currently calculates the rates for the customers using a standard method. By moving these customers to a tariff rate, routine filings of contracts with deviations for Commission approval would be avoided. However, NorthWestern's proposed commodity charge for Rate 89 was a "negotiated rate per therm not to exceed: $0.0501". Staff was concerned that a tariff referencing a negotiated rate would still require a contract with deviations filing and approval by the Commission. Given NorthWestern desired the rate not be published in the tariff, the Parties agreed to continue the current contract with deviations approval process, and the proposed Rate 89 tariff is excluded from the settlement tariffs.

OTHER ISSUES

Rate Moratorium – The Parties agree that NorthWestern shall not file any rate application for an increase in base rates which would go into effect prior to January 1, 2028.

Implementation of Rates – The tariffs shown on Exhibit 2 attached to the Settlement Stipulation are proposed to be implemented for service rendered on or after December 19, 2024[7]. Customer bills will be prorated so that usage prior to that date is billed at the current rates and usage on and after that date is billed at the new rates.

One Call/Damages – NorthWestern stated during discovery that it did not have significant lost gas due to any hit pipeline, and it does not generally calculate the cost of lost gas due to such hits, unless it is significant. Any lost gas would flow through the annual lost and unaccounted for gas calculation. Since NorthWestern bills for costs related to damages caused by others, the test year does not include any amount for these damages. There were no billings for accidents with lost natural gas written off to Account 904 during the test year. The following chart provides information related to lines hits for the last three calendar years.

	2021	2022	2023
Number of hits that occurred in each year	88	99	99
Number of hits due to mis-locates	14	18	19
Number of One-Call complaints filed by NWE	4	4	1
Number of One-Call complaints filed against NWE	0	0	0
Total billed for gas damages that credited cost of service	$48,334	$36,026	$41,360

RECOMMENDATION

Staff recommends the Commission approve the Settlement for the reasons stated above.

[7] Note: The PGA tariff sheets, Section No. 3, Sheets 9a and 9b will be effective January 2, 2025.