



City of Grand Island

Tuesday, November 13, 2007

Council Session

Item I4

**#2007-293 - Consideration of Northwestern's Application for
Natural Gas Rate Adjustment**

Staff Contact: Dale Shotkoski

Council Agenda Memo

From: Dale M. Shotkoski, City Attorney

Meeting: November 13, 2007

Subject: Settlement Agreement with Northwestern Corporation with Respect to Northwestern's Application for Natural Gas Rate Adjustment

Item #'s: I-4

Presenter(s): Dale M. Shotkoski, City Attorney

Background

On June 1, 2007, Northwestern Corporation, d/b/a Northwestern Energy, filed an application for natural gas rate increase with the Nebraska Public Service Commission. Northwestern sought an additional \$2,813,794.00 in rate recovery in its application. On June 26, 2007, the City Council authorized the City Attorney to work with city staff cooperatively from the cities of Kearney, North Platte and the Village of Alda, to negotiate with Northwestern Corporation for a general rate change.

The cities of Kearney, North Platte, Grand Island and the Village of Alda have been working cooperatively and have completed its negotiations with Northwestern Corporation's representation for new natural gas rates, which agreement will be filed and must be approved by the Nebraska Public Service Commission.

Discussion

The cities of Grand Island, Kearney, North Platte and the Village of Alda, consulted with an accounting firm to review the financial records of Northwestern along with its filings with the Nebraska Public Service Commission. As a result of the careful review of the documents, negotiations commenced with the goal of the parties being that Northwestern be allowed to receive a fair rate of recovery as allowed by the Nebraska Public Service Commission. As a result of the negotiations, the exchange of documents, and the discovery, the parties have agreed in principle to an adjustment for new natural gas rates for Northwestern in Nebraska. The agreement provides Northwestern with an additional \$1,700,000.00 in rate recovery, subject to the resolutions of three minor outstanding issues, including but not limited to, determination of the appropriate depreciation schedules. Other items that need to still be addressed are a true up of the depreciation

schedules currently under review by the State of South Dakota. Once the State of South Dakota makes its determinations, the parties have agreed to accept South Dakota's resolution.

Another item for council to address is whether or not council wishes to continue to pass through to Northwestern's customers in Grand Island a surcharge to the gas rates in amount of \$86,000.00 annually, which money is then passed through the City of Grand Island to the Economic Development Corporation with certain restrictions. Since the last rate agreement with Northwestern Energy, the City of Grand Island has adopted the additional sales tax, which allows sales tax to be used for LB840 purposes. As a result of the passage of the local sales tax, additional revenues have been generated and passed through to the Economic Development Corporation for economic development purposes. Sales tax on Northwestern's customers is a source of the economic development revenue. The surcharge passed through to the customers for the additional \$86,000.00 passed from Northwestern to the City is essentially a second fee attached to Northwestern's customers for economic development purposes. Northwestern will allow the cities under the current arrangement to either opt in or opt out of continuing with such a surcharge program. It must be made clear that the Economic Development money that has been shown by the city to have been received from Northwestern is in actuality money that was simply collected by Northwestern from its customers and passed through to the City. It is clear from the natural gas rate negotiations that Northwestern has been a collector of the surcharge money which is passed through the city for economic development purposes and because it has simply been a pass through, it is reflected as a cost of doing business in the City of Grand Island which Northwestern had included in its Natural Gas Rate Application.

Alternatives

It appears that the Council has the following alternatives concerning the issue at hand. The Council may:

1. Move to approve the proposed settlement agreement with Northwestern Corporation with respect to Northwestern's Application for Natural Gas Rate Adjustment, including the surcharge to its customers for economic development purposes.
2. Move to approve the proposed Interlocal Agreement between the city and Northwestern with respect to Northwestern's Application for Natural Gas Rate Adjustment and opt out of adopting the surcharge assessing Northwestern's customers with a fee for economic development purposes.
3. Postpone the issue to a future date.
4. Take no action on the issue.

Recommendation

City administration recommends that the City Council approve the settlement agreement with Northwestern Corporation pursuant to the Neb. Rev. Stat. §66-1838 with respect to Northwestern's Application for Natural Gas Rate Adjustment in principal, allowing Northwestern an additional \$1,700,000.00 in rate recovery. City administration further recommends that council choose to either opt in or opt out as it deems appropriate the surcharge of the Economic Development cost proposed by Northwestern to collect on behalf of Economic Development if council chooses to do so.

Sample Motion

Move to approve the agreement as proposed between the City of Grand Island and Northwestern Corporation pursuant to Neb. Rev. Stat. §66-1838 with respect to Northwestern's Application for Natural Gas Rate Adjustment, to include or to not include the Economic Development surcharge.

RESOLUTION 2007-293

A RESOLUTION TO ENTER A SETTLEMENT AGREEMENT WITH NORTHWESTERN CORPORATION PURSUANT TO NEBRASKA REVISED STATUTE SECTION 66-1838 WITH RESPECT TO NORTHWESTERN'S APPLICATION FOR NATURAL GAS RATE ADJUSTMENT.

WHEREAS, on June 1, 2007, NorthWestern Corporation, doing business as NorthWestern Energy ("NorthWestern"), filed an Application for a Natural Gas Rate Adjustment ("Application") with the Nebraska Public Service Commission ("PSC") seeking an additional \$2,813,794 in rate recovery;

WHEREAS, Section 66-1838 of the Nebraska Revised Statutes authorizes jurisdictional utilities such as NorthWestern to negotiate directly with affected municipalities such as the City with respect to a proposed general rate change provided, among other things, municipalities representing more than fifty percent (50%) of the ratepayers within the affected municipalities adopt resolutions evidencing their intent to negotiate with the jurisdictional utility;

WHEREAS, on July 17, 2007, the City adopted a resolution to negotiate directly with NorthWestern as permitted by NEB.REV.STAT. §66-1838;

WHEREAS, affected municipalities representing more than fifty (50%) of NorthWestern's ratepayers in Nebraska entered resolutions evidencing their intent to negotiate with NorthWestern;

WHEREAS, pursuant to NEB.REV.STAT. §66-1838, NorthWestern and affected municipalities entered into good faith negotiations regarding NorthWestern's Application;

WHEREAS, pursuant to NEB.REV.STAT. §66-1838(13), if the affected municipalities and NorthWestern reach agreement upon new natural gas rates, such agreement must be reduced to writing and filed with the PSC;

WHEREAS, NorthWestern and the affected municipalities have reached agreement upon new natural gas rates for NorthWestern in Nebraska that provides NorthWestern with an additional \$1,700,000 in rate recovery, subject to the resolution of three minor outstanding issues including, but not limited to, determination of the appropriate depreciation schedules; and

WHEREAS, the settlement between NorthWestern and the affected municipalities is in the public interest.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF GRAND ISLAND, NEBRASKA, that:

1. The Mayor is hereby authorized to, on behalf of the City, execute the required settlement agreement for new natural gas rates for NorthWestern in accordance with the terms and

Approved as to Form	☐ _____
November 8, 2007	☐ City Attorney

conditions generally described above and as agreed upon by NorthWestern and the affected municipalities; and

2. The City Attorney is hereby authorized and directed to take such appropriate action as necessary to effectuate the settlement with NorthWestern and work cooperatively with NorthWestern and the affected municipalities to obtain the necessary approvals from the PSC.

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Adopted by the City Council of the City of Grand Island, Nebraska, November 13, 2007.

Margaret Hornady, Mayor

Attest:

RaNae Edwards, City Clerk