Prefiled Direct Testimony
Bobbi L. Schroeppel

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

TABLE OF CONTENTS

EXHIBITS

None

Witness Information

Q. Please state your name and business address.

A. My name is Bobbi L. Schroeppel. My business address is 3010 West 69th Street, Sioux Falls, South Dakota 57108.

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

A. I am employed by NorthWestern Energy ("NorthWestern" or "the Company") as the Vice President of Customer Care, Communications and Human Resources.

Q. Please state your educational background and experience.

A. I graduated from the University of Minnesota in 1993 with Bachelor of Arts degrees in Statistics and Sociology. I obtained a Master of Business Administration (MBA) from the University of Minnesota's Carlson School of Management in 2002. I have approximately 20 years of experience in the electric and natural gas utility industry. I began my career as an electric dispatcher for Wright-Hennepin Cooperative Electric Association in Rockford, Minnesota. I joined NorthWestern in May 1998. I became the Vice President of Customer Care in 2002 and the Vice President of Customer Care and Communications in 2005. I moved into my current role in 2009.

Purpose of Testimony

Q. What is the purpose of your testimony?

A. My testimony provides:

- An overview of NorthWestern's approach to Customer Care including recent investments;
- A summary of key findings from customer research; and
- An update on NorthWestern's workforce planning.

Customer Care

Q. Please describe NorthWestern's approach to Customer Care, including what is included under Customer Care.

A. NorthWestern strives to make Customer Care a one-stop source for its customers. Customer Care brings together various customer interaction channels including phone, email, mail, web, social media, and walk-in local offices. Also included under Customer Care are meter reading management, billing and payment, credit and collections, economic development, and key account management. Customer Care is responsible for the Company's customer information system ("CIS") which I discuss in more detail below. Customer Care also works closely with operations, communications, and community relations.

Q. Please discuss recent investments and improvements NorthWestern has made in Customer Care.

A. A number of investments have been made in the past few years, the most notable being a multi-year investment to upgrade and consolidate two aging customer information systems and the implementation of InService.

NorthWestern kicked off its CIS project in the spring of 2010. The project included merging two systems into one and upgrading to a new CIS. The new CIS went live over Labor Day weekend in 2013. NorthWestern has also made recent investments in contact center technology including an interactive voice response ("IVR") system, a phone and computer screen recording system, and a new phone system. In late 2012, NorthWestern formed an eBusiness function charged with supporting the Company's website. The eBusiness group is currently focused on responsive design, outage reporting, and outage maps. Responsive design provides an optimal viewing experience for the user by adapting the website layout to the user's viewing device – such as a smart phone.

In conjunction with the go-live of the new CIS, NorthWestern rolled out new web self-service options for South Dakota customers including: a Real Estate Agent Corner; Community Action Corner; forgot user ID; the ability to establish, transfer and discontinue service; the ability to download usage, payment, and charges to Excel spreadsheets; Auto Pay with a preferred due date request; payment arrangements; and the ability to create an "out of power" or "partial power" service order. Additionally, with the implementation of the new CIS, the Company rolled out the following new IVR features: account balance, last payment and date received, due date for current bill, and ability to generate an out of power service order.

The Community Action Corner allows the State of South Dakota case workers who administer the Low Income Energy Assistance Program ("LIEAP") to view usage and ledger information to help determine customer eligibility for LIEAP. Case workers are also able to place comments on a customer account that create a task in the CIS, which alerts NorthWestern to the fact that the customer will be receiving LIEAP funds. Future improvements to the Community Action Corner will include an easy view of past due amounts, ability to determine if a service order for disconnect for non-payment is pending, and the ability to determine what the customer may owe for a deposit.

NorthWestern has also invested in its local walk-in offices including new facilities in Aberdeen and Brookings, South Dakota. Local walk-in offices are open to customers in 13 South Dakota communities. Customer walk-in traffic continues to be robust with approximately one-third of all payments and service order requests occurring through walk-in service.

Q. Please provide a general overview of other programs and services NorthWestern currently offers its South Dakota electric customers.

A. NorthWestern maintains a 24/7 contact center accessible via a toll-free number in addition to the walk-in offices, online/web and IVR self-service options discussed above. Further services include electronic billing, key account management for large customers, economic impact analysis, assistance applying for LIEAP or other forms of support, energy efficiency programs, multiple

payment options including payment arrangements, budget billing, landlord agreements, charitable contributions, sponsorships, and college scholarships.

Q. What is a CIS in more detail?

A. A CIS is a core software system to a utility. NorthWestern's CIS handles the following: customer master data, meter reading, rates, billing, remittance processing, credit and collections, equipment inventory, service orders, and reporting. The CIS interfaces with other key systems including NorthWestern's financial system (known as SAP), the IVR, and online/web customer care. The Company recently implemented a system called InService, which is a mobile workforce management and outage management solution that includes a build-out of a geographic information system. CIS is a key system interface to InService. InService is discussed in more detail below. The CIS also supports load profiling and load research. NorthWestern's CIS processes millions of transactions annually.

Q. What other benefits do NorthWestern South Dakota electric customers realize from the recent investments in Customer Care?

A. Prior to the launch of the new CIS in 2013, the South Dakota CIS was approximately 16 years old. The system lacked full real-time redundancy in the event of a significant failure. And while the system was adequate, it did not provide a strong platform for supporting improvements in self-service. The

system was also becoming obsolete, which increased risk to NorthWestern and its customers.

Prior to implementing the new CIS, the Company was maintaining two separate systems which was inefficient and limited NorthWestern's ability to leverage all of the Customer Care employees across its three-state service territory. Today, NorthWestern is able to trade calls between its Montana and South Dakota contact centers, thereby taking advantage of two different time zones, different call volume trends, different weather patterns, etc. The Company plans to continue to integrate its Customer Care operations to the benefit of all customers. The ability to leverage Customer Care resources across all of the states served by NorthWestern allows better and more efficient management of work volumes related to customer needs.

As an example, when NorthWestern's South Dakota electric utility system experienced a devastating ice storm in 2005, Montana customer service representatives ("CSRs") were physically brought to the Huron, South Dakota contact center to help take customer calls. Today, because of the new company-wide CIS, as well as other investments in contact center technology, the capability now exists to add resources from Montana to take South Dakota calls (and vice versa) using technology.

In addition to the CIS and enhanced or new online/web self-service options, South Dakota electric utility customers also benefit from the implementation of an IVR system that allows customers to self-serve the following options: electric emergency, out of power, account balance, last payment and date received, current bill amount and due date, duplicate bill request, check or credit card payment, ability to select Spanish, employee name search, and mailing and web information. The IVR also segments customer calls based on customer input and provides the ability to route calls, in real time, between the Montana and South Dakota contact centers. As explained above, this provides robust disaster recovery, business continuity, and overflow call support.

Q. Please describe the InService project in more detail.

A. The InService system is a mobile workforce and outage management system implemented in October and November of this year. Dispatchers use this system to electronically send information regarding customer requests for service (i.e., service orders) to field personnel. The information related to the status and completion of these service orders is entered electronically, thereby eliminating a manual paper process while improving efficiency and customer response times. InService also allows CSRs in the contact centers or local offices to ascertain the status of a service order in real time. The outage management functionality provides predictive analysis to help field technicians pinpoint the most likely cause of an outage. This reduces troubleshooting time and shortens the restoration window. The system will allow the Company to provide customers

with better outage information including more accurate estimates of when power will be restored as well as online outage maps. The system also provides much greater situational awareness for dispatchers and management, since all of the computers (i.e., tablets) deployed to the field personnel are equipped with geographic positioning systems ("GPS") which allows the field personnel locations to be displayed on maps within the dispatch centers. This drives efficiency and, most importantly, enhances the safety of employees.

Q. Please discuss the cost of the new CIS.

A. NorthWestern believes its new CIS cost significantly less to implement than comparable systems recently put into place by other utilities. While utilities typically do not publicly disclose the cost of their CISs, according to available public sources, the cost for a new CIS capable of meeting the needs of NorthWestern and its customers falls between $50 and $100 per customer. This is a broad range but the complexities of implementation differ greatly among companies. For instance, NorthWestern had the challenge of implementing the system across three states with different tariffs and rates, as well as having to bill for electricity, natural gas, water, and propane. Implementation at a pure natural gas or electric utility, or a single state utility, would not be as complex.

Even with these complexities, NorthWestern installed its new CIS for $9,339,851 in capital with a 10-year depreciation life. Internal labor made up $2,317,511 of total capital. The South Dakota electric utility is allocated $1,561,557 of total

capital, or approximately 17%. In addition, NorthWestern pays a monthly flat fee to the CIS vendor to operate and maintain the system. The total annual CIS vendor operations and maintenance expense allocated to the South Dakota electric utility is based on the number of billable accounts, for an annual test year expense of $371,658.

Q. Please describe how NorthWestern works with customers who are struggling to pay their utility bill.

A. NorthWestern has extensive experience working with customers who need to make payment arrangements. The Company works hard to be proactive by encouraging customers struggling to pay their bill to contact the Company so that arrangements can be put in place. While there are times when all options are exhausted and a customer is disconnected for non-payment, the goal is to avoid this result. Depending upon the customer's immediate needs, assistance programs such as LIEAP, Rural Office for Community Services ("ROCs"), Interlocal Community Action Program ("ICAP"), Salvation Army, social services and/or county welfare programs are discussed with the customer. If an energy assistance provider notifies NorthWestern of its intent to provide the funds necessary to avoid disconnection, a credit hold is placed on the customer account to allow for receipt of funds. Upon receipt of this notification, a service already disconnected may be restored prior to receipt of the funds.

NorthWestern also offers a budget billing program, which allows customers in good payment standing to pay a fixed amount per month based on estimated annual usage and current rates. While budget billing does not decrease the total amount paid, it does allow a customer to have certainty from month to month by smoothing out spikes due to changes in usage attributable to weather or changes in price.

The South Dakota Public Utilities Commission is aware that NorthWestern is in the process of implementing energy efficiency programs in South Dakota. Energy efficiency programs will allow customers the opportunity to reduce electric usage if they elect to participate.

Q. Does NorthWestern have plans to further enhance Customer Care and the customer experience?

A. Yes. NorthWestern defines the customer experience as the sum of all interactions or touch points a customer has with the company. Customer experience focuses on understanding and managing key touch points. This includes service quality, billing, and payment, as well as NorthWestern's image and brand. The Company has a dedicated Quality Assurance and Training team responsible for monitoring customer interactions, as well as developing and delivering training.

NorthWestern routinely evaluates the quality of service it provides to customers, which includes ways to enhance Customer Care and the customer experience. Future plans include improvements in self-service and mobile options. The Company anticipates enhancements over the next few years in service order management, as well as in outage management and outage communication, due to the implementation of InService.

Q. Does NorthWestern have any data that measures what customers think about the quality of the Company's service, including customer care, reliability, and price?

A. Yes. The Company uses a combination of syndicated research and custom research. The scores shown below are for residential electric customers of NorthWestern and a peer group of combination electric and natural gas utilities.

2014 JD Power Residential Electric Customer Satisfaction Results
(Maximum Score = 1000)

Category	NorthWestern	Peer Group Average	NorthWestern Rank Out of 26 Peers
Overall Satisfaction	676	643	2
Power Quality & Reliability	732	702	5
Price	598	553	2
Billing & Payment	755	718	1
Corporate Citizenship	605	584	4
Communications	621	589	3
Customer Service	749	715	1

NorthWestern also conducts custom research using a third party as mentioned in the Prefiled Direct Testimony of Robert Rowe. The Company monitors its Net Promoter Score ("NPS") as well as its Net Reputation Score ("NRS"). NPS is designed to measure the percentage of company promoters relative to the percentage of detractors. The NPS for most regulated utilities ranges from zero to 30. NorthWestern's South Dakota electric utility NPS, as of the Fall of 2014, was 40.85. The NRS is designed to measure a company's reputation or brand. Typical NRS for regulated utilities ranges from negative 30 to positive 10. NorthWestern's South Dakota electric utility NRS, as of the Fall of 2014, was 22.54.

Overall customer satisfaction among South Dakota electric customers is high with 87% satisfied or extremely satisfied. In the Fall 2014 Longitudinal Tracking Study conducted by a third party on the behalf of NorthWestern, 85% of South Dakota electric customers indicated they are confident or extremely confident the Company will meet their long-term needs. On a 10-point scale, NorthWestern South Dakota electric customers rate the Company highly when it comes to providing reliable service (8.46), being responsive to outages and emergencies (8.57), providing convenient ways to pay bills and review energy use (8.79), having easy-to-understand bills (8.49), having friendly employees (8.76), having knowledgeable employees (8.75) and being responsive to customer concerns (8.61). South Dakota electric customers also give the Company high marks for keeping energy rates low (7.76) and for keeping energy rates stable (8.18).

Q. Describe NorthWestern's plans to educate customers about an electric rate increase, including ways customers can adjust to higher rates.

A. NorthWestern has developed a communication plan specific to the South Dakota electric rate case. The plan is comprised of two phases. The first phase is designed to build awareness and to educate customers about the following: 1) the factors behind the need to increase rates, 2) how the regulatory process works, and 3) ways they can reduce energy consumption. Various communication mediums and channels will be utilized including Energy Connections, messages on the bill, media, Company website, events (e.g. fairs, home shows, etc.), community meetings, and presentations. Specific outreach will be conducted with key accounts. NorthWestern also plans an intensive education effort with all front-line employees so that they will be able to answer customer questions and advise customers on access to further information about the rate case. There will also be a supporting advertising element.

The second phase will begin shortly before any interim or final increase is implemented. It will continue much of the same information shared during the first phase with additional emphasis on specific issues that may arise through the first phase of the education effort. Realizing that this issue can appear to drag on endlessly to customers, it will be segmented throughout the period to remain relevant, responsive and respectful of the process.

Workforce Planning

Q. Please describe in general terms NorthWestern's approach to workforce planning.

A. NorthWestern maintains a workforce plan that is updated annually and reviewed with the Board of Directors. The strategic objectives include the following: 1) linking workforce planning to strategic and annual plans and the budget process; 2) determining current workforce needs and how they will change over time; 3) identifying gaps between current and projected workforce needs; 4) developing gap reduction strategies; and 5) establishing and executing the supporting plans.

Q. Are NorthWestern's workforce demographics and trends similar to the utility industry as a whole and to its peers in the region?

A. Yes. Based on publicly available information as well as information the Company has gained through its participation in a number of industry associations including the Center for Energy Workforce Development ("CEWD"), Western Energy Institute, Midwest Energy Association, Edison Electric Institute, and the North Central Electric Association, NorthWestern believes it is similarly situated to other utilities when it comes to workforce demographics and trends.

Q. What percentage of its South Dakota electric utility workforce does NorthWestern expect to retire in the next five to 10 years?

A. NorthWestern projects that 23% to 40% of its South Dakota workforce could retire within the next five to 10 years. The numbers are slightly higher, however, for the

group of employees within electric operations. The Company projects that 26% to 51% percent of the South Dakota electric operations employees could elect to retire in the next five to 10 years.

Q. What is NorthWestern's biggest challenge related to dealing with so many pending retirements?

A. The biggest challenge is transfer of knowledge and experience operating the system.

Q. Does NorthWestern face any unique challenges when it comes to its South Dakota electric utility workforce?

A. In general, NorthWestern has been successful in recruiting employees. The biggest challenges faced in South Dakota are the lack of attractiveness of certain geographic locations and difficulties recruiting qualified individuals for certain unique or highly technical roles such as substation engineering, certain computer-related roles, and specialized welding. NorthWestern does benefit by being able to leverage the skill set of its entire workforce across all of the states it serves.

Q. What does NorthWestern plan to do to address pending retirements including knowledge transfer and training needs?

A. South Dakota Operations developed and maintains a replacement plan. Company management works with employees to determine their anticipated

retirement plans. Based on the position, training and knowledge transfer needs are identified, including the desired amount of overlap time. Overlap needs can range from a few months to up to two years. The focus of the plan is to provide a new employee with personal instruction and development, technical training, and hands-on experience. The most significant challenge to executing the plan in its entirety is the cost associated with maintaining overlap periods.

The Company is in the process of developing a staff planning tool for the non-operating functions. The goal is similar to the tool being used by South Dakota Operations in that it will allow managers to work with employees to understand the timing and implications of retirements.

In addition, NorthWestern has implemented programs such as scholarships and youth science, technology, engineering and mathematics career outreach to help promote interest and growth within the careers necessary in the utility industry.

NorthWestern is also active in a number of industry associations where workforce development is a key focus area. In particular, the Company is a member of CEWD, which was formed in March 2006. CEWD is a consortium of electric, natural gas and nuclear utilities formed to help the industry develop solutions for dealing with the aging workforce. NorthWestern also supports and works with post-secondary education institutions located within its service territory.

Q. Does this conclude your testimony?

A. Yes, it does.