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Inflation, climate crisis, top concerns about NWE rate increase

Tom Lutey

Apr 23, 2023



Electrical equipment towers over decorative fencing around the addition to NorthWestern Energy's Rimrock Substation along Highway 318.

LARRY MAYER, Billings Gazette

Tom Lutey

For days NorthWestern Energy customers had been testifying against a 28% increase in their electric bills. Seniors, college students, and others had been warning the Montana Public Service Commission that the proposed hike was too much.

Anne Bukacek disagreed. The commissioner from Flathead County told NorthWestern's vice president of supply, John Hines, that in dollars the increase wasn't much, an extra \$25 to \$30 a month, another \$304 to \$360 a year.

"This historic unprecedented increase that people are talking about, it's \$25 to \$30 a month. That's the cost of three to four dozen eggs," Bukacek said. "I think it's important that we have that perspective for the individual residential customer."

Of course, for perspective, the price of eggs shot up 60% in 2022, according to the Bureau of Labor and Statistics index. In January, the price jumped another 13.5%.

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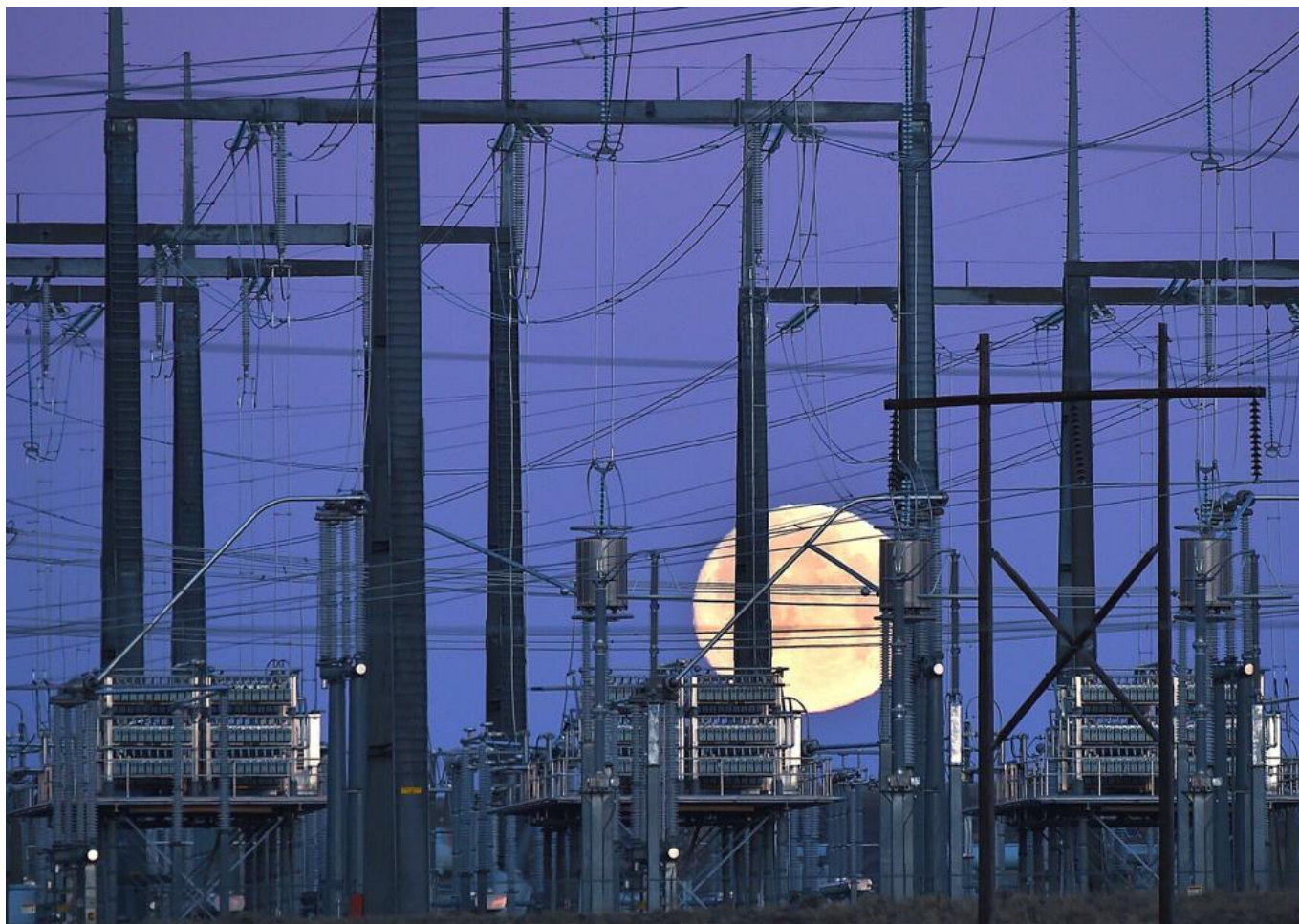
The inflation index for food increased 8.5% for the 12 months ending in March. The average interest rate on a credit card, 14.5% in May 2021 ahead of the current inflationary trend, is now 20.92%, per the Federal Reserve. Ask any homebuyer about mortgage rates.

What made the proposed 28% increase in electric bills untenable, consumers told the PSC, was the rising cost of everything else. The pre-rate increase starting point is August 2022, at which point base rates were still determined by the last rate increase, approved in 2019. Natural gas customers would see a slight decrease compared to August 2022 rates, according to NorthWestern.

Like eggs, utility prices are another inflationary leader, up 15.5% among utilities in the Pacific Northwest who like Northwestern have portfolios of hydropower and coal-fired electricity from Colstrip, the southeast Montana coal-fired power plant with customers from Billings to Portland and Seattle.

NorthWestern's electric customers received a 19% rate increase last October, an interim rate increase meant to hold the utility over while the permanent rate increase was determined.

A decision in the NorthWestern Energy general rate case is still a few months out. Testimony in the case wrapped up Wednesday. The 28% rate increase for residential customers is part of a settlement reached by NorthWestern Energy, its large customers, Montana Consumer Counsel, Walmart and federal government agencies who receive electric and gas services from NorthWestern in Montana. Montana's Public Service Commission will have to accept the settlement as is or reject the agreement and proceed to set rates.



A nearly full moon sets behind the Broadview Substation in March 2022.

LARRY MAYER, Billings Gazette

Small businesses were due for a 25% increase in electric rates, while large customers and irrigators face increases in the 16% to 19% range.

However, settlements have determined rate increases for NorthWestern for more than a decade. Though commissioners after the fact express regret that they couldn't amend accepted settlements, they typically approve all-or-none agreements and avoid ratemaking.

More than half the parties in the rate hearing weren't told of the settlement until a few hours before it was filed and weren't given an opportunity to negotiate. More than one said they were blindsided by the agreement, introduced a week before the hearing started.

The utility assured commissioners there were assistance programs available to customers who couldn't afford the rate hike.

"We do hear your concerns about affordability, which is why we've been so actively making sure our customers are aware of all these assistance programs we have available," said Cynthia Fang, NorthWestern's vice president of regulatory affairs.

Commissioner Randy Pinocci had just become aware of the size of the rate increase and asked Fang whether she thought the hike was reasonable. It was day two of the seven-day hearing. NorthWestern a day earlier had presented the bill increase in a context that made it seem much smaller by using the interim rate as a starting point.

Intervening parties in the case made it clear that participation in NorthWestern's programs was flat to declining. Also, there wasn't anything available for small businesses, due for a 25% rate hike.

Pinocci pointed out that small grocers wouldn't receive the same rate increase as Walmart, which faced a rate increase percentage in the teens.

In Missoula, there is an 8-year backlog of low-income NorthWestern Energy customers trying to get in the utility's weatherization program, which according to the Human Resource Council, would help lower home energy costs.

Questioning NorthWestern Energy witnesses for HRC, Diego Rivas pointed out the contractors are also struggling to get weatherization dollars from NorthWestern because of the way the utility manages the funding.



Construction of NorthWestern Energy's gas fired Laurel Generating Station is nearly complete. The plant will use 18 reciprocating internal combustion engines and it is estimated to cost \$250 million.

LARRY MAYER, BILLINGS GAZETTE

The number of customers enrolled in bill assistance programs has been declining, down to 14,000 from 20,000 a decade earlier.

“Yet Northwestern doesn't have any proposals in this case or otherwise to change how it's going to reach out to low-income customers. Is that right?” Rivas said.

Bobbi Schroepel, NorthWestern Energy vice president of customer care, agreed that NorthWestern didn't have any changes in store for how to reach low-income customers, nor was the customer care executive consulted about the rates in settlement.

However, customers on energy assistance now are carrying credits of \$650 on average, Schroepel said. There's been no shortage of public assistance in the COVID-19 era for those already signed up.

"With the 28% increase in rates customers will need opportunities to save money on bills. Expansion of the (demand-side management) efforts would have allowed customers these opportunities while also addressing Northwestern reliability and capacity shortfall issues," said Brendon Baatz, an energy efficiency expert testifying for HRC. "Instead, the company and settling parties chose to continue the status quo that will effectively kick the can on these issues and lead to higher rates and bills for the company's customers in future years.

Energy efficiency obviously won't solve every problem facing Northwestern. However, energy efficiency does present the company with an option to lower system costs and increase bill affordability.

One party to the rate case that settled with NorthWestern was the Montana Consumer Counsel, a government attorney designated to represent consumers in cases before the PSC.

A 'true-up'

Economist David Dismukes, testifying for MCC, said that about half of the increase in electric rates was to recover costs for under-collections from the previous year as well as a true-up in base rates from which future recovered costs would be determined.

The true-up exercise is known as a Power Cost and Credits Adjustment Mechanism. Wholesale prices for energy have increased as much as 140% since NorthWestern's last base rate increase in 2019. Property taxes, which are passed through directly to

utility customers, were a factor as well. The under collection NorthWestern originally sought to recover was \$58 million.

“I’m not trying to diminish the importance of the rate increase, or that it exists, but I do think it’s important that the Commission kind of get a feel for the differences in what’s driving that 28%,” Dismukes said.

Several representatives for businesses that provide services to NorthWestern Energy, as well as unions that do work at power plants, have expressed support for the rate increase.

Climate change

Some members of the public who spoke against the rate increase admonished NorthWestern’s investments in fossil fuels. The Company is building a Laurel-area gas-fired power plant expected to cost \$283 million with the cost of the pipeline servicing the 175-megawatt plant still undisclosed. NorthWestern intends to double its owned coal-fired generation capacity, adding another 222 megawatts of Colstrip.

That concern about climate change culminated in the testimony of Steven Running, a climate scientist awarded the Nobel Peace Prize in 2007 for his lead authorship of the fourth assessment of the Intergovernmental Panel on Climate Change. Running testified for 350 Montana.

“When I’ve looked at NorthWestern Energy’s planning and strategic planning, what I see is they are missing a primary variable that’s important in all of our lives that they’re just paying no attention to. And that’s climate, and the changing climate,” Running said. “I worked in complex systems analysis myself and the important thing is, you’ve got to have all the variables of a matter in front of you and they don’t. And as I’ve read their documents, they’re just not paying any attention to climate, changing climates.”

Running’s testimony sparked a round of questions from every PSC commissioner in attendance, a rarity in the days-long proceeding. By comparison, when NorthWestern Energy CEO Brian Bird took the witness stand, commissioners had no questions.



An aerial view shows Colstrip units 1,2,3 and 4 as well as nearby industrial ponds.

LARRY MAYER, Billings Gazette

Tony O'Donnell was at a work-related conference in Lake Tahoe and missed the first week of the hearing.

“So, Germany is top three, the top three for wind and solar. Are you aware that during their crisis they turned to natural gas and coal to survive,” Bukacek asked.

Running said, “I’m afraid I am. They actually turned off a few of their nuclear plants early and then especially with the Ukrainian war, suddenly they are running short. And they've had to start up their coal plants again.”

Commissioner Jennifer Fielder asked if the IPCC was the definitive source of information on climate change and if it disregarded dissenting research on climate change.

“The most important thing with the IPCC authorship is that they have to base their opinions on published research,” Running said. “The IPCC doesn't do new research of its own at all. Its job is to read the current literature and assess what's most important for society to pay attention to. And so, an author could come with a lot of different opinions. And as long as those opinions are justified by the open scientific literature, then I don't think they'd be, would be at all, selected against.”

Several NorthWestern Energy witnesses confirmed that climate change wasn't considered in what energy resources it selected, except for some regulatory requirement to do so.

“I read an article just the other day about incremental amounts of carbon being emitted by China and India, around 750 million tons more carbon than the entire U.S. fleet of coal plants. So, when you ask me, does a 290,000-ton emission contribute to climate change? I can't honestly say it does. Statistically numerically. I don't think you can make that linkage,” Hines said.

More rate hikes coming

One concern expressed by expert witnesses repeatedly was that the 28% rate increase at issue was the first of several rate hikes in store for NorthWestern Energy customers in the next few years, with the cost of the Laurel power plant to be added to rates in the next two years. Any capital expenses stemming from the utility's increased share in Colstrip beginning in 2026 will have to be addressed.

NorthWestern Energy customers have yet to be billed for environmental cleanup costs related to Colstrip, setting up a big-bill scenario for ratepayers in the future.

“The company is failing to plan for and address the potential risks of Colstrip; if the company continues to delay action, failing to recover costs for things like estimated remediation and decommissioning expenses, I worry that the company and Commission will find themselves in a similar situation as they have found themselves here: having to make tough decisions that may run counter to good regulatory

ratemaking principles and process while being unable to avoid significant rate increases for customers,” said Amanda Levin, director of policy analysis for the Natural Resources Defense Council.

The rate arrangement proposed puts the burden of the utility’s rate increase almost entirely on residential and small business customers, Levin said. And the way those rates are set to increase, in a single filing, raises energy affordability issues that only return in a few short years.

“The settlement falls far short of addressing the multitude of problems that are facing this company. The settlement agreement itself will provide a substantial revenue requirement increase for Northwestern and impose a substantial bill increase on customers,” Baatz said. “The Increase falls almost entirely on residential and small business customers. From what I understand the average residential customer will face a nearly 30% increase in the average bill. It's a substantial bill increase at a time when many people are already struggling to keep up with energy bills and other costs. With the settlement agreement, customers will be limited in the tools available to respond to the substantial rate increase should have been provided to these customers as part of the company's least cost procurement planning strategy.”



John Hines, NorthWestern Energy vice president of supply announces NorthWestern Energy's plans to double its ownership share of Colstrip Power Plant.



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