

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

Docket No. GE06-001

IN THE MATTER OF THE MERGER
BETWEEN NORTHWESTERN CORPORATION
AND BBI GLACIER CORP., A SUBSIDIARY
OF BABCOCK & BROWN INFRASTRUCTURE LIMITED

Woods Law Firm
Sioux Falls, SD
October 13, 2006
10:00 o'clock a.m.

D E P O S I T I O N O F

Brian Bird

APPEARANCES:

Mr. David A. Gerdes
May, Adam, Gerdes & Thompson
Box 160
Pierre, SD 57501
for Northwestern Corporation

Mr. William G. Taylor, Jr.
Woods, Fuller, Shultz & Smith
300 South Phillips Avenue Suite 300
Sioux Falls, SD 57102
for Heartland Consumer Power
District and South Dakota Public
Power Company

Ms. Darla Pollman Rogers
Riter Rogers Wattier & Brown
Box 280
Pierre, SD 57501-0280

for East River Electric &
Basin Electric

S T I P U L A T I O N

It is stipulated and agreed by and between the above-named parties, through their attorneys of record, whose appearances have been hereinabove noted, that the deposition of Brian Bird may be taken at this time and place, that is, at the offices of Woods, Fuller, Shultz & Smith, Sioux Falls, South Dakota, on the 13th day of October, 2006, commencing at the hour of 10:00 o'clock a.m.; said deposition taken before Jill M. Connelly, Notary Public within and for the State of South Dakota; said deposition taken for the purpose of discovery or for use at trial or for each of said purposes, and said deposition is taken in accordance with the applicable Rules of Civil Procedure as if taken pursuant to written notice.

BRIAN BIRD,

called as a witness, being first duly sworn, testified as follows:

EXAMINATION BY MR. TAYLOR:

Q. Would you state your name and address for the record, please?
A. Brian Bird, 5109 South Blackberry Drive,

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Examination

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Marked for Identification Offered for Evidence

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(Group of documents starting with Northwestern Corporation Organization Chart as of 12-31-05)

Exhibit 2 p. 97
(First Staff Data Request, Public Version)

Exhibit 3 p. 100
(Northwestern Corporation FERC basis revenue-South Dakota, Year ended 12-31-05)

Exhibit 4 p. 103
(Group of Northwestern financial summaries, 7 pgs)

Exhibit 5 p. 116
(First Staff Data Request, Confidential Version)

The original transcript of this deposition will be given to Mr. Taylor after the witness has read and signed it.

1 Sioux Falls.
2 Q. How long have you lived there?
3 A. I've lived there for about a year and three
4 months.
5 Q. How long have you lived in Sioux Falls?
6 A. I've lived in Sioux Falls, had an apartment
7 here. I commuted. So it would be about that
8 same time for an address.
9 Q. Did you move your family here a year ago?
10 A. Yes.
11 Q. Where did you commute from?
12 A. Chicago.
13 Q. How long did you commute to Sioux Falls from
14 Chicago?
15 A. Approximately a year and a half. Almost a year
16 and a half here and almost a year and a half of
17 commuting.
18 Q. When did you start your employment with
19 Northwestern?
20 A. December of '03.
21 Q. Where did you work prior to that?
22 A. Insight Energy, which is a fund that was
23 structured with Warburg Pincus in Chicago.
24 Q. Insight Energy Fund. How long did you work for
25 them?

1 A. I worked for them just over a year's time.
 2 Might have been about a year and a half.
 3 Q. Let's do this the other way. How old are you?
 4 A. I'm 44.
 5 Q. Tell me your employment history.
 6 A. Starting from college or since?
 7 Q. Go back about 10, 15 years.
 8 A. I'll start from the beginning. It might be
 9 easier. How about 10 years or so? I have to
 10 do the math in my head myself.
 11 I'll start at Northwest Airlines. I was a
 12 financial analyst there in 1988. Then I became
 13 a cash manager there. In I believe it was '92
 14 I went to work for the Minnesota Vikings in
 15 finance for them.
 16 MR. GERDES: He told me he had good seats
 17 then.
 18 A. I had good seats then. In '94 I went to work
 19 for Deluxe Corporation as a director of
 20 Treasury, and later became the director of
 21 finance there.
 22 Q. Deluxe Corporation?
 23 A. Deluxe Corporation. The guys that write
 24 checks. If you write any checks today, it's
 25 probably on Deluxe Corporation stock.

1 Q. So the fund you worked for in Chicago was a
 2 business entity formed to acquire electrical
 3 generation assets?
 4 A. That's correct.
 5 Q. And it was funded by a private equity fund?
 6 A. Warburg Pincus.
 7 Q. But ultimately it didn't --
 8 A. We didn't acquire any assets.
 9 Q. Was that from lack of trying, or was that from
 10 lack of buying?
 11 A. I would like to think it was certainly from
 12 quite a bit of trying. I think return
 13 expectations were relatively high, and, thus,
 14 it was difficult to acquire assets for the
 15 prices we were willing to pay.
 16 Q. Where did you grow up?
 17 A. In Fond du Lac, Wisconsin.
 18 Q. Where did you go to college?
 19 A. I went to undergraduate at the University of
 20 Wisconsin, Eau Claire, a double major in
 21 accounting and finance there. I went to
 22 graduate school at the University of Minnesota
 23 in Minneapolis.
 24 Q. What is your graduate degree in?
 25 A. Finance, MBA in finance. That would have been

1 Q. That was in Minneapolis?
 2 A. That was in Minneapolis, as well. Then in 1997
 3 I went to work for NRG Energy, which was a
 4 subsidiary of then NSP Energy, Excel today.
 5 Q. Again in Minneapolis?
 6 A. Again in Minneapolis.
 7 Q. Doing what?
 8 A. I was hired there as their treasurer. I was
 9 their treasurer there for approximately five
 10 years before I went to work for Insight.
 11 Q. NRG is a subsidiary of what is now called
 12 Excel?
 13 A. It was at that time.
 14 Q. From your job with NRG, you went to the Fund in
 15 Chicago?
 16 A. Yes, Insight Energy.
 17 Q. What does Insight Energy Fund do?
 18 A. We were effectively a company that was to go
 19 out and buy energy generation plants. Warburg
 20 Pincus was the private equity fund, if you
 21 will, that was providing us money to go do
 22 that. We ultimately did not buy any generation
 23 assets, and the opportunity came up at
 24 Northwestern Energy, and I decided to become
 25 their CFO.

1 I think '92.
 2 Q. So you were working in Minneapolis when you
 3 completed your degree?
 4 A. Yes.
 5 Q. Your advanced degree.
 6 A. Yes.
 7 Q. How did you end up at Northwestern? Were you
 8 recruited?
 9 A. I actually interviewed with them for their
 10 treasurer's job back in 2002. I didn't like
 11 what I saw at the end of the day, and decided
 12 -- I gave them indication I wasn't
 13 interested. But at that time I had a chance to
 14 meet Mike Hanson and some other folks there.
 15 Q. Were you offered the treasurer's job in 2002?
 16 A. I think I told them I wasn't interested before
 17 an offer was extended.
 18 Q. You said you weren't interested. Why was
 19 that?
 20 A. Their financial performance wasn't all that
 21 strong, and I just came from a company who was
 22 invested in other things -- or things they
 23 probably should have gotten into, and the
 24 writing was on the wall for Northwestern at
 25 that time.

1 Q. So you smelled trouble as part of your due
 2 diligence with your interview?
 3 A. Yeah.
 4 Q. Saw that the company was thin and scattered and
 5 not doing well?
 6 A. I just didn't see it was the right opportunity
 7 for me.
 8 Q. Then in 2003, a year or so later, you are
 9 recruited?
 10 A. Their CFO left. At some point in time in 2003
 11 they contacted me. I mentioned I wasn't
 12 interested at that time. They still were
 13 continuing to have problems. I think it was
 14 pretty well publicized by that point in time.
 15 I again said I wasn't interested.
 16 I did talk to them again after they went
 17 into bankruptcy. Then I had a dialogue with
 18 them at that time.
 19 Q. So you first came to work about when?
 20 A. December of '03.
 21 Q. Are you married?
 22 A. Yes, I am.
 23 Q. Children here in Sioux Falls?
 24 A. Two children.
 25 Q. Let's talk a little bit about the structure of

1 of the company?
 2 A. I would say the financial matters, the
 3 accounting information that's provided, I would
 4 say the controller is the person most intimate
 5 to that knowledge. But I'm aware of the
 6 financial results of the company and other
 7 financial matters of the company, yes.
 8 Q. You are the chief financial officer. That's
 9 your title.
 10 A. That's correct.
 11 Q. What's your job description?
 12 A. I'm responsible day to day for the accounting
 13 area, Treasury area, risk management, audit,
 14 financial planning and analysis, and investor
 15 relations.
 16 Q. Part of your job is also reporting on all of
 17 those things to those public institutions.
 18 Strike that.
 19 Part of your job is also being responsible
 20 for the reporting of the accounting and
 21 financial matters, according to SEC rules, for
 22 example, or according to the various Utilities
 23 Commission rules. Right?
 24 A. I do as CFO, I'm required to sign off on the
 25 financial statements. Correct.

1 Northwestern. I want to try and understand how
 2 Northwestern Corporation operates and have a
 3 better understanding of the businesses that
 4 it's in.
 5 In the world that Mr. Gerdes and I operate
 6 in there's a colloquial expression of a Rule
 7 30(b)(6) witness. Do you know what that is?
 8 A. No, I don't.
 9 Q. That's a person who speaks for the company.
 10 The company has to have a voice. A person who
 11 is knowledgeable about the affairs, business
 12 affairs and activities of the company is
 13 typically a Rule 30(b)(6) witness.
 14 MR. TAYLOR: Would you quantify this man
 15 as a Rule 30(b)(6) witness, Dave?
 16 MR. GERDES: He wasn't asked to act as a
 17 Rule 30(b)(6) witness, and I don't think he
 18 could do that today. Obviously the subject
 19 matter for the deposition is the matter of
 20 jurisdiction, and he's prepared to answer
 21 questions on that subject within the sphere of
 22 his knowledge as CFO. I can't say that he
 23 would be a company witness.
 24 Q. As to financial matters, you are the person who
 25 has the most knowledge of the financial affairs

1 Q. There are federal laws that require that.
 2 Right?
 3 A. That is correct.
 4 Q. So while you don't actually supervise the
 5 performance of the accounting, ending up with
 6 the numbers and collating the numbers, you are
 7 ultimately responsible for the result they
 8 produce.
 9 A. I am a signer on the financial statements, one
 10 of several.
 11 Q. As part of your duties as CFO, you understand
 12 the organization and format of the company. Do
 13 you not?
 14 A. Relatively well.
 15 Q. Now, since you've only been there a couple
 16 years, you may not know the history. If you
 17 don't know the history, feel free to tell me as
 18 I ask the questions.
 19 Northwestern Corporation is the name of
 20 your company. Right?
 21 A. That's correct.
 22 Q. You do business in other names.
 23 A. We mainly do business as Northwestern Energy.
 24 Q. That's a trade name.
 25 A. I believe that's correct.

1 Q. It's not a corporate name.
 2 A. I believe that's correct.
 3 Q. If I checked the corporate registrations of
 4 South Dakota or Delaware or the other states in
 5 which you do business, I would not find a
 6 Northwestern Energy Corporation or Company,
 7 Inc. Right?
 8 A. I believe that is the case. I believe you
 9 would find Northwestern Corporation.
 10 Q. Do you know when Northwestern, as it is
 11 embodied today, was incorporated?
 12 A. I do not recall the year Northwestern
 13 Corporation was.
 14 Q. Your website says 1923. Does that sound right?
 15 A. I don't know the date.
 16 Q. You've never investigated that.
 17 A. I don't recall that date.
 18 Q. Do you know if Northwestern Corporation, the
 19 Delaware corporation -- strike that.
 20 Do you know where Northwestern Corporation
 21 is incorporated?
 22 A. It is incorporated in Delaware.
 23 Q. Do you know if that is the same corporation
 24 that has historically born the name
 25 Northwestern and been in the utility business

1 times.
 2 Q. As part of your employment with Northwestern?
 3 A. Some of which was part of my employment with
 4 Northwestern.
 5 Q. Have you ever testified in Court?
 6 A. In Bankruptcy Court.
 7 Q. As part of your employment with Northwestern?
 8 A. Correct.
 9 Q. Otherwise you've never testified in Court.
 10 Only given depositions.
 11 A. Not in Court, no.
 12 Q. You said you had given some depositions in
 13 conjunction with this employment, and you've
 14 given depositions in conjunction with other
 15 matters?
 16 A. Correct.
 17 Q. What were those?
 18 A. Other matters with NRG Energy.
 19 Q. Back to the theme at hand. Do you know how
 20 long Northwestern Corporation has been called
 21 Northwestern Corporation as opposed to any
 22 other name?
 23 A. I do not know for sure. My belief is that at
 24 the time the acquisition of Montana Power
 25 Company -- no, I don't know for sure.

1 in South Dakota?
 2 A. I believe that is the case.
 3 Q. Back to the dawn of the company's time?
 4 A. I believe Northwestern Public Service Company
 5 was also a Delaware corporation.
 6 Q. Northwestern Public Service Company was the
 7 predecessor to Northwestern?
 8 A. I believe that is the case.
 9 Q. Maybe "predecessor" is the wrong word. Maybe
 10 Northwestern Public Service Company was the
 11 same corporation, and it just changed its name?
 12 A. I don't know how the change came to
 13 Northwestern Corporation.
 14 Q. Who would know that?
 15 A. My guess is our general counsel, and, quite
 16 possibly, our CEO.
 17 Q. So they would be the people to ask about that?
 18 A. Yes.
 19 Q. Have you ever testified before?
 20 A. Yes, I have.
 21 Q. You've given depositions before?
 22 A. Yes, I have.
 23 Q. How many?
 24 A. I don't know. I can't recall the exact
 25 number. I believe it's approximately five

1 Q. When was Montana Power Company acquired?
 2 A. 2002.
 3 Q. Because we're going to talk about this later,
 4 we might as well straighten that out right
 5 away.
 6 You said Montana Power Company was
 7 acquired. Did Northwestern Corporation acquire
 8 the assets of Montana Power Company, or did it
 9 buy the stock of Montana Power Company?
 10 A. I don't recall exactly which.
 11 Q. Did it merge with Montana Power Company?
 12 A. I don't recall.
 13 Q. Who would know the answers to those questions?
 14 A. General counsel would. My guess is the CEO.
 15 Q. You weren't here when that happened?
 16 A. That is correct.
 17 Q. That's why you don't understand or don't
 18 recall?
 19 A. That's correct.
 20 Q. Northwestern Corporation, does it have any
 21 subsidiaries?
 22 A. Yes, it does.
 23 Q. Tell me in your understanding what a subsidiary
 24 is.
 25 A. It is a legal entity that has its own business

1 that ultimately for reporting purposes would
 2 consolidate into a parent company.
 3 Q. So your understanding is that a subsidiary is a
 4 separate legal entity.
 5 A. Correct.
 6 Q. A legal entity owned in whole or in part by the
 7 parent.
 8 A. Correct.
 9 Q. Or conceivably by another subsidiary of the
 10 parent.
 11 A. Could be.
 12 Q. So there could be tiers of subsidiaries?
 13 A. Correct.
 14 Q. A parent, a subsidiary, and then a subsidiary
 15 of the subsidiary, and so forth?
 16 A. Correct.
 17 Q. Is that the case in Northwestern?
 18 A. In one case. In several cases actually.
 19 Q. Northwestern -- I'm going to use exactly that.
 20 I'll make an exhibit the chart of the corporate
 21 structure.
 22 In Northwestern's case, what is the
 23 purpose of having subsidiaries?
 24 A. In essence, you could separate that business.
 25 For instance, I'll take Blue Dot. It's a

1 Q. I'm talking about perhaps not specific to
 2 Northwestern, but perhaps in your experience as
 3 a financial officer, why subsidiaries are
 4 created and formed.
 5 A. I would tell you from project financing
 6 perspectives, sometimes you set up, like I
 7 mentioned, bankruptcy remote entities.
 8 For instance, if, in fact, that entity
 9 didn't perform, it had its own debt and for
 10 whatever reason you felt, as an owner of that
 11 entity, it was better to provide it to its debt
 12 holders, it wouldn't necessarily impact the
 13 rest of the corporate structure.
 14 Q. So really there are a lot of reasons to have a
 15 subsidiary. One would be financial. Right?
 16 A. Sure.
 17 Q. Another would be to protect the parent company
 18 against legal liability?
 19 A. Sure.
 20 Q. The third would be to protect the company
 21 against losses, financial losses.
 22 A. If structured appropriately, yes.
 23 Q. Another would be to have mixed ownership.
 24 A. You could have joint ownership in a particular
 25 entity, correct.

1 separate business entity. It has its own
 2 management and had its own financial
 3 statements, and ultimately its own business.
 4 Thus, for reporting purposes and other legal
 5 purposes, it would be separate from the
 6 company.
 7 Q. You said "for reporting purposes." Now, when
 8 you talk about "reporting," you're talking
 9 about the financial reporting.
 10 A. Correct.
 11 Q. Then you said "for legal reasons." What would
 12 those legal reasons be?
 13 A. For instance, if you had a bankruptcy remote
 14 subsidiary, for instance. If that particular
 15 entity were to go into bankruptcy, you could
 16 protect the rest of the organization from that
 17 entity.
 18 Q. So on Northwestern's corporate thinking, if it
 19 has a business that may present a risk to the
 20 company, for example, that business is placed
 21 in a subsidiary?
 22 A. Again, all of these subsidiaries were put in
 23 place before my time, other than the change to
 24 the LLC structure. So I'm not sure why they
 25 were done as they were done.

1 Q. Any other reasons you can think of?
 2 A. Not that I can think of at this time.
 3 Q. And are those reasons typical of why there are
 4 subsidiaries in Northwestern Corporation?
 5 A. I can't speak again for why some of these
 6 subsidiaries were put in place. I'm not sure
 7 what the rationale was for it.
 8 Q. You can speak, though, to why they were --
 9 their form was changed and reorganized during
 10 your tenure, can't you?
 11 A. For instance, Northwestern Investments was
 12 changed to an LLC. Yes, Blue Dot and Netexit
 13 are entities under that. That's the only
 14 change I can think of at this point in time
 15 that has occurred since my tenure.
 16 Q. Why was that changed to an LLC, which means
 17 limited liability company, as opposed to a
 18 corporation?
 19 A. I can't necessarily give you the legal reasons
 20 off the top of my head, but the rationale was
 21 we were winding those businesses down and
 22 ultimately will be out of those businesses.
 23 Q. And an LLC affords the parent company to pick
 24 up the losses that might otherwise be lost in
 25 the winddown of those businesses?

1 A. I'm not going to get into the legal rationale
 2 for LLC in that case.
 3 Q. What about the tax rationale? That's within
 4 the scope of your expertise, is it not?
 5 A. The ability to protect the net operating losses
 6 from those entities are preserved.
 7 Q. Say that again. I have to tell you that -- put
 8 this on the record, if you want. My hearing
 9 aid is failing me this morning, and you have a
 10 soft voice. I don't mean to be familiar, but
 11 I'm going to sit close and stare at your lips.
 12 A. I can't even tell you have one.
 13 Q. Answer the last question again. I didn't hear
 14 your answer.
 15 A. You'll have to repeat the question.
 16 Q. I'll see if I can't restate it.
 17 There are tax reasons to employ an LLC,
 18 tax-driven reasons to employ an LLC as a
 19 subsidiary, are there not?
 20 A. There are. In our case I'm not sure if that's
 21 the rationale for an LLC. We preserved our tax
 22 rights prior to the change in making the change
 23 to the LLC.
 24 Q. In that particular element?
 25 A. For those elements, yes.

1 that.
 2 MR. GERDES: Yes, we would want to
 3 preserve the confidentiality of those exhibits
 4 so marked.
 5 MR. TAYLOR: The only reason I've left
 6 them stapled together is because in our
 7 relatively informal exchange of material, I
 8 don't know that those are -- those documents
 9 have a cover sheet with them anyplace that
 10 identifies them as responsive. I just want to
 11 keep that packet together.
 12 MR. GERDES: I'm looking here. I think
 13 they might be out of order from what we
 14 produced, but we'll see.
 15 MR. TAYLOR: I think you're probably
 16 right. I think I reassembled them by state. I
 17 think you produced them by product.
 18 MR. GERDES: I produced them by year, as I
 19 recall.
 20 Q. Anyway, will you look at the first page of
 21 what's been marked Bird Exhibit 1? Is that the
 22 current organizational chart of the company?
 23 A. I believe it is.
 24 Q. Did you have anything to do with the
 25 construction of that chart or its production in

1 Q. Because Blue Dot, and I think it's now called
 2 Netexit, is it not?
 3 A. Yes.
 4 Q. Were businesses that failed under the previous
 5 administration of the company.
 6 A. That's correct. That was prior to them being
 7 in an LLC structure. All I can tell you is
 8 that we believe we've preserved the tax
 9 attributes of those entities and believed that
 10 prior to the change to an LLC.
 11 Q. All right. Now, let's talk a little bit about
 12 the corporate structure. Your counsel was kind
 13 enough to supply me with a map of the corporate
 14 structure, which for purposes of this
 15 deposition I'll ask the court reporter to
 16 mark.
 17 (Bird Deposition Exhibit No. 1 was marked for
 18 identification.)
 19 Q. What's been marked Bird Deposition Exhibit 1 is
 20 the first page of a packet of materials that
 21 Mr. Gerdes supplied us a week or so ago, a
 22 number of which are marked confidential. I'm
 23 presuming for purposes of this deposition, you
 24 want to preserve that confidentiality.
 25 MR. TAYLOR: Mr. Gerdes, please look at

1 this case?
 2 A. I believe this is prepared by our legal group.
 3 Any changes to this are discussed at my level.
 4 So I'm aware of changes that occur. This
 5 appears to be the most recent structure.
 6 Q. It says, "As of December 31, 2005." Do you see
 7 that?
 8 A. Yes.
 9 Q. Do you know if there were any changes to the
 10 corporate structure made in 2005?
 11 A. In 2005?
 12 Q. Yes.
 13 A. I think I talked about the LLC. I think that
 14 did occur, LLC change in Northwestern
 15 Investments. I think that occurred in 2005.
 16 Q. Any others that you remember?
 17 A. I don't recall any other changes.
 18 Q. How about in 2004?
 19 A. I don't recall any changes in 2004.
 20 Q. When did the company emerge from bankruptcy?
 21 A. It would have been November of 2004.
 22 Q. Antecedent to its emergence from bankruptcy,
 23 were any changes made in the corporate
 24 structure?
 25 A. I don't recall.

1 Q. Who would know the answer to that?

2 A. Our general counsel, and my expectation the

3 CEO.

4 Q. Let's look at the corporate structure, and I

5 want you to explain to me, as best you can,

6 what businesses -- what business activity is

7 undertaken by each element of the corporate

8 structure.

9 A. Okay.

10 Q. First of all, Northwestern Corporation is a

11 Delaware corporation. Right?

12 A. Correct.

13 Q. Does it own the emoluments of ownership of each

14 one of these subsidiaries, that is, the stock

15 in the corporations and/or the certificates of

16 membership in the LLCs?

17 A. I believe it does.

18 Q. So as we look at this corporate structure,

19 there isn't any subsidiary that is owned in

20 part by some other corporation or person or

21 entity?

22 A. I believe we are in the case of ownership the

23 sole owner in each of these cases.

24 Q. The only instance would be where there are

25 subsidiaries of subsidiaries?

1 Q. The Clark Fork, Blackfoot, LLC, owns a

2 superfund site, does it not?

3 A. That is the dam itself, yes.

4 Q. And the outwash and tailings that are behind

5 the dam. Correct?

6 A. That is correct.

7 Q. The government of the United States and the

8 State of Montana have combined to fund the

9 reclamation and cleanup of that project?

10 A. There were several parties. We contributed I

11 believe approximately \$11 million to the

12 cleanup of that. I think Arco also contributed

13 a portion. Then others will be involved in the

14 cleanup.

15 Q. "Others" being other potentially responsible

16 parties?

17 A. I think you mentioned some of the governmental

18 entities that are involved.

19 Q. So at some point in time Northwestern

20 Corporation paid some money towards

21 settlement. Right?

22 A. That is correct.

23 Q. And there is no revenue produced now.

24 A. Right. The dam I believe is no longer

25 operating.

1 A. Correct.

2 Q. Let's start at the left side of the chart, and

3 tell me what Clark Fork and Blackfoot, LLC, is?

4 A. Clark Fork and Blackfoot is associated with our

5 Milltown Dam that we have in Montana.

6 Q. What business activities are pursued by that

7 LLC?

8 A. The dam itself generated electricity, and,

9 thus, provided income. The dam itself has been

10 shut down and is currently in the process of

11 being taken down. That entity will exist until

12 that process is completed.

13 Q. Is there any -- we have to decide on our

14 terminology here. The word "revenue features"

15 in this case, should we use "revenue"? Should

16 we use "income"?

17 A. I think you should use "revenue."

18 Q. Is there any revenue produced by Clark Fork and

19 Blackfoot, LLC?

20 A. I think as of today it is no longer providing

21 any revenue.

22 Q. How about as of -- how about on the 2005 income

23 statement?

24 A. There may have been some revenue, relatively

25 small. This is a small dam.

1 Q. The revenue that was produced by that dam came

2 from what?

3 A. The electricity that was produced from the

4 dam.

5 Q. From the sale of the electricity?

6 A. From the sale of the electricity, yes.

7 Q. Do you know where the electricity was sold?

8 A. In Montana.

9 Q. To consumers in Montana?

10 A. Correct.

11 Q. The future of Clark Fork and Blackfoot, LLC, is

12 that the cleanup will be completed. The dam

13 will be taken down. Clark Fork of the Madison

14 River will be returned to some condition, other

15 than what it is today. Right?

16 A. We certainly hope so. Yes.

17 Q. The company has an ongoing liability as a

18 result of that acquisition, does it not?

19 A. I don't believe so. I believe our settlement,

20 as part of that, we're free and clear of any

21 future liability is my understanding.

22 Q. There are some cost limitations in that

23 settlement agreement, are there not?

24 A. My understanding is the \$11 million that we

25 provided covers our obligations.

1 Q. So there will be no more revenue generated ever
 2 by that LLC.
 3 A. That is my belief.
 4 Q. If under the settlement agreement the cost of
 5 cleanup is less than a given amount, there is a
 6 provision for a return of funds, is there not?
 7 A. I'm not aware of that provision.
 8 Q. You don't remember that?
 9 A. No.
 10 Q. Who would know? Is there an environmental
 11 manager or a financial?
 12 A. There's a gentleman in our legal department who
 13 knows quite a deal to do with that particular
 14 entity, environmental issues.
 15 Q. He would know the terms of the settlement
 16 agreement with the government and so forth?
 17 A. Correct.
 18 Q. His name is?
 19 A. Mike Young.
 20 Q. Before we talk about Northwestern Services,
 21 let's go across the upper tier.
 22 A. Okay.
 23 Q. Risk Partners Assurance, Limited, what is that?
 24 A. That is a captive, insurance captive company.
 25 Q. That's an offshore?

1 that entity for any future liabilities.
 2 Q. So it's winding down?
 3 A. I think the plan is to ultimately wind down
 4 that entity.
 5 Q. It has a reserve for payments, a reserve for
 6 claims?
 7 A. We believe there's ample resources there for
 8 claims.
 9 Q. Is Northwestern Corporation still currently
 10 self-insured, sort of?
 11 A. We use self-insurance in some cases. I don't
 12 know the extent of the level of self-insurance
 13 we use.
 14 Q. Risk management is part of your business, but
 15 somebody else under you handles that?
 16 A. Yes. There's an individual in Huron, South
 17 Dakota, that handles our risk management.
 18 Q. Where are the -- just for purposes of
 19 discussion, back to Clark Fork and Blackfoot,
 20 LLC, where is the headquarters of that LLC?
 21 A. I don't know. My expectation would be in
 22 Montana, but I do not know.
 23 Q. Is there a board of managers of that LLC?
 24 A. I'm not aware at this point in time that there
 25 is. My expectation at one time there would

1 A. That's correct.
 2 Q. Is that currently doing any business?
 3 A. It's paying out claims out of that captive.
 4 There's cash in that captive that's used to pay
 5 off claims.
 6 Q. Where does the cash come from?
 7 A. It was funded I believe -- I wasn't with the
 8 company when this entity was established. I
 9 believe Northwestern Corporation provided
 10 funding to this entity.
 11 Q. Is Risk Partners Assurance the offshore that
 12 was used to self-insure is the word to
 13 sometimes use Northwestern Corporation's public
 14 liability risks?
 15 A. I'm not sure if it was public liability risks.
 16 My expectation is a portion of that. I know a
 17 lot of the cash used was to fund some Netexit
 18 and Blue Dot's claims, as well. My guess is
 19 some of that was utilized through Risk
 20 Partners, as well.
 21 Q. Is it still in the business of providing
 22 indemnity insurance to Northwestern Company, to
 23 Northwestern Corporation?
 24 A. I don't believe. I think it's dealing with
 25 existing claims. I don't believe we're using

1 be.
 2 Q. The Clark Fork and Blackfoot, LLC, did that
 3 come to Northwestern Corporation in that form
 4 as part of the Montana Power acquisition, or
 5 did the company construct an LLC to park the
 6 Milltown Dam and its liability?
 7 A. I don't know how that was ultimately
 8 constructed. I wasn't with the company when
 9 they made the acquisition.
 10 Q. Somebody has to, if the LLC exists, somebody
 11 has to make the decisions for the LLC, some
 12 person. Who would that person be?
 13 A. My expectation is that the individuals I
 14 mentioned. Mike Young. My expectation is Mike
 15 Hanson could ultimately make decisions for that
 16 entity.
 17 Q. You said "my expectation." What do you mean by
 18 "my expectation"?
 19 A. I don't know exactly how the approvals for
 20 Clark Fork and Blackfoot work.
 21 Q. If you had to guess or speculate, your guess
 22 would be that Mike Hanson and Mike Young are
 23 the decision makers?
 24 A. I would say Mike Hanson is the decision maker.
 25 Q. Where is Mike Hanson's office?

1 A. He offices in Sioux Falls.
 2 Q. Right here. You can see it from here. So you
 3 think the decisions, whatever decisions there
 4 may be left to be made in that entity, are made
 5 here in Sioux Falls?
 6 A. That is correct.
 7 Q. Let's move across back to the Risk Partners
 8 Assurance. That's Ltd., limited, which in
 9 jurisdictions other than South Dakota means
 10 corporation. Is that a corporation?
 11 A. I'm not sure how it's defined, as a corporation
 12 or as a limited or not.
 13 Q. Do you know who the decision makers are in that
 14 company?
 15 A. There are individuals that sit on Risk Partners
 16 Assurance. I don't know if it's a board or a
 17 committee associated with that entity.
 18 Q. Who are those persons?
 19 A. That would be -- I'm also on that, as well, as
 20 Tom Knapp and I believe Donna Haeder.
 21 Q. Mr. Knapp is general counsel. You. Who was
 22 the third person?
 23 A. Donna Haeder is our risk manager, our insurance
 24 person.
 25 Q. You office and live here. Mr. Knapp, where

1 decisions. Do you?
 2 A. I have not been to Bermuda associated with Risk
 3 Partners Assurance, no.
 4 Q. Bermuda. It would be tough duty if you had to
 5 do that, I suppose.
 6 A. Indeed.
 7 Q. Let's move over to Northwestern Investments,
 8 LLC. Do you know where that limited liability
 9 company is registered?
 10 A. I don't know where that is registered, no.
 11 Q. Who would know the answer to that?
 12 A. Mr. Knapp would know.
 13 Q. The general counsel's office. Tell me about
 14 the business activities that company
 15 undertakes.
 16 A. Mainly it's the entity that holds the remaining
 17 businesses for Blue Dot and Netexit.
 18 Q. So it's not an active company in itself.
 19 A. No.
 20 Q. "Holding company" would be the right
 21 expression?
 22 A. I believe that is the right expression.
 23 Q. Do you know who the members of the board of
 24 managers of that LLC are?
 25 A. The members are? I don't know offhand. I have

1 does he office and live?
 2 A. He lives in Washington, D.C.
 3 Q. He lives in Washington. Does he office here?
 4 A. He has an office here and has an office in
 5 Washington, D.C.
 6 Q. A company office in Washington, D.C.?
 7 A. I believe so.
 8 Q. How many days a week is he here?
 9 A. I don't know. I know he has an office in
 10 someone's office in Washington, D.C.
 11 Q. Is he like you, before you lived here, did he
 12 have an apartment here that he stays when he's
 13 here, or is he never here?
 14 A. He's here, but he commutes here. I don't think
 15 he has an apartment here.
 16 Q. Is it Mr. Haeder?
 17 A. No, Ms. Haeder.
 18 Q. Where does she live and office?
 19 A. Huron, South Dakota.
 20 Q. So the decisions relative to Risk Partners
 21 Assurance are made in South Dakota?
 22 A. Several of those individuals that make those
 23 decisions, yes, are in South Dakota.
 24 Q. You don't trudge off to the Bahamas to have
 25 regular meetings to make these risk management

1 an expectation who they are, but I don't know
 2 offhand who the members are.
 3 Q. Who do you think they are?
 4 A. My expectation is that it would be Mr. Hanson,
 5 Mr. Knapp, and myself, and there may be some
 6 other folks.
 7 Q. You don't remember attending any meetings with
 8 Northwestern Investments, LLC?
 9 A. I remember certainly attending a meeting
 10 associated with Blue Dot Services and Netexit.
 11 I'm not sure if it was under Northwestern
 12 Investments meeting or those indirect subs.
 13 Q. That would be a formality. The group that
 14 knows about Blue Dot and Netexit is you and
 15 Mr. Hanson and Mr. Knapp and would be the
 16 decision makers in that?
 17 A. Correct.
 18 Q. Blue Dot Services, LLC, is a leftover from
 19 before bankruptcy. Right?
 20 A. That is correct.
 21 Q. What was Blue Dot's business activity?
 22 A. It was in the HVAC business, heating and air
 23 conditioning business.
 24 Q. What's left in Blue Dot Services, LLC?
 25 A. There are some -- there's some cash and some

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1 liabilities that are being paid down. We're
 2 also in the winding down process of that
 3 business.
 4 Q. Ultimately all those HVAC businesses were sold,
 5 weren't they?
 6 A. Correct.
 7 Q. There aren't any active businesses left in
 8 Blue Dot. Right?
 9 A. Correct.
 10 Q. So what there is is the winddown activities.
 11 A. Correct.
 12 Q. Do you know who sits on the board of managers
 13 of Blue Dot, LLC?
 14 A. I think in addition to the individuals I
 15 mentioned before, I think Dan Rausch also sits
 16 on that entity.
 17 Q. Who is Mr. Rausch?
 18 A. Dan Rausch is our current investor relations
 19 person, but came from Blue Dot to come work for
 20 Northwestern Corporation.
 21 Q. Where does he office?
 22 A. In Sioux Falls.
 23 Q. Let's step across to the other side of the
 24 subsidiaries of Northwestern Investments.
 25 Netexit, Inc. Tell me about that.

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1 A. Netexit, as you mentioned earlier, talked
 2 about, it is the leftover business from the
 3 Expanets business that went into bankruptcy.
 4 Netexit is the winddown entity associated which
 5 the old Expanets business.
 6 Q. Expanets was a communications company. Wasn't
 7 it?
 8 A. A telecom communications, yes.
 9 Q. Internet, telephone, so forth.
 10 A. Yeah. That was my understanding. That
 11 business was not operating when I joined the
 12 company.
 13 Q. Netexit filed its own bankruptcy independent of
 14 Northwestern Corporation's bankruptcy, did it
 15 not?
 16 A. That is correct.
 17 Q. Is that bankruptcy now concluded?
 18 A. I believe that bankruptcy is now concluded.
 19 Q. It was a complicated relationship between what
 20 was then called Expanets and some other
 21 companies that resulted in some litigation in
 22 the bankruptcy courts, and took a couple of
 23 years of friction and fighting. Were there
 24 not?
 25 A. In any bankruptcy there were liabilities that

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1 had to be discharged through the process.
 2 Q. Was that all done, cleaned up, finished by the
 3 time you got here?
 4 A. No. That was cleaned up I believe finally in
 5 2006.
 6 Q. So it's all done, and now it's just a matter of
 7 the winddown.
 8 A. Yes. As a matter of fact, I think we're
 9 dissolving that entity at this point in time.
 10 Q. Is there any revenue produced by Blue Dot
 11 Services?
 12 A. No, there's no revenue produced by Blue Dot
 13 Services.
 14 Q. How about by Netexit?
 15 A. No.
 16 Q. Was there any revenue produced in 2005 by
 17 either of those companies?
 18 A. I believe Blue Dot, those locations that were
 19 not sold yet during the early part of 2005 were
 20 still generating revenue in 2005.
 21 Q. So they were still actively in business?
 22 A. Correct. Blue Dot was.
 23 Q. Whatever sales Blue Dot had is revenue.
 24 A. For those entities that remained and that we
 25 still had ownership, that revenue would still

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1 be coming through Blue Dot to us.
 2 Q. And if you sold one of those entities in
 3 2005 --
 4 A. After the sale we no longer recorded the
 5 revenue.
 6 Q. What about the proceeds of the sale? Is that
 7 revenue?
 8 A. We did not treat that as revenue from Blue
 9 Dot. That would have been either recorded as a
 10 gain associated with the sale, depending on the
 11 books, and would just show up as cash. It
 12 wouldn't show up as revenue.
 13 Q. A gain on sale is a tax word.
 14 A. It can be both a tax and a book word.
 15 Q. I should have asked you. Are you a certified
 16 public accountant?
 17 A. I passed my CPA back in 1988. I'm no longer
 18 licensed to be a CPA.
 19 Q. Don't actively practice obviously.
 20 A. That's correct.
 21 Q. So your definition of revenue does not include
 22 money that comes to the company through the
 23 sale of its assets?
 24 A. That is correct.
 25 Q. Even though that may well be a winddown

1 enterprise?

2 A. That is correct.

3 Q. So when I look at your 10K and look at the

4 gross revenue number on your 10K for 2005, that

5 does not include the proceeds of the sale of

6 any of the Blue Dot assets?

7 A. The revenue line I believe would not show

8 that. It would show up in a gain on sale of

9 assets.

10 Q. So is it your testimony you think there was

11 some revenue produced by Blue Dot during 2005?

12 A. Correct. I believe there was revenue produced

13 by the small number of remaining assets at

14 Blue Dot in 2005.

15 Q. Someplace in the company's bookkeeping system

16 we could identify what that amount of revenue

17 was.

18 A. You should be able to see within our

19 discontinued operations, within our SEC filing

20 in our 10-K how much revenue would have been at

21 Blue Dot. Otherwise if it's in a condensed

22 version, you might not see it broken out in

23 great detail.

24 Q. Someplace, either in the 10-K or in your

25 financial information, your proprietary

1 people. Correct?

2 A. Correct.

3 Q. Like Acme HVAC down the street, Blue Dot bought

4 Acme HVAC for its own.

5 A. That's my understanding.

6 Q. Typically the owner stayed on board and ran the

7 business for the benefit of Northwestern

8 Corporation.

9 A. That's also my understanding.

10 Q. It didn't prove successful in the sense that

11 this combination of HVAC businesses scattered

12 across the company didn't prove to be an entity

13 that earned any money. Right? Any profit, I

14 should say.

15 A. My understanding is the cash flow generated by

16 these businesses wasn't sufficient to cover

17 return or to pay down the debt associated with

18 those businesses.

19 Q. Amortize the investment.

20 A. Excuse me?

21 Q. To amortize the investment in the businesses.

22 A. Well, just to make a sufficient return on the

23 investment.

24 Q. In many instances the original owner who stayed

25 on board quit at some point. Right?

1 financial information that obviously exists,

2 you could figure it out.

3 A. Yes.

4 Q. Where were those businesses located?

5 A. I couldn't give you the exact states, but they

6 were located throughout the United States.

7 Q. I mean the ones that were left in 2005.

8 A. I don't recall the exact location. There were

9 some sales in '04 and '05. I don't recall

10 where those last entities were located at this

11 time.

12 Q. So in '04 Blue Dot was still actively in

13 business and producing some revenue?

14 A. Again, the entities, I think the sales of those

15 entities were starting before I -- I know the

16 sale of those entities were starting to occur

17 before I arrived, and the continued sale of

18 those happened all the way through into 2005.

19 Q. Now, those entities, the HVAC businesses, let's

20 see if we can characterize this for simple

21 understanding. You tell me if I've got the

22 picture wrong.

23 At some point in time Blue Dot, LLC, or

24 some other entity, maybe Northwestern itself,

25 went out and bought HVAC businesses from

1 A. I don't know in general if on average they

2 stayed with the business through the bitter end

3 or left the business. I don't know.

4 Q. You don't know the details of that.

5 A. No.

6 Q. In 2004 and 2005 how were those businesses

7 managed?

8 A. Blue Dot continued to have a management team,

9 and I think those folks left in 2005. It might

10 have been in 2004, and then Mr. Rausch was

11 responsible from that point forward with the

12 direction of the Blue Dot board at that time, I

13 believe before it became an LLC, in terms of

14 decision making.

15 Q. Let's see if I understand what you just said.

16 There was a management team that ran

17 Blue Dot, Inc.

18 A. Yes.

19 Q. And sometime in either 2004 or 2005 they left.

20 A. Yes. There was a gentleman named Dan Newell

21 who was running Blue Dot.

22 Q. Where did Mr. Newell live?

23 A. He lived here in Sioux Falls.

24 Q. Officed in Sioux Falls at your corporate

25 headquarters?

1 A. Right.
 2 Q. Made the management decisions there?
 3 A. Right.
 4 Q. When he left, sometime after that -- when he
 5 left, Mr. Rausch took over that responsibility?
 6 A. Yes.
 7 Q. Then the corporation was converted to an LLC,
 8 but Mr. Rausch retained the responsibility.
 9 A. Correct.
 10 Q. And retains it today.
 11 A. Correct.
 12 Q. But there are no more -- all the HVAC
 13 businesses have now been disposed of?
 14 A. That's correct.
 15 Q. The last one having been disposed of sometime
 16 this year?
 17 A. I can't recall if it was '05 or '06 when the
 18 last entity was sold. I believe it was 2006.
 19 Q. And you don't know where those businesses
 20 physically were located.
 21 A. Again, we had a number of businesses that were
 22 scattered throughout the U.S.
 23 Q. Somebody knows that, though.
 24 A. Correct.
 25 Q. The ones that were around in 2005. Presumably

1 produced copy of your 10-K for 2005.
 2 Specifically I'm looking at Page 48, Overall
 3 Consolidated Results. The top line shows
 4 operating revenues, \$1,165,750,000 in 2005.
 5 Do you know if that includes the revenue
 6 from Blue Dot?
 7 A. I do not believe it includes the revenue from
 8 Blue Dot. I believe that is captured in
 9 discontinued operations. All of its financial
 10 results are captured in discontinued
 11 operations, net of taxes.
 12 Q. Okay. So if I wanted to figure out what that
 13 revenue number was, I would have to look inside
 14 of discontinued operations.
 15 A. That's correct.
 16 Q. Which is subsequently reported in the detail of
 17 the 10-K?
 18 A. Right.
 19 Q. Let me just make a note of that.
 20 Can you explain the accounting rationale
 21 for that?
 22 A. Your accounting rationale is you are talking
 23 about your continuing operation, the businesses
 24 that you will continue to go forward with. We
 25 identified with Blue Dot and Netexit as

1 Mr. Rausch would know that since he was
 2 managing it.
 3 A. Correct. That's my expectation he would recall
 4 that.
 5 Q. So I would have to ask him if I wanted to
 6 know.
 7 A. Correct.
 8 Q. And the revenue produced by those businesses,
 9 you said, is taken into the revenue side of
 10 your reporting. Right?
 11 A. Yes. It would have been included at that point
 12 in time I think in 2004 and 2005 within our
 13 discontinued operations of our business.
 14 Q. So eventually it finds its way up to, I think
 15 in your 10-K, your total revenue for 2005 is
 16 one billion sixty-seven --
 17 A. I do not believe you would see it in that line
 18 item. Discontinued operations are treated
 19 separately in financial statements. So the
 20 summation of the profitability of those
 21 entities would have been captured in
 22 discontinued operations.
 23 Q. Bear with me a second. I foolishly didn't mark
 24 that page.
 25 For the record, I'm looking at a web

1 entities we didn't plan to go forward with in
 2 our continued operations as we wind down those
 3 businesses. Thus, they've been discontinued.
 4 Q. Do you know if that's a decision made by your
 5 accounting officers, or is that a decision
 6 based on GAP or SEC requirements?
 7 A. I think based upon what actions you've taken, I
 8 think both from a legal standpoint and other,
 9 you evaluate whether this is a business you're
 10 going to continue. Obviously we would follow
 11 GAP rules to determine how you would actually
 12 put an entity into discontinued operations.
 13 I don't know the actual rules how you
 14 determine to put an entity into discontinued
 15 operations, but Mr. Kliewer, our controller,
 16 would know that.
 17 Q. Can you look in the 10-K and find the Blue Dot
 18 revenues, or is that something that would be
 19 better done when we take a break and you have a
 20 moment?
 21 A. That would be fine.
 22 Q. Can't just do it off the top of your head?
 23 A. I can't necessarily know what page discontinued
 24 operations would be. It would be helpful to
 25 look at it on a break.

1 Q. As to Netexit, you said in 2004 and 2005 you
 2 didn't think there was any revenue generated
 3 there.
 4 A. That is my understanding.
 5 Q. Netexit, forgive me if I've already asked these
 6 questions and you've already answered them, but
 7 Netexit is also managed by a group of residents
 8 in Sioux Falls, South Dakota, whatever is left
 9 to manage. Right?
 10 A. Correct.
 11 Q. And that was true in 2004 and 2005, also?
 12 A. I believe that is the case.
 13 Q. There was somebody who, as said in the
 14 corporate world, "ran" Netexit in 2004. Right?
 15 A. Yes. There would be a group making decisions
 16 for Netexit. There would be a person that was
 17 responsible working on the winddown of those
 18 assets.
 19 Q. Who is that?
 20 A. I'm not sure the entity or the person who was
 21 responsible for the exiting the business, the
 22 operation. I think most of that was done
 23 before my time. But I know who was handling
 24 the bankruptcy matters associated with Netexit
 25 were Mr. Knapp and Mr. Kliever.

1 Q. It runs from someplace in Canada to someplace
 2 in Montana?
 3 A. Someplace in Montana to up into Canada.
 4 Q. And it transports gas from the Canadian gas
 5 fields to the Montana utility company. Right?
 6 A. My expectation is gas can move either way on
 7 that pipeline.
 8 Q. Where is that incorporated?
 9 A. I don't know where that entity is
 10 incorporated.
 11 Q. Do you know who the members of the board of
 12 directors are of that corporation?
 13 A. I do not.
 14 Q. Do you know who its officers are?
 15 A. I do not.
 16 Q. Who should I ask about that?
 17 A. Mr. Knapp. Mr. Hanson may know, as well.
 18 Q. Do you know who the decision makers are?
 19 A. My expectation is the decision makers are
 20 probably the people running our gas business in
 21 Montana.
 22 Q. Somebody who is resident in Montana?
 23 A. Yes.
 24 Q. And they answer to Mr. Hanson?
 25 A. At the end of the day as the CEO of the

1 Q. Just so we're clear, the whole time you've been
 2 employed by the company there hasn't been any
 3 revenue generated by Netexit?
 4 A. I don't believe there was any revenue generated
 5 by Netexit during that time period.
 6 Q. We've already decided there's no revenue
 7 generated by Northwestern Investments, except
 8 that which would come from Blue Dot or
 9 Netexit.
 10 A. Right. I think the only impact you would have
 11 seen in the financials were any gains or losses
 12 associated with activities in selling assets or
 13 those types of things.
 14 Q. So let's go across then to Canadian Montana
 15 Pipeline Corporation. Tell me what you know
 16 about that company.
 17 A. It is structured this way because we have a gas
 18 pipeline that crosses over into Canada. It's
 19 not a relatively long pipeline that extends
 20 into Canada. But because it is, we separated
 21 our activities associated with that pipeline in
 22 its own separate sub.
 23 Q. Where does the pipeline run to and from?
 24 A. I don't know the actual towns the pipeline
 25 leads to.

1 company, you could say everybody answers to
 2 Mr. Hanson.
 3 Q. I'm curious about the structure of Montana
 4 Pipeline Corporation, if Mr. Hanson is the
 5 president.
 6 A. I don't know.
 7 Q. Does Canadian Montana Pipeline Corporation
 8 develop any revenue?
 9 A. I believe there's a very small amount of
 10 revenue generated from that pipeline
 11 extension.
 12 Q. By "small amount," can you characterize? I
 13 mean you speak in billions in relation to your
 14 company.
 15 A. I don't know the amount they would be
 16 generating. I would tell you it's small,
 17 because if it wasn't small, I would know.
 18 Q. Will the 10-K tell me that?
 19 A. I'm not sure it will break it out to that
 20 level. That might be in "other." It might be
 21 rolled into our regulated gas business.
 22 Q. What is the business of Canadian Montana
 23 Pipeline Corporation?
 24 A. It's the transportation of gas business. So,
 25 in essence, same as our regulated gas business.

1 Q. Where does it earn its revenue?
 2 A. It earns its revenue in Montana and potentially
 3 Canada, as well.
 4 Q. From what? Who pays it?
 5 A. Customers who are receiving gas through the
 6 pipeline.
 7 Q. So we're not talking about indirectly in the
 8 sense that if I had a home at --
 9 A. 5109 South Blackberry?
 10 Q. I'm thinking more about Clark Fork. If I had a
 11 home there and paid a natural gas bill, you're
 12 not talking about that kind of payment.
 13 A. These customers could be more gas trading
 14 businesses, those types of customers.
 15 Q. Contract purchases of transportation services
 16 on the pipeline?
 17 A. This would be more the gas transmission
 18 business than distribution.
 19 Q. That's where it earns its money.
 20 A. Correct.
 21 Q. It also serves a secondary function, and that's
 22 to supply gas to its parent, Northwestern
 23 Corporation. Right?
 24 A. I believe that this entity may connect to our
 25 existing gas system.

1 does it generate revenue from the outside?
 2 A. I don't know the mix of what it sells to
 3 existing or external customers versus its
 4 internal customers.
 5 Q. That's good phraseology. Should we settle on
 6 that? Internal customers means sales within
 7 the family of the company.
 8 A. I would agree to that.
 9 Q. External means sales to persons or entities who
 10 are not affiliated with the company.
 11 A. Correct.
 12 Q. Good. Do you know if Canadian Montana Pipeline
 13 Corporation is a wholly-owned subsidiary of
 14 Northwestern Corporation?
 15 A. I believe it's a wholly-owned subsidiary.
 16 Q. Let's talk about Northwestern Corporation's
 17 Montana operations for a minute. You have both
 18 regulated and unregulated operations in
 19 Montana. Right?
 20 A. That is correct.
 21 Q. When you use the word "regulated" in your
 22 testimony, what does that mean?
 23 A. It means the revenues generated from that
 24 business are from tariffs established and
 25 approved by the Montana Public Service

1 Q. The gas that is sold in Northwestern
 2 Corporation's greater utility business in
 3 Montana comes from someplace.
 4 A. Yes.
 5 Q. Do you know if the someplace is via the
 6 Canadian Montana Pipeline Company?
 7 A. No. A lot of the gas can come from many
 8 different spots through our system. In fact,
 9 we actually have gas storage capabilities in
 10 Montana, as well.
 11 Q. The reason I inquire is because at some point
 12 today we're going to talk about grossed-up
 13 revenues. As I understand the testimony that's
 14 previously been given, grossed-up revenues in
 15 the concept used in this case includes revenues
 16 paid from one subsidiary to another.
 17 A. Right.
 18 Q. I would like, as we go along today, when we
 19 talk about the subsidiaries that generate
 20 revenue, I would like you to distinguish for
 21 me, when you're talking about revenue, revenue
 22 from the outside world or outside customers
 23 versus inside.
 24 A. Okay.
 25 Q. So as to Canadian Montana Pipeline Company,

1 Commission. Or if their transmission from
 2 FERC, that would also be for our Montana
 3 business.
 4 Q. So it's revenue generated from business
 5 activities that are regulated by either FERC or
 6 the Montana PSC?
 7 A. Correct.
 8 Q. What are those activities in Montana?
 9 A. Regulated business would be both the electric
 10 transmission and distribution, electric power
 11 to the customers, and the gas transmission and
 12 distribution business.
 13 Q. There are also unregulated transmission and
 14 sale of gas and electricity in Montana, is
 15 there not?
 16 A. The unregulated entity in Montana mainly is
 17 associated with the generation plant that we
 18 have an ownership interest in.
 19 Q. I said "activity." You said "entity."
 20 A. You're right. It's activity. It's a part of
 21 Northwestern Corporation. Entity is a poor
 22 choice of words. It's a generation plant.
 23 Q. For example, me, as a business enterprise, I
 24 could contract with you to transmit my
 25 electricity from Point A to Point B on your

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1 transmission network in Montana, and that's
 2 unregulated as long as I'm not a retail
 3 consumer. Right?
 4 A. There are some -- I think our transmission
 5 business from a distribution standpoint, that
 6 still falls under FERC transmission. So that
 7 is still under that regulated entity.
 8 Q. Can you sell electricity that isn't regulated
 9 by FERC or by the Montana PSC?
 10 A. I can sell the electricity out of a generating
 11 plant and get revenues from that generating
 12 plant that isn't regulated. But if it's
 13 transmission of electricity, I believe that's
 14 all regulated.
 15 Q. How about -- okay. So electricity that you
 16 generate can be sold without regulation.
 17 Electricity that you acquire from another
 18 generator and sell wholesale, not to a
 19 consumer, can also be sold unregulated. Right?
 20 A. I would describe it to you this way.
 21 Generation, we do not own regulated generation
 22 in Montana. We own nonregulated generation in
 23 Montana.
 24 Q. Does your company ever speculate in energy
 25 sales in the sense they buy electricity from a

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1 generator, either for use in its own system or
 2 for resale?
 3 A. What we will do is we buy energy in Montana
 4 typically for our default supply customers. We
 5 have to provide the load. The only time we
 6 would typically sell any of that power is if
 7 we, for whatever reason, purchased excess
 8 power. We like to think of ourselves as a
 9 procurer of power, not as a trader in power.
 10 Q. So you only sell to balance your system?
 11 A. We buy power to meet our load, and if we have
 12 excess power, we may sell some of that excess
 13 power.
 14 Q. The sale of the excess power, is that regulated
 15 or unregulated?
 16 A. Again, if it's sale of power, which it's
 17 generation, that's not regulated. The
 18 transmission of that power across transmission
 19 lines is a separate thing. I'm talking about
 20 sales from our generation plant.
 21 Any buying and selling of that -- buying
 22 and selling of generation for default supply
 23 would be through our tracker for default supply
 24 activities in Montana. So if we are procuring
 25 power for our customers in Montana, that would

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1 be part of the regulated entity. But it's a
 2 pass-through. In essence, we pay for the
 3 power. We provide it to our customers for the
 4 same cost we bought it at.
 5 Q. For the default supply.
 6 A. That is correct.
 7 Q. How do you make any money on the default
 8 supply?
 9 A. We don't make any money on the default supply.
 10 It's an obligation. We accept it as part of
 11 the acquisition of Montana Power.
 12 Q. It's an obligation. You accept it as part of
 13 the privilege of having a monopoly in Montana.
 14 A. I would say as being the owner of Montana
 15 Power, the transmission and distribution
 16 assets.
 17 Q. So in that case it's a pass-through. If you
 18 have excess power in your default supply that
 19 you need to dispose of, and if you sell that to
 20 some other energy supplier, is that a regulated
 21 activity or unregulated?
 22 A. It would be a regulated activity, but, again,
 23 it would just net against our default supply
 24 cost. Again, we would sell it at no profit.
 25 Q. I understand that. But in terms of revenue,

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1 the sale of that electricity generates
 2 revenue.
 3 A. It depends from which books you're looking at.
 4 In some cases you would net that sale against
 5 purchases for SEC purposes, but for FERC you
 6 would show them gross.
 7 Q. So when I look at your 10-K and I see the
 8 revenue number, the \$1,165,750,000, that number
 9 includes revenue from default supply in
 10 Montana. Right?
 11 A. It does.
 12 Q. It also includes revenue from the sale of
 13 excess power that was acquired for purposes of
 14 the default supply. Right?
 15 A. It would be netted against that, correct.
 16 Q. It would be netted against it?
 17 A. If you're at excess sales and we actually sold
 18 the power, we would use the proceeds of that to
 19 reduce the revenues in that case.
 20 Oh, I see what you're saying. You're
 21 saying the net output we provide, net default
 22 supply load is deemed a sale to our default
 23 supply customers.
 24 Q. Do you agree with me?
 25 A. I'm not sure. You have to rephrase your

1 question.

2 Q. All right. Let's do it this way. Let's use a

3 simplistic example. Let's say that you

4 anticipate you need \$100 of electrical power to

5 satisfy your default supply obligation in

6 Montana. So you acquire \$100 worth of

7 electrical energy.

8 You sell \$97 of that to the default supply

9 customers in Montana, and you have \$3 of excess

10 energy, \$3 worth, and you sell that into the

11 marketplace.

12 This, the \$97 and the \$3, totaling the

13 \$100, turns up as revenue in the operating

14 revenues of the company reported in your 10-K,

15 do they not?

16 A. My expectation is the number you would show for

17 SEC in that case is the ultimate load that we

18 provided was \$97 in that example. So \$97 would

19 be the net revenues we would show.

20 Q. That would also be true as to your reporting in

21 Montana. It would show \$97.

22 A. We would show \$97 is my understanding how the

23 revenues would be shown.

24 Q. Unfortunately our South Dakota statute doesn't

25 tell us what the word "revenue" is supposed to

1 the body of my pen for 50 cents, I have one

2 dollar of revenue.

3 A. If, in fact, someone would give you that one

4 dollar revenue, correct. But in this case

5 Montana wants to, for default supply purposes,

6 remember we make no profit, it's the energy we

7 provide to customers at the end of the day is

8 what we're going to earn revenue for.

9 Q. To carry my example one step further. If I

10 made a contract and said, "I'll sell you the

11 cap to my pen for 50 cents and Mr. Gerdes the

12 body of my pen for the other 50 cents." You

13 give me 50 cents for the cap. Mr. Gerdes says,

14 "I really don't need the body of your pen."

15 MR. GERDES: I don't want to get a black

16 spot on my shirt.

17 Q. Precisely. Then I only have 50 cents worth of

18 revenue. Right?

19 A. If you didn't sell him the body of the pen, you

20 only sold me the cap, you would have made 50

21 cents.

22 Q. At the same time if I said, "All right,

23 Mr. Gerdes, don't take the body of this pen."

24 I sell it to Miss Rogers for 50 cents. Now I

25 have a dollar's worth of revenue.

1 mean. You're aware of that. What does the

2 word "revenue" mean to you?

3 A. It's the amount you charge a customer for the

4 good or service you provided to them.

5 Q. The amount you charge somebody for what you

6 sell them. Right?

7 A. That's similar to what I said.

8 Q. I sell you my pen, and you give me a dollar. I

9 have a dollar's worth of revenue, and you have

10 a pen.

11 A. In this example we provided my customer \$97

12 worth of electricity in that case.

13 Q. What happened to the other \$3 worth of

14 electricity?

15 A. I didn't have to ultimately pay for that. I

16 sold that \$3 back, so my net amount of energy I

17 had to procure was \$97.

18 Q. If you sold it back to the person who supplied

19 it to you.

20 A. I'm not sure how that works in terms of if you

21 sold it back to the same party or not. Kendall

22 Kliever, our controller, would know that. That

23 may be a fair distinction actually.

24 Q. Think about it this way. If I sell you the cap

25 of my pen for 50 cents and I sell Mr. Gerdes

1 A. That would be my understanding.

2 Q. Now, if we handle our electricity business the

3 same way, we buy \$100 worth of electricity from

4 a generator, and we sell \$97 of it to our

5 default supplier, we have \$97 worth of

6 revenue. Right?

7 A. Again, it depends. This is where Mr. Kliever.

8 Your example is a very simple example.

9 Unfortunately, accounting rules aren't that

10 simple. Thus, GAP accounting rules have quite

11 a few rules that apply to the sale of the pen

12 in your example.

13 Unfortunately, the sale of electric power

14 has those issues involved, and I think it

15 depends on who you bought and sold that power

16 to. Again, Mr. Kliever would be better

17 prepared to answer that question.

18 Q. It is true that the simplicity or complexity of

19 accounting rules are lost on those of us who

20 have undergraduate degrees in English

21 literature.

22 Something happens to the three bucks.

23 It's either in your revenue or it isn't.

24 Right? I can understand perfectly that if the

25 person to whom you supplied the power, you

1 don't take that last \$3 worth of electricity,
2 then you don't have \$3 worth of revenue from
3 that. You only have \$97.

4 On the other hand, if you sell that \$3 of
5 electricity, if you take it from the person who
6 supplied it and sell it to another party,
7 default customer or not, then you have the
8 revenue. Right?

9 A. Again, as I mentioned earlier, it depends on
10 how that's treated. Again, Mr. Kliewer would
11 be better prepared to answer that question.

12 Q. Your understanding of it is, and you're the
13 witness here today, your understanding of it is
14 that if \$100 worth of power is acquired, but
15 only \$97 of it is supplied to the default
16 customer in Montana, your operating revenues do
17 not reflect the other \$3 no matter where it is
18 disposed of. Right?

19 A. That's my understanding. I also said I know
20 there are certain rules, and I can't speak to
21 them, but I understand there are some rules
22 depending on who ultimately might be the buyer
23 and seller of that power.

24 Again, I think the general principle from
25 the revenue perspective is that we provide --

1 Q. And you only acquire from those plants that
2 electricity which is needed. Right?

3 A. We have an ownership interest in those plants,
4 and we get the generation from those plants to
5 serve our customers' needs. We earn a return
6 on the ownership interest. Those assets are in
7 our rate base in Montana. So we earn a return
8 on that investment.

9 Q. You said in Montana. You meant in South
10 Dakota.

11 A. In South Dakota, thank you.

12 Q. Your rate base in South Dakota.

13 A. That is correct.

14 Q. Do those plants make a profit? Do they produce
15 revenue?

16 A. They produce revenue. It's part of the revenue
17 we ultimately receive in South Dakota.

18 Q. Is the revenue produced by those plants
19 included in that line of gross operating
20 revenues in your 10-K?

21 A. Correct.

22 Q. Is it also reported in the revenue from
23 operations, regulated operations to South
24 Dakota that you report to the South Dakota
25 Public Utilities Commission?

1 the amount of power and cost of power we
2 provide to default supply is the amount of
3 revenues we receive. At the end of the day the
4 amount of revenues we're going to receive from
5 default supply in that example you used would
6 be \$97.

7 Q. We've talked about this in the context of the
8 default power supply in Montana. Let's talk
9 about it in the context of power supply in
10 South Dakota, because there is no default
11 supply power system in South Dakota like there
12 is in Montana. Correct?

13 A. That is correct. In South Dakota we have an
14 integrated utility, and our ownership share in
15 the generation that we have is regulated.

16 Q. So in South Dakota, because your company owns
17 interest in, is it four generation plants that
18 produces electricity for South Dakota
19 customers?

20 A. In addition to those plants, we also have some
21 small peaking plants.

22 Q. Sure. But by and large, the bulk of your
23 electricity is generated by four plants that
24 you own interest in.

25 A. That's correct.

1 A. Correct.

2 Q. So in South Dakota you have three sources of
3 revenue. You have, speaking in the most
4 general sense, you have revenue produced by
5 sales of electricity. Right?

6 A. Right.

7 Q. You have revenue produced by the sales of
8 natural gas. Right?

9 A. Correct.

10 Q. And you have revenue produced from your
11 ownership interest in the four generation
12 facilities.

13 A. I would say really, I would describe it this
14 way. We receive revenue for our electric
15 business, which is an integrated utility, and
16 it's a bundled rate for generation,
17 transmission and distribution of electricity.
18 We also receive regulated revenue on our gas
19 business.

20 Q. The way you just characterized the revenue you
21 receive, it comes from the retail customer, the
22 ultimate consumer of the electrical power, for
23 example. Right?

24 A. I'm sorry, rephrase the question.

25 Q. You receive revenue from the retail customer,

1 the ultimate consumer of the power. The rate
 2 payers, they're called in the business.
 3 A. Right.
 4 Q. Is there any revenue you receive from the plant
 5 itself? Does the plant, Sergeant Bluff, Iowa,
 6 send you a check?
 7 A. We have in instances where there's excess power
 8 at those plants, we also sell to the wholesale
 9 market. That's also recorded in our revenues,
 10 our financial statement. It also would be
 11 regulated revenue in our financial statements.
 12 Q. So let's use the plant in Sergeant Bluff.
 13 Where is it?
 14 A. O'Neill or Big Stone, whatever you want to do.
 15 Q. Pick one.
 16 A. Big Stone.
 17 Q. The generator is busy spinning at Big Stone,
 18 and it produces how many megawatts when it's
 19 running at max?
 20 A. I don't know.
 21 Q. Produces 10 megawatts. The demand is for 9.
 22 So you have one megawatt to dispose of. You
 23 sell that into the wholesale markets.
 24 Big Stone, the entity that owns and
 25 operates Big Stone gets a check from somebody.

1 MR. TAYLOR: I did lose my thread. Let's
 2 take a break.
 3 (A recess was taken)
 4 Q. Let's talk about Northwestern Services
 5 Corporation, the one subsidiary chain we
 6 haven't talked about. Northwestern Services
 7 Corporation is a South Dakota corporation, is
 8 it not?
 9 A. I'm not sure where it's incorporated.
 10 Q. What business does it do?
 11 A. Northwestern Service Corporation has several
 12 businesses. It has the unregulated gas
 13 business, which is both for South Dakota and
 14 Nebraska.
 15 It also has a consumer services business
 16 where our folks or field people go in and fix
 17 somebody's heating, air conditioning unit,
 18 provide some services to them. It's a
 19 relatively small business.
 20 Q. Now, are those all within Northwestern Services
 21 itself, or are they in subsidiaries of
 22 Northwestern Services?
 23 A. Those would be divisions of Northwestern
 24 Services.
 25 Q. That corporation itself?

1 A. That's correct. We get our share, if you will,
 2 of that check, to be treated as wholesale
 3 revenue.
 4 Q. You get your 25 percent. That finds its way
 5 into operating revenue.
 6 A. Correct.
 7 Q. Is that South Dakota revenue?
 8 A. That would be South Dakota revenue.
 9 Q. That's included in what you report as South
 10 Dakota wholesale electric revenue?
 11 A. Should be included in our revenue, yes.
 12 Q. You also have an interest in the plant in North
 13 Dakota, plant in Iowa, and a plant in
 14 Nebraska. They all do the same thing, sell
 15 their excess power, also.
 16 A. Correct. In each case that would be South
 17 Dakota revenue.
 18 Q. So you report that as South Dakota revenue.
 19 A. Yes.
 20 Q. So when we look at --
 21 MR. GERDES: Say yes.
 22 A. I think I said yes.
 23 Q. You report that as South Dakota wholesale
 24 electric revenue?
 25 A. Correct.

1 A. Right. We also have an entity called Grant in
 2 there that's mainly for dealing with
 3 relocations and things like that. It's a very
 4 small subdivision, if you will. I'm trying to
 5 think of anything else. I think it's mainly
 6 those businesses.
 7 Q. Where is that Northwestern Services Corporation
 8 headquartered?
 9 A. I would say Northwest Services Corporation
 10 would be headquartered in Sioux Falls.
 11 Q. The officers I think on the second page of
 12 Exhibit 1 you are looking at, the officers and
 13 directors of the corporation are listed.
 14 A. Correct.
 15 Q. And you're one of those.
 16 A. Correct.
 17 Q. Now, you said that the unregulated natural gas
 18 sales in South Dakota and Nebraska are included
 19 in the business of Northwestern Services
 20 Corporation. Right?
 21 A. Correct.
 22 Q. Tell me about the unregulated gas sales in
 23 South Dakota. What are those?
 24 A. They would be -- unregulated gas would be sales
 25 to large customers for gas services we

1 provide. We used to procure commodity for
 2 them, and then in addition to that, we would --
 3 actually the transportation, if you will, of
 4 that gas.
 5 Q. So you acquire gas, natural gas, and resell it
 6 to industrial customers.
 7 A. Yes. For that commodity business we'd do that
 8 for a slight margin on that.
 9 Q. You would transport the gas for a fee.
 10 A. That's correct.
 11 Q. All that revenue is within Northwestern
 12 Services Corporation.
 13 A. Correct. For the nonregulated gas business,
 14 yes.
 15 Q. Typically the large industries are ethanol
 16 plants, are they not?
 17 A. In many cases, correct. It's taking up more
 18 and more for the gas.
 19 Q. And that's in South Dakota.
 20 A. We have both unregulated gas sales in South
 21 Dakota and Nebraska.
 22 Q. What are the unregulated gas sales in Nebraska?
 23 A. Hang on a second. I think -- I take that
 24 back. I'm not sure we have unregulated sales
 25 in Nebraska. I'm thinking about gas customers

1 that Mr. Knapp and Mr. Kliever might be aware
 2 of that, as well.
 3 Q. So your understanding is that Northwestern
 4 Services borrows or acquires its employees from
 5 Northwestern Corporation?
 6 A. My expectation is that other than Mr. McKinney,
 7 who was working for Northwestern Service
 8 Corporation in providing that service, I don't
 9 think -- there may be a management agreement,
 10 but the selling of that procurement is mainly
 11 handled by him.
 12 I don't know that anyone else is involved
 13 in the company, but if so, there might be a
 14 management agreement associated with the
 15 activities of Northwestern Corporation folks
 16 helping Northwestern Services, but I don't know
 17 for sure.
 18 Q. Is there a payroll on Northwestern Services
 19 Corporation?
 20 A. I'm not sure if Mr. McKinney was receiving a
 21 check from Northwestern Services Corporation.
 22 My expectation is his check would say
 23 Northwestern Corporation.
 24 Q. Do any of the first tier subsidiaries have a
 25 payroll?

1 in South Dakota. I'm not sure any of those
 2 customers are in Nebraska.
 3 Q. If I wanted to know who those customers were
 4 and where they were located, where would I go
 5 to find that information?
 6 A. You would have to get that from the folks that
 7 run our gas business. One of the gentlemen
 8 that runs that business, Jeff McKinney, is no
 9 longer with us. So Bleu LaFave would be the
 10 person.
 11 Q. So you have a utility service, that is, you
 12 service people's water heaters and that sort of
 13 thing in that company?
 14 A. Yes. That's the consumer services business.
 15 Q. Does Northwestern Services Corporation have
 16 employees?
 17 A. I think the employees that provide services are
 18 Northwestern Corporation employees.
 19 Q. Is there a management agreement between
 20 Northwestern Services Corporation and
 21 Northwestern Corporation?
 22 A. I don't know if there is. My expectation is
 23 there would be, but I don't know the agreement.
 24 Q. Who would know the answer to that?
 25 A. The individuals running that business, I expect

1 A. I don't believe any of those first tier
 2 subsidiaries have a payroll.
 3 Q. They don't have any employees. If they do,
 4 they are employees that are borrowed from
 5 Northwestern Corporation.
 6 A. That would be my understanding.
 7 Q. Does that include the HVAC employees of
 8 Blue Dot?
 9 A. Not of Blue Dot. There are no employees of
 10 Blue Dot anymore. At that time I'm not sure if
 11 Blue Dot had its own payroll system or if it
 12 used Northwestern Energy's.
 13 I would say Northwestern Services Corp.,
 14 the consumer services people are Northwestern
 15 employees, and they are receiving Northwestern
 16 Energy payroll checks. They're providing work
 17 for Northwestern Services Corp.
 18 Q. Is there separate accounting done for
 19 Northwestern Services Corporation?
 20 A. Correct, yes.
 21 Q. So someplace there's an income statement and a
 22 balance sheet for Northwestern Services
 23 Corporation?
 24 A. Yeah. I think it would be the consolidation of
 25 those divisions, if you will, within

1 Northwestern Services Corporation.
 2 Q. The divisions being the unregulated gas, the
 3 consumer services, and I've forgotten what the
 4 third one was.
 5 A. There's something else, too, that's escaping my
 6 mind right now. The fourth item that I believe
 7 falls into that group. I can't think of it
 8 offhand.
 9 Q. All that income is earned in South Dakota?
 10 A. There are -- I'm not sure of the customers.
 11 There are some unregulated gas sales in
 12 Nebraska today. I think it's associated with a
 13 ONEOK contract that we've had. I believe
 14 that's unregulated gas sales, as well, in
 15 Nebraska. I mentioned earlier I couldn't think
 16 of a large customer, but I think that is a
 17 large customer for a nonregulated gas business.
 18 Q. What is the ONEOK contract?
 19 A. I think it's a contract for sale for gas
 20 services provided by our nonregulated gas
 21 business.
 22 Q. ONEOK is a third party? It's not related to
 23 Northwestern in any way?
 24 A. No, it's a third party.
 25 Q. So you sell gas to ONEOK?

1 supplying them a service.
 2 A. Okay. Well, you have a better understanding of
 3 that contract than I do.
 4 Q. So your answer is you don't know.
 5 A. That was my understanding is because of the
 6 ONEOK contract, we had sales through that
 7 contract to Nebraska for an unregulated gas
 8 business. That was my understanding.
 9 Q. Let's talk about Nekota Resources, Inc., next.
 10 What is that?
 11 A. That's a pipeline we have just in South Dakota
 12 that we set up as a separate subsidiary of
 13 Northwestern Services Corporation. Again,
 14 before my time, but just a pipeline we own that
 15 we have revenues from that consolidates up into
 16 Northwestern Service Corporation.
 17 Q. Where is that pipeline?
 18 A. I'm not sure of the actual location of the
 19 pipeline.
 20 Q. It is in South Dakota?
 21 A. It is in South Dakota.
 22 Q. The pipeline, Nekota Resources pipeline, does
 23 it produce any revenue?
 24 A. It produces revenue for -- transmission of gas
 25 along that pipeline produces revenue.

1 A. I'm not sure of the contract, except what's
 2 involved. Is it commodity? Is it services?
 3 I'm just aware of a customer that I believe is
 4 a Nebraska customer for a nonregulated
 5 business, and it's ONEOK.
 6 Q. So I understand this correctly, ONEOK is a
 7 third party to whom Northwestern -- to whom
 8 Northwestern Services Corporation supplies
 9 something.
 10 A. Yes, correct.
 11 Q. So the proceeds of whatever it is that you
 12 supply from ONEOK is revenue to Northwestern
 13 Services Corporation.
 14 A. Correct.
 15 Q. And you think it has something to do with gas.
 16 A. I think it has to do with our nonregulated gas
 17 business in Nebraska.
 18 Q. In the Petition you filed with the South Dakota
 19 PUC, the ONEOK contract, which incidently is
 20 spelled O-N-E-A-K in the Petition.
 21 A. Is it? I was thinking as One Oklahoma, but --
 22 Q. It describes it as a gas supply storage and
 23 pipeline requirements being managed in Nebraska
 24 under the ONEOK contract. The inference being
 25 that they supply you a service, rather than you

1 Q. And is that revenue subsumed in the service
 2 that Northwestern Services Corporation provides
 3 its large industrial customers?
 4 A. I think it has its own customers.
 5 Q. So it's a separate, entirely separate
 6 business.
 7 A. That's my understanding.
 8 Q. The revenue it generates is included in
 9 Northwestern Services Corporation revenue?
 10 A. It gets consolidated into Northwestern Services
 11 Corporation.
 12 Q. Consolidated. Then go across the line. Then
 13 we have Northwestern Energy Development, LLC.
 14 What's that about?
 15 A. I think, again, this was -- these entities were
 16 put in place prior to my arriving.
 17 Northwestern Energy Marketing, I believe
 18 it has a trading license or ability to do
 19 energy procurement, but I don't believe there's
 20 any activity in that LLC. It has a license.
 21 I'm not sure there's any business or that we're
 22 deriving revenue from there.
 23 Northwestern Generalization I, LLC, is a
 24 holding company for a project, a gas-fired
 25 power plant project we had in Montana that we

1 have since sold the assets associated with that
 2 project, and are in the process of selling the
 3 land. Ultimately I believe Montana Megawatts
 4 I, LLC, and Northwestern Generation I, LLC,
 5 will be dissolved.
 6 Q. So let's see if I understand that.
 7 Northwestern Energy Development is a trading
 8 company, but it's an inactive trading company.
 9 A. Northwestern Energy Marketing. I think it was
 10 set up in order to do energy marketing, but my
 11 understanding, since I've been here, it's not
 12 been used for that.
 13 Q. So Northwestern Energy Development must be a
 14 holding company.
 15 A. It is a holding company.
 16 Q. It has no activity.
 17 A. It has no activity that I'm aware of. I don't
 18 believe there's any revenue generated from any
 19 of these entities, from Northwestern Energy
 20 Development down.
 21 Q. Are all four of those LLCs, Northwestern Energy
 22 Development, Northwestern Energy Marketing,
 23 Northwestern Generation, and Montana Megawatts,
 24 do you know who the members of the board of
 25 managers are of those?

1 A. I believe so.
 2 Q. It doesn't do any business now?
 3 A. No.
 4 Q. When did Montana Megawatts sell off the last of
 5 the generation equipment?
 6 A. It was either the end of '05 or '06. The sale
 7 might have occurred in '05, and a portion of
 8 the money received in '05 and a portion of the
 9 money in '06 is my recollection.
 10 Q. Where does that money show up in your 10-K
 11 report? Discontinued business?
 12 A. I'm not sure if it's in discontinued operations
 13 or not. It may be. I believe it is. Again, I
 14 think those sales would be not derived as
 15 revenue. They could give you debits and
 16 credits. It would be either again cash and
 17 then either reducing with remaining asset and
 18 then booking a gain or loss.
 19 Q. So there may be some money that came to the
 20 company in 2005 and 2006 from Montana
 21 Megawatts, and those LLCs all being
 22 pass-through entities, that money finds its way
 23 eventually to Northwestern Services
 24 Corporation. Right?
 25 A. I believe it would fall up through Northwestern

1 A. I don't know off the top of my head. My
 2 expectation is it would be very similar to the
 3 list of names we talked about before, but I
 4 don't know off the top of my head.
 5 Q. Typically perhaps Mr. Knapp, perhaps you, and
 6 perhaps Mr. Hanson?
 7 A. Correct.
 8 Q. There's no revenue developed from any of those
 9 four companies that finds its way to the
 10 operating revenue line of your 10-K in 2005?
 11 A. That's my understanding.
 12 Q. Is Montana Megawatts the ill-starred generation
 13 plant in, is it --
 14 A. Great Falls.
 15 Q. Great Falls. That never got finished.
 16 A. That is correct.
 17 Q. You sold off the generator.
 18 A. We sold all of the electric generation
 19 equipment, everything else associated with the
 20 plant.
 21 Q. Now there's some real estate on the west side
 22 of the river in Great Falls.
 23 A. I'm not sure exactly.
 24 Q. Northwestern Generation I, LLC, was a holding
 25 company for Montana Megawatts?

1 Service Corporation. Ultimately I know
 2 Northwestern Corporation, we utilized those
 3 proceeds at that level.
 4 Q. So back to Northwestern Services Corporation.
 5 We have some unknown gas sales in Nebraska. At
 6 least unknown from the perspective that you
 7 can't explain them today.
 8 A. I don't know who necessarily the customers
 9 are. I believe we've got the amount of both
 10 regulated and unregulated Nebraska gas sales.
 11 Q. We know in the regulated side that Northwestern
 12 Corporation supplies gas to I think four
 13 communities in Nebraska. Right?
 14 A. Three main communities.
 15 Q. And one little one. The little one is an
 16 offshoot of --
 17 A. You have Kearney, Grand Island. The third one
 18 is escaping me now. North Platte.
 19 Q. There's a little town that there's a wing that
 20 goes out to it.
 21 A. Yes. I think of them as the three where we
 22 actually have our locations are the three I
 23 mentioned.
 24 Q. Does Northwestern Corporation own the gas
 25 pipeline infrastructure in those communities?

1 A. It does.
 2 MR. GERDES: You are talking about the
 3 distribution system?
 4 MR. TAYLOR: Yes.
 5 MR. GERDES: You used the term
 6 "pipeline."
 7 A. In addition to gas distribution system in those
 8 communities, yes. We're a gas distribution
 9 company in Nebraska.
 10 Q. And the company also owns a pipeline that runs
 11 -- there's a gas pipeline sort of east-west
 12 across Nebraska, and then the pipeline that
 13 runs from that east-west line up to the
 14 communities. Does Northwestern own that, also?
 15 A. I believe it's a distribution network they own,
 16 that we own, in essence. I'm not sure that's a
 17 transmission. I think it's all distribution
 18 network.
 19 Q. So you would characterize the plumbing that
 20 runs from the -- I can't say the name of the
 21 east-west pipeline. I'll think of it in a
 22 minute. You own the plumbing that runs from
 23 that pipeline up to these towns, and you supply
 24 gas to these towns through that plumbing?
 25 A. That is my understanding.

1 business.
 2 Q. He answers to?
 3 A. Mr. Hanson.
 4 Q. So he's the second tier management person?
 5 A. He is the next tier below the CEO in terms of
 6 our operations. He's head of our distribution
 7 business.
 8 Q. Where does he office?
 9 A. In Butte, Montana.
 10 Q. His office is in Butte. How long has he been
 11 in Butte?
 12 A. I'm not sure how long he's been in Butte. It's
 13 been a number of years.
 14 Q. Was he here at some point?
 15 A. He was in Huron, South Dakota, at one point in
 16 time. As a matter of fact, I think he was
 17 hired out of our Nebraska business long before
 18 that, but I don't know the timing when that
 19 occurred.
 20 Q. Is the revenue that's produced by the Nebraska
 21 operations, the Nebraska regulated operations,
 22 do you report that as -- do you describe that
 23 internally as retail gas sales?
 24 A. That would be retail gas sales for the
 25 regulated utility.

1 Q. That's the extent of your regulated business in
 2 Nebraska. Right?
 3 A. Correct.
 4 Q. Do any of these subsidiaries own that
 5 distribution network?
 6 A. Do any of these subsidiaries? No. The
 7 distribution network is owned by Northwestern
 8 Corporation as a regulated entity.
 9 Q. Always has been?
 10 A. I don't know the answer to that.
 11 Q. Do you know anything about the history of that
 12 Nebraska enterprise?
 13 A. I don't know the history. I know it's been
 14 with the company for a long time.
 15 Q. When you described that as regulated activity,
 16 who manages that Nebraska activity?
 17 A. We have three division managers in those three
 18 Nebraska locations.
 19 Q. There is a division manager in each Nebraska
 20 location?
 21 A. That is correct.
 22 Q. They live there?
 23 A. They live there.
 24 Q. Who do they answer to?
 25 A. To Curt Pohl, who is head of our distribution

1 Q. So when I look at the financial summaries that
 2 Mr. Gerdes gave me before, where there's a line
 3 that says Nebraska Retail Gas, that's what
 4 we're talking about?
 5 A. Correct.
 6 Q. If I'm a retail gas customer in Nebraska, where
 7 do I send my money?
 8 A. Actually I think we've changed our bill
 9 process. All the money for all our customers
 10 ultimately is sent to Butte, Montana, to be
 11 processed. I don't know if it's sent to their
 12 local -- many Nebraska customers, many South
 13 Dakota customers pay at the actual location.
 14 So they could either be paying there, or they
 15 could be sending it. I think they're sending
 16 it to Butte now.
 17 Q. Everybody gets a bill in the mail.
 18 A. I don't think Nebraska customers are sending an
 19 envelope, if you will, to Nebraska. I think
 20 it's going to Butte, because that's where we
 21 process our cash.
 22 Q. When the money gets to Butte, happens to it?
 23 A. It's ultimately recorded in that customer's
 24 account that they pay, and ultimately captured
 25 by our billing system and recorded. Then, of

1 course, the cash is deposited in the bank in
 2 Butte.
 3 Q. What bank -- do you have one bank in Butte?
 4 A. We try and utilize US Bank. We try and use the
 5 same bank in each of our locations, but where
 6 there's not a US Bank, we'll use another
 7 different local bank.
 8 Q. US Bank is your corporate depository?
 9 A. That's correct.
 10 Q. Throughout the corporate system?
 11 A. That's correct. Again, if there's a US Bank in
 12 that community. But that, again, is for local
 13 deposits where a customer pays. The cash
 14 that's sent in an envelope with a check to be
 15 processed by our processing center, Butte, is
 16 deposited in US Bank in Butte.
 17 Q. So somebody opens the envelope, the check is
 18 deposited in the US Bank account, and the
 19 account is Northwestern Corporation account.
 20 The same account you have here. The same
 21 account you have wherever.
 22 A. I believe that's the structure, how it's
 23 handled. I don't know for sure if they have
 24 multiple accounts, that they do it by state.
 25 I'm not sure how the cash management system

1 Corporation's banking partner?
 2 A. One of many. But our cash management bank, in
 3 essence, like you mentioned, depository, were
 4 handled out of Minneapolis.
 5 Q. That's true of your South Dakota regulated and
 6 unregulated operations, also?
 7 A. That's correct.
 8 Q. True of all your operations throughout?
 9 A. Yes.
 10 Q. Let's talk about your South Dakota gas
 11 operation. We've talked about the unregulated
 12 gas operations. Tell me about the regulated
 13 gas operations.
 14 A. In South Dakota?
 15 Q. Yes.
 16 A. Gas operations, as we discussed earlier, is
 17 mainly distribution business associated with
 18 distribution customers.
 19 Q. So you own a distribution network, and you are
 20 the supplier of natural gas to a number of
 21 communities in South Dakota and the retail
 22 customers that are associated with that.
 23 A. Paying for the distribution of that gas to
 24 their house or business.
 25 Q. Exactly the same way as it is in Nebraska?

1 handles that.
 2 Q. Ultimately it doesn't matter how the accounts
 3 are numbered, because they're all US Bank
 4 accounts, and in the end the money all comes
 5 here, anyway, does it not?
 6 A. It sits in a US Bank account. When you say it
 7 comes "here," it comes to Northwestern
 8 Corporation. It's not like it comes to
 9 Sioux Falls, per se.
 10 Q. God knows where it goes.
 11 A. There you go.
 12 Q. Nobody knows where it goes. Right?
 13 A. The cash itself, if there's any cash, would
 14 probably stay with that local bank it was
 15 deposited. Checks, of course, are routed
 16 through the Federal District process.
 17 Q. All it really is is electrons. It's not
 18 specie. Right?
 19 A. At the end of the day.
 20 (A recess was taken)
 21 Q. We were talking about retail gas sales in
 22 Nebraska and the transmission of the money and
 23 how the money was handled. You said that
 24 US Bank is your bank of choice if there's a
 25 branch available. Is US Bank Northwestern

1 A. For the regulated side, correct.
 2 Q. Do you have any electric sales in Nebraska?
 3 A. No. We don't have any electric infrastructure
 4 in Nebraska.
 5 Q. Tell me about your electric infrastructure and
 6 sales in South Dakota.
 7 A. In the service territory that we had, we are
 8 responsible for the electric side of the
 9 business. Again, it's the poles and wire to
 10 the customer.
 11 Q. That traditionally was the business of
 12 Northwestern Corporation and Northwestern
 13 Public Service, was it not?
 14 A. Correct.
 15 Q. That's how it got started.
 16 A. That's my understanding.
 17 Q. Selling electricity and natural gas as a
 18 vertically integrated utility in South Dakota.
 19 A. That's my understanding.
 20 Q. It generated electricity at its various
 21 generating facilities, and sold that
 22 electricity to retail customers in South
 23 Dakota.
 24 A. I believe that is correct.
 25 Q. The gas business followed along in the same

1 manner.

2 A. I don't know if the gas started the same time

3 or after electric. I don't know the time.

4 Q. Except you don't generate gas. You have to buy

5 that from someplace?

6 A. We transport it through our system.

7 Q. You don't own any gas wells or gas fields. You

8 acquire all your gas from third parties.

9 A. That's correct, a distribution company.

10 Q. There are pipeline networks that run across the

11 country that are the transporters of large

12 volume, and you tap those.

13 A. That's correct.

14 Q. How is your retail gas distribution system

15 managed in South Dakota?

16 A. It's managed in our Huron office, but there's

17 also division managers in each location, as

18 well. But ultimately those folks report up

19 through Curt Pohl again in Butte, Montana.

20 Q. So Mr. Pohl, in addition to being the manager

21 in Nebraska, is the manager of South Dakota gas

22 operations, gas and electric?

23 A. He is the manager of both gas and electric

24 distribution businesses.

25 Q. Regulated gas and electric?

1 got a regulated electric, regulated gas,

2 unregulated electric, unregulated gas, and

3 other, and we also have some eliminations

4 associated with that.

5 For FERC purposes we have to report our

6 regulated earnings, so, thus, it excludes our

7 nonregulated revenues.

8 Q. In Montana you have both regulated and

9 unregulated activity.

10 A. That is correct.

11 Q. When we're talking about "the utility" in

12 Montana, we would be talking about the

13 regulated activity again. Right?

14 A. That would be the vernacular that I would use,

15 yes.

16 Q. Tell me about the unregulated business

17 activities that you have in Montana.

18 A. It's mainly the ownership interest we have in

19 Colstrip. It's a generation plant, Colstrip

20 Unit 4, and the electric sales out of that

21 nonregulated entity. We are not allowed to own

22 generation in Montana in a regulated manner,

23 but we do own this in a nonregulated manner,

24 this generation. It represents the lion's

25 share of our nonregulated business in Montana.

1 A. He also has -- NSC I believe reports up to

2 Curt Pohl, as well. So nonregulated gas sales

3 also report up through him.

4 Q. In some of your accounting material and in the

5 deposition we previously took in this case,

6 occasionally there are references made to "the

7 utility." Is it a fair statement that the

8 references to "the utility," you are talking

9 about regulated retail utility business?

10 A. That's how I interpret "the utility" would be

11 the regulated side of our business.

12 Q. Is that the vernacular of your company?

13 A. Regulated and nonregulated, but I think when

14 you say "utility," you're typically talking

15 about the regulated side of the business.

16 Q. About what we would think about as the

17 traditional consumer-oriented retail utility

18 business.

19 A. That's how I would interpret it.

20 Q. Do you account separately for the utility

21 business?

22 A. We must for FERC purposes, we have to -- and

23 for SEC purposes, because they're different

24 segments of our business. So we report in the

25 segments that we have, at least for SEC, you've

1 We also have some propane business,

2 nonregulated propane business, but it's very

3 small.

4 Q. Do you have any revenue generated by the

5 transmission of electricity in Montana that is

6 nonregulated?

7 A. No. My understanding is all transmission

8 revenue would be regulated.

9 Q. All transmission revenue everywhere period is

10 regulated, electrical transmission revenue.

11 A. Yes. And in this case in Montana all

12 distribution of gas is also regulated, as well,

13 in Montana.

14 Q. Let's shift gears a little bit. Your

15 subsidiaries in some instances contract with

16 each other.

17 A. Correct. Actually have sales to one another at

18 times.

19 Q. For example, in the materials supplied by

20 Mr. Gerdes early in the process in this case,

21 one of the things that he supplied was a

22 contract between Northwestern Services

23 Corporation and Northwestern Corporation. Are

24 you familiar with that contract?

25 A. As I mentioned earlier, there could be a

1 management agreement. I'm not aware -- I don't
 2 understand the contract. I may have seen it at
 3 one point in time.
 4 Q. This is a problem, because I didn't either, and
 5 I was hoping you did.
 6 (Bird Deposition Exhibit No. 2 was marked for
 7 identification.)
 8 Q. We have what's marked Exhibit 2. I'll tell you
 9 it's the Public Version of the First Staff Data
 10 Request, answers to the First Staff Data
 11 Request that Northwestern made. Attached to it
 12 is a Gas Supply Sales and City-Gate Management
 13 Services Agreement dated 1997 between companies
 14 called Northwestern Energy Corporation and
 15 another company called Northwestern Public
 16 Service Company.
 17 Do you know who those two companies are?
 18 A. I don't know when the agreement was entered
 19 into.
 20 Q. '97.
 21 A. I don't. I mean I could guess in terms of
 22 where they would fit today, but I don't know.
 23 Q. We sort of agreed this morning that
 24 Northwestern Corporation was probably formerly
 25 known as Northwestern Public Service Company.

1 City-Gate Management Services Agreement is all
 2 about?
 3 A. I don't know the extent of that agreement.
 4 Q. Who would know the answer to that?
 5 A. Mr. Kliewer, who would ultimately have to
 6 account for it. Mr. Knapp, who may have been
 7 around at the time it was negotiated, may.
 8 Mr. Hanson and Mr. Pohl, my expectation is they
 9 would.
 10 Q. They would be the guys to ask.
 11 A. That would be.
 12 Q. Some combination of them?
 13 A. That is my belief.
 14 Q. As to the operations in Montana, who provides
 15 the utility service to the customers? Is that
 16 Northwestern Corporation?
 17 A. The utility in terms of Northwestern
 18 Corporation or its regulated businesses, doing
 19 business as Northwestern Energy is the
 20 regulated utility in that case providing the
 21 services.
 22 Q. And Northwestern Corporation is the regulated
 23 utility in South Dakota, also.
 24 A. Correct.
 25 Q. And Nebraska.

1 A. I believe that was the case at one time. I
 2 wasn't here when any changes like that were
 3 made.
 4 Q. So that would be one of the parties. It was
 5 probably Northwestern Corporation. Don't know?
 6 A. I don't know for sure how it was structured at
 7 that time.
 8 Q. Do you know who Northwestern Energy Corporation
 9 was or now is?
 10 MR. GERDES: Counsel, on July 21st I sent
 11 these documents to you and others. In the
 12 explanatory e-mail I indicated that this was a
 13 document providing detail concerning the manner
 14 in which nonregulated gas sales by Northwestern
 15 Services Corporation, formerly Northwestern
 16 Energy Corporation, are made. So NEC would be
 17 now Northwestern Services Corporation.
 18 MR. TAYLOR: Let's put Mr. Gerdes under
 19 oath. I'm being sarcastic.
 20 MR. GERDES: I'm reminding you what I told
 21 you?
 22 A. I think NEC in this case would be the
 23 nonregulated division, if you will, of
 24 Northwestern Services Corporation.
 25 Q. Can you tell me what this Gas Sales and

1 A. Correct.
 2 Q. From that we can surmise in Montana if there
 3 was a merger with Montana Power, Montana Power
 4 didn't survive the merger, or else you bought
 5 the assets, one or the other.
 6 A. That could be surmised.
 7 Q. Now let's talk about the issues that are raised
 8 by the calculations that you've made to get to
 9 where we are today, the financial calculations
 10 that you made. To do that, I want you to look
 11 at -- hang onto this Exhibit 2, so we keep
 12 those separate.
 13 (Bird Deposition Exhibit No. 3 was marked for
 14 identification.)
 15 Q. I want you to look at Exhibit 3. Exhibit 3 is
 16 a single-page version of a two-page piece
 17 that's attached to your company's petition for
 18 the PUC.
 19 A. Okay.
 20 Q. The single-page version was supplied by your
 21 counsel on the 21st of July, or whenever that
 22 was.
 23 A. Okay.
 24 Q. Now, we've learned from a prior deposition that
 25 the books and records of the company

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1 demonstrate there was \$104 million of revenue
 2 characterized as South Dakota electric
 3 revenue.
 4 A. Okay.
 5 Q. Is that number, South Dakota electric revenue,
 6 the \$104 million, is that the sum total of what
 7 the retail customers paid to Northwestern
 8 Corporation for its various services?
 9 A. I would characterize it as equal to our
 10 regulated electric sales.
 11 Q. Does that \$104 million number include the
 12 service that was provided by the mechanics, the
 13 guys that go out and light the water heaters
 14 and so forth, that you described coming into
 15 Northwestern Services Corporation?
 16 A. I don't believe so. I believe that would have
 17 been captured in Northwestern Services
 18 Corporation as nonregulated revenue.
 19 Q. Down a couple lines where it shows \$152 million
 20 of revenue. It would be captured in there?
 21 A. That would be my understanding.
 22 Q. So South Dakota electric is simply the
 23 regulated retail sales of electric energy.
 24 A. That's my understanding.
 25 Q. And all things that are related to that. South

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1 Dakota gas, same thing.
 2 A. Correct. It would be regulated utility gas
 3 sales in South Dakota.
 4 Q. This Exhibit B was -- you didn't prepare it.
 5 A. I did not prepare it.
 6 Q. But it was prepared under your supervision and
 7 control, right, your direction?
 8 A. Mr. Kliewer's group would have prepared this.
 9 Q. At your direction?
 10 A. I did not direct him to prepare this.
 11 Q. Who did?
 12 A. Probably working with our legal counsel.
 13 Worked with him directly to prepare it.
 14 Q. So the direction to do the work didn't come
 15 from you?
 16 A. It didn't come directly from me to do this
 17 work.
 18 Q. Was there a team involved in this effort?
 19 A. I think our legal group worked directly with
 20 Mr. Kliewer, and Mr. Kliewer worked with his
 21 accounting group to pull this information
 22 together.
 23 Q. When you say your legal group, you're talking
 24 about the general counsel's office?
 25 A. That is my understanding. They may have

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1 utilized external legal help at that time, but
 2 I'm not aware if he did or not.
 3 Q. Mr. Gerdes?
 4 A. Very well could be.
 5 Q. And others?
 6 A. I don't know if there's others than Mr. Gerdes
 7 in terms of external counsel.
 8 Q. I don't either. That's my question.
 9 A. I don't believe there is.
 10 Q. The total there, \$159 million plus, your
 11 understanding is that is the total dollars of
 12 revenue produced from retail customers in the
 13 regulated utility business in South Dakota.
 14 A. Yes. Again, I would just say our regulated
 15 revenues, because as I mentioned earlier, there
 16 could be some wholesale revenues that would be
 17 treated in a regulated entity in South Dakota
 18 electric. I would say our regulated utility
 19 sales in South Dakota.
 20 Q. The reason I ask how you get to that number --
 21 (Bird Deposition Exhibit No. 4 was marked for
 22 identification.)
 23 Q. Other materials supplied by Mr. Gerdes is now
 24 marked as Exhibit 4. Have you seen that
 25 before?

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1 A. I have seen it, yes.
 2 Q. In the top line it says South Dakota Wholesale
 3 Electric Revenue.
 4 A. Correct.
 5 Q. Tell me what that South Dakota wholesale
 6 electric revenue is.
 7 A. As I mentioned earlier, in cases where we have
 8 excess electric generation capacity, we can
 9 sell that to the wholesale market, but it's
 10 still included in our regulated utility
 11 business. Thus, when you said retail
 12 customers, I changed -- I made a clarification
 13 that it was our utility revenue.
 14 Q. All right. So that South Dakota wholesale
 15 electric revenue of nine-plus million, when we
 16 talked this morning about extra generation
 17 capacity that you didn't need, it's your share
 18 of it out of Big Stone or whatever is in that
 19 line.
 20 A. Correct. I think if you add the first two
 21 lines together, it would come up to the 104
 22 number is my understanding.
 23 Q. Right. South Dakota retail gas. The South
 24 Dakota retail gas is just that. You don't have
 25 any wholesale gas sales.

1 A. Not that I'm aware of.
 2 Q. Included there. Okay. Now back to Exhibit 3.
 3 Further on down, you have revenues of
 4 nonregulated South Dakota operations.
 5 A. Yes.
 6 Q. What does that include?
 7 A. I think that includes all of our nonregulated
 8 revenues for NSC and Nekota Resources.
 9 Q. So Northwestern Services Corporation earned
 10 from third parties, let's not use the word
 11 "earned."
 12 A. Received.
 13 Q. Received from third parties \$152,870,000 plus
 14 of revenue.
 15 A. Yes. I would almost rather go back to earned
 16 those revenues than received. You don't
 17 receive revenues. You receive cash. You can
 18 earn revenues. Not to be confused with
 19 earnings. You actually earn those revenues.
 20 Q. That's true. I really want to get our
 21 terminology exactly the same so we understand
 22 each other. So we should say Northwestern
 23 Services Corporation earned from its business
 24 activities with third parties \$152 million
 25 plus. Right?

1 South Dakota electric sales, South Dakota gas
 2 sales that are regulated, and from the services
 3 that Northwestern Services Corporation provides
 4 to your customers and the service that Nekota
 5 Resources provides to your customers, if you
 6 add those all up, it's \$313 million.
 7 A. That's correct. I think what I would say -- I
 8 think these numbers have also been grossed-up.
 9 I think that term was used in the previous
 10 discussions you had in terms of what these
 11 revenues are. They would include the sales to
 12 the affiliates in these numbers.
 13 Q. How much was that?
 14 A. I don't know the amount offhand of what that
 15 is. I can tell you, looking at our 10-K, how
 16 much the total company eliminations are to get
 17 to our total consolidated. I don't know off
 18 the top of my head how much the affiliate sales
 19 are.
 20 Q. Who would know the answer to that?
 21 A. Mr. Kliewer would have that answer.
 22 Q. How difficult would it be for you to find out?
 23 A. I imagine I could talk to Mr. Kliewer, and
 24 someone could prepare a schedule to show that.
 25 Q. He would be the guy to ask that question, not

1 A. Yes.
 2 Q. From Nekota Resources, that's the gas pipeline
 3 company from somewhere to somewhere, same
 4 thing. Earned \$1,200,000 from third parties.
 5 A. That is what the statement says, correct.
 6 Q. Is there any in that \$152 million that
 7 Northwestern Services Corporation shows as
 8 revenue, is there any sales included in there
 9 to other subsidiaries of sibling corporations,
 10 for lack of a better description, of
 11 Northwestern Corporation?
 12 A. There is probably some activity between our
 13 South Dakota regulated business and our South
 14 Dakota nonregulated business. Could also be
 15 the case for Nebraska, as well, activity back
 16 and forth, but I believe it is relatively
 17 minimal.
 18 Q. Like what?
 19 A. In terms of providing services or gas
 20 transmission or distribution services in some
 21 form or fashion. But there are -- I know we do
 22 eliminate sales to affiliates in our financial
 23 statements.
 24 Q. So what you're telling me is that the revenue
 25 generated by Northwestern Corporation from

1 you.
 2 A. He would be more involved in those details
 3 than I.
 4 Q. Earlier you said it was, I forget the adjective
 5 you used, small, minor, insignificant or
 6 something.
 7 A. I think if you take a look at our total
 8 consolidated revenues and look at the size of
 9 the eliminations for the total company, I would
 10 say it's relatively small.
 11 Q. Now let's look at the second page of Exhibit 3,
 12 or the right-hand side.
 13 A. Okay.
 14 Q. Let's look at those calculations. We have
 15 \$313 million of total South Dakota regulated
 16 and all unregulated gas sales. That's the same
 17 \$313 million we talked about moments ago. It
 18 transposed from the other side of the page.
 19 Right?
 20 A. Yes.
 21 Q. Then we have the grossed-up revenues number of
 22 \$1,261,000,000. Grossed-up, that includes all
 23 intercompany transfers. Right?
 24 A. I believe that includes, yes, the affiliate
 25 sales.

1 Q. Were you involved in the discussions that led
 2 to the determining that you would use
 3 grossed-up, as you've described it today?
 4 A. No. I did find out from Mr. Kliewer after the
 5 fact that, not necessarily sure how to make the
 6 calculations, there was discussions with the
 7 PUC in terms of how to go make these
 8 calculations. I don't know if they talked with
 9 counsel or everyone else in that regard. Thus,
 10 they came up with several different methods to
 11 do the calculation. I learned that after the
 12 fact.
 13 Q. After the fact. So you weren't involved in any
 14 of those discussions that led to the decision
 15 on whether you would gross up or whether you
 16 would use SEC or GAP style revenue numbers.
 17 A. No. They went about this -- my expectation
 18 would have been done in SEC and a FERC
 19 calculation. They got some further
 20 clarification, and they went through these
 21 methodologies used here.
 22 Q. Did you know where the clarification came from?
 23 A. I believe they got some guidance from the PUC
 24 on how to calculate this. That's my
 25 understanding, from discussions with

1 slightly different because there are revenues
 2 less adjustments. Can you explain what the
 3 revenues less adjustments are that are shown in
 4 the reference line for the total revenues of
 5 the company?
 6 A. Yes. Having seen this document before and
 7 looking at this document, I had a similar
 8 question. At the end of the day I saw the
 9 adjustments that were made. I also noticed
 10 that in further clarification, it essentially
 11 is the difference between our consolidated
 12 financial statements and removing the
 13 eliminations would come to the same number.
 14 So I think what they were trying to do is
 15 take you from FERC revenue, grossed-up FERC
 16 revenue to grossed-up consolidated number.
 17 That's probably more in layman's terms than you
 18 saw in the response you got in terms of the
 19 adjustments, but that's the way I would see
 20 this number. This is the grossed-up SEC
 21 number.
 22 Q. You said you had a similar question. When did
 23 you pose that similar question? Yesterday?
 24 A. I asked this question, it might have been
 25 several days ago when I saw this document.

1 Mr. Kliewer.
 2 Q. South Dakota PUC?
 3 A. Correct.
 4 Q. Do you know how the decision was made to
 5 determine what constituted South Dakota
 6 revenue?
 7 A. Again, we do separate both our regulated and
 8 nonregulated business by South Dakota and
 9 Nebraska. Since we have that broken out, I
 10 notice in Calculation 1, it says "all
 11 unregulated gas." So that would be both South
 12 Dakota and Nebraska, for instance, in that
 13 calculation.
 14 Q. Do you know what the thought process was that
 15 arrived at including the Nebraska gas revenue
 16 in this calculation?
 17 A. Again, I think these calculations were -- these
 18 type of calculations were derived from
 19 discussions Mr. Kliewer had with the South
 20 Dakota PUC. I'm not sure how they came to
 21 these conclusions.
 22 Q. You weren't involved in any of those, any level
 23 of those discussions.
 24 A. No, I was not.
 25 Q. If we carry on down to Calculation 2, which is

1 Q. Did you see it for the first time a couple days
 2 ago?
 3 A. That's the first time I recall seeing this
 4 document.
 5 Q. What were the circumstances of you seeing it
 6 for the first time a couple days ago?
 7 A. I understood it was the topic of what would be
 8 discussed at this deposition today. I tried to
 9 understand what was provided. This was
 10 provided to me.
 11 Q. Trying to prepare yourself for the deposition.
 12 A. Indeed.
 13 Q. Let's talk about Calculation No. 2 then. What
 14 you think the last line, \$1,243,000,000 is, is
 15 the SEC style accounting that incorporates what
 16 you report for SEC purposes as the operating
 17 revenue of the company, plus the dollar amount
 18 of revenue attributable to transactions between
 19 affiliates.
 20 A. That's correct. I can show you the 10-K, if
 21 you'd like to see it.
 22 Q. Yes. That's a great idea.
 23 A. My expectation isn't sheer coincidence. They
 24 were trying to get you from a FERC number to an
 25 SEC number. It's interesting how you describe

1 Q. Except --
 2 A. Calculation 2 and 3's grossed-up methodology is
 3 the same for the total.
 4 Q. Yes, 2 and 3's grossed-up methodology is the
 5 same. We agree with that. I'm not
 6 communicating very well with you. I'll try
 7 again.
 8 We'll agree the methodology used to gross
 9 up all the revenues shown in Calculation 2 and
 10 Calculation 3 are the same from one line to the
 11 next.
 12 A. For the totals for Calculation 2 and 3, for the
 13 total company grossed up. Not for the totals
 14 for the regulated and unregulated gas.
 15 Q. Okay. We have to start over again.
 16 Page 1 of Exhibit 3 there's a number, \$159
 17 million for total South Dakota regulated
 18 revenue. Right?
 19 A. Yes.
 20 Q. You think that number is a "grossed-up"
 21 number.
 22 A. Correct.
 23 Q. Can you tell me, to "gross" it up, some
 24 eliminations were added back.
 25 A. That's how I believe grossed-up would have been

1 A. Because the -- you said for South Dakota
 2 operations, and I understand that's what the
 3 schedule says right there, "Revenues of
 4 nonregulated South Dakota operations." But I
 5 know within Northwestern Services Corporation
 6 there is some Nebraska revenues in that
 7 number. So that's why I answered it the way I
 8 did.
 9 Q. Precisely. Of course your company chose --
 10 your company chose the words that are reflected
 11 on that page.
 12 A. I agree that my company prepared this schedule.
 13 Q. When I said "revenues of nonregulated South
 14 Dakota operations," those are the words that
 15 are on the page.
 16 A. That is correct.
 17 Q. What you really want to say is you don't
 18 necessarily agree that that represents revenues
 19 of nonregulated South Dakota operations.
 20 A. What I want to say is that number was used
 21 there and was used in Calculations 1 and 2 for
 22 all unregulated gas, and that number was just
 23 in Calculation 3 just to show the South Dakota
 24 unregulated gas.
 25 Q. All right. Now, the definition you chose and

1 calculated.
 2 Q. Those eliminations were intercompany
 3 transactions.
 4 A. Yes. A better way to say it, if I could.
 5 Q. Do, please.
 6 A. Would be that those would be the sales, total
 7 sales to all customers, including external and
 8 internal customers. So before eliminations.
 9 Q. Excellent way to say it. That same definition
 10 applies to the \$159 million number shown on
 11 Page 1 of Exhibit 3 that's captioned "total
 12 South Dakota regulated."
 13 A. Yes.
 14 Q. That same definition applies to \$154 million
 15 number that's captioned "total" under the
 16 category of "revenues of nonregulated South
 17 Dakota operations." Correct?
 18 A. Correct, for those nonregulated entities.
 19 Correct.
 20 Q. I don't know if you just modified your
 21 definition or not. I'm not smart enough to
 22 stay with you.
 23 A. Would you like me to explain why I answered it
 24 in that context?
 25 Q. Yes.

1 articulated for the total South Dakota
 2 regulated number of \$159 million, and for the
 3 total number under the column that is labeled
 4 "Revenues of nonregulated South Dakota
 5 operations," \$154 million, the definition you
 6 chose for those?
 7 A. I'm sorry, could you please repeat that?
 8 Q. You articulated a definition for the
 9 \$159 million total on Page 1.
 10 A. Yes. That would be the grossed-up sales for
 11 all of our South Dakota operations to internal
 12 and external customers.
 13 Q. The same definition applies to the \$154 million
 14 number under the column entitled "Revenues of
 15 nonregulated South Dakota operations," except
 16 you want to include the caveat that there may
 17 be some Nebraska money involved.
 18 A. That is correct.
 19 Q. But the methodology used to arrive at that
 20 number, \$154 million, is the same methodology
 21 used to arrive at the \$159 million number.
 22 Right?
 23 A. That is my understanding, that both numbers
 24 have been grossed up.
 25 Q. That carries over to Page 2 in Calculations 2

1 and 3, to the final total company grossed-up
 2 revenues, the methodology is the same.
 3 A. The methodology is the same for the total
 4 company grossed-up revenues.
 5 Q. So it's apples, apples and apples?
 6 A. For those calculations it's apples, apples and
 7 apples.
 8 Q. That was a lot of work, but we are now
 9 communicating.
 10 Now, to get to the totals that were used
 11 in Calculations 2 and 3 for each line, we can't
 12 extract out of the 10-K the publicly reported
 13 information any of those totals except to the
 14 total company grossed-up revenues. Right?
 15 A. Again, assuming my methodology of those
 16 adjustments are effectively just taking the
 17 consolidated and adding back the eliminations
 18 that approximates this number. I agree with
 19 that.
 20 Q. Your methodology is probably pretty close,
 21 because it's a couple hundred bucks difference
 22 is all.
 23 A. I would still caveat my answer as I did.
 24 Q. Sure. Thank you. Someplace within
 25 Northwestern Corporation there must be some

1 Q. Who do I need to talk to to find out about
 2 those?
 3 A. Mr. Kliever would be able to give you a good
 4 understanding of those. I would also say
 5 Mr. Pohl would be another party.
 6 Q. Mr. Kliever testified that the Nebraska
 7 unregulated gas sales are made through
 8 Northwestern Services Corporation. You can
 9 affirm that.
 10 A. I would agree with that.
 11 Q. So what would your contention be? Why would
 12 you then contend the Nebraska unregulated sales
 13 should not be included in Calculation No. 2?
 14 Why Calculation No. 3 is the better
 15 calculation?
 16 A. My understanding is it determines the
 17 jurisdiction for South Dakota. Nebraska
 18 revenues shouldn't be included in that
 19 calculation.
 20 Q. What's the economic reason?
 21 A. What do you mean what's the economic reason?
 22 I'm not sure I understand the question.
 23 Q. So you think it's a geographic argument?
 24 A. My assumption is it's revenues to customers in
 25 Nebraska shouldn't be included in a calculation

1 accounting records kept that demonstrate the
 2 first three lines in Calculation 2 and the
 3 first three lines in Calculation 3. Right?
 4 A. Yes.
 5 Q. Does Exhibit 4, in part, purport to be a
 6 summary of those calculations? Is that how you
 7 get there?
 8 A. My answer to that is yes.
 9 Q. How do we get -- how is the information
 10 compiled to develop -- strike that.
 11 Was Exhibit 4 developed for the purposes
 12 of this docket, or is Exhibit 4 something
 13 that's out of the ordinary in common records of
 14 the company?
 15 A. My expectation is Exhibit 4 is generated from
 16 our system, our accounting system, SAP system,
 17 in order to help us correctly record our
 18 books. It was also used as support for this
 19 schedule.
 20 Q. Let's talk about those Nebraska unregulated gas
 21 sales. What do you know about those?
 22 A. As I mentioned before, I don't know the extent
 23 of the customers associated with those Nebraska
 24 unregulated revenues, so I can't really tell
 25 you a lot about them.

1 with South Dakota.
 2 Q. Sales to customers in Nebraska should not be
 3 included in the South Dakota -- in the
 4 calculation.
 5 A. Yes.
 6 Q. So you would exclude all of the regulated
 7 Nebraska sales, also.
 8 A. I would in the numerator, yes.
 9 Q. You would exclude both the regulated and
 10 unregulated Nebraska sales.
 11 A. Correct.
 12 Q. I think you said Mr. Pohl or Mr. Kliever would
 13 be the appropriate person to ask about the
 14 detail of those sales.
 15 A. Correct.
 16 Q. Apparently, based on looking at Calculations 2
 17 and 3, the unregulated Nebraska sales must be
 18 about \$55 million.
 19 A. Approximately, yes.
 20 Q. Do we know of that \$55 million what constitutes
 21 intercompany transactions versus what
 22 constitutes sales to the public?
 23 A. I do not know the answer to that. I know what
 24 our total company eliminations is for
 25 affiliates. I don't know it by entity.

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1 Q. How would we find it out? It's not in the
2 10-K.

3 A. No, it's not in the 10-K. As you've gotten
4 other exhibits from our accounting
5 organization, they could provide that
6 information.

7 Q. The same would be true with what you
8 characterize as South Dakota regulated sales
9 and South Dakota unregulated sales. The
10 intercompany sales or the intercompany
11 eliminations, as we've taken to calling them,
12 you would have to supply me that information.
13 It's not available in the 10-K.

14 A. No. You would have to have it as one. You
15 have these numbers. Again, if these numbers
16 are grossed up, to see the net numbers, I think
17 you would need a different exhibit.

18 Q. Looking at Exhibit 4, which is the accounting
19 detail that we were supplied, that doesn't give
20 me the answer to the question either. Does
21 it?

22 A. It would, again, we did this on a grossed-up
23 basis. It would help you with supporting the
24 grossed-up numbers. I do not believe it helps
25 you with the eliminations. Can I see that

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1 again, please?

2 Q. Sure.

3 A. After reviewing this again, I do not believe
4 you can determine the amount of the
5 eliminations for each particular entity.

6 Q. Exhibit 4, you're talking about.

7 A. Correct.

8 Q. How difficult would it be to supply that
9 information?

10 A. I don't know. My expectation is that it
11 shouldn't be that difficult. Again, I'm not as
12 familiar with the accounting system as
13 Mr. Kliewer is. He would be better able to
14 answer that question.

15 MR. TAYLOR: Can you supply that for us?

16 MR. GERDES: We can certainly find out.
17 State again what you want.

18 MR. TAYLOR: It depends on exactly what
19 terminology we use. I'm interested in
20 Calculations 2 and 3 knowing what the revenue
21 numbers are, less the intercompany transactions
22 eliminations, whichever word you choose to use,
23 what part of those numbers is intercompany
24 sales.

25 MR. GERDES: Okay. When you're talking

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1 about total grossed-up revenue less
2 adjustments, and you've taken into
3 consideration this response to Question No. 7,
4 which, as I read the response, is directed
5 toward that subject. Maybe I'm
6 misunderstanding your question.

7 A. Actually I would tell you that's reconciled
8 between the two grossed-up numbers. So it
9 doesn't necessarily help him.

10 Q. That's what I thought.

11 MR. GERDES: I will check and see if we
12 can get it to you. If we can, we will.

13 MR. TAYLOR: I would ask you, if the
14 calculation has to be redone, if the
15 calculation has to be done, if it's going to be
16 done in a manner different than eliminations
17 are done for SEC reporting, tell me the
18 difference in the English language.

19 Let me run through my notes real quick. I
20 think we're about done.

21 MR. GERDES: Do you understand what he
22 needs?

23 THE WITNESS: I believe so.

24 Q. Your US Bank cash management account into which
25 deposits are made, is that a two-way account?

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1 Do you also use that for withdrawals? Do you
2 draw on it for daily cash flow needs?

3 A. I don't know if we use that collection account
4 and then we have a main. I don't know the
5 answer to that. That may be a main account, or
6 it could zero balance in that main account. It
7 could be swept into a main account.

8 Q. Who would know that?

9 A. Our treasurer would know that.

10 Q. In the Petition that you filed with the PUC,
11 Page 11, there is a reference to the Nebraska
12 income, and the quote is "actually generated
13 outside the State of South Dakota, but
14 allocated to this state by accounting
15 requirements."

16 A. I'm not -- I heard you. I'm just looking for
17 it on here. Here it is, right near the top.

18 Q. What is the -- you say allocated to South
19 Dakota by the necessity of accounting. Do you
20 know what that means?

21 A. My understanding of that statement is since
22 those revenues all roll up to Northwestern
23 Services Corporation, and that total of the
24 \$154 million, which was used in Calculation 2,
25 included the Nebraska revenues. So from that

1 perspective, that's what I think it's
 2 referencing here.
 3 Q. Do you pay income tax in Nebraska?
 4 A. We pay state income tax if it's a state that
 5 has state income tax. We are not much of a
 6 Federal income tax because the net operating
 7 losses, as I talked about earlier.
 8 Q. You pay state income tax in Nebraska. Do you
 9 pay it on these revenues that are rolled up
 10 into Northwestern Services Corporation?
 11 A. I don't know if we actually, the amount, or if
 12 we actually pay state income taxes in
 13 Nebraska. I could find that out.
 14 Q. Who would know the answer to that?
 15 A. Our tax director would know that.
 16 Q. Who is that?
 17 A. Chris Fonss.
 18 Q. Work for you?
 19 A. Yes, he does.
 20 MR. TAYLOR: I think I'm done.
 21 MR. GERDES: Darla?
 22 MS. ROGERS: I don't have any additional
 23 questions. I did want to follow up on one
 24 thing.
 25

1 Q. There really isn't a page number.
 2 MR. GERDES: Footnote F-4.
 3 A. Footnote F-4 would be the best way to look at
 4 it. That's a great point, because that does
 5 tie to the 10-K. It's Page F-4. It's not
 6 Footnote F-4. It's Page F-4. There's a
 7 difference.
 8 Q. Thank you.
 9 A. Then if you would, you can go to discontinued
 10 operations on Page 60 of the 10-K itself, and
 11 then on there it describes what's in
 12 discontinued operations. It gives you -- we
 13 had some questions regarding revenues. It
 14 provides that information. You also see it
 15 breaks it out between Netexit and Blue Dot.
 16 MS. ROGERS: Thank you. That answers my
 17 questions. You did such a thorough job, I
 18 don't have anymore.
 19 MR. TAYLOR: I'm done.
 20 MR. GERDES: Under the rules you have the
 21 right to read and sign the deposition, or you
 22 can waive that right. Given the technical
 23 nature of your testimony, I would recommend you
 24 read and sign the deposition.
 25 THE WITNESS: Okay.

1 EXAMINATION BY MS. ROGERS:
 2 Q. Mr. Taylor asked you earlier, I think it was
 3 before we took the first break, when we were
 4 discussing discontinued operations or
 5 operations that you were no longer actively
 6 engaged in. You were going to during the break
 7 find the place on the 10-K where those
 8 operations are included.
 9 A. Give me a second to find that. I did not find
 10 it at the break. My apologies. Let me see if
 11 I can find that quick.
 12 (A recess was taken)
 13 Q. I asked you to please identify the place on the
 14 10-K where discontinued operations is
 15 addressed.
 16 A. Yes. I'll show you two things. One, there's
 17 discontinued operations. It's shown below your
 18 income from continuing operations. Do you see
 19 that here? But before your net income.
 20 So, in essence, your net income you report
 21 would include discontinued operations. But
 22 here income from continuing operations is
 23 before that. So discontinued operations and
 24 the tax are these numbers here. (Witness
 25 indicating).

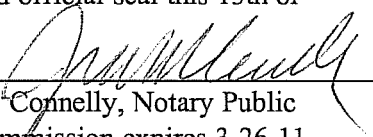
1 MR. GERDES: Northwestern would request
 2 that Mr. Bird's deposition be categorized as
 3 being confidential until we've had an
 4 opportunity to review the text, and then we'll
 5 specify that which is confidential, if that's
 6 agreeable.
 7 MR. TAYLOR: That's agreeable.
 8 MS. ROGERS: Yes, it's agreeable.
 9 (Witness excused)
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1 STATE OF SOUTH DAKOTA)
 2 :SS CERTIFICATE
 3 COUNTY OF MINNEHAHA)
 4 I, Jill M. Connelly, Court Reporter
 5 and Notary Public within and for the State of
 6 South Dakota:

7 DO HEREBY CERTIFY that the witness
 8 was first duly sworn by me to testify to the
 9 truth, the whole truth, and nothing but the
 10 truth relative to the matter under
 11 consideration, and that the foregoing pages
 12 1 - 136, inclusive, are a true and correct
 13 transcript of my stenotype notes made during
 14 the time of the taking of the deposition of
 15 this witness.

16 I FURTHER CERTIFY that I am not an
 17 attorney for, nor related to the parties to
 18 this action, and that I am in no way interested
 19 in the outcome of this action.

20 In testimony whereof, I have hereto
 21 set my hand and official seal this 15th of
 22 October, 2006.

23 
 24 _____
 25 Jill M. Connelly, Notary Public
 My commission expires 3-26-11