

**FY10-11 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 Regulatory Assets – FAS 112**

**Issue** *Whether NWE appropriately functionalized FAS 112.*

**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 FAS 112 costs are included in retail rate base. BPA will functionalize to Distribution.

**Comment** NWE supports BPA’s decision.

**4.3.6. Account 182.3 Other Regulatory Assets – Pension**

**Issue** *Whether NWE appropriately functionalized Pension costs.*

**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 \$12,554,191 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 \$11,009,977 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.

**4.3.7. Account 182.3 Other Regulatory Assets – FAS 106**

**Issue** *Whether NWE appropriately functionalized FAS 106.*

**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 \$186,846 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.

**4.3.8. Account 303.1 Common Plant Intangible – Software**

**Issue** *Whether NWE appropriately functionalized Common Plant Intangible - Software.*

**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 those items.

**4.3.9. Account 303.2 Common Plant Intangible – Software**

**Issue** *Whether NWE appropriately functionalized Common Plant Intangible - Software.*

**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** *Whether NWE appropriately functionalized Common Plant Accounts 389-398.*

**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**

<b>Issue</b>	<i>Whether the Return on Equity (ROE) from a 2000 Montana Public Service Commission (MPSC) rate order a reasonable proxy for NWE's ROE?</i>
<b>Positions</b>	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.
<b>Decision</b>	BPA will accept NWE's filed ROE.
<b>Comment</b>	NWE supports BPA's decision.

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

<b>Issue</b>	<i>Whether NWE appropriately functionalized Account 565 – Transmission of Electricity by Others - Wheeling.</i>
<b>Positions</b>	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.
<b>Decision</b>	BPA will functionalize 100% to Transmission.
<b>Comment</b>	NWE supports BPA's decision.

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

<b>Issue</b>	<i>Whether NWE appropriately functionalized Account 930.2 Conservation Program Costs.</i>
<b>Positions</b>	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.
<b>Decision</b>	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.
<b>Comment</b>	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**

<b>Issue</b>	<i>Whether NWE appropriately functionalized Account 456.1– Revenue from the Transmission of Electricity of Others.</i>
<b>Positions</b>	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** *Whether NWE properly calculated the price spread between purchased power and sales for resale for use in the ASC Forecast Model.*

**Positions** NWE did not include a price spread in the Appendix 1 filing and included an undocumented figure of 11.54% 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 2 years (2006-2007) and removed regulatory adjustments (QF/Default Supply). BPA also revised the purchased power associated with Colstrip Unit 4 and correctly moved the costs from ST to LT.

**Decision** BPA will use 14.11% 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** *Whether NWE entered correct values in the Appendix 1 Template.*

**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.