

**FY09 Average System Cost Draft Report
Comments of North Western Energy**

- 4.3.1. Account 182.3 Other Regulatory Assets – Unbilled CTC**
Issue *Whether NWE appropriately functionalized Unbilled CTC QF.*
Positions NWE functionalized this account to Production.
Decision NWE failed to provide documentation showing Unbilled CTC is included in retail rate base. BPA will functionalize to Distribution.
Comment NWE supports BPA’s decision.
- 4.3.2. Account 182.3 Other Regulatory Assets – Basin Creek**
Issue *Whether NWE appropriately functionalized Basin Creek.*
Positions NWE functionalized this account to Production.
Decision NWE failed to provide documentation showing Basin Creek is included in retail rate base. BPA will functionalize to Distribution.
Comment NWE supports BPA’s decision.
- 4.3.3. Account 182.3 Other Reg Assets – Compensated Absences - Contra**
Issue *Whether NWE appropriately functionalized Compensated Absences - Contra.*
Positions NWE functionalized this account to Labor. In the response to BPA-NW-14 the “Comments” section states that these costs (related to vacation accruals) are offset by a benefit liability.
Decision NWE failed to provide documentation showing Compensated Absences Contra is included in retail rate base. BPA will functionalize to Distribution.
Comment NWE supports BPA’s decision.
- 4.3.4. Account 182.3 Other Regulatory Assets – Compensated Absences**
Issue *Whether NWE appropriately functionalized Compensated Absences.*
Positions NWE functionalized this account to Labor. In the response to BPA-NW-14 the “Comments” section states that these costs (related to vacation accruals) are offset by a benefit liability.
Decision NWE failed to provide documentation showing Compensated Absences is included in retail rate base. BPA will functionalize to Distribution.
Comment NWE supports BPA’s decision.
- 4.3.5. Account 182.3 Other Reg Assets – Compensated Absences – Contra**
Issue *Whether NWE appropriately functionalized Compensated Absences - Contra. (Note: NWE would like to point out that this line item is incorrectly labeled on the “Regulatory Assets” tab but is correctly*

labeled “FAS 106” on the “Regulatory Assets Total” tab included in the Supporting WP file.)

Positions	NWE functionalized this account to Labor. In the response to BPA-NW-14 the “Comments” section states that these costs (related to post-employment benefits) are offset by a benefit liability.
Decision	NWE failed to provide documentation showing Compensated Absences – Contra (corrected as FAS 106) costs are included in retail rate base. BPA will functionalize to Distribution.
Comment	NWE supports BPA’s decision. However, NWE would note that there’s an amount of \$230,811 identified as “FAS 106 Transitional Obligation” included in the Other Deferred Credits section on the “Regulatory Assets” tab that NWE believes should also be functionalized to Distribution. This is a corresponding liability (Account 253) that NWE believes follows BPA’s discussion and decision in Generic issue 6.1.3.

4.3.6. Account 182.3 Other Regulatory Assets – Compensated Absences

Issue	<i>Whether NWE appropriately functionalized Compensated Absences. (Note: NWE would like to point out that this line item is incorrectly labeled on the “Regulatory Assets” tab but is correctly labeled “FAS 112” on the “Regulatory Assets Total” tab included in the Supporting WP file.)</i>
Positions	NWE functionalized this account to Labor. In the response to BPA-NW-14 the “Comments” section states that these costs (related to post-employment benefits) are offset by benefit liability.
Decision	NWE failed to provide documentation showing Compensated Absences (corrected as FAS 112) costs are included in retail rate base. BPA will functionalize to Distribution.
Comment	NWE supports BPA’s decision.

4.3.7: Account 182.3 Other Regulatory Assets – FAS 106

Issue	<i>Whether NWE appropriately functionalized FAS 106. (Note: NWE would like to point out that this line item is incorrectly labeled on the “Regulatory Assets” tab but is correctly labeled “Pension Plan” on the “Regulatory Assets Total” tab included in the Supporting WP file.).</i>
Positions	NWE functionalized this account to Labor. In the response to BPA-NW-14 the “Comments” section states that these costs are recovered on a modified funding basis.
Decision	NWE failed to provide documentation showing Pension Plan costs are included in retail rate base. BPA will functionalize to Distribution.
Comment	NWE supports BPA’s decision. However, NWE would note that there’s an amount of \$38,304,725 identified as “Pension Plan Requirement” included in the Other Deferred Credits section on the “Regulatory Assets” tab that NWE believes should also be functionalized to Distribution. This is a corresponding liability (Account 253) that NWE believes follows BPA’s

discussion and decision in Generic issue 6.1.3. In addition, NWE would propose that the amount of \$9,682,182 identified as “Pension Differential” included in “Regulatory Debits” and reflected on Schedule 3B also be functionalized to Distribution to maintain consistent treatment of pension-related items.

4.3.8. Account 303.1 Common Plant Intangible – Software

Issue	<i>Whether NWE appropriately functionalized Common Plant Intangible - Software.</i>
Positions	NWE functionalized this account using the PTD ratio. BPA couldn't find consistent functionalization of software among the filing utilities. In response, BPA developed a software functionalization framework and encouraged NWE to use this framework.
Decision	BPA could not determine from information supplied by NWE how to functionalize software systems. Initially, BPA will functionalize to Distribution and work with NWE to use BPA's software framework.
Comment	NWE supports BPA's decision. In order to effectively utilize the software framework developed by BPA, NWE created a common plant spreadsheet with individual software detail following BPA's template. There were a few items in question included in the template and NWE's spreadsheet includes proposed functionalization methods for these items.

4.3.9. Account 303.2 Common Plant Intangible – Software

Issue	<i>Whether NWE appropriately functionalized Common Plant Intangible - Software.</i>
Positions	NWE functionalized this account using the PTD ratio. BPA couldn't find consistent functionalization of software among the filing utilities. In response, BPA developed a software functionalization framework and encouraged NWE to use this framework. The majority of the costs included in this account are related to the SAP Enterprise Resource Planning system that according to BPA's framework should be functionalized using the Labor ratio.
Decision	BPA will functionalize using the Labor ratio.
Comment	NWE supports BPA's decision.

4.3.10. Common Plant Accounts 389-398

Issue	<i>Whether NWE appropriately functionalized Common Plant Accounts 389-398.</i>
Positions	NWE functionalized these accounts using the PTD ratio but didn't provide adequate support.
Decision	BPA will use the functionalization included on Table 1 of the 2008 ASCM.

Comment NWE supports BPA’s decision. These accounts are included in the common plant spreadsheet NWE created to follow the software functionalization framework developed by BPA. In addition, NWE is providing depreciation/amortization expense detail for each of the individual accounts (389-398) and proposes that BPA replace the allocation it performed to functionalize the expense with the functionalization presented in the spreadsheet.

4.5.1. Schedule 2: Capital Structure and Rate of Return

Issue *Whether the Return on Equity (ROE) from a 2000 Montana Public Service Commission (MPSC) rate order a reasonable proxy for NWE’s ROE?*

Positions The last authorized ROE submitted by NWE is from a period prior to the utility’s purchase by NWE. Recognizing the uniqueness of the situation, BPA compared the ROE and capital structure submitted in this filing with similar information submitted by other IOUs and found NWE’s ROE to be reasonable.

Decision BPA will accept NWE’s filed ROE.

Comment NWE supports BPA’s decision.

4.6.1. Account 565 – Transmission of Electricity by Others - Wheeling

Issue *Whether NWE appropriately functionalized Account 565 – Transmission of Electricity by Others - Wheeling.*

Positions NWE functionalized a portion of Account 565 to Distribution based on a separation of transmission and distribution lines. Table 1 of the ASCM doesn’t permit direct analysis.

Decision BPA will functionalize 100% to Transmission.

Comment NWE supports BPA’s decision. NWE would also note that this recommended change is not reflected in BPA’s draft report.

4.6.2. Account 930.2 – Miscellaneous General Expenses - Conservation Program Costs

Issue *Whether NWE appropriately functionalized Account 930.2 Conservation Program Costs.*

Positions NWE functionalized these costs based on direct analysis provided in the data response to BPA-ONSITE-NW-2. BPA’s review of this analysis suggests there are additional costs that could be functionalized to Production.

Decision BPA will functionalize based on NWE’s revised direct analysis and encourages NWE to review and resubmit the direct analysis if there are additional Production-related costs.

Comment NWE supports BPA’s decision. NWE has revised the direct analysis to include all costs as Production-related except the bill assistance payments.

4.8.1. Account 456.1 – Revenue from the Transmission of Electricity of Others

Issue	<i>Whether NWE appropriately functionalized Account 456.1– Revenue from the Transmission of Electricity of Others.</i>
Positions	NWE functionalized Account 456.1 using a Direct Analysis based on FERC’s Seven Factor Test. BPA notes that NWE did not follow through with the analysis and did not move plant balances and O&M expenses from Transmission to Distribution.
Decision	BPA rejects NWE’s direct analysis and will functionalize Account 456.1 100% to Transmission.
Comment	NWE does not support BPA’s decision. NWE notes that it did in fact use the same analysis and did move plant balances and O&M expenses from Transmission to Distribution. For reference, look at the “Tran Plt_Functionalized” and “Tran O&M_Functionalized” tabs in the Appendix 1 filing. Because NWE believes that the direct analysis included in the filing is consistent between plant, expenses and revenue, NWE proposes that BPA accept the direct analysis used by NWE. NWE would also suggest that if BPA’s final report retains the decision stated here then a corresponding adjustment to plant and O&M expenses reflecting 100% transmission is necessary in order to maintain consistency between expense and revenue.

5.5.1. Purchase Power & Sales for Resale Price Spread

Issue	<i>Whether NWE properly calculated the price spread between purchased power and sales for resale for use in the ASC Forecast Model.</i>
Positions	NWE did not include a price spread in the Appendix 1 filing and included an undocumented figure of 11.56% in the ASC Forecast Model. The 3-Year PP & OSS Worksheet included forecast data instead of historical data. Revised data was provided in BPA.ONSITE-NW-6, however, 2005 is not reliable & was not included. BPA used only 1 year (2006) and removed regulatory adjustments (QF/Default Supply).
Decision	BPA will use 12.52% as the price spread in the ASC Forecast Model.
Comment	NWE supports BPA’s decision.

5.5.2 Input Errors in ASC Appendix 1 & ASC Forecast Model

Issue	<i>Whether NWE entered correct values in the Appendix 1 Template.</i>
Positions	NWE did not identify Account 930.2 Conservation as “Direct” in the model. The ASCM allows direct analysis on any account that contains conservation program costs.
Decision	BPA amended the template to indicate Account 930.2 was functionalized using direct analysis.
Comment	NWE supports BPA’s decision.