

BPA Issues and Clarification List for FY 2009 ASC Filing: NorthWestern Energy

Issue	Sch	Account	Issue	Discussion
1.	Entire Filing	Entire Filing	<p style="text-align: center;">Complete ASC Filing</p> <p>Did NorthWestern's ASC filing contain sufficient documentation supporting the allocation of costs from its FERC Form 1 filing to the Montana jurisdiction?</p>	<p>NW has not yet provided the detailed allocation of its costs into the individual Appendix 1 Accounts into its retail service territories. BPA reserves the right to raise additional issues on MW filing after receipt of this information. In addition, Page 7 of the 2008 ASC Methodology states:</p> <p style="text-align: center;">“If a utility does not provide requested data, BPA may, in its discretion, remove from Contract System Costs all costs associated with the data not provided.”</p> <p>RESPONSE: See response to BPA-NW-2.</p>
2.	Various	Various	<p style="text-align: center;">Responses to BPA data Requests.</p>	<p>NW has not yet responded to several data requests from BPA. BPA reserves the right to raise additional issues on the NW filing after receipt of this information.</p> <p>RESPONSE: See January 9, 2009 submittal (BPA-NW-1, 4-6, 9-12, 15 & 16); January 29, 2009 submittal (BPA-NW-8, 14, 16-17); February 2, 2009 submittal (BPA-NW-3, 7 & 19), February 6, 2009 submittal (BPA-NW-2 & 13) and February 10, 2009 submittal (BPA-NW-20 thru 28).</p>
3.	Sch-1	Account 303	<p style="text-align: center;">Generic Direct Analysis Issue</p> <p>Should BPA adopt a common functionalization for similar types of software assets?</p>	<p>Inconsistency between how the IOUs functionalize certain types of software, i.e. metering, customer information systems, work management, etc.</p> <p>RESPONSE: NWE believes it appropriate to adopt a common functionalization for similar types of software assets and still allow an IOU the option to functionalize based on its unique accounting applications supported with adequate documentation.</p>
4.	Sch-1	Account 182.3 and Account 254	<p style="text-align: center;">Generic Direct Analysis Issue</p> <p>Should BPA adopt a common functionalization for similar types of regulatory assets and liabilities?</p>	<p>Inconsistency in the way the IOUs functionalize deferred pension, pay and other labor related assets and liabilities.</p> <p>PGE, Avista and NW use the Labor Ratio. IPC uses PTD. PSE and PAC functionalize these assets to Distribution.</p> <p>RESPONSE: NWE believes it appropriate to adopt a common</p>

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				functionalization for similar types of regulatory assets and liabilities and still allow an IOU the option to functionalize based on its unique accounting applications supported with adequate documentation.
5.	Sch-1 and Sch-3	Accounts 182.3, 186, 253, and 254	<p style="text-align: center;">Generic Direct Analysis Issue</p> <p>Should BPA require that matching assets and liabilities in these accounts require a common functionalization? For example, should pension costs in Accounts 182.3 and 254 have the same functionalization?</p> <p>Should the functionalization of the amortization match the functionalization of the corresponding assets and liabilities?</p>	<p>Direct analysis is required in the functionalization of Other Regulatory Assets (Account 182.3), Miscellaneous Deferred Debits (Account 186), Other Deferred Credits (Account 253), and Other Regulatory Liabilities (Account 254).</p> <p>Direct analysis should include a consistent functionalization for assets in either Account 182.3 or 186 and offsetting liabilities in either Account 253 or 254.</p> <p>Direct analysis also requires showing how the assets and liabilities flow through the Income Statement.</p> <p>RESPONSE: If there are like costs across accounts, NWE believes it is logical and appropriate that the same functionalization be used throughout the filing. In some instances, there is a direct offset, so if the functionalization is different between the corresponding accounts, a mismatch could exist, clearly an unintended and misappropriate result.</p>

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6.	Sch-2	Rate of Return	<p style="text-align: center;">Return on Equity</p> <p>Is use of a ROE from a 2001 MPSC rate order for Montana Power Company a reasonable proxy for NW ROE?</p>	<p>NW did not have a rate order from the Montana Public Service Commission (MPSC) since it purchased the Montana Power Company service territory. NW submitted a rate of return from a 2001 MPSC order for Montana Power Company.</p> <p>The income tax adjusted rate of return based on the 2001 MPSC order for Montana Power Company and submitted by NW is 11.009%.</p> <p>RESPONSE: NWE does in fact have several rate orders from the MPSC since purchasing the Montana Power Company. It does not have a revenue requirement order specifically identifying a rate of return. The Stipulation approved by the MPSC in the most recent revenue</p>

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				<p>requirement filing (Docket No. D2007.7.82) is silent on NWE's capital structure and rate of return. However, the monthly and annual supply tracker filings, as well as various analyses, continue to be based on the last MPSC authorized rate of return. For this reason, NWE believes use of this return reflects current regulatory treatment and is appropriate to use in the Appendix 1 filing.</p>
7.	Sch-3	565	<p style="text-align: center;">Transmission of Electricity by Others - Wheeling</p> <p>Did NW correctly functionalize Account 565 Transmission of Electricity by Others - Wheeling?</p>	<p>NW functionalized a portion of Account 565 to Distribution. The 2008 ASCM specifies that Account 565 must be functionalized to Transmission.</p> <p>RESPONSE: NWE incorrectly included an allocation reflecting separation of transmission and distribution lines. Upon further analysis after the Appendix 1 filing was made, NWE recognizes that the lines associated with this account are those owned by other entities and used by NWE. Therefore, 100% of the costs in Account 565 should be functionalized to Transmission.</p>
8.	Sch-3B	456.1	<p style="text-align: center;">Revenues from Transmission of Electricity by Others</p> <p>Did NW correctly functionalize Account 456.1 Revenues from Transmission of Electricity by Others?</p>	<p>NW functionalized a portion of Account 456.1 to Distribution. The 2008 ASCM specifies that Account 456.1 must be functionalized to Transmission.</p> <p>RESPONSE: According to Attachment A of the 2008 ASC Methodology</p> <p style="padding-left: 40px;">“...if a Utility...has not received an order from its Regulatory Body separating its line between transmission and distribution, then it must perform a Direct Analysis on its transmission costs and wheeling revenues. The Direct Analysis must allocate transmission costs and wheeling revenues so that only the costs and revenues of transmission lines rated at 115kV or above are included as transmission.”</p> <p>Because NWE does not have an order addressing separation of transmission and distribution lines, the Appendix 1 filing prepared by NWE includes an allocation to transmission and distribution. Within the template, for plant and O&M expenses, NWE subtracted the amount allocated to distribution from transmission and added the same amount to distribution. NWE followed the same process for the revenue. NWE agrees that only the transmission allocated revenue is appropriate, however, it is not clear where on Schedule 3B the distribution allocated revenue would be included. If the utility had an approved separation of transmission and distribution lines, the revenue</p>

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				for the distribution lines would probably be recovered through retail rate schedule revenue. Since there is no line item on Schedule 3B related to this type of revenue, NWE would accept an appropriate alternative to what was provided in the initial Appendix 1 filing.
9.	Sch-3B, 3-YR PP & OSS	555, 447	<p>Generic Issue - Purchased Power Expense, Sales for Resale, and Price Spread</p> <p>How should book-outs and trading adjustments be treated for calculations of purchased power expense and sales for resale revenue and the price spread calculation?</p> <p>Should the treatment be consistent across utilities?</p>	<p>NW did not summarize book-outs in its FERC Form 1 filing. Most utilities do not summarize bookouts as a line item in their Form1. The inclusion or exclusion of summarized book-outs in purchased power and sales for resale affects the price spread calculation.</p> <p>RESPONSE: At this time, NWE doesn't have a recommendation on how these adjustments should be treated in the purchase power/sales for resale calculations or the price spread calculation. However, NWE is willing to discuss and explore potential treatment and believes it is appropriate to strive for consistency across utilities.</p>
10.	ASC Forecast Model		<p>Generic Issue - New Plant Additions - Natural Gas Prices</p> <p>What is the appropriate natural gas price to be used for estimating the annual fuel costs for new gas burning plants?</p>	<p>Forecasted natural gas prices vary significantly between utilities forecasting natural gas burning new additions. None of the utilities reported long term firm natural gas supply contracts, so it is assumed that the differences are a result of different natural gas price forecasting techniques.</p> <p>RESPONSE: At this time, NWE doesn't have a recommendation on the appropriate natural gas price to use in new gas burning plants. However, NWE is willing to discuss and explore potential options and believes it is appropriate to strive for consistency across utilities.</p>
Issue	Sch	Account	Issue	Discussion
11.	ASC Forecast Model		<p>Generic Issue - New Plant Additions - Capacity Factor</p> <p>Should BPA use common representative capacity factors in the ASC Forecast model for estimating the operating costs and expected energy output for new plant additions?</p>	<p>Projected capacity factors vary significantly between utilities for similar types of new resources.</p> <p>RESPONSE: At this time, NWE doesn't have a recommendation on the appropriate capacity factors to use in new plant addition calculations. However, NWE is willing to discuss and explore potential options and believes it is appropriate to strive for consistency across utilities.</p>