

Montana Public Service Commission Approves Rate Increase for NorthWestern's Montana Electric and Gas Customers

Decision follows rate case originally filed by NorthWestern Energy in July 2024

On December 24, the Montana Public Service Commission (PSC) released its [final order](#) approving an increase to NorthWestern Energy's electric and gas utility rates. Following the PSC's approval of a [28% increase](#) to residential electricity rates in October 2023, this recent decision permanently increases residential electric *base rates* by about [17%](#), which will result in an approximately [12%](#) overall increase to residential electric *bills* beginning February 1, 2026, compared to July 2024 when NorthWestern originally filed its application. Earthjustice intervened in these proceedings on behalf of Montana Environmental Information Center (MEIC), the Natural Resources Defense Council, the NW Energy Coalition, and District XI Human Resource Council ("Joint Parties"). While Commissioners voted on many of the issues in this rate case on November 19, they also voted to extend the deadline for issuing a final order to December 24. However, the Commission did not vote on the final order, despite the lack of clarity before the final order was issued on how the rate increase would impact customers.

Yellowstone County Generating Station (YCGS)

The most contested issue in this rate case has been whether – and how much – NorthWestern Energy would be allowed to charge customers for its Yellowstone County Generating Station (YCGS) methane gas plant near Laurel. Originally contemplated in the utility's 2019 Integrated Resource Plan (IRP), YCGS has been a controversial project from the beginning. In fact, the current rate case is the third time that cost recovery for YCGS has been in front of the PSC since the filing of NorthWestern's 2019 IRP. NorthWestern first filed for pre-approval of YCGS (docket 2021.02.022) in 2021 before retracting that filing and moving ahead with construction anyway. Then YCGS showed up in an unprecedented "reliability rider" tracking mechanism that was later withdrawn in NorthWestern's previous rate case (docket 2022.07.078) filed in 2022. Finally, having built the plant despite significant local and state-wide opposition, and exceeding the original budget by tens of millions of dollars, NorthWestern came to the PSC in the current rate case to recover the expenses already sunk into the plant.

Looking back to NorthWestern's original request for proposals (RFP) that selected YCGS after NorthWestern's 2019 IRP, PSC staff determined that "NorthWestern did not satisfy the requirement for a fair and transparent RFP process." In regards to NorthWestern's justification of cost overruns, staff was "skeptical of NorthWestern's record-keeping and transparency of YCGS costs." Concluding their analysis, PSC staff explained that "NorthWestern bears the burden of proving by a preponderance of evidence that the acquisition of YCGS and the recovery of its costs in customer rates is in the public interest," and that "[i]n this case, NorthWestern did not satisfy its burden of proof." In addition to construction delays and cost overruns, when YCGS came online in October 2024, only 16 out of 18 of its generating units were operational, though NorthWestern tried to charge customers for all 18. There were cheaper, alternative resources that NorthWestern could have selected – clean energy resources or an already-built gas plant – but NorthWestern proceeded with building this tremendous YCGS boondoggle instead and failed to contain the already outrageous costs.

PSC staff recommended that the PSC "reduce NorthWestern's proposed \$287 million YCGS rate base, associated with 16 engines in use, to \$227.7 million." However, the PSC voted to increase that number by an arbitrary \$18.36 million from environmental litigation associated with an illegal air permit during construction of YCGS. This was despite staff's assertion that NorthWestern didn't provide documentation to back up that number. While this is the total cost of plant construction allowed for

recovery in rates, the PSC also awarded NorthWestern with a 9.65% return on equity for its investment. And this is in addition to the variable expenses for the plant that will be passed straight to ratepayers throughout YCGS's projected 33-year life, currently estimated at upwards of \$35 million per year.

With the rates approved today, the typical residential electric customer will now be paying approximately [\\$8 per month](#) to pay for the YCGS plant's known fixed and variable costs, or [nearly \\$100 per year](#). That could result in the average residential customer paying [over \\$3,000](#) for YCGS over the 33-year life of the plant, without accounting for future investments to maintain the plant and the [likely potential](#) for rising gas prices. While the PSC's decision sends a signal to NorthWestern Energy that its process for choosing and constructing YCGS was deeply flawed, the plant is now built and operating. Not accounting for emissions throughout the gas supply chain, YCGS will directly emit up to [695,195](#) tons of climate-harming CO₂e per year, or about [23 million tons](#) for the expected lifetime of the facility – while Montanans pay the price for decades.

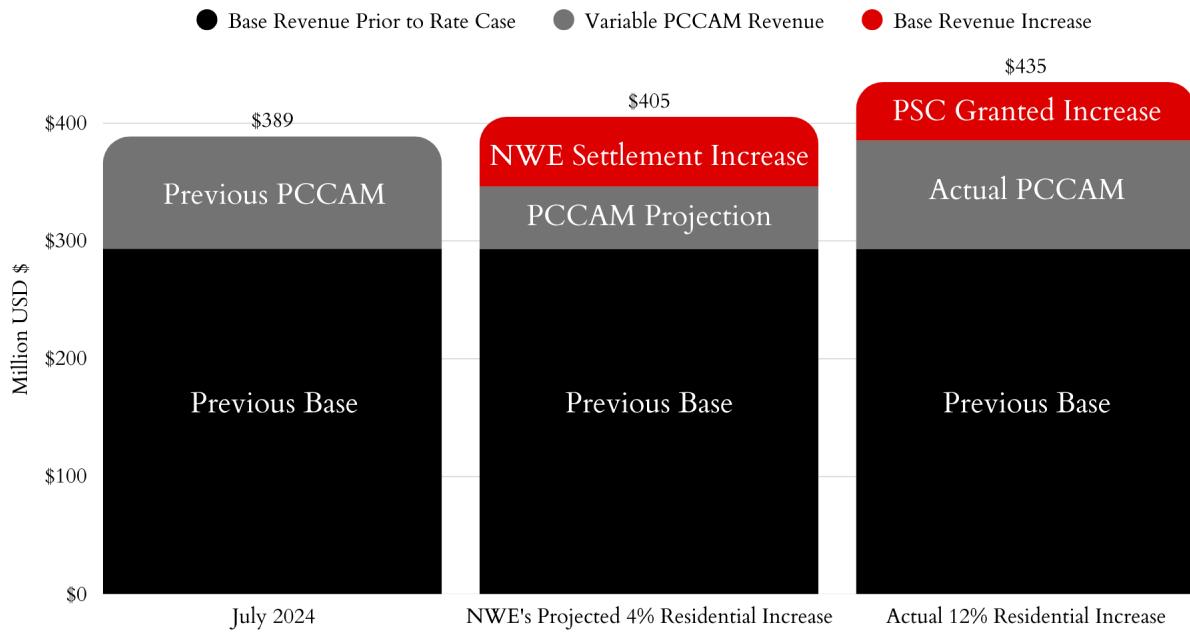
Power Costs and Credits Adjustment Mechanism (PCCAM)

As part of its decision, the PSC also suspended a sharing mechanism that was put in place to ensure that NorthWestern's variable cost projections are reasonably in line with costs that are eventually incurred. Under this mechanism, NorthWestern bears some risk for miscalculating costs. If the utility underestimates its variable costs in the Power Costs and Credits Adjustment Mechanism (PCCAM), then NorthWestern could retroactively collect up to 90% of the difference while the remaining 10% would be paid by utility shareholders. Under the PSC decision, NorthWestern no longer bears any of that risk, eliminating its incentive to be accurate in its projections. The PSC suspended this sharing mechanism without any supporting evidence or explicit requests in the record to do so.

Joint Parties argued from the beginning that NorthWestern set its PCCAM projections artificially low to hide how much the rate impact on Montanans would actually be. Total PCCAM costs are the net of a combination of variable *costs* (largely fuel and market purchases) and variable *credits* (largely market sales). In NorthWestern's application, it showed a \$94.5 million reduction in its annual PCCAM net expenses, offsetting a 26% increase to residential *base rates* for a supposed 8% final *bill impact* to residential customers. When NorthWestern entered into a partial settlement with various intervening parties, it claimed the settlement would result in a net 4% increase to residential electric bills based on the same misleading PCCAM projections. These numbers were supported by NorthWestern's projections of YCGS increasing the utility's market sales revenues nearly six fold. However, these market sales never materialized as YCGS's expensive gas power is unattractive in the competitive market.

Since PCCAM is adjusted each quarter and NorthWestern has been allowed to retroactively recoup 90% of undercollected expenses from customers, it appeared the utility chose to give up 10% of its undercollection in order to slip through an outrageous increase to base rates. When NorthWestern incurred actual PCCAM variable costs and credits throughout the year from July 2024 to June 2025, sure enough, the net expenses were in line with previous years, and \$87.8 million higher than NorthWestern's projections (almost completely offsetting the projected \$94.5 million PCCAM reduction).

NorthWestern Energy Residential Electric Revenue Requirement



Rather than chastising NorthWestern for its gaming around the perceived bill impact of this rate increase, the PSC took a different approach and decided to suspend the 90-10 PCCAM sharing mechanism so that NorthWestern can recover *all* uncollected variable costs through its PCCAM adjustment. So NorthWestern gets the public perception benefit of fudging that its original rate increase request was only 8%, while the PSC bails it out for its extremely low-balled estimates.

While an issue beyond the scope of this rate case, NorthWestern is now barreling ahead with its acquisitions of additional shares of the Colstrip plant on a bet that it can cash out by selling this excess power into the market. Without steep subsidies from existing ratepayers, this [expensive power](#) won't be any more attractive in the competitive market than the power from YCGS.

Climate Change

Montana's constitution guarantees that "the state and each person shall maintain and improve a clean and healthful environment in Montana for present and future generations." The Montana Supreme Court Decision in *Held v. State of Montana* affirmed that this fundamental right includes the right to a stable climate system. As a state agency, it is incumbent on the PSC to consider climate impacts in its regulation of gas and electric utilities, including in rate-making decisions. As a business operating in Montana, NorthWestern faces a similar responsibility to acknowledge and mitigate the climate impacts of its energy portfolio.

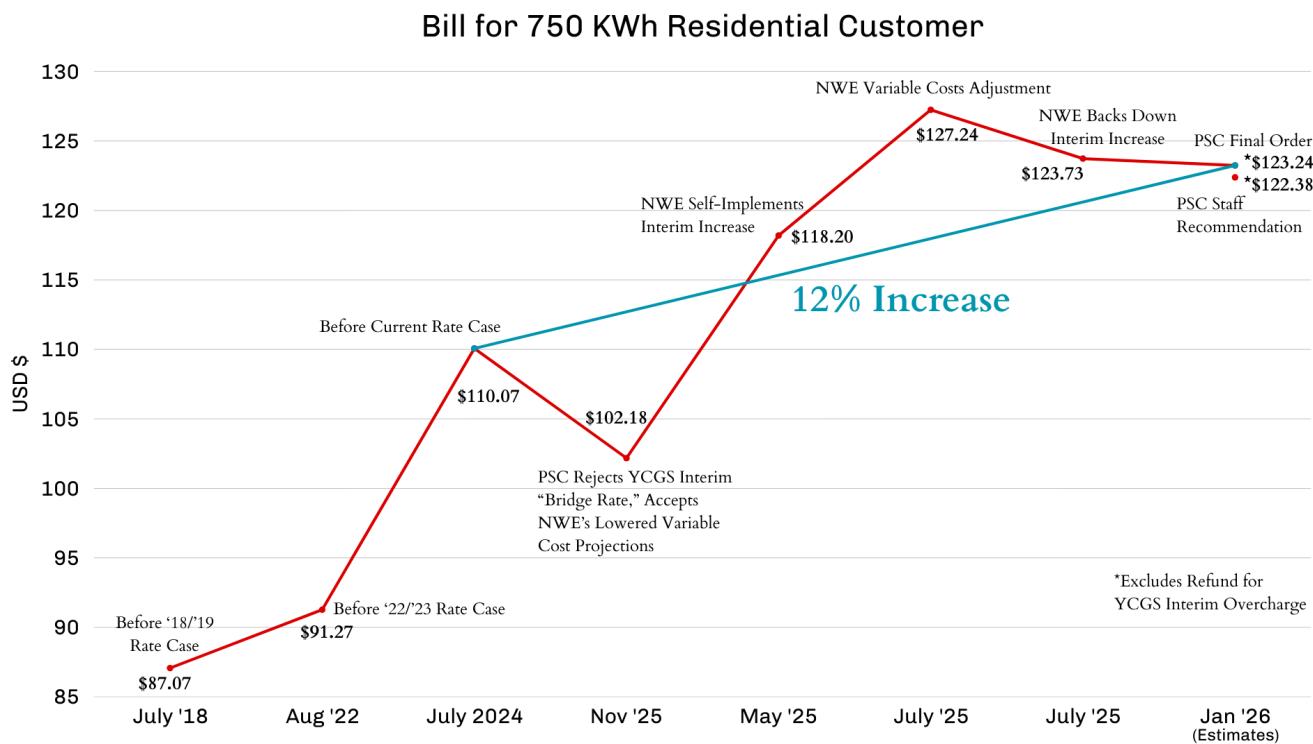
The Joint Parties confronted the PSC and NorthWestern with this requirement to consider climate risks in ratemaking, and NorthWestern went to the mat to try to keep these arguments out of the record. While the arguments were allowed into the record, in the end, the PSC essentially ignored these arguments in its final decision and neglected to consider climate impacts in its rate-setting decision.

Immediate Change to Bills

NorthWestern began self-implementing its rate increase on an interim basis beginning in May 2025 based on a statutory nuance that allowed them to do so once nine months had elapsed from its application. These rates included the full cost of YCGS that NorthWestern requested to charge

customers at the beginning of this rate case. In July 2025, with approval from the PSC, NorthWestern backed down its interim rates slightly to reflect the rate increase that the utility had agreed upon in settlement discussions with a number of intervening parties (MEIC was not a party to this settlement). As interim rate adjustments, these rate increases were subject to a refund to NorthWestern's customers should the PSC's final determination be lower than the interim rates implemented by NorthWestern. NorthWestern's quarterly PCCAM adjustment also went into effect in July 2025, at which point customers began to experience further increased electricity rates associated with NorthWestern's underestimated variable expenses that had been hidden in the utility's original rate increase application.

Since ratepayers have been paying an interim rate increase since May, including more expenses for YCGS than were approved in the final order, the PSC's decision, which includes a partial refund plus interest for NorthWestern's overcharges associated with YCGS, will result in a relative decrease to electricity rates compared to those incurred throughout the summer and fall. However, this decision still amounts to an overall rate increase compared to rates paid by customers in July 2024 when NorthWestern filed this rate increase application.



750 KWh residential electric customer bill snapshots reflecting rates leading into NorthWestern's 2018-19 rate case, rates leading into NorthWestern's 2022-23 rate case, rates leading into NorthWestern's current rate case, and rate changes at key points throughout the current rate case. The customer bill estimates from the PSC's final order and PSC staff recommendations are based on the revenue requirement percentage increase for the residential customer class compared to July 2024 and are an approximation for customer bills.

Gas Rate Increase

Gas prices are [expensive and volatile](#), and the only way to truly avoid these uncertain costs is to move away from dependence on gas through electrification measures. The PSC's decision also included an increase for gas rates, amounting to a 12% increase to residential gas base rates compared to July 2024. Joint Parties did not engage extensively on gas issues in the rate case.