

NorthWestern Energy Rate Case Factsheet

Prepared by the Montana Environmental Information Center – Updated May 2025

In July 2024, NorthWestern Energy filed a rate increase application with the Public Service Commission (PSC). The original filing asked for a **26% increase to residential electricity base rates**. This is after NorthWestern increased residential electric rates by 28% in October 2023. The recent increase request included over **\$2.3 billion in lifetime costs for its Yellowstone County Generation Station (YCGS)** near Laurel, an outrageous **10.8% return on equity (ROE)**, and a **blank check for investments into the dirty and unreliable Colstrip coal plant that could well exceed \$2 billion** (in addition to \$11.6 million in recent investments in the plant).

The PSC's hearing was set to begin April 22, but NorthWestern and several other parties filed a partial settlement proposal three weeks after the deadline for filing settlements. As a result, the **hearing was rescheduled for June 9 through June 20** (though it may end sooner). There will be a one-hour block for public comment in person and virtually at 9 am the first day of the hearing, and 8 am each day thereafter.

What Was NorthWestern's Partial Settlement?

A settlement in a rate case is an agreement between certain parties. It does not mean that the PSC has to agree to its terms. In fact, if the PSC does not agree to the provisions of a settlement, then it is void. Although the parties to the proposed settlement agree to no longer contest settled issues at the hearing, the PSC is the final arbitrator for all issues in a rate case, whether or not they are addressed in a proposed settlement.

A handful of interveners – the Montana Consumer Counsel (MCC), the Large Customer Group, Walmart, and the Federal Executive Agencies – signed onto the partial settlement proposal. The Montana Environmental Information Center (MEIC), NW Energy Coalition (NWECC), Natural Resources Defence Council (NRDC), District XI Human Resource Council (HRC), and Renewable NorthWest (RNW) did not, meaning their attorneys can cross-examine NorthWestern's witnesses on issues for which the settling parties have agreed to be silent. While the proposed settlement reduces NorthWestern's requested rate increase, the utility is still asking for a **20.2% increase to residential electric base rates**. The decrease from the original filing is largely attributable to an agreement to lower NorthWestern's requested ROE from 10.8% to 9.65%, the same ROE the PSC previously approved for most of NorthWestern's generation assets. NorthWestern also agreed to withdraw its request for a blank check for Colstrip plant investments, but only after President Trump issued an executive order allowing the plant to postpone compliance with important public health protections. NorthWestern is still requesting to charge customers **\$11.6 million for recent investments in the Colstrip plant**.

This is considered a "partial" settlement proposal because the settling parties did not agree on two very important issues, which will need to be resolved by the PSC. First, the settling parties

did not agree on how much NorthWestern can charge customers for its new YCGS gas plant. **If NorthWestern gets its way, the average residential customer will be on the hook for as much as \$128.77 annually just to pay for the YCGS gas plant.** Second, settling parties didn't agree on the "pass-through" costs that can be automatically charged to customers (more information on this below). Although the final costs to customers remain to be adjudicated, the partial settlement, combined with NorthWestern's stance on unsettled issues, would **unfairly burden residential customers.** While the residential customer class makes up 47% of NorthWestern's current base revenue requirement, NorthWestern proposes to allocate a disproportionate 54% of the base revenue increase to residential customers.

Sleight of Hand

NorthWestern uses a sleight of hand to argue that the proposed settlement, combined with its stance on unsettled issues, would result in a net 4.2% increase to residential electric rates. NorthWestern is assuming that pass-through costs known as the Power Costs and Credits Adjustment Mechanism (PCCAM) will be dramatically reduced by selling nearly **6 times more** excess power into the export market than it has in the past (from \$33.6 million to \$190.3 million), mitigating the overall rate increase. This is based on mere hopes that the YCGS gas plant – the most expensive resource to operate in the utility's portfolio – will be cost-competitive with other regional resources. There is a very real risk that NorthWestern's overly optimistic projections do not materialize, leaving customers on the hook for the extraordinary costs from building the plant without any offsetting benefits from market sales.

If NorthWestern fails to sell all that power into the market, it can adjust the PCCAM each quarter and charge customers for 90% of under-collected expenses. In other words, if NorthWestern does not sell enough power to offset the cost of the base rates, then its purported 4.2% increase to residential bills could quietly balloon to the full 20.2% base rate increase. And that is exactly what appears likely to happen based on the actual amount of power NorthWestern has sold into the market since it filed its application in July. In the first four months of the YCGS gas plant's operations, market sales were already \$70.1 million below what NorthWestern had projected, nullifying nearly half of NorthWestern's projected annual market sales increase in just four months! **NorthWestern should not be able to claim rates will only rise 4.2% because of its unsupported estimates for market sales, when in fact rates will likely rise by as much as 20%.**

With any luck, the PSC will protect residential and small business ratepayers from another sharp rate increase proposed by a monopoly utility that is more concerned about its executives and shareholders than its customers.

Breaking Down Electricity Rates from the Utility's Perspective

While electric rates are composed of numerous line item charges, NorthWestern's earnings from rates can be effectively divided into two main components:

- **Base rate:** Infrastructure investments that earn a return for shareholders on each dollar spent building or buying a plant (e.g. the cost of constructing a gas plant with a return on equity (ROE) for utility shareholders or the cost of buying existing generation resources such as NorthWestern's hydroelectric dams). Establishing an ROE and adding the new acquisition to rates must be approved by the PSC.
- **PCCAM (Power Cost and Credits Adjustment Mechanism):** A **rate that is adjusted quarterly** with little public accountability. The PCCAM is comprised of variable expenses that are passed directly to customers without a return for the utility (e.g. fuel to power a gas plant, coal for a coal plant, or power bought or sold in the market).

Property taxes are also passed on to customers, though they make up a smaller portion of the rate. Any balancing accounts, such as the blank check for the Colstrip plant, would be another addition to rates. While NorthWestern is no longer pursuing a balancing account for the Colstrip plant, it is still requesting a balancing account for wildfire mitigation measures.

Electric Rate = Base Rate + PCCAM + Property Tax Tracker + Balancing Accounts