Prefiled Direct Testimony and Exhibits
Robert C. Rowe

Before the South Dakota Public Utilities Commission
of the State of South Dakota

In the Matter of the Application of
NorthWestern Corporation, d/b/a NorthWestern Energy

For Authority to Increase Electric Utility Rates
in South Dakota

Docket No. EL14-_____

December 19, 2014

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EXHIBITS

Witness Information

Q. Please state your name and business address.

A. My name is Robert C. (Bob) Rowe. My business address is 3010 W. 69th Street, Sioux Falls, South Dakota 57108.

Q. By whom are you employed and in what capacity?

A. I am employed by NorthWestern Corporation, d/b/a NorthWestern Energy ("NorthWestern" or "Company"), as its President and Chief Executive Officer. I also serve as the only non-independent Director on NorthWestern Corporation's Board of Directors ("Board").

Q. Please state your educational background and experience.

A. I have been the President and Chief Executive Officer for the Company since August of 2008. From 2005 through 2008, I was senior partner in Balhoff, Rowe & Williams, a financial and policy consulting firm. Prior to that, I was a Commissioner with the Montana Public Service Commission ("MPSC") for twelve years from 1993-2004. During that period I served at various times as Chairman of the MPSC, Chairman of the National Association of Regulatory Utility Commissioners ("NARUC") Telecommunications Committee, President of NARUC, Chairman of the Regional Oversight Committee for US West/Qwest, and in other capacities. I was a member of the Federal-State Joint Board on Universal Service. I was active nationally, regionally and in Montana on

telecommunications and energy matters. I have also participated as a trainer in scores of university-based and other professional training events. I am a senior fellow at the University of Florida Public Utility Research Center and have been a member of various other university-related boards, including Columbia University. I received a Bachelor of Arts degree in History and Political Science from Lewis and Clark College in Portland, Oregon and a Juris Doctorate from the University of Oregon.

Purpose of Testimony

Q. What is the purpose of your testimony?

A. My testimony provides:

- a description of NorthWestern's rate application and why an electric rate increase is needed at this time;
- a comparison of the proposed rates to NorthWestern's current electric rates;
- an overview of NorthWestern and its electric service territory in South Dakota, and its approach to investment and service;
- an overview of NorthWestern's philosophy regarding customer care, community engagement and workforce development; and
- an overview of NorthWestern's efforts to mitigate increasing costs.

I will also introduce the other Company witnesses.

Q. Are you sponsoring any exhibits?

A. Yes. Exhibit__(RCR-1) is a map of our three-state service area, including additional information related to the Company as a whole. Exhibit__(RCR-2) is a map of our South Dakota service area along with some general descriptive information specific to South Dakota. Also, the charts and other graphics included in this testimony were prepared at my request by NorthWestern staff.

General Electric Rate Case Application Overview

Q. When did NorthWestern file its last South Dakota electric rate case?

A. NorthWestern's last general electric rate case was filed on November 5, 1980. The final order approving the settlement agreement was issued on April 30, 1981.

Q. Please discuss how NorthWestern was able to wait 34 years before filing a general electric rate increase request.

A. First, it is important to recognize and understand the positive, long-term impact of the South Dakota Public Utilities Commission ("SDPUC" or "Commission") decision in the 1980 rate case that allowed NorthWestern to retain wholesale margins from market sales of excess generation. That decision made it possible for the Company to reinvest those margins into our electric infrastructure and meet the Company's operational needs without requesting a rate increase from customers. Our customers continue to benefit from those investment decisions and in many instances

will never pay directly for many of those assets because they have been fully depreciated. The Commission's decision in that rate case provided the basis for the long-term rate stability that has been enjoyed by our customers for the past 34 years.

NorthWestern prides itself on running a tight ship. The Company has been conservative in its financial and investment strategies – just as many South Dakotans are when budgeting for their home and business needs. We use a number of internal committees that routinely review and discuss major capital expenditures related to infrastructure or energy supply, for example. These committees meet on a regular basis to review new projects for funding and progress of projects that are underway.

The Company has been prudent in managing its operations and maintaining access to low-cost capital for use in emergencies or to cover unanticipated expenses – such as the historic November 2005 ice storm. That event alone cost the Company approximately $12.4 million to restore power to customers under horrible winter weather conditions. NorthWestern was able to cover these associated costs without asking for immediate relief from customers. To this day, we remain very proud of our outage response efforts and our ability to restore power to approximately 80% of our customers within 36 hours and to have a majority of the system repaired within one week's time.

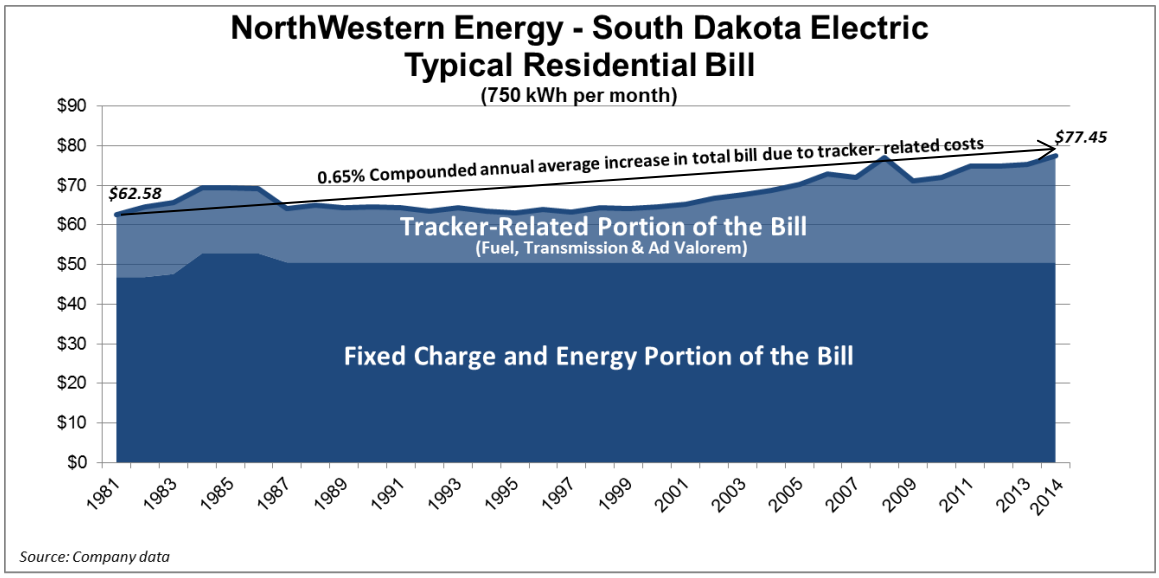
NorthWestern has also seen slow, steady growth in South Dakota. On average, customer demand has grown in the range of 2-3% annually over the past decade. This level of growth, along with margins from the sale of excess electricity into the market, provided revenues that the Company was able to reinvest in service to our customers while maintaining rate stability. All of these combined factors allowed NorthWestern to provide reliable, low-cost, high-quality electric utility services to our customers without an electric base rate increase for 34 years.

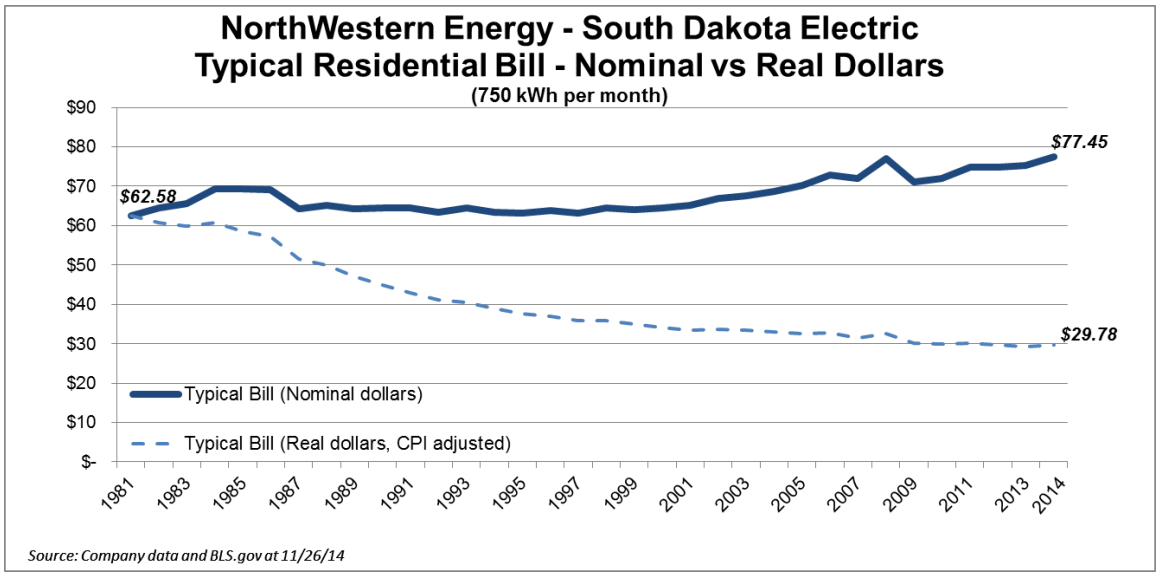
Q. What other benefits have NorthWestern customers experienced due to the long interval between electric rate cases?

A. NorthWestern's ability to manage its costs over the past 34 years has meant long-term rate stability for our customers and more of their money in their pockets. Long-term rate stability also means our customers have paid some of the lowest electric rates on a statewide, regional, and national level. NorthWestern's average retail electric rate is $0.078/kWh which is currently the third lowest amongst the six South Dakota investor-owned utilities and is well below the regional and national average retail electric rate (please see Rate Comparison Graphs 1-4, starting on page RCR-19). NorthWestern's average electric rates for each comparison are either second or third lowest overall. In all cases, NorthWestern's average electric rates are lower than the South Dakota, regional, and national averages.

Economic development and business opportunities have also benefitted from NorthWestern's ability to provide long-term rate stability. Businesses have been able to budget for normal operations and expansion opportunities annually, based on predictable electric rates. Economic development promoters within our service territory have been able to demonstrate to prospective business leaders that NorthWestern's electric rates are extremely competitive and stable.

Following are comparisons of a typical residential electric bill, beginning in 1981 through 2014, for a NorthWestern customer based on an average monthly use of 750 kWh. The first chart demonstrates the long-term stability of base rates for our electric customers. The only increases experienced by our customers over the past 34 years are related to expenses included in the trackers for fuel, transmission and property taxes. Even with increases in tracker costs, our electric residential customers in this example have seen their monthly bills increase by an average of only $0.44 per year.





The graph above shows that electricity has been a great bargain for our customers for the past 34 years. While residential customers have seen their electric bill increase by a total of $14.87 for the past 34 years due to tracker-related expenses, the overall real price of electricity has decreased by approximately $47.67 for an inflation-adjusted value of $29.78.

Collectively, these comparisons support the long-term value of rate stability for our customers and illustrate how good utility management of variable costs has created additional value for our customers over the past 34 years.

Long-term rate stability has also benefitted customers through NorthWestern's ability to attract long-term investors. Investors see a utility that responsibly manages its finances and resources, keeps its costs under control, and does not regularly seek increases to customer rates.

Q. Why does NorthWestern need to increase electric rates now?

A. The primary reason for the rate increase is due to large, necessary capital investments in projects related to meeting federally-mandated environmental regulations. NorthWestern is also investing in projects to maintain our high level of electric service reliability, and in the 34 years since NorthWestern last requested an electric rate increase in South Dakota, business expenses in general have increased simply due to inflation and other economic factors. In addition, NorthWestern is moving to integrate into the Southwest Power Pool ("SPP"), and that move, prudent as it may be, will come at a cost.

NorthWestern has also experienced some impacts from the recent economic downturn through reduced wholesale margins when selling

occasional excess generation to the wholesale energy market at low market prices. In addition, the fairly steady economic growth in our service territory has cumulatively eroded generation reserves that were once available for sale into the wholesale market. As stated above, over the past 10 years our demand growth rate has averaged 2-3% annually. Therefore, while that growth has benefitted the Company on one side with increased revenues from energy sales, it has also negatively affected revenues from wholesale energy sales into the market.

Primary Rate Case Drivers

Q. You previously stated that federally-mandated environmental regulations have required NorthWestern to invest large amounts of capital. Please explain further.

A. In 2005, the U.S. Environmental Protection Agency ("EPA") passed new air quality regulations called the Regional Haze Best Available Retrofit Technology ("BART") regulations and guidelines. BART was implemented to improve and protect visibility in Class 1 areas across the United States. Class 1 areas are typically national parks and wilderness areas. As a result of these rules, the Big Stone Power Plant ("Big Stone") was required to upgrade its emissions control equipment, as emissions from the plant were deemed to affect visibility in the Boundary Waters Canoe Area and Voyagers National Park in Minnesota.

Once it was determined that BART regulations would affect emissions from Big Stone, the South Dakota Department of Environment and Natural Resources ("DENR") was required to develop a State Implementation Plan ("SIP") to bring Big Stone into compliance. This plan, approved by both the South Dakota Board of Minerals and Environment and EPA Region 8, established the requirements for emission control upgrades at Big Stone. Upgrades needed to be completed by the end of 2017 to remain in compliance with South Dakota's SIP.

The plant's three owners – NorthWestern, Montana-Dakota Utilities ("MDU"), and Otter Tail Power Company ("OTP") – undertook a rigorous review of options to bring Big Stone into compliance. An additional option to close Big Stone was also explored. In the end, the owners determined that upgrading the current emissions control system was the most cost-effective alternative for customers. The Prefiled Direct Testimony of Dennis Wagner ("Wagner Direct Testimony") provides additional detail regarding project implementation and the review of alternatives.

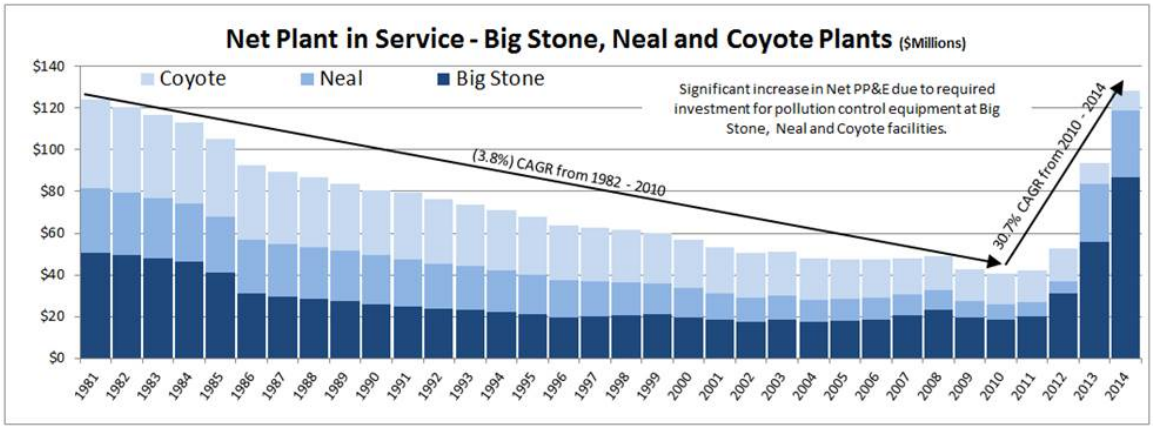
Q. Have other federally-mandated rules impacted other generation resources that NorthWestern owns? If yes, please describe.

A. Yes. The Neal Unit 4 Power Plant ("Neal 4") near Sioux City, Iowa was required to upgrade emissions control equipment due to EPA regulations. The Coyote Power Plant ("Coyote") in Beulah, North Dakota was required

to add activated carbon injection for mercury control and a Separated Over Fire Air Control System to control nitrous oxide emissions as required by EPA's Maximum Achievable Control Technology ("MACT") rule. Again, the Wagner Direct Testimony provides more details regarding these projects.

Q. What is the total mandated cost of the federal environmental regulations to NorthWestern and its customers?

A. NorthWestern's total investment due to federal mandates, including Allowance for Funds Used During Construction ("AFUDC"), is approximately $127.5 million for all three plants. NorthWestern invested approximately $120 million to construct our portions of the Big Stone, Neal #4, and Coyote generation plants (see chart below).



Initial Big Stone project costs to upgrade the emissions control system were estimated to be $491 million, with NorthWestern's share at $114.9 million. Due to excellent project management, engineering reviews, and regular communications between the three Big Stone owners, customers

will see significant cost savings in that project's final tally. As of the date of this filing, the total project cost is expected to be $384.0 million. NorthWestern's share has decreased by approximately $25.1 million to an estimated $89.8 million ($102.9 million with AFUDC). However, when you consider that it cost approximately $50 million for our share of the plant construction costs, the emissions control system upgrade is double the initial investment to construct the plant, as shown above.

Neal 4 upgrades totaled approximately $23.5 million for NorthWestern's share, with AFUDC. NorthWestern's share of the total project costs for Coyote, including AFUDC, is $1.1 million.

Q. How does NorthWestern propose to recover its costs associated with the emissions control upgrades to Big Stone, Coyote, and Neal 4?

A. NorthWestern will seek to recover the associated reagent costs for these projects through the Fuel Adjustment Clause ("FAC"), consistent with previous Commission treatment of such costs in dockets involving other regulated utilities. Costs attributable to actual project construction and project administration related to these upgrades are included in the revenue requirement of this general electric rate case filing. The Wagner Direct Testimony provides information specific to these anticipated costs.

Q. What is the estimated amount of reagent costs that NorthWestern will seek to recover through the FAC?

A. NorthWestern expects that, collectively for the generation plants, reagent costs will be approximately $1.65 million annually. The Wagner Direct Testimony provides additional information regarding the reagents and their related costs.

Q. Besides necessary emissions control upgrades at electric generation plants, what other major capital infrastructure investments are primary drivers in this rate request?

A. NorthWestern has continuously made major investments in its South Dakota electric generation, transmission, and distribution operations to provide the high quality service expected by customers. Approximately $178.6 million has been invested in our South Dakota electric utility assets over the past five years, excluding any costs related to necessary emissions control upgrades.

One such project was NorthWestern's natural gas peaker plant located in Aberdeen, South Dakota ("Aberdeen Peaker"). The Aberdeen Peaker is a 60 MW facility that went into service in 2013. NorthWestern is proud that we were able to bring the project in under budget, for a total of $55 million. This investment will allow NorthWestern to meet its summer and winter peaking needs more cost effectively than relying on market purchases or

purchase power agreements and ensure a more reliable energy supply to our customers when it is needed most. The Wagner Direct Testimony provides additional details about the Aberdeen Peaker project.

NorthWestern is also currently upgrading electric utility services in Yankton, South Dakota. This project includes an upgrade to the existing 115 kV transmission line and a new substation. Once the project is complete, Yankton will have a looped system to better accommodate community growth and provide additional system reliability. The total project cost is estimated to be $21 million. NorthWestern expects the project to be completed and on-line by fall of 2015. The Prefiled Direct Testimony of Michael Cashell ("Cashell Direct Testimony") provides more details on the Yankton transmission project upgrade.

Q. Please discuss, in general terms, NorthWestern's philosophy concerning maintaining infrastructure.

A. NorthWestern uses a systematic, disciplined approach when analyzing infrastructure management and investment needs. We regularly measure our level of system reliability and performance using nationally accepted industry standards. That information is compared against our peers on a regional and national level to give NorthWestern a point of reference as to how well we are doing. This information is also gathered to assist our operations personnel in identifying potential problem areas that may

require additional attention and to serve as a guide in determining capital investment or maintenance activities to appropriately address the situation. South Dakota customers have come to expect high quality service from NorthWestern and we intend to continue meeting those expectations.

Q. Earlier in your testimony, you stated that NorthWestern is planning to join SPP. Please briefly discuss why NorthWestern is joining SPP.

A. Two primary drivers are influencing NorthWestern's decision to join SPP: 1) the Integrated System's ("IS") – consisting of the Western Area Power Administration ("WAPA"), Basin Electric Power Cooperative, and Heartland Power Consumers District – decision to move to SPP, and 2) the Federal Energy Regulatory Commission's ("FERC") Order 1000.

NorthWestern's transmission system has 14 interconnection points with other transmission entities in the Western Upper Great Plains region. These entities help to provide the delivery of capacity and energy to NorthWestern as well as provide system stability. Of those 14 interconnection points, 10 are within the IS. Therefore, NorthWestern's overall system reliability, access to markets, ancillary services, and power delivery are heavily tied to the IS.

In addition, NorthWestern currently participates in the Mid-Continent Area Power Pool ("MAPP") for regional planning purposes. The current arrangements with WAPA and MAPP do not qualify under FERC Order 1000 requirements, as described in Cashell Direct Testimony. Therefore, once the IS decided to migrate to SPP, NorthWestern needed to explore its options: join SPP, join the Midwest Independent System Operator, or remain a stand-alone entity. The results of our evaluation supported our joining SPP with the IS. The Prefiled Direct Testimony of Bleau LaFave ("LaFave Direct Testimony") provides additional background and information related to NorthWestern's move to join SPP.

Q. Does NorthWestern use an integrated resource planning ("IRP") process for determining future energy supply and capacity needs?

A. Yes. The IRP process plays an important role in helping the Company to evaluate its future energy supply and capacity needs. The resulting plan provides a blueprint of what the Company sees as future challenges and how it plans to address those challenges in a timely fashion. It also helps to guide the Company in determining its investment strategy in meeting identified needs on behalf of our customers. The LaFave Direct Testimony provides an overview of our IRP process.

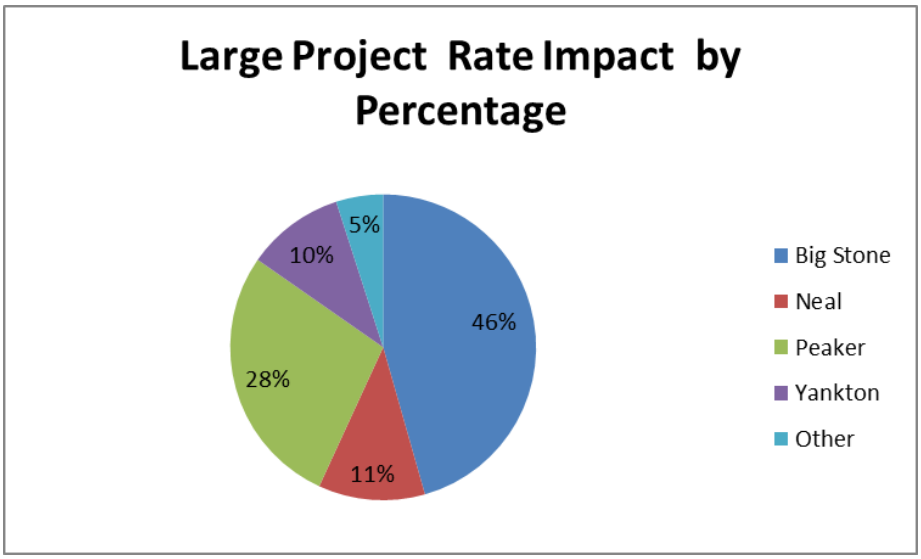
Q. What is the historical test year proposed by the Company in this general electric rate case?

A. NorthWestern proposes an historical test year based on the 12 months that ended September 30, 2014, and that includes normalized adjustments with known and measurable changes. The Prefiled Direct Testimony of Kendall Kliewer describes the known and measurable changes and normalized adjustments made in preparation for this filing.

Q. What is NorthWestern's requested revenue requirement and requested Return on Equity ("ROE")?

A. NorthWestern's requested revenue requirement in this general electric rate filing is $26,509,557 (20.24% increase based on total billed revenue) with a requested ROE of 10%, which was in the low end of the range provided by our consultant and in line with recently authorized electric ROEs in the utility industry.

The graph below shows that 95% of requested revenue requirement is capital investments (including depreciation) related to mandated federal environmental emissions upgrades to our generation fleet, solidifying our peaking generation and improvements to critical transmission infrastructure.



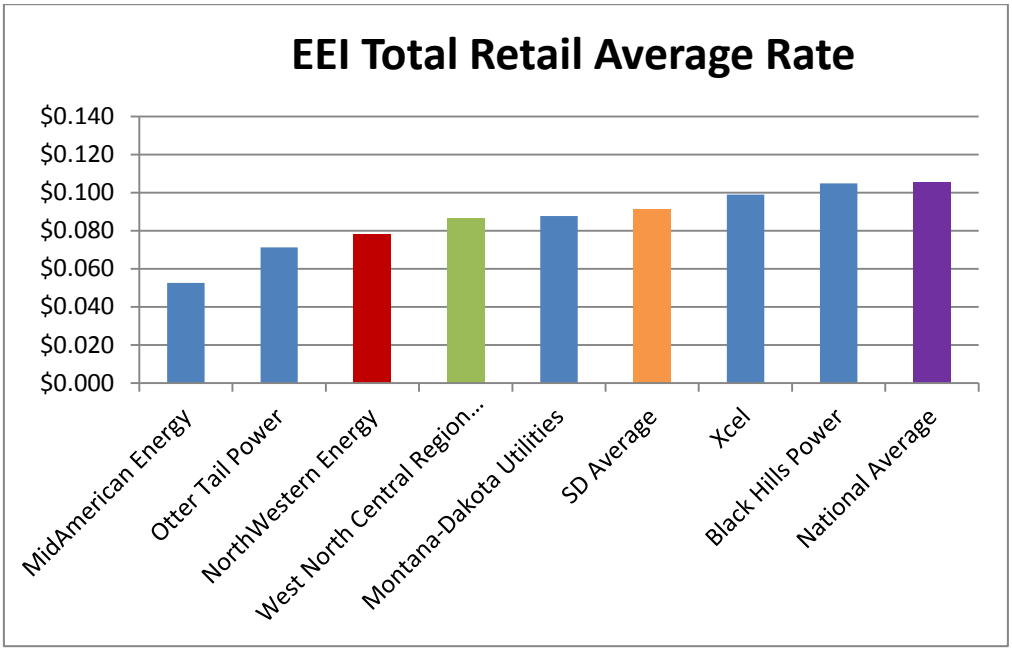
Q. What is the anticipated impact to customer bills as a result of this rate increase request?

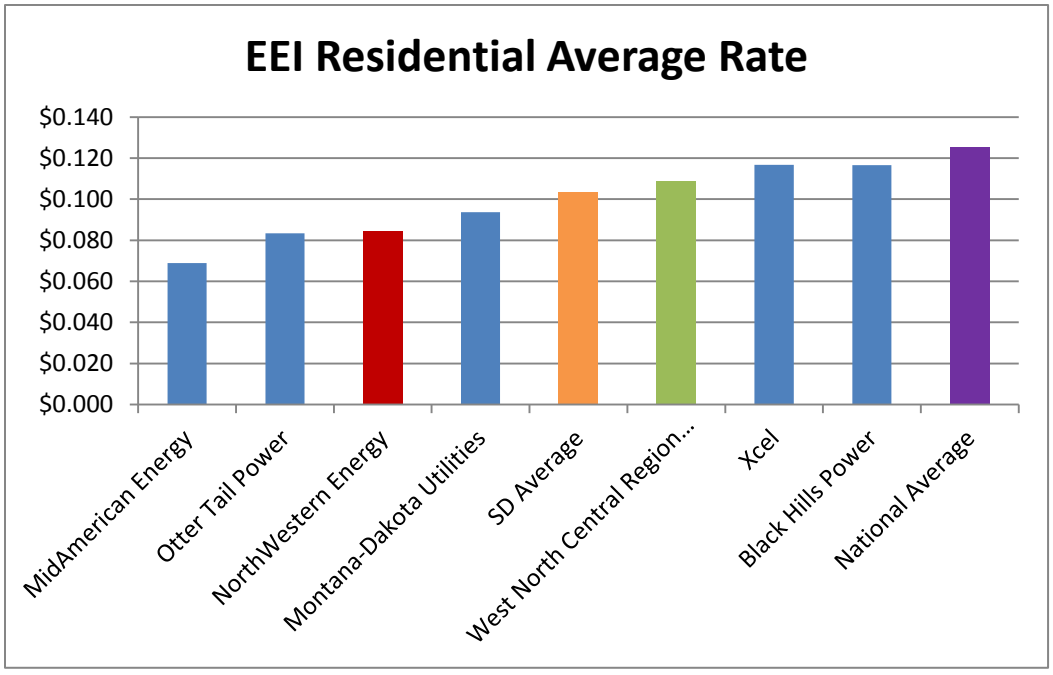
A. The average residential customer that uses 750 kWh per month can expect to see a $16.76 increase on a per month basis. The increase experienced by commercial and industrial customers will vary depending on rate class, load factor, and amount and nature of use.

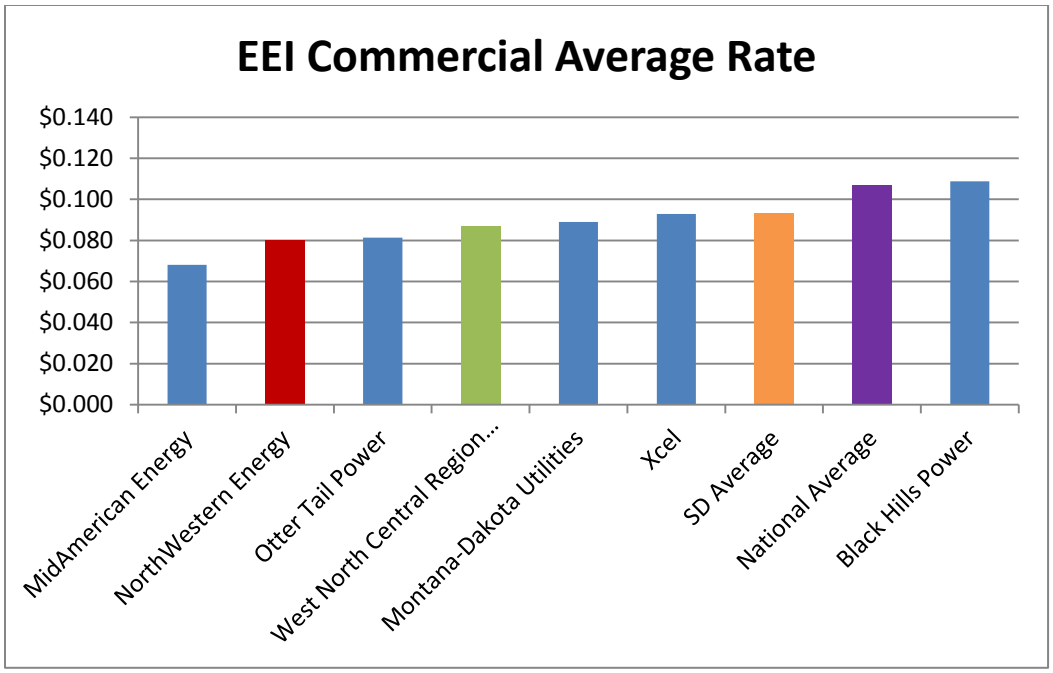
Q. How do NorthWestern's average electric rates compare to other South Dakota, regional and national average electric rates?

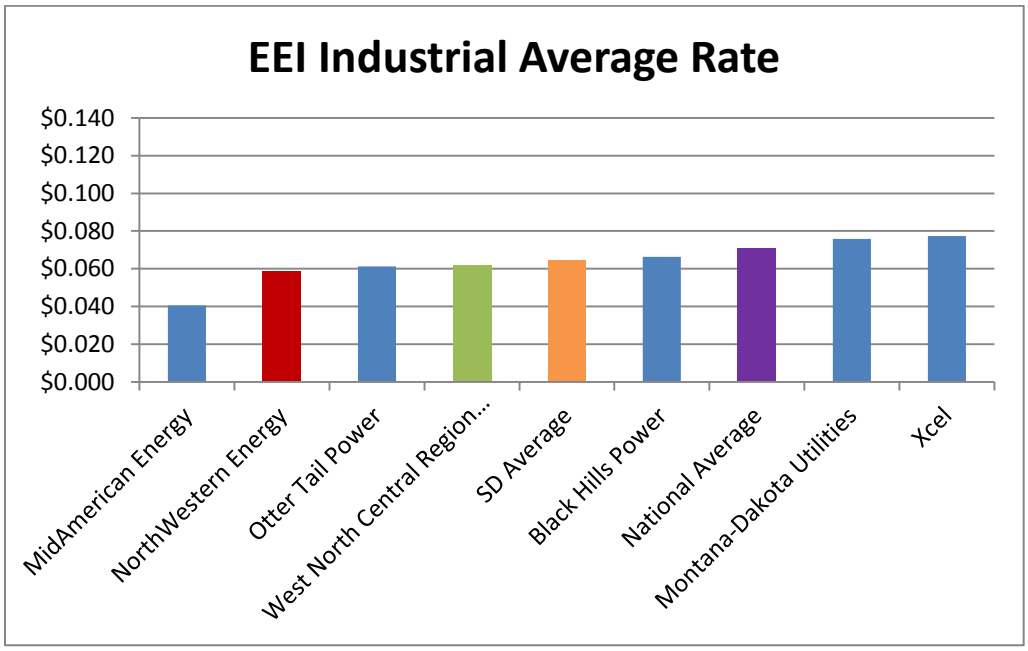
A. Below are four graphs that compare NorthWestern's current rates against our South Dakota investor-owned utility ("IOU") peers for average retail electric rates, average residential electric rates, average commercial electric rates, and average industrial electric rates. The graphs also show how NorthWestern's average electric rates for these categories compare against South Dakota, West North Central Region, and national average

rates. Information for this comparison was gathered from Edison Electric Institute's Typical Electric Bills study of rates in effect July 1, 2014.



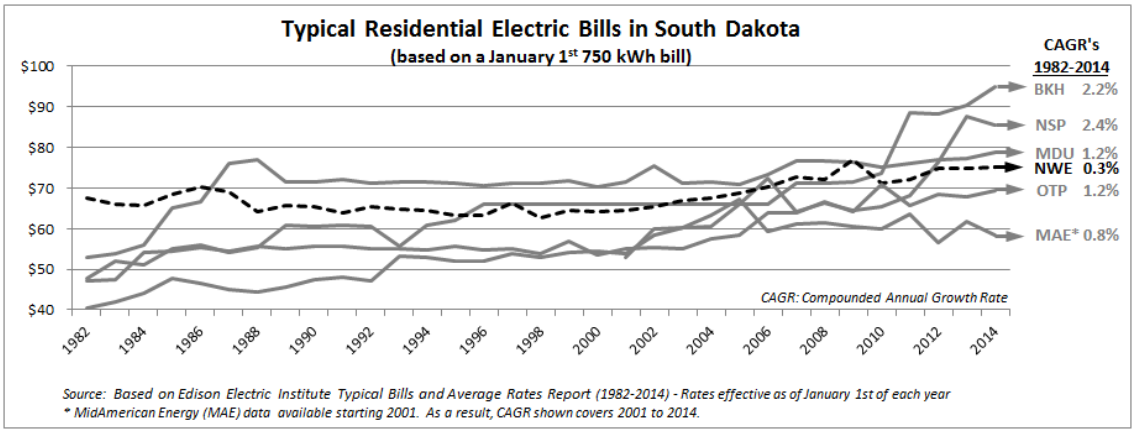






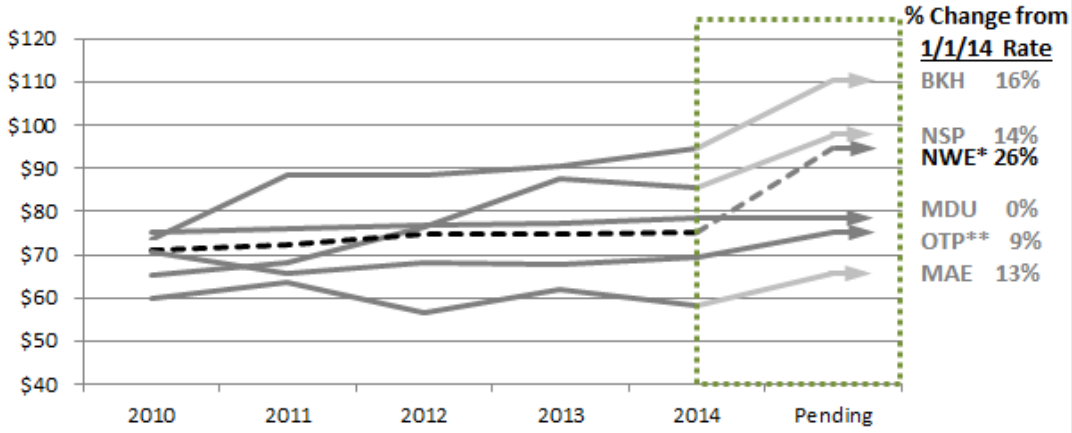
NorthWestern compares quite favorably against our South Dakota peer utilities and on a statewide, regional, and national average basis. In most instances, NorthWestern's average electric rates for each comparison are either second or third lowest overall. In all cases, NorthWestern's average electric rates are lower than the South Dakota, regional, and national

averages. Additionally, if the Commission fully approves NorthWestern's requested rate increase as contained in this filing, NorthWestern's electric rates would remain in the middle as compared to the other South Dakota IOUs that have pending rate cases – assuming the Commission approves their requested increases without changes (see Charts 1 -2 below). When comparing NorthWestern's requested rate increase against the other South Dakota IOUs' pending rate requests and accounting for Compounded Annual Growth Rate ("CAGR"), NorthWestern's CAGR since 1982 is only 1.1% for the average residential electric bill based on 750 kWh monthly, the lowest of all South Dakota IOUs (see Chart 3 below). Notable exceptions to these comparisons include: 1) MDU – does not have a pending rate increase or rider that affects its electric customers and 2) OTP – recently received Commission approval for an environmental rider for the recovery of its costs related to emissions control upgrades. Both IOUs are included to provide a more complete South Dakota electric rate comparison between NorthWestern and its IOU peers.



Typical Residential Bill Impact from Pending Filings

(Based on 750 kWh bill - change from January 1st, 2014 rates)



** NorthWestern's (NWE) 26% increase shown above is different than 20.2% increase as filed. For consistency among IOUs, the increase above is calculated based upon the impact to a typical residential bill using rates in place as of 1/1/2014. The rate filing as submitted calculates the 20.2% impact based on the increase to total test period revenue.*

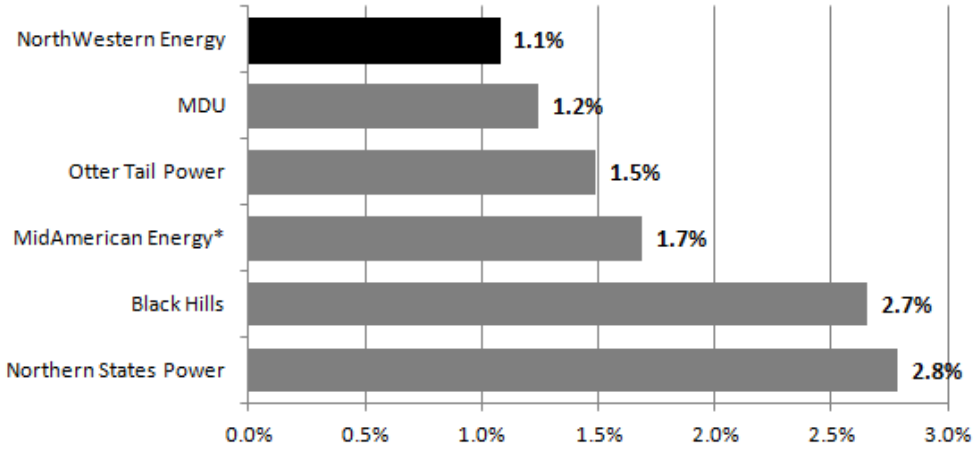
*** Otter Tail (OTP) Rider impacting rates is approved and not pending PUC approval.*

Source: 2010 - 2014 based on Edison Electric Institute Typical Bills and Average Rates Report.

Pending Requests based on best information available in regulatory filings and company press releases.

34 Year Typical Residential Bill CAGR

(1982 - Current, including NWE and others' pending requests before the SD PUC)



** MidAmerican Energy data available starting 2001. As a result, CAGR shown covers 2001 to 2014.*

Source: CAGR Calculated based on Edison Electric Institute Typical Bills and Average Rates Report and pending requests based on best information available in regulatory filings and company press releases.

Overview of NorthWestern

Q. Please describe NorthWestern and its three-state service territory.

A. NorthWestern is a rate-regulated electric and natural gas provider in South Dakota and Montana. In Nebraska, NorthWestern is a jurisdictional natural gas utility with 41,900 customers in four communities. Our Montana operations serve 344,500 electric customers in 187 communities and 184,900 natural gas customers in 105 communities. See Exhibit__(RCR-1) for a map of NorthWestern's multi-state service territory.

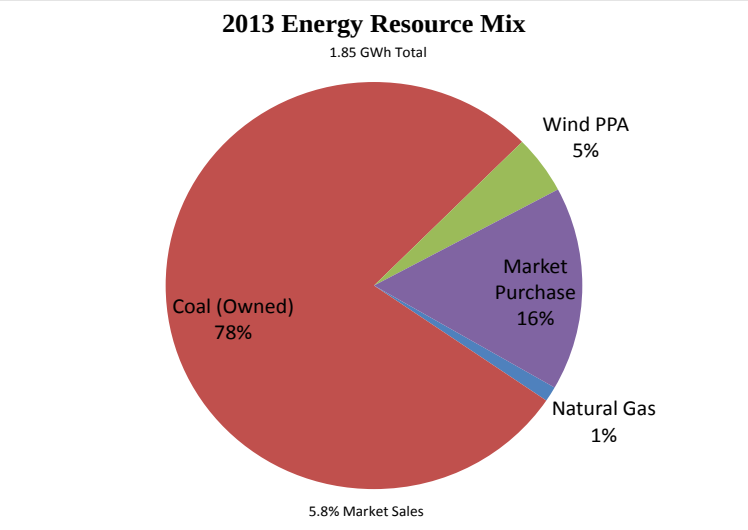
In South Dakota, the Company provides electricity to 62,100 customers in 110 communities and natural gas to 44,900 customers in 60 communities. Residential customers comprise 80% of our electric customer base in South Dakota while the remaining 20% are classified as commercial/industrial customers. Natural gas customers are 87% residential and 13% commercial/industrial in South Dakota. Exhibit__(RCR-2) shows a map of our South Dakota service territory along with the location of our coal-fired generation assets.

NorthWestern has corporate locations in Sioux Falls, South Dakota, and Butte, Montana. South Dakota electric and natural gas operations are managed from Huron, South Dakota. Employees are based out of 15 office locations across our South Dakota service territory that are open to the public.

The Company has more than 1,600 employees throughout the three-state service area with close to 300 employees in South Dakota. Many of our South Dakota employees work in both electric and natural gas services. As with many of our peer utilities, NorthWestern is experiencing changes in its South Dakota workforce as many of our employees reach retirement age. A review of our workforce and pending retirements has been completed and is updated periodically. The Prefiled Direct Testimonies of Michael Sydow and Bobbi Schroeppel ("Sydow Direct Testimony" and "Schroeppel Direct Testimony") provide additional details regarding workforce planning.

Q. Please provide an overview of NorthWestern's electric utility assets and operations in South Dakota.

A. NorthWestern's South Dakota electric generation needs are met through a mix of co-ownership in three coal plants, a purchase power agreement for wind power, a mixture of diesel and natural gas peakers or emergency generation plants, and energy wholesale market purchases. Below is a pie chart depicting NorthWestern's South Dakota generation supply profile. The Wagner Direct Testimony gives a more detailed description regarding NorthWestern's electric generation assets.



Transmission delivery services are provided through a 115 kV line that serves as the transmission backbone and runs north to south through the James River Valley starting near the North Dakota border and ending at the Gavin's Point Dam near Yankton, South Dakota. Additionally, 69 kV and 34.5 kV radial and looped transmission lines serve our major load centers. NorthWestern also has ownership interest in transmission lines from our coal generation assets to deliver energy into our overall transmission network. In total, the Company owns 1,254 miles of transmission lines in South Dakota. NorthWestern's transmission system is continuously monitored for reliability and outages. Typically, NorthWestern's transmission system ranks in the first or second quartile for reliability and number of outages. The Cashell Direct Testimony gives a more detailed description regarding NorthWestern's electric transmission assets and operations.

NorthWestern's South Dakota electric distribution assets include: 81 distribution substations; 207 distribution circuits; 2,356 miles of overhead distribution lines; 543 miles of underground distribution lines; distribution line voltages ranging from 2.4 kV to 34.5 kV; 18,985 distribution transformers; and 62,825 electric meters. The Huron Operations Center is the nerve center for operating the system and monitoring system performance. Operations personnel reside throughout our electric service territory and are responsible for operating and maintaining our electric distribution services at the local level. Many of these employees also assist with operations and maintenance needs related to electric transmission or natural gas distribution. Another advantage of locating personnel throughout the service territory is faster responses to outages or emergency situations. The South Dakota electric utility consistently operates in the top quartile for system reliability and performance as measured on a national and regional basis. The Sydow Direct Testimony provides a more detailed description regarding NorthWestern's electric distribution assets and operations.

Corporate Governance

Q. Please describe NorthWestern's philosophy regarding corporate governance.

A. NorthWestern's Board oversees the business of the Company. It establishes overall policies and standards for the Company and reviews

management's performance. The Board operates pursuant to written Corporate Governance Guidelines that set forth the Company's corporate governance philosophy and the governance policies and practices that the Company has established to assist in governing the Company and its affiliates. Our Corporate Governance Guidelines can be found on our website at www.northwesternenergy.com under *Our Company/Investor Relations/Corporate Governance.*

We are committed to strong corporate governance. As governance standards have evolved, we have enhanced our own governance standards as appropriate to best serve the interests of our stakeholders. We believe that the corporate governance practices we have adopted benefit our debt and equity owners, employees, and ultimately customers by maintaining appropriate accountability for NorthWestern.

Various other policies and practices also set the standard for our performance and operations. For example, a Code of Business Conduct and Ethics was adopted by the Board to ensure that our operations, employees, and directors conform to the best possible corporate governance practices. The Board has also divided the duties of the Chairman of the Board from those of the President and Chief Executive Officer to ensure our commitment to corporate governance principles. I

am not the Board Chairman and am the only non-independent member of the Board.

Q. What is NorthWestern's approach to Enterprise Risk Management ("ERM")?

A. While management is responsible for day-to-day risk management processes, NorthWestern has structured our ERM reporting relationship through our Chief Audit and Compliance Officer who reports functionally to the Audit Committee of the Board. NorthWestern believes this division of responsibilities is the most effective approach for addressing the risks facing our company, and our Board leadership structure supports this approach.

NorthWestern's Audit Committee is primarily responsible for overseeing the Company's risk management processes on behalf of the full Board by monitoring Company processes for management's identification and control of key strategic, operational, financial, regulatory and compliance risks. The Audit Committee receives reports from management at least quarterly regarding the Company's assessment of risks. The Human Resources Committee oversees risks in compensation plans, and the Nominating and Corporate Governance Committee oversees risk in corporate governance and social responsibilities including environmental, health, and safety matters. In addition, the Audit Committee and the full

Board focus on the most significant risks facing the Company and review the corporate risk appetite in evaluating strategic alternatives. While the Board oversees the Company's risk management, our CEO and Executive Risk Management Committee act to ensure that our ERM and business continuity programs achieve their objectives.

Q. Has NorthWestern been recognized for its corporate governance practices?

A. Yes. Our efforts to operate at the highest level of corporate governance have been recognized on numerous occasions. In 2013, Forbes recognized us for the third straight time on its list of America's Most Trustworthy Companies, a distinction awarded, according to Forbes, for transparent accounting and solid corporate governance practices. Our proxy disclosures were recognized by *Corporate Secretary* magazine as finalists for Best Proxy Statements in 2012 and 2013. In November 2014, NorthWestern's annual proxy statement was recognized as the very best among small and mid-cap companies. Glass, Lewis & Company also recognized NorthWestern as one of the top 42 companies in the United States in its 2011 "Say on Pay" analysis, which recognizes companies with clear disclosure and conservative policy concerning executive compensation. In addition, NorthWestern earned an "A" from the New York Stock Exchange's Corpedia for its Code of Conduct and Ethics,

putting it in the top 2% of all energy and utility companies reviewed and the top 1% of all companies reviewed.

Customer Satisfaction

Q. Do you believe NorthWestern's customers are satisfied with their energy utility services?

A. Yes, I do. NorthWestern – at all levels – constantly strives to provide the highest quality of utility services. We take great pride in our relationship with our customers. As discussed in the Schroeppel Direct Testimony, our customer satisfaction scores in South Dakota consistently rank in the top quartile at the regional and national levels.

Q. Please highlight some specific initiatives NorthWestern has undertaken to build its customer relationships and community involvement.

A. In an effort to build on the great community relationship work that is already at the core of how NorthWestern does business, we rolled out the Community Works program in 2013. Community Works is an initiative to bring together our community relations, economic development, charitable giving, college and technical school scholarships, and employee volunteerism efforts into one cohesive company-wide endeavor. Approximately $1.5 million (mainly shareholder money) is provided through Community Works to support these activities throughout the

three-state service area. In South Dakota, approximately $375,000 is provided annually.

NorthWestern takes its role in helping South Dakota to remain viable and competitive in the economic development arena very seriously. We understand the value of partnerships and well planned communications to highlight the advantages of South Dakota's business climate to businesses looking to locate or expand within our service territory. The importance of that collaborative effort translates to new jobs and business opportunities for our customers. NorthWestern appreciates the opportunity to assist our communities in reaching their goals.

NorthWestern is proud of its sponsorship role in a regional economic development initiative called Advantage South Dakota. Advantage South Dakota is the revival and renewal of a previous economic development effort that involved NorthWestern and communities it serves. The previous economic development effort was disbanded in the early 2000s when member communities decided to pursue economic development at the community level rather than regionally. NorthWestern hosted a meeting in 2009 with our community economic development leaders to gauge their interest in pursuing a regional effort once again. As a result of that meeting, Advantage South Dakota launched in April 2010.

Advantage South Dakota is a regional partnership organization involving NorthWestern, our community economic development leaders, and the Governor's Office of Economic Development. The goal of Advantage South Dakota is to take a more comprehensive and integrated approach to developing economic development opportunities and promoting job growth for communities within our service territory.

The Advantage South Dakota membership has been active in developing a website (http://www.advantagesouthdakota.com), setting up booths at industry meetings in an effort to attract new business, supporting workforce development efforts, looking for innovative solutions to housing needs, and meeting directly with site selectors to heighten their awareness of the James River Valley as a good place to do business.

In addition to the all of the activities I just described, the majority of our employees are active in their communities. In 2013, employees reported volunteering approximately 14,000 hours. Earlier this year, NorthWestern was awarded the Pro Patria award for its support of employees who serve in the National Guard and Reserves. I was honored to join other NorthWestern employees, led by Mitchell Gas Foreman Ken Schoenfelder, who also serves his country as Chief Warrant Officer Four. Our employees are just as dedicated to serving their country as they are to serving our customers.

Q. Has NorthWestern undertaken any other unique efforts to heighten its presence in the communities it serves?

A. Yes. In 2010, NorthWestern's Board decided to hold its meetings in locations throughout our service area. The Board believed there were two important benefits of this decision: 1) It would provide an opportunity for community, regional, and state leaders to interact with our Board members through community meetings that are hosted each time they meet in one of our communities; and 2) By meeting in our local offices, the Board would be able to get to know our employees on a personal level and hear about issues of importance to them. Thus far, the Board has held South Dakota-based meetings in Aberdeen, Yankton, Sioux Falls, Brookings (twice), Mitchell (twice), and Huron (two annual shareholder meetings). By all accounts, the Board's decision to hold its meetings in our service territory has been a great success.

A second endeavor that I have personally undertaken is to take a week each year to drive through our South Dakota service territory to meet with legislative, community, and local or statewide policy leaders. Employee meetings are also held in each of our local area offices as part of the tour. NorthWestern does not come with a particular agenda in mind but uses the tour as an opportunity to give a general update on our activities and initiatives and answer any questions these leaders may have concerning NorthWestern or other matters. These road trips provide a tremendous

opportunity to get to know important decision-makers on a personal basis and establish NorthWestern as an information resource. Basically, we want to know what we can do to support our communities and serve our customers.

Q. How does NorthWestern measure the effectiveness of these efforts in building customer satisfaction?

A. NorthWestern tracks a number of customer perception metrics and performs statistical analyses to understand what is important to customers and the key drivers of customer satisfaction. Through a series of research projects, NorthWestern has defined its Reputation Pillars as Prepared, Trustworthy, Community-focused, and Customers First.

South Dakota electric customers are the most satisfied subset of NorthWestern customers across all customer groups. Ninety percent of South Dakota electric customers strongly agree or agree the Company sets the standard of excellence for energy delivery and 83% strongly agree or agree NorthWestern is an excellent company. On a 10-point scale, NorthWestern receives high marks from South Dakota electric customers when it comes to being a trusted company (8.88), being involved in the community (7.96), having employees who are visible in the communities (8.14), conducting business in a responsible manner (8.52), being sincere advocates for our communities (8.08), being invested in the

future of our communities (8.14), and being engaged in developing our communities and businesses (7.66). The Schroeppel Direct Testimony provides additional detail regarding South Dakota electric customer research results.

Controlling Customer Energy Use

Q. Please describe NorthWestern's philosophy concerning helping customers who are struggling to pay their bills.

A. NorthWestern wants to be an energy partner and not just a provider. We believe it is important to be a part of our communities and to be easily accessible. We work to be proactive with customers in payment arrangements and help with access to energy assistance programs and options. The Schroeppel Direct Testimony discusses in more detail how we work with customers, as well as programs and services we offer to assist customers.

Q. What is NorthWestern doing to help its customers control their energy usage?

A. Energy efficiency programs are a great way for customers to reduce usage and to use energy more wisely. NorthWestern believes cost-effective Demand-Side Management ("DSM") is a necessary and important part of the portfolio of electric and natural gas supplies it acquires to serve the energy needs of its customers, while helping them to

be proactive in reducing their energy usage. A primary benefit of cost-effective DSM is that it displaces the need to purchase more expensive electric or natural gas resources by reducing customer energy usage through efficiency gains. In that sense, DSM can be viewed as an energy resource. Another important benefit of DSM is that it provides tools individual customers can use to reduce their energy bills without loss of comfort or convenience. Also, environmental benefits are an important aspect of DSM. Energy saved through DSM activities reduces the need for additional electric generation, consumption of fossil fuels resulting in reduced emissions, and other environmental impacts.

Beginning in October 2014, NorthWestern rolled out its DSM program to our South Dakota customers. The Company's primary focus has been to educate our customers concerning what our DSM portfolio provides and how to access program offerings. Initial customer offerings have included lighting rebates for both residential and commercial/industrial customers and home energy audits. Thus far, customer response has primarily involved our commercial/industrial customers who are actively seeking input on energy efficiency projects and how our DSM program can assist them in attaining their energy savings goals. NorthWestern will continue to promote our DSM program to our customers through our Company website, media, bill inserts (including *Energy Connections*), advertising, hosting events at our local offices, and attending home shows and fairs.

Q. Does NorthWestern believe energy efficiency is important to customers?

A. Customer research has repeatedly demonstrated to NorthWestern that our customers expect their utility to be their energy expert and to help them find ways to conserve energy. Customer research conducted in September 2014 indicates 76% of NorthWestern's South Dakota electric customers are interested in receiving more information about energy efficiency with their bill. Of all topics tested, customers were most interested in energy efficiency. During home shows and fairs, customers stop by seeking energy efficiency information. Since receiving final approval of our DSM Program from the Commission, South Dakota customers have been reaching out to learn more about the available portfolio offerings and how they may take advantage of them. Helping customers to conserve and lower their energy costs is an important component of keeping customers happy with their energy utility.

Introduction of Company Witnesses

Q. Please introduce the other Company witnesses who have submitted prefiled direct testimony in this general electric rate case filing.

A. In addition to my policy testimony, the following Company employees and consultants serve as witnesses in this proceeding:

- Brian Bird, Vice President and Chief Financial Officer
- Adrien McKenzie, Vice President of FINCAP, Inc.

- Kendall Kliewer, Vice President and Controller
- Ron White, Chairman and Senior Consultant of Foster Associates, Inc.
- Jeffery Decker, Regulatory Specialist
- Gary Goble, Consultant with Management Applications Consulting, Inc.
- Dennis Wagner, Director South Dakota Production Operations
- Bleau LaFave, Director Long-Term Resources
- Michael Cashell, Vice President - Transmission
- Bobbi Schroeppel, Vice President – Customer Care, Communications and Human Resources
- Michael Sydow, Manager General South Dakota/Nebraska Distribution Operations

Collectively, these witnesses will provide the necessary information and supporting documentation to assist the Commission in evaluating and approving our Application.

Q. Does this conclude your testimony?

A. Yes, it does.