

SECRETARY'S RECORD, PUBLIC SERVICE COMMISSION

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the)	Application No. NG-115.1
Commission, to conduct a)	
management review of gas supply)	
schedules implemented by)	ORDER CLOSING REVIEW AND
NorthWestern Energy Public)	ADOPTING THE FINDINGS OF
Service Corporation d/b/a)	THE AUDIT REPORT
NorthWestern Energy, Sioux)	
Falls, South Dakota, pursuant)	
to Neb. Rev. Stat. § 66-1854.)	Entered: December 3, 2024

BY THE COMMISSION:

On March 5, 2024, the Nebraska Public Service Commission ("Commission") opened this docket on its own motion in order to review the gas supply procurement practices associated with gas purchasing of NorthWestern Energy Public Service Corporation d/b/a NorthWestern Energy ("NorthWestern"), Sioux Falls, South Dakota, pursuant to Neb. Rev. Stat. § 66-1854. The Commission previously conducted a financial review of the gas supply cost adjustment schedules filed by NorthWestern regarding the gas supply in Docket No. NG-115. However, a management and prudence review of NorthWestern's procurement policies was not conducted at that time.¹ This sub docket was opened to conduct the second planned portion of the audit of NorthWestern, the management review audit.

Notice was published in The Daily Record on March 7, 2024. A petition for Formal Intervention was filed by the Nebraska Public Advocate ("PA") on March 19, 2024, and the intervention was approved by the Commission on March 20, 2024. No other parties intervened in this docket. Notice of the hearing was published in The Daily Record on May 6, 2024.

The management review audit was conducted by the firm Bates White, LLC (Hereinafter "Commission Consultants" or "Bates White"). On August 28, 2024, the Commission Consultants filed the Management Review Audit Report ("Audit Report") with the Commission. The PA filed a response to the Audit Report on

¹ See Commission Docket No. NG-115, *In the Matter of the Commission, to conduct a review of gas supply cost adjustment schedules implemented by NorthWestern Corporation d/b/a NorthWestern Energy, Sioux Falls, South Dakota, pursuant to Neb. Rev. Stat. § 66-1854. Order Closing Review and Cancelling Hearing* (January 18, 2023).

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September 13, 2024, and NorthWestern filed a response to the Audit Report on October 1, 2024.

Pursuant to the procedural schedule, a hearing was held on October 22, 2024. Mr. Andy Pollock, attorney with Rembolt Ludtke, appeared on behalf of NorthWestern; Ms. Chris Dibbern appeared in her capacity as the Public Advocate; and Mr. Jonathan Smith, Ms. Nichole Mulcahy, and Mr. Alex Timperley appeared on behalf of Commission staff.

EVIDENCE

During the hearing, Commission Staff presented the results of the Audit Report. Commission Staff called Mr. Vincent Musco, Partner at Bates White, to testify before the Commission. Mr. Musco opened his testimony by stating Bates White found no serious issues or concerns in its review and that NorthWestern has well documented processes that were followed by the company. Mr. Musco also stated that NorthWestern employed widespread use of competition to get better outcomes for customers, and that NorthWestern used reasonable procurement and hedging strategies.²

Mr. Musco then discussed the four substantive chapters of the Audit Report, beginning with section one regarding staffing, organization, and control. Mr. Musco reported overall positive findings regarding NorthWestern's organizational structure, staffing, risk management processes, documentation, and results. He put forth two recommendations for NorthWestern to consider. First, NorthWestern should mark the date on which all risk management policy presentations are made or shared. Second, NorthWestern should consider implementing a formal risk policy review system in which new employees provide signed acknowledgments after initially reviewing the risk policy, and tenured employees should provide signed acknowledgments after reviewing the risk policy on a regular basis thereafter.³

Mr. Musco then discussed the next chapter of the Audit Report, which addressed planning and forecasting. Again, Bates White found positive findings, stating that NorthWestern used reasonable forecasting approaches for natural gas consumption and pipeline

² Hearing Transcript at 14:14-25.

³ *Id.* at 16:19-17:17.

utilization. Bates White found that NorthWestern adequately monitored its forecast model performance and took reasonable steps following the events of Storm Uri.⁴ Mr. Musco then provided two recommendations for NorthWestern's consideration in this chapter. First, NorthWestern should consider defining a design winter for its service territory. This would assist NorthWestern in determining the most cost-effective supply portfolio to meet current and projected demand as well as assisting in optimizing dispatching of storage supplies. Second, NorthWestern should consider reviewing its internal forecasting process to determine if improvements could be made that reduce overall error percentages and bias, particularly in Grand Island. Bates White clarified that its review of NorthWestern's forecasting looked at heating degree days and did not take into account wind speed, which may have impacted the results.⁵

The next chapter of the Audit Report addressed NorthWestern's procurement strategies. In its review, Bates White identified no concerning procurement results, and noted a large number of counterparties involved, none of which held an excessive market share. In this chapter, Bates White offered three recommendations. First, NorthWestern should document the reasons for selecting its winning suppliers, in the event NorthWestern does not select the lowest priced offer or selects additional winning suppliers in surplus to the RFP quantity target. Second, NorthWestern should develop a system to document and record its efforts to canvas the market in pursuing short-term gas supply transactions. Third, Bates White noted that NorthWestern's asset management agreement had been in place with BP Energy since 2010. During the audit period, the agreement generated approximately \$521,000 in refunds to Nebraska customers, 80% of which, was generated prior to Storm Uri. Therefore, Bates White recommended that NorthWestern examine the reasons behind the significant drop-off post Storm Uri, and depending on the results of the examination, NorthWestern should consider other potential counterparties for its asset management agreement.⁶

⁴ *Id.* at 17:18-25.

⁵ *Id.* at 18:1-19:2.

⁶ *Id.* at 19:3-21:17.

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Mr. Musco then moved on to the final chapter of the Audit Report, which addressed NorthWestern's hedging strategies. Mr. Musco reported positive results, finding that NorthWestern used reasonable and defined objectives and maintained a well-documented approach to hedging that produced reasonable results throughout the audit period. Mr. Musco then offered three recommendations. First, NorthWestern should use the pricing information in its model to assess potential impacts and desirability of large volume hedges immediately before the winter and make appropriate changes to its hedging strategy if it determines the likelihood of this outcome should be avoided or minimized. Second, NorthWestern should consider alternatives to non-hedged summer baseload and storage injection volumes. Third, NorthWestern should continue to investigate capping swing purchases especially during the December to February period.⁷

Following Mr. Musco's testimony, Mr. Pollock made an opening statement on behalf of NorthWestern. He began his comments by thanking the commissioners and staff for a smooth and productive investigation. Mr. Pollock then directed parties to NorthWestern's filed comments, marked as Exhibit 6, and offered no further comments in response to the Audit Report or Mr. Musco's testimony.⁸

In response to a question, NorthWestern called Ms. Pam Bonrud, Director of Government Regulatory Affairs for NorthWestern, to clarify how NorthWestern is planning to respond to the Audit Report. Ms. Bonrud testified that all of the recommendation in the Audit Report are being taken under advisement and NorthWestern is currently determining which recommendations to implement. In response to a follow-up question, Ms. Bonrud confirmed that NorthWestern would be willing to submit a follow-up filing outlining which recommendations it is planning to implement and which recommendations it is not.⁹

Following Ms. Bonrud's testimony, NorthWestern called Mr. Luke Hansen, Energy Supply Analyst at NorthWestern, and Mr. Joe Stimatz, Director of Market Operations of NorthWestern, to testify before the Commission. During the course of NorthWestern's

⁷ *Id.* at 21:18-23:10.

⁸ *Id.* at 25:16-27:1.

⁹ *Id.* at 28:4-31:2.

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testimonies, Northwestern's witnesses were unable to provide answers to two additional questions, (1) the Commission asked whether NorthWestern had participated in other management audits in prior years or in its other jurisdictions,¹⁰ and (2) the PA asked whether NorthWestern had a North American Electric Reliability Corporation ("NERC") reliability audit done in the last ten years.¹¹ In response, Mr. Stimatz and Ms. Bonrud stated that NorthWestern would provide the outstanding information to Commission Staff at a later date.¹²

Following NorthWestern's testimony, Ms. Chris Dibbern provided testimony in her capacity as the Nebraska Public Advocate. Ms. Dibbern offered two recommendations to the Commission. First, the Commission should forward its determination of the costs of Winter Storm Uri to the Nebraska Attorney General for evaluation, specifically whether the gas pricing mechanisms used during Storm Uri were inappropriate or subject to price manipulation. Second, NorthWestern should consider an alternative mechanism for purchasing natural gas over a long weekend.¹³ No further witnesses were called, and the hearing was adjourned.

On November 5, 2024, NorthWestern submitted a late-filed exhibit addressing the three outstanding questions discussed above. This filing was accepted into the record and marked as Exhibit No. 8.

FINDINGS AND OPINION

Pursuant to the Commission's general grant of authority and its power to audit, the Commission initiated a review of the gas supply cost adjustment schedules implemented by NorthWestern.¹⁴ In its review, the Commission Consultants reviewed NorthWestern's gas supply procurement practices associated with gas purchasing and its processes, procedures, and general approach to natural gas supply and hedging. The Commission Consultants found no material

¹⁰ *Id.* at 40:7-40:19

¹¹ *Id.* at 46:18-38:2.

¹² *Id.* at 40:11-40:19 and 46:22-24.

¹³ *Id.* at 48:20-51:14

¹⁴ Neb. Rev. Stat. §§§ 66-1804, 66-1818, and 66-1854.

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violations or concerns associated with NorthWestern's organization nor the implementation of risk management policies during the audit period. However, the Audit Report contained several conclusions and recommendations for the consideration of NorthWestern.¹⁵

The Commission recognizes the effort and expertise employed by its consultant in conducting an examination of NorthWestern's management processes. At the hearing, both NorthWestern and the PA stated that the Commission Consultants conducted a thorough investigation, review, and analysis. The Commission also appreciates the careful review conducted by NorthWestern and the Public Advocate in their reviews of the Audit Report as well as their participation at the hearing.

The PA's response to the Audit Report and her comments at the hearing were generally positive, however, she did provide several recommendations to the Commission. The Commission acknowledges the suggestions put forth by the PA and commits to carefully review the suggested recommendations for further action.

Before the hearing was closed on October 22, 2024, NorthWestern was directed to submit responses to two questions outlined above and to respond to the Audit Report recommendations and its plans regarding implementation. Subsequently, NorthWestern timely submitted Late-Filed Exhibit No. 8 on November 5, 2024. In its filing, NorthWestern confirmed that, outside of the Nebraska natural gas procurement audits conducted in 2012 and 2022, NorthWestern had not been subject to any other management audits in Nebraska, South Dakota, or Montana. NorthWestern also confirmed that it had not been subject to a NERC audit of its Nebraska operations in the past 10 years.¹⁶ Lastly, NorthWestern provided a summary of which audit recommendations it is or is not planning to implement and why.¹⁷ NorthWestern agreed with the majority of the recommendations set forth in the Audit Report and plans to implement those recommendations as soon as practicable. Regarding the remaining recommendations, NorthWestern committed to a thorough review and analysis regarding a design winter. NorthWestern also stated it would continue to evaluate its

¹⁵ See NG-115.1, Hearing Exhibit #5 at pages 6-8.

¹⁶ See NG-115.1, Hearing Exhibit #8 at page 1.

¹⁷ *Id* at pages 2-4.

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procurement strategy and forecasting methodologies to determine if further improvements could be made. Finally, NorthWestern committed to monitor Natural Gas markets and, where appropriate, make and document changes to its hedging strategy, ensuring any adjustments it makes are prudent.

The Commission is satisfied with NorthWestern's responses and rationale, finding them reasonable and consistent with prudent utility practices. Furthermore, NorthWestern's responses do not conflict with the conclusions presented by the Commission Consultants, therefore, the Commission finds no further compliance directives are necessary at this time.

Being fully advised on the premises and based on NorthWestern and the PA's agreement on the record, the Commission finds that the recommendations set forth in the Audit Report are reasonable and in the public interest and should therefore be adopted in a manner consistent with the findings of this order.

O R D E R

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that the conclusions and recommendations as set forth in the Audit Report, consistent with NorthWestern's response in Late-Filed Exhibit No. 8, be, and are hereby, adopted.

IT IS FURTHER ORDERED that the Commission's review of gas supply cost adjustment schedules filed by NorthWestern Energy Public Service Corporation d/b/a NorthWestern Energy, Sioux Falls, South Dakota, is completed and is therefore closed.

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ENTERED AND MADE EFFECTIVE at Lincoln, Nebraska, this 3rd day of December, 2024.

NEBRASKA PUBLIC SERVICE COMMISSION

COMMISSIONERS CONCURRING:

Eric M. Hamler

[Signature]

Tim Schram

Kevin Stocker

[Signature]

Chair

ATTEST:

Thomas W. Golden

Executive Director