

**BEFORE THE
PUBLIC UTILITIES COMMISSION
STATE OF SOUTH DAKOTA**

**NORTHWESTERN CORPORATION, DBA NORTHWESTEN ENERGY
DOCKET NO. NG07-013**

**TESTIMONY & EXHIBITS OF KEITH A. SENGER
ON BEHALF OF THE COMMISSION STAFF
OCTOBER 2007**

- 1 8. Office space
- 2 9. Nekota deferred GPA costs
- 3 10. Credit card transaction costs (Speed Pay)
- 4 11. Interest Synchronization

5
6 Staff witness Knadle will provide testimony and exhibits regarding:

7
8 Rate Base

- 9 1. Cash working capital
- 10 2. Advanced Tax Collections
- 11 3. Freeman/AMPI plant additions
- 12 4. Updates
- 13 5. Heartland plant

14
15 Operating Income:

- 16 1. Weather Normalization
- 17 2. M&A Non-Utility Expense
- 18 3. Labor Adjustment
- 19 4. Intra-company rent
- 20 5. Insurance Actuarial
- 21 6. Freeman addition
- 22 7. Ad valorem tax (Property tax) adjustment
- 23 8. Rate 87 correction
- 24 9. GPA adjustment
- 25 10. Heartland Grain bypass
- 26 11. Various contracts with deviations revenue adjustments (SDSU, Dakota Ethanol,
- 27 Northern Lights, Heartland Grain)

28
29 Staff witness Jacobson will provide testimony regarding:

30 Operating Income

- 31 1. Other Revenues
- 32 2. Stock grants
- 33 3. General term changes
- 34 4. Ex-employee pension and benefits reduction

1 5. Monthly customer charges

2
3 Staff witness Solem will provide testimony and exhibits regarding:

4 Operating Income

- 5 1. Advertising
6 2. Industry Dues
7 3. Economic Development
8 4. Rate Case Expense
9 5. Lobbying

10
11 Staff witness Bettmann will provide testimony and exhibits regarding:

- 12 1. Rate Design
13 2. Weather Normalization

14
15 Staff witness Copeland will provide testimony and exhibits regarding:

- 16 1. Capital Structure
17 2. Return on Equity

18
19 Staff witness Towers will provide testimony and exhibits regarding:

- 20 1. Depreciation Rates
21 2. Class Cost of Service
22 3. Customer Charges

23
24
25 **SUMMARY OF NWE'S CASE**

26
27 **Q. What is NWE requesting in Docket NG07-013?**

28 A. NWE is requesting a pro forma revenue requirement of approximately \$70,973,000. ¹
29 This includes a requested rate of return on common equity of 11.250%. ² More
30 importantly, this represents a rate increase of approximately \$3,682,000 ³ to its current
31 South Dakota gas service rates that were established in Commission Docket NG99-002.

¹ Statement N, page 1 of 6

² Statement G, page 1 of 4

³ Statement N, page 1 of 6

1 This equates to an approximate 6.7 % overall increase in test year revenues.⁴ Since
2 purchased gas costs and ad valorem taxes (property taxes) are recovered dollar for
3 dollar through adjustment clauses and are not a component of base rates, it is more
4 appropriate to measure the general rate increase excluding purchased gas costs and ad
5 valorem taxes. Accordingly, NWE is seeking a 39.5%⁵ increase in its 2006 existing test
6 year distribution revenues.

7
8 **Q. What is NWE's approach to measuring NWE's revenue requirement in this case?**

9 A. Generally speaking, NWE starts with a twelve-month historic test year ending 12/31/06.
10 NWE then adjusts the historic test year with 19 operating income pro forma adjustments
11 and three additional rate base pro forma adjustments.

12
13 **Q. What are NWE's pro forma adjustments based on?**

14 A. For the most part NWE adjustments are based on known and measurable changes
15 however a few adjustments exceed those parameters. They will be discussed
16 individually by various Staff witnesses.

17
18
19 **SUMMARY OF STAFF'S CASE**

20
21 **Q. What was Staff's approach to measuring NWE's revenue requirement in this case?**

22 A. As in previous rate cases, Staff is measuring NWE's South Dakota gas revenue
23 requirement on a recent historical twelve-month period (test year) basis. Staff's analysis
24 of the South Dakota gas operations reflects a number of adjustments to NWE's
25 revenues, expenses, and investments for that test year. These adjustments are made
26 with the objective of conforming the test year to emulate normal, ongoing conditions, and
27 to reflect cost and operational changes which are known and reasonably measurable.

28

⁴ \$3,682,337 (NWE requested rate increase - Statement N, page 1, column b line 17) divided by
\$55,298,382 (NWE reported test year revenues - Statement N, page 3, column b, line 6)

⁵ \$3,682,337 (NWE requested rate increase - Statement N, page 1, column b line 17) divided by
\$9,333,989 [the sum of \$55,298,382 (NWE reported test year revenues - Statement N, page 3, column b,
line 6) less \$44,205,049 (NWE reported test year gas costs - Statement N, page 3, column b, line 9) less
\$1,759,344 (NWE reported test year ad valorem taxes - Statement N, page 3, column b, line 13)]

1 **Q. Have you prepared exhibits which summarize Staff's positions?**
2 A. Yes. Staff Exhibit___(KAS-1), Schedule 3 lists Staff's positions on the specific issues
3 relating to NWE's South Dakota gas operating income while Staff Exhibit___(KAS-2),
4 Schedule 2 lists Staff's positions on specific issues relating to NWE's South Dakota gas
5 rate base. Staff Exhibit___(KAS-1), Schedule 2 and Staff Exhibit___(KAS-2), Schedule
6 1 summarize these positions, while Staff Exhibit___(KAS-1), Schedule 1 calculates
7 Staff's position on NWE's total revenue deficiency and revenue requirement.

8
9 **Q. Based on analysis performed, has Staff found NWE's request for approximately**
10 **\$3,682,000 of additional revenue to be justified?**

11 A. No. Staff's case indicates that the Company's request exceeds its requirement for
12 additional revenue from South Dakota gas system customers. Specifically, Staff
13 determined a rate increase of \$952,180⁶ allows the Company to recover its ongoing
14 costs and allows for the opportunity to earn a reasonable and fair return on utility
15 investment. Staff's recommendation includes an allowable rate of return on common
16 equity of 9.00%.⁷

17
18
19 **TEST YEAR AMOUNTS**

20
21 **Q. Did NWE file a historic test year with this case?**

22 A. Yes. As stated earlier, NWE starts with a twelve-month historic test year ending
23 12/31/06.

24
25 **Q. What does Staff's case use as a test year?**

26 A. Staff's case also uses a historic test year ending 12/31/06. This is sometimes referred to
27 as "12/31/06 per books." The historic test year amounts were obtained from various
28 Company statements, supporting schedules and Company responses to Staff data
29 requests. Staff's historic test year amounts are found on Staff Exhibit___(KAS-1),
30 Schedule 3, column b and Staff Exhibit___(KAS-2), Schedule 2, column b.

31

⁶ Staff Exhibit___(KAS-1), Schedule 1, column b, line 10

⁷ Testimony of Basil L. Copeland Jr. and Staff Exhibit___(BLC-1), Schedule 1, column d, line 3

1 **Q. Do Staff's historic test year amounts agree with the Company's historic test year**
2 **amounts?**

3 A. No.

4

5 **Q. Why do they differ?**

6 A. For rate base items, Staff's case includes Accumulated Investment Tax Credits,
7 Customer Deposits, Accumulated Provision for Uncollectibles and Accumulated
8 Provisions for Injuries and Damages as deductions to rate base. NWE did not include
9 these items. For operating income items, Staff's case includes Deferred Income Taxes
10 and Investment Tax Credit in the operating income calculation. NWE did not.

11

12 **Q. Are there any other concerns regarding test year amounts?**

13 A. Yes. While reviewing the allocations of test year plant amounts a discrepancy was
14 noticed in the allocation of the aircraft that NWE sold in March of 2006. The aircraft
15 plant balance and related accumulated depreciation and depreciation expense balance
16 were not allocated to the Montana (MTU) and Colstrip Unit 4 (CU4) using the 3-factor
17 allocation prior to allocating to the South Dakota/Nebraska utility.

18

19 **Q. What is the effect of this error?**

20 A. This allocation error assigns approximately 75% more to South Dakota gas than should
21 have been. However, since this aircraft was sold, Staff's case, in a later adjustment,
22 removes that aircraft from the South Dakota gas cost of service.

23

24 **Q. Does this error also occur in other plant allocations?**

25 A. It is hard to say. This allocation error identified is specific to "common" plant. I
26 discussed this issue with Company witness Decker who indicated this is a line item error
27 that only occurs with the aircraft. With the exception of the aircraft, the common plant
28 included in the cost of service is all South Dakota/Nebraska plant and does not include
29 any "corporate" or Montana plant. Company witness Decker indicated that it appears
30 that NWE's filing fails to include the South Dakota gas share of corporate common plant
31 in the South Dakota gas cost of service.

32

33 **Q. What will Staff do regarding this allocation issue?**

1 A. Staff will continue to work with NWE regarding allocations until Staff is comfortable with
2 this issue. Should Staff find an allocation problem, we will make a filing with the
3 necessary revisions to the Commission.
4

5
6 **Nekota**
7

8 **Q. What is Nekota?**

9 A. Nekota was a subsidiary of NorthWestern Corporation that was merged into
10 NorthWestern Energy on March 1, 2007. Nekota's load was composed of transport
11 customers with contracts with deviations.
12

13 **Q. Is NWE proposing any adjustments regarding Nekota?**

14 A. Yes. Since the former Nekota customers are now NWE customers, NWE is proposing an
15 adjustment to include the Nekota plant and related costs related to serving those
16 customers into the South Dakota gas cost of service.
17

18 **Q. Are there any concerns with this adjustment?**

19 A. Yes. Since each of the former Nekota customers are large load contracts comprised of
20 large service extensions, NWE does not have a customer class that properly
21 accommodates the load characteristics of these customers. Thus, each customer is a
22 contract with deviations customer, and essentially is a separate rate class by itself. A
23 major concern with this categorization is whether or not NWE is attributing enough
24 overhead costs to these customers. A companion concern relates to the margins these
25 customers are contributing to the utility. After a number of discussions with the
26 Company and review of information provided by NWE, Staff calculated, based on NWE's
27 adjustment and allocation of costs, these contract customers attributed approximately a
28 16% return to the South Dakota gas utility. Given the high volumes and strong load
29 factor of these contract customers, the 16% return should cover any overheads that
30 NWE may have failed to assign to these customers. Additionally, this 16% return
31 provides additional margin to the rest of the utility which would lower the cost to all
32 customers.
33

34 **Q. What is Staff proposing in regard to this adjustment?**

1 A. Staff is proposing to accept NWE's adjustment with some conditions and minor changes.
2 Staff's case proposes an adjustment to remove the previous Nekota "Management Fee
3 Expense" from O&M expense. NWE concurs with the correction.⁸ Staff's case also
4 adjusts revenues to match corrected volumes. Additionally, Staff accepts the addition of
5 the former Nekota line extension plant into rate base and accepts the excess costs due
6 to accelerated depreciation of the line extensions for these customers, but only if NWE
7 agrees to cover 100% of the stranded costs if any of these customers exit the system.
8 Should any or all of these customers default on their contracts and/or fail to pay for
9 100% of their individual line extension or other costs, NWE will not be allowed to recover
10 these costs from other customers. Staff is also recommending that should NWE in the
11 future wish to serve any new customers under a contract with deviations or renew
12 existing contracts once the terms expire, NWE will need to prove to the Commission the
13 contract revenues are covering an appropriate share of all applicable costs, including
14 overheads, prior to NWE entering into the contract. With regard to property taxes, Staff
15 is strongly suggesting that NWE treat any future contracts with deviations customers,
16 including renewal of currently existing customers, similar to NWE's existing tariff
17 customers. All of NWE's existing tariff customers are subject to an adjustment clause for
18 property taxes and thus Staff believes property taxes should either be removed from the
19 distribution or transportation charges and listed as a separate item for recovery in the
20 contract rates, or at least be easily identifiable. Finally, Staff is recommending the
21 Commission order NWE to perform and file with its next general rate increase request a
22 complete cost of service study, assigning and identifying assignment of cost to the
23 contract with deviations customers. The details for this adjustment can be found on
24 Staff Exhibit___(KAS-1, Schedule 7).

25
26 **Q. Is NWE proposing any other Nekota adjustments?**

27 A. Yes, NWE is proposing an adjustment which adds into the cost of service a "normalized
28 level of labor expense" to account for the now ended practice of assigning labor to the
29 management fee that NWE was charging Nekota.

30
31 **Q. What is Staff's position on this adjustment?**

32 A. This adjustment is suspect because it is unclear in the support that NWE has provided
33 whether or not this labor was not already included in the test year labor amounts.

⁸ 8/17/07 email from Decker to Knadle

1 Taking a conservative approach so as to not include these labor amounts twice, Staff is
2 rejecting the company adjustment. Additionally, this appears somewhat too speculative
3 for inclusion as a known and measurable change adjustment. Adjusting test year labor
4 expense by increasing salaries without adjusting labor hours is a proper known and
5 measurable adjustment. However, adjusting test year labor expense by adjusting test
6 year labor hours is not a known and measurable adjustment. It may be known but it is
7 not measurable in that one cannot measure the effect it will have on other rate base and
8 operating income items as it appears to be a violation of the matching principal.
9

10 **Q. Is NWE requesting anything else relating to Nekota?**

11 A. Yes. In Commission docket NG07-009 NWE asked for Commission approval to set up a
12 deferral for all of the costs that Nekota would have recovered through the NWE PGA.
13 These costs were no longer recoverable in the PGA given the corporate structure in
14 place after the merger. The Commission allowed for the establishment of a deferral to be
15 considered at the next general rate case, but did not determine any ratemaking
16 treatment of the deferred costs. In this case NWE is requesting these deferred amounts
17 be applied to and recovered in the PGA.
18

19 **Q. What is Staff's position on this issue?**

20 A. Upon the merger of Nekota into NWE, these deferred costs could not be included in the
21 PGA because they did not meet the requirements of the law. Those facts remain the
22 same. Staff does not support NWE's request to recover the deferred costs in the PGA.
23 Instead, Staff supports inclusion of those deferred costs in the cost of service. Staff's
24 case includes the deferred costs in the cost of service using a five-year amortization with
25 the average unamortized balance included as an addition to rate base. This will assure
26 a return on and return of the deferred costs. The details for this adjustment can be found
27 on Staff Exhibit___(KAS-1, Schedule 10).
28
29

30 DEPRECIATION RATE

31
32 **Q. Have you reviewed NWE's depreciation adjustment?**

33 A. Yes.
34

1 **Q. Please explain this adjustment.**

2 A. In 2006, Foster and Associates completed a depreciation study for NWE. This study
3 recommends some changes in NWE's depreciation rates. NWE's adjustment attempts to
4 adjust NWE's 2006 test year actual depreciation expense by the difference between the
5 actual and the proposed depreciation rates.
6

7 **Q. Do you agree with NWE's adjustment?**

8 A. I agree with the adjustment in theory but do not agree with the method it was calculated.
9 Additionally, Staff witness Towers has revised some of NWE's proposed depreciation
10 rates.
11

12 **Q. Please explain.**

13 A. NWE's adjustment changes depreciation expense by the difference between actual
14 depreciation expense and a calculated depreciation expense using the new depreciation
15 rates. NWE's calculated depreciation expense uses a 12/31/05 beginning and a
16 12/31/06 ending plant balance average applied to the proposed depreciation rates for
17 determining "calculated" depreciation expense. This two-point average balance
18 calculation lacks precision. In fact, comparing actual test year depreciation expense to a
19 calculated depreciation expense using this two-point balance and actual test year
20 depreciation rates reveals a \$51,000 variance.⁹ Additionally, using a two-point balance is
21 inconsistent with the method in which plant is reflected in this case.
22

23 **Q. Please explain why this calculated depreciation expense variance exists.**

24 A. Depreciation expense is in part a function of time. As time passes, depreciation
25 expense is incurred. Theoretically, depreciation expense increases every second of
26 every day. However, for practical purposes depreciation expense is calculated and
27 recorded on a monthly basis. The above-noted variance is created because plant
28 balances change from month-to-month due to normal plant additions and retirements,
29 thus causing the booked depreciation expense for the individual plant groupings to vary
30 from month-to-month. A two-point plant average assumes the plant additions and
31 retirements all take place mid-year and thus does not properly account for plant
32 additions or retirements that take place at the beginning or end of the year. The

⁹ KAS-1, Schedule 6, page 1 of 1, column (b) line 76 less column (g) line 76

1 depreciation expense calculated in this manner is unlikely to account for the actual in-
2 service period of the asset being depreciated.

3

4 **Q. Can this variance in calculated depreciation expense be reduced?**

5 A. Yes. The most precise method would be to calculate the depreciation expense using the
6 new rates on a monthly basis using the monthly plant balances. A simplified method
7 would be to calculate the depreciation expense using the new depreciation rates and a
8 13-point average plant balance.

9

10 **Q. Did Staff use either of these two methods?**

11 A. No. I wanted to but could not. NWE's monthly plant balances and 13-point plant
12 averages were not grouped in the same method as the depreciation groupings, thus
13 preventing Staff from using that method.

14

15 **Q. What is Staff proposing?**

16 A. Staff's adjustment uses the information available and attempts to improve the precision
17 of the adjustment. Instead of using the difference between actual test year depreciation
18 expense and a calculated two-point depreciation expense at new depreciation rates as
19 the adjustment amount, Staff's adjustment uses the difference between a calculated two-
20 point depreciation expense. Staff uses existing depreciation rates and a calculated two-
21 point depreciation expense using proposed depreciation rates as its adjustment amount.
22 This method is more precise than NWE's adjustment in that it uses like methods in
23 determining the adjustment amount – apples-to-apples versus apples-to-oranges. The
24 details for this adjustment can be found on Staff Exhibit___(KAS-1, Schedule 6).

25

26 **Q. Is this Staff's preferred method?**

27 A. No. Staff prefers using the monthly plant balances or the 13-point average plant
28 balances in calculating its adjustment, but as previously stated, that information was not
29 available.

30

31 **Q. How else does Staff's adjustment differ from NWE's?**

32 A. As indicated earlier, Staff witness Towers recommends different depreciation rates for
33 plastic mains, steel mains, plastic services and steel services. Staff's adjustment
34 incorporated those depreciation rates. Additionally, Staff's adjustment incorporated an

1 adjustment to accumulated depreciation expense for one-half of the difference of the
2 change in depreciation expense which is the related pro forma average accumulated
3 depreciation throughout the year.
4
5

6 AIRCRAFT

7

8 **Q. Is NWE proposing any adjustments for aircraft?**

9 A. Yes. NWE removes some aircraft expenses related to corporate use of the aircraft from
10 the cost of service. This adjustment appears in the operating income as an M&A, Non-
11 Utility expense adjustment. In NWE's depreciation adjustment previously discussed,
12 aircraft depreciation expense is removed from the cost of service to recognize the
13 aircraft was sold during the test year.
14

15 **Q. Do you agree with NWE regarding the aircraft adjustments?**

16 A. I agree that aircraft adjustments need to be made. I agree with the removal of the non-
17 utility portion of aircraft expense. That portion of NWE's adjustment was accepted by
18 Staff and discussed in Staff Witness Knadle's testimony. I agree aircraft depreciation
19 expense for the aircraft that was sold during the test year should be removed from the
20 cost of service but disagree with NWE's method of doing so. Finally, I believe that
21 additional adjustments need to be made to rate base and operating income for the
22 various transactions related to aircraft.
23

24 **Q. Please explain what you learned about aircrafts during your review and inquiries
25 of NWE.**

26 A. During the test year NWE owned and operated an aircraft identified with the tail number
27 N246NW. NWE originally purchased this aircraft in 1996. It was subject to a sale and
28 leaseback arrangement with NWE in 2003 and then repurchased by NWE in 2005. The
29 aircraft was refurbished by NWE and again sold in March of 2006. That transaction
30 resulted in NWE recording a gain on sale. While this aircraft was down for maintenance
31 prior to its last sale, NWE leased another aircraft identified with the tail number N778FW,
32 and subsequently purchased this aircraft in 2007.
33
34

1 **Q. Explain Staff's aircraft adjustments.**

2 A. Staff's first aircraft adjustment removes plant, accumulated depreciation and
3 depreciation expense from the cost of service for the aircraft that was sold, (N246NW).
4 The aircraft plant removed includes removal of the corporate portion of the aircraft that
5 was improperly assigned to the South Dakota Gas cost of service discussed earlier.
6 This adjustment also captures the gain on the sale of that aircraft and amortizes that
7 gain over five years and creates a negative regulatory asset for the average unamortized
8 balance ensuring customers receive a return on and a return of this gain. The details for
9 this adjustment can be found on Staff Exhibit____(KAS-1, Schedule 5).

10
11 Staff's second aircraft adjustment capitalizes the aircraft purchased by annualizing plant,
12 accumulated depreciation and depreciation expense of the aircraft that was leased in
13 2006 and purchased in 2007 (N778FW). Additionally, this adjustment removes the test
14 year rent expense recorded for the lease of that aircraft. The details for this adjustment
15 can be found on Staff Exhibit____(KAS-1, Schedule 9).

16
17
18 **IT LABOR**

19
20 **Q. Explain NWE's IT Labor adjustment.**

21 A. During the 2006 test year NWE utilized internal labor to perform upgrades to the SAP
22 accounting system. This labor expense was capitalized. NWE is proposing an
23 adjustment to normalize test year labor expense to a level as if the labor amounts were
24 not capitalized.

25
26 **Q. What is Staff proposing?**

27 A. Staff is rejecting this adjustment because it is not a measurable adjustment for many of
28 the same reasons discussed previously in the proposed adjustment annualizing Nekota
29 labor. While the nominal amount of the adjustment is known and may be measurable,
30 the other operating income effects can not be adequately measured.

31

NorthWestern Energy
Docket NG07-013
South Dakota Gas Revenue Requirement
Adjusted Test Year Ending December 31, 2006

| Line | Description (a) | Staff Proposed South Dakota - Gas Adjusted 2003 Test Year (b) | NWE Proposed South Dakota - Gas 2006 - Adjusted (c) | Difference (d) |
|------|-------------------------------------|---|--|-------------------|
| 1 | Average Rate Base | \$ 51,072,429 | \$ 53,175,852 | \$ (2,103,424) |
| 2 | Adjusted Test Year Operating Income | 3,380,981 | 2,392,948 | 988,033 |
| 3 | Overall Rate of Return | 6.620% | 4.500% | |
| 4 | Rate of Return | 7.830% | 8.990% | |
| 5 | Required Operating Income | 3,998,971 | 4,782,902 | (783,931) |
| 6 | Income Deficiency (Excess) | 617,990 | 2,389,954 | (1,771,964) |
| 7 | Gross Revenue Conversion Factor | 1.53846 | | |
| 8 | Revenue Deficiency (Excess) | 950,754 | 3,676,853 | (2,726,099) |
| 9 | Gross Receipts Tax (at 0.0015) | 1,426 | 5,524 | (4,098) |
| 10 | Total Revenue Deficiency (Excess) | 952,180 | 3,682,377 | (2,730,197) |
| 11 | Adjusted Test Year Revenue | 65,610,989 | 67,290,554 | (1,679,565) |
| 12 | Revenue Requirement | \$ 66,563,169 | \$ 70,972,931 | \$ (4,409,762) |

SOURCES:

Column b, line 1: KAS-2, schedule 1, page 1, column d, line 34
Column b, line 2: KAS-1, schedule 2, page 1, column d, line 31
Column b, line 3: Line 2 divided by line 1
Column b, line 4: BLC-1, Schedule 1, column d, line 4
Column b, line 5: Line 1 * line 4
Column b, line 6: Line 5 less line 2
Column b, line 7: 35/65 + 1
Column b, line 8: Line 6 * line 7

Column b, line 9: Line 8 * 0.0015
Column b, line 10: Line 8 plus line 9
Column b, line 11: KAS-1, schedule 2, page 1, column d, line 5
Column b, line 12: Line 11 plus line 10

Column c, lines 1 - 12: Statement N, page 1 of 6

Column d: Column b less column c

NorthWestern Energy
Docket NG07-013
South Dakota Gas Operating Income Statement with Known and Measurable Adjustments and Revenue Adjustment
Adjusted Test Year Ending December 31, 2006

| Line No. | Description (a) | South Dakota Per Books (b) | Total Staff Adjustments (c) | Adjusted Test Year (d) | Revenue Adjustment (e) | Adjusted Test Year with Revenue Adjustment (f) |
|----------|--|----------------------------|-----------------------------|------------------------|------------------------|--|
| 1 | Sales | | | | | |
| 2 | Transportation | \$ 53,810,763 | \$ 7,204,040 | \$ 61,014,803 | \$ 952,180 | \$ 61,966,983 |
| 3 | Transpiration (489) (including unbilled) | 1,241,200 | 3,272,100 | 4,513,300 | | 4,513,300 |
| 4 | Other Revenues (488, 493, 495) | 246,422 | (163,536) | 82,886 | | 82,886 |
| 5 | TOTAL OPERATING REVENUES | 55,298,385 | 10,312,604 | 65,610,989 | 952,180 | 66,563,169 |
| 6 | OPERATING EXPENSES: | | | | | |
| 7 | Operation and Maintenance: | | | | | |
| 8 | Natural Gas (accts 728, 804, 805, 808) | 44,205,049 | 6,111,537 | 50,316,586 | | 50,316,586 |
| 9 | Labor | 3,979,070 | 120,338 | 4,099,408 | | 4,099,408 |
| 10 | Pensions and Benefits Expense | 352,485 | (5,237) | 347,248 | | 347,248 |
| 11 | Insurance Expense | 51,569 | - | 51,569 | | 51,569 |
| 12 | Uncollectible Account Expense | 266,691 | - | 266,691 | | 266,691 |
| 13 | Regulatory Commission Expense | - | 30,000 | 30,000 | | 30,000 |
| 14 | Other Operation and Maintenance | 2,956,419 | (26,032) | 2,930,387 | | 2,930,387 |
| 15 | Total Operation and Maintenance | 51,811,283 | 6,230,606 | 58,041,889 | - | 58,041,889 |
| 16 | Depreciation and Amortization | 2,720,429 | 304,500 | 3,024,929 | | 3,024,929 |
| 17 | Gain on Sale | - | (20,977) | (20,977) | | (20,977) |
| 18 | Taxes: | | | | | |
| 19 | Property Taxes | 1,759,344 | (821,172) | 938,172 | | 938,172 |
| 20 | Payroll Taxes: | | | | | |
| 21 | FICA | 289,706 | 10,854 | 300,560 | | 300,560 |
| 22 | Federal Unemployment | 3,741 | 156 | 3,897 | | 3,897 |
| 23 | State Unemployment | 56 | 193 | 249 | | 249 |
| 24 | Gross Receipts Tax | 88,934 | 15,470 | 104,404 | 1,426 | 105,830 |
| 25 | Federal Income Taxes | (971,437) | 1,515,938 | 544,501 | 332,764 | 877,265 |
| 26 | Deferred Income Taxes | (712,703) | - | (712,703) | | (712,703) |
| 27 | Investment Tax Credit | (22,741) | - | (22,741) | | (22,741) |
| 28 | Other Taxes | 27,828 | - | 27,828 | | 27,828 |
| 29 | Total Taxes | 462,728 | 721,439 | 1,184,167 | 334,190 | 1,518,357 |
| 30 | TOTAL OPERATING EXPENSES | 54,994,440 | 7,235,568 | 62,230,008 | 334,190 | 62,564,198 |
| 31 | OPERATING INCOME | \$ 303,945 | \$ 3,077,036 | \$ 3,380,981 | \$ 617,990 | \$ 3,998,971 |
| 32 | Rate Base | 41,405,437 | | 51,072,429 | | 51,072,429 |
| 33 | Rate of Return | 0.734% | | 6.620% | | 7.830% |
| 34 | Staff Proposed Rate of Return | | | 7.830% | | 7.830% |

SOURCES:

| | |
|---|--|
| Line 5: Sum of lines 2 through 4 | Column c: KAS-1, Schedule 3, column ah |
| Line 15: Sum of lines 8 through 14 | Column d: Column b plus column c |
| Line 29: Sum of lines 19 through 28 | Column d, line 32: KAS-2, Schedule 1, column d, line 34 |
| Line 30: Sum of lines 15, 16, 17, and 29 | Column e, line 2: KAS-1, Schedule 1, page 1, column b, line 10 |
| Line 31: Line 5 less line 30 | Column e, line 24: KAS-1, Schedule 1, page 1, column b, line 9 |
| Line 33: Line 31 / line 32 | Column e, line 25: KAS-1, Schedule 1, p 1, col b, line 8 less |
| Line 34: BLC-1, Schedule 1 | KAS-1, sch 1, p 1, col b, line 6 |
| Column b: KAS-1, schedule 3, column b | Column f: Column d plus column e |
| Column b, line 32: KAS-2, Schedule 1, column b, line 34 | Column f, line 32: KAS-2, Schedule 1, column d, line 34 |

NorthWestern Energy
Docket NG07-013
South Dakota Gas Operating Income Statement with Known and Measurable Adjustments
Adjusted Test Year Ending December 31, 2006

| Line No. | Description | South Dakota Per Books | Interest Sync | Former Nekota Customer Load | Weather Normalization | Other Revenues | Rate Case Expense | M&A Non-Utility Expense | Advertising Expense | Labor Expense | Intra-Company Rent |
|----------|------------------------------------|------------------------|------------------|-----------------------------|-----------------------|----------------|--------------------|-------------------------|---------------------|--------------------|--------------------|
| | (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) | (k) |
| 1 | OPERATING REVENUES: | | | | | | | | | | |
| 2 | Sales | \$ 53,810,763 | | | \$ 5,713,977 | | | | | | |
| 3 | Transportation | 1,241,200 | | 3,303,155 | 37,370 | | | | | | |
| 4 | Other Revenues | 246,422 | | | | - | | | | | |
| 5 | TOTAL OPERATING REVENUES | 55,298,385 | - | 3,303,155 | 5,751,347 | | | | | | |
| 6 | OPERATING EXPENSES: | | | | | | | | | | |
| 7 | Operation and Maintenance: | | | | | | | | | | |
| 8 | Natural Gas (accts 805) | 44,205,049 | | | 5,078,854 | | | | | | |
| 9 | Labor | 3,979,070 | | | | | | | | 120,338 | |
| 10 | Pensions and Benefits Expense | 352,485 | | | | | | | | | |
| 11 | Insurance Expense | 51,569 | | | | | | | | | |
| 12 | Uncollectible Account Expense | 266,691 | | | | | | | | | |
| 13 | Regulatory Commission Expense | - | | | | | 30,000 | | | | |
| 14 | Other Operation and Maintenance | 2,956,419 | | 79,072 | | | | (102,015) | (105,865) | | 37,632 |
| 15 | Total Operation and Maintenance | 51,811,283 | - | 79,072 | 5,078,854 | - | 30,000 | (102,015) | (105,865) | 120,338 | 37,632 |
| 16 | Depreciation and Amortization | 2,720,429 | | 820,740 | | | | | | | |
| 17 | Gain on Sale | - | | | | | | | | | |
| 18 | Taxes: | | | | | | | | | | |
| 19 | Property Taxes | 1,759,344 | | 134,482 | | | | | | | |
| 20 | Payroll Taxes: | | | | | | | | | | |
| 21 | FICA | 289,706 | | - | - | - | - | - | - | 10,854 | - |
| 22 | Federal Unemployment | 3,741 | | - | - | - | - | - | - | 156 | - |
| 23 | State Unemployment | 56 | | - | - | - | - | - | - | 193 | - |
| 24 | Gross Receipts Tax | 88,934 | | 4,955 | 8,627 | - | - | - | - | - | - |
| 25 | Federal Income Taxes (35%) | (971,437) | (91,603) | 792,367 | 232,353 | - | (10,500) | 35,705 | 37,053 | (46,039) | (13,171) |
| 26 | Deferred Income Taxes | (7,12,703) | | | | | | | | | |
| 27 | Investment Tax Credit | (22,741) | | | | | | | | | |
| 28 | Other Taxes | 27,828 | | | | | | | | | |
| 29 | Total Taxes | 462,728 | (91,603) | 931,804 | 240,980 | - | (10,500) | 35,705 | 37,053 | (34,836) | (13,171) |
| 30 | TOTAL OPERATING EXPENSES | 54,994,440 | (91,603) | 1,831,616 | 5,319,834 | - | 19,500 | (66,310) | (68,812) | 85,502 | 24,461 |
| 31 | OPERATING INCOME | \$ 303,945 | \$ 91,603 | \$ 1,471,539 | \$ 431,513 | \$ - | \$ (19,500) | \$ 66,310 | \$ 68,812 | \$ (85,502) | \$ (24,461) |
| | Source | | KAS-1, Sch 4 | KAS-1, Sch 7 | RKL-1, Sch 4 | Testimony | NDS-1, Sch 4 | Statement N | NDS-1, Sch 2 | Statement N | Statement N |
| | Staff Witness Testimony | Senger | Senger | Senger | Knadle | Jacobson | Solem | Knadle | Solem | Knadle | Knadle |
| | Staff position on NWE's Adjustment | Corrected | Adjusted | Adjusted | Adjusted | Rejected | Accepted | Accepted | Adjusted | Accepted | Accepted |

NorthWestern Energy
Docket NG07-013
South Dakota Gas Operating Income Statement with Known and Measurable Adjustments
Adjusted Test Year Ending December 31, 2006

| Line No. | Description (a) | Insurance Actuarial Adjustment (l) | Depreciation Rate Change (m) | Association Dues (n) | Freeman Addition (o) | Eliminate O&M Charged To Nekota (p) | Stock Grants (q) | IT Upgrade labor (r) | Lobbying Expense (s) | General Terms Changes (t) | Ad Valorem Tax Allocation Adjustment (u) |
|----------|------------------------------------|------------------------------------|------------------------------|----------------------|----------------------|-------------------------------------|--------------------|----------------------|----------------------|---------------------------|--|
| 1 | OPERATING REVENUES: | | | | | | | | | | |
| 2 | Sales | | | | \$ 1,633,003 | | | | | | |
| 3 | Transportation | | | | | | | | | | |
| 4 | Other Revenues | | | | | | | | | 8,482 | |
| 5 | TOTAL OPERATING REVENUES | - | - | - | 1,633,003 | - | - | - | - | 8,482 | - |
| 6 | OPERATING EXPENSES: | | | | | | | | | | |
| 7 | Operation and Maintenance: | | | | | | | | | | |
| 8 | Natural Gas (accts 805) | | | | 1,347,084 | | | | | | |
| 9 | Labor | | | | | | | | | | |
| 10 | Pensions and Benefits Expense | | | | | | | | | | |
| 11 | Insurance Expense | | | | | | | | | | |
| 12 | Uncollectible Account Expense | | | | | | | | | | |
| 13 | Regulatory Commission Expense | | | | | | | | | | |
| 14 | Other Operation and Maintenance | 35,323 | | (15,471) | | | 100,959 | | (2,537) | | |
| 15 | Total Operation and Maintenance | 35,323 | - | (15,471) | 1,347,084 | - | 100,959 | - | (2,537) | - | - |
| 16 | Depreciation and Amortization | | (541,302) | | 25,344 | | | | | | |
| 17 | Gain on Sale | | | | | | | | | | |
| 18 | Taxes: | | | | | | | | | | |
| 19 | Property Taxes | | | | 30,698 | | | | | | (976,232) |
| 20 | Payroll Taxes: | | | | | | | | | | |
| 21 | FICA | - | - | - | - | - | - | - | - | - | - |
| 22 | Federal Unemployment | - | - | - | - | - | - | - | - | - | - |
| 23 | State Unemployment | - | - | - | - | - | - | - | - | - | - |
| 24 | Gross Receipts Tax | - | - | - | 2,450 | - | - | - | - | 13 | - |
| 25 | Federal Income Taxes (35%) | (12,363) | 189,456 | 5,415 | 79,599 | - | (35,336) | - | 888 | 2,964 | 341,681 |
| 26 | Deferred Income Taxes | | | | | | | | | | |
| 27 | Investment Tax Credit | | | | | | | | | | |
| 28 | Other Taxes | | | | | | | | | | |
| 29 | Total Taxes | (12,363) | 189,456 | 5,415 | 112,747 | - | (35,336) | - | 888 | 2,977 | (634,551) |
| 30 | TOTAL OPERATING EXPENSES | 22,960 | (351,846) | (10,056) | 1,485,175 | - | 65,623 | - | (1,649) | 2,977 | (634,551) |
| 31 | OPERATING INCOME | \$ (22,960) | \$ 351,846 | \$ 10,056 | \$ 147,828 | \$ - | \$ (65,623) | \$ - | \$ 1,649 | \$ 5,505 | \$ 634,551 |
| | Source | Statement N | KAS-1, Sch 6 | NDS-1, Sch 4 | RLK-1 Sch 3 | Testimony | Testimony | Testimony | Statement N | Testimony | RLK-1 Sch 6 |
| | Staff Witness Testimony | Knadle | Senger | Solem | Kandle | Senger | Jacobson | Senger | Solem | Jacobson | Knadle |
| | Staff position on NWE's Adjustment | Accepted | Adjusted | Adjusted | Adjusted | Rejected | Accepted | Rejected | Accepted | Adjusted | Adjusted |

NorthWestern Energy
Docket NG07-013
South Dakota Gas Operating Income Statement with Known and Measurable Adjustments
Adjusted Test Year Ending December 31, 2006

| Line No. | Description (a) | Sale of Aircraft (N246NW) (v) | Office Space (w) | Economic Development (x) | Correction To Rate 87 Therms (y) | Purchase Gas Cost Adjustment (z) | SDSU (aa) | Dakota Ethanol (ab) | Northern Lights (ac) | Heartland Grain (ad) | Late PMT Charge Revenues (ae) |
|----------|--|-------------------------------|------------------|--------------------------|----------------------------------|----------------------------------|------------------|---------------------|----------------------|----------------------|-------------------------------|
| 1 | OPERATING REVENUES: | | | | | | | | | | |
| 2 | Sales | | | | | | \$ (142,940) | | | | |
| 3 | Transportation | | | | (2,227) | | 3,443 | (2,599) | (25) | (67,017) | |
| 4 | Other Revenues | | | | | | | | 3,754 | | (175,772) |
| 5 | TOTAL OPERATING REVENUES | - | - | - | (2,227) | - | (139,497) | (2,599) | 3,729 | (67,017) | (175,772) |
| 6 | OPERATING EXPENSES: | | | | | | | | | | |
| 7 | Operation and Maintenance: | | | | | | | | | | |
| 8 | Natural Gas (accts 805) | | | | | (174,904) | (139,497) | | | | |
| 9 | Labor | | | | | | | | | | |
| 10 | Pensions and Benefits Expense | | | | | | | | | | |
| 11 | Insurance Expense | | | | | | | | | | |
| 12 | Uncollectible Account Expense | | | | | | | | | | |
| 13 | Regulatory Commission Expense | | | | | | | | | | |
| 14 | Other Operation and Maintenance | | (2,959) | (9,299) | | | | | | | |
| 15 | Total Operation and Maintenance | - | (2,959) | (9,299) | - | (174,904) | (139,497) | - | - | - | - |
| 16 | Depreciation and Amortization | (3,807) | | | | | | | | (422) | |
| 17 | Gain on Sale | (20,977) | | | | | | | | | |
| 18 | Taxes: | | | | | | | | | | |
| 19 | Property Taxes | | | | | | | | | (10,120) | |
| 20 | Payroll Taxes: | | | | | | | | | | |
| 21 | FICA | - | - | - | - | - | - | - | - | - | - |
| 22 | Federal Unemployment | - | - | - | - | - | - | - | - | - | - |
| 23 | State Unemployment | - | - | - | - | - | - | - | - | - | - |
| 24 | Gross Receipts Tax | - | - | - | (3) | - | (209) | (4) | 6 | (101) | (264) |
| 25 | Federal Income Taxes (35%) | 8,674 | 1,036 | 3,255 | (778) | 61,216 | 73 | (908) | 1,303 | (19,731) | (61,428) |
| 26 | Deferred Income Taxes | | | | | | | | | | |
| 27 | Investment Tax Credit | | | | | | | | | | |
| 28 | Other Taxes | | | | | | | | | | |
| 29 | Total Taxes | 8,674 | 1,036 | 3,255 | (781) | 61,216 | (136) | (912) | 1,309 | (29,952) | (61,692) |
| 30 | TOTAL OPERATING EXPENSES | (16,110) | (1,923) | (6,044) | (781) | (113,688) | (139,633) | (912) | 1,309 | (30,374) | (61,692) |
| 31 | OPERATING INCOME | \$ 16,110 | \$ 1,923 | \$ 6,044 | \$ (1,446) | \$ 113,688 | \$ 136 | \$ (1,687) | \$ 2,420 | \$ (36,643) | \$ (114,080) |
| | Source | KAS-1 Sch 5 | KAS-1 Sch B | NDS-1 Sch 3 | Testimony | Testimony | Testimony | Testimony | Testimony | Testimony | Testimony |
| | Staff Witness Testimony | Senger | Senger | Solem | Knadle | Knadle | Knadle | Knadle | Knadle | Knadle | Knadle |
| | Staff position on NWE's Adjustment | Staff Proposed | Staff Proposed | Staff Proposed | Staff proposed | Staff proposed | Staff proposed | Staff proposed | Staff proposed | Staff proposed | Staff proposed |

NorthWestern Energy
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South Dakota Gas Operating Income Statement with Known and Measurable Adjustments
Adjusted Test Year Ending December 31, 2006

| Line No. | Description | Purchase of Leased Aircraft (N778FW) (af) | Nekota Deferred PGA Cost (ag) | Ex-employee Pension and Benlft Reduction (ah) | Speed Pay (ai) | (aj) | (ak) | Total Staff Adjustments (al) | Adjusted Test Year (am) |
|----------|------------------------------------|---|-------------------------------|---|------------------|-------------|-------------|------------------------------|-------------------------|
| 1 | OPERATING REVENUES: | | | | | | | | |
| 2 | Sales | | | | | | | \$ 7,204,040 | \$ 61,014,803 |
| 3 | Transportation | | | | | | | 3,272,100 | 4,513,300 |
| 4 | Other Revenues | | | | | | | (163,536) | 82,886 |
| 5 | TOTAL OPERATING REVENUES | - | - | - | - | - | - | 10,312,604 | 65,610,989 |
| 6 | OPERATING EXPENSES: | | | | | | | | |
| 7 | Operation and Maintenance: | | | | | | | | |
| 8 | Natural Gas (accts 805) | | | | | | | 6,111,537 | 50,316,586 |
| 9 | Labor | | | | | | | 120,338 | 4,099,408 |
| 10 | Pensions and Benefits Expense | | | (5,237) | | | | (5,237) | 347,248 |
| 11 | Insurance Expense | | | | | | | - | 51,569 |
| 12 | Uncollectible Account Expense | | | | | | | - | 266,691 |
| 13 | Regulatory Commission Expense | | | | | | | 30,000 | 30,000 |
| 14 | Other Operation and Maintenance | (32,879) | 73,652 | | (81,645) | | | (26,032) | 2,930,387 |
| 15 | Total Operation and Maintenance | (32,879) | 73,652 | (5,237) | (81,645) | - | - | 6,230,606 | 58,041,889 |
| 16 | Depreciation and Amortization | 3,947 | | | | | | 304,500 | 3,024,929 |
| 17 | Gain on Sale | | | | | | | (20,977) | (20,977) |
| 18 | Taxes: | | | | | | | | |
| 19 | Property Taxes | | | | | | | (821,172) | 938,172 |
| 20 | Payroll Taxes: | | | | | | | | |
| 21 | FICA | - | - | - | - | - | - | 10,854 | 300,560 |
| 22 | Federal Unemployment | - | - | - | - | - | - | 156 | 3,897 |
| 23 | State Unemployment | - | - | - | - | - | - | 193 | 249 |
| 24 | Gross Receipts Tax | - | - | - | - | - | - | 15,470 | 104,404 |
| 25 | Federal Income Taxes (35%) | 10,126 | (25,778) | 1,833 | 28,576 | - | - | 1,515,938 | 544,501 |
| 26 | Deferred Income Taxes | | | | | | | - | (712,703) |
| 27 | Investment Tax Credit | | | | | | | - | (22,741) |
| 28 | Other Taxes | | | | | | | - | 27,828 |
| 29 | Total Taxes | 10,126 | (25,778) | 1,833 | 28,576 | - | - | 721,439 | 1,184,167 |
| 30 | TOTAL OPERATING EXPENSES | (18,806) | 47,874 | (3,404) | (53,069) | - | - | 7,235,568 | 62,230,008 |
| 31 | OPERATING INCOME | \$ 18,806 | \$ (47,874) | \$ 3,404 | \$ 53,069 | \$ - | \$ - | \$ 3,077,036 | \$ 3,380,981 |
| | Source | KAS-1, Sch 9 | KAS-1, Sch 10 | Testimony | Testimony | | | | |
| | Staff Witness Testimony | Senger | Senger | Jacobson | Senger | | | | |
| | Staff position on NWE's Adjustment | Staff proposed | Staff proposed | Staff proposed | Staff proposed | | | | |

NorthWestern Energy
 Docket NG07-013
 South Dakota Gas Operating Income Statement with Known and Measurable Adjustments
 Adjusted Test Year Ending December 31, 2006

SOURCES:

| | | | |
|--------------------------|---|---------------------|---|
| Line 5: | Sum of lines 2 through 4 | Column l, line 14: | Statement N |
| Line 15: | Sum of lines 8 through 14 | Column m, line 16: | KAS-1, Schedule 6, column n, line 67 |
| Line 21: | Line 9 * 0.0902 | Column n, line 14: | NDS-1, Schedule 1, column c, line 6 |
| Line 22: | Line 9 * 0.0013 | Column o, line 2: | RLK-1, Schedule 3, column b, sum of lines 5, 6. |
| Line 23: | Line 9 * 0.0016 | Column o, line 8: | RLK-1, Schedule 3, column b, line 6 |
| Line 24 (excl col s): | Line 5 * 0.0015 | Column o, line 16: | RLK-1, Schedule 3, column b, line 4 |
| Line 25 (except col. c): | (line 5 less sum of (lines 15, 16, 17, 19, 21 through 24, 28))* .35 | Column o, line 19: | RLK-1, Schedule 3, column b, line 5 |
| Line 29: | Sum of lines 19 through 28 | Column q, line 14: | Jacobson Testimony |
| Line 30: | Sum of lines 15, 16, 17 and 29 | Column s, line 14: | Statement N |
| Line 31: | Line 5 less line 30 | Column t, line 4: | Jacobson testimony |
| Column b, line 2: | Statement I, column (n), line 7 | Column u, line 19: | RLK-1, Schedule 6, column c, line 14 |
| Column b, line 3: | Statement I, column (n), line 12 | Column v, line 16: | KAS-1 Schedule 5, line 16 |
| Column b, line 4: | Statement I, column (n), sum of lines 10, 11 and 13 | Column v, line 17: | KAS-1 Schedule 5, line 17 |
| Column b, line 6: | Sch 2 page 2 of 3, sum of column e lines 13 and 18 - agrees to Revenue and Schedule H2, page 1 of 1, column c line 12 | Column w, line 14: | KAS-1, Schedule 8, column c, line 10 |
| Column b, line 9: | Statement H/H-1, page 3 of 3, column d, line 25 | Column x, line 14: | NDS-1, Schedule 3, column c, line 4 |
| Column b, line 10: | Statement H/H-1, page 3 of 3, column e, line 16 | Column y, line 3: | Knadle Testimony |
| Column b, line 11: | Statement H, Schedule H-1, page 3 of 3, column o, line 14 plus 15 | Column z, line 8: | RLK-1, Schedule 7, column c, line13 |
| Column b, line 12: | Statement H, Schedule H-1, page 2 of 3, column e, line 20 | Column aa, line 2: | Knadle Testimony |
| Column b, line 13: | Statement H/H-1, page 3 of 3, column e, line 18 | Column aa, line 3: | Knadle Testimony |
| Column b, line 14: | Statement H/H-1, page 3 of 3, column e, line 25 less the sum of KAS-1, Sch 3, column b, lines 10, 11, 12 and 13. | Column aa, line 8: | Knadle Testimony |
| Column b, line 16: | Statement J, page 1 of 1, column f, line 48 | Column ab, line 3: | Knadle Testimony |
| Column b, line 19: | Statement L, page 1 of 1, column b, lines 5 and 8 | Column ac, line 3: | Knadle Testimony |
| Column b, line 21: | Statement L, page 1 of 1, column b, line 4 (breakdown per 9/27/07 email - Decker to Knadle) | Column ad, line 3: | RLK-1, Schedule 5, column d, line 4 |
| Column b, line 22: | Statement L, page 1 of 1, column b, line 4 (breakdown per 9/27/07 email - Decker to Knadle) | Column ad, line 16: | RLK-1, Schedule 5, column d, line 7 |
| Column b, line 23: | Statement L, page 1 of 1, column b, line 4 (breakdown per 9/27/07 email - Decker to Knadle) | Column ad, line 19: | RLK-1, Schedule 5, column d, line 5 |
| Column b, line 24: | Statement L, page 1 of 1, column b, lines 2 | Column ae, line 4: | Knadle Testimony |
| Column b, line 25: | Exh JJD-1, Sch 7, page 1 of 1, column c, line 22. | Column af, line 14: | Company support - DR1-1 - Exhibit 1 |
| Column b, line 26: | Statement K, page 1 of 1, column b, line 21 | Column af, line 16: | KAS-1, Schedule 9 |
| Column b, line 27: | Statement K, page 1 of 1, column b, line 24 | Column ag, line 14: | KAS-1, Schedule 10, column b, line 5 |
| Column b, line 28: | Statement L, page 1 of 1, column b, lines 1 and 3 | Column ah, line 10: | Jacobson Testimony |
| Column c, line 25: | KAS-1, Schedule 4, column b, line 6 | Column ai, line 14: | Company response to DR3-24a -d. |
| Column d, line 3: | KAS-1, Schedule 7, column d, line 24 | Column al: | Sum of columns c through ak |
| Column d, line 14: | 8/17/07 email from Decker to Knadle (Management Fee) | Column am: | Column b plus column al |
| Column d, line 16: | Statement N, page 3 of 6, column (d), line 16 | | |
| Column d, line 19: | Statement N, page 3 of 6, column (d), line 19 | | |
| Column e, line 2: | MCB-1, page 1 column c, sum of lines 1 through 7 plus gas costs | | |
| Column e, line 3: | MCB-1, page 1 column c, line 8 plus line 9 | | |
| Column e, line 8: | RLK-1, Schedule 4, column d, line 8 | | |
| Column f, Line 4: | Jacobson Testimony | | |
| Column g, line 13: | NDS-1, Schedule 4, column c, line 5 | | |
| Column h, line 14: | Statement N | | |
| Column i, line 14: | NDS-1, Schedule 2, column c, line 5 | | |
| Column j, line 9: | Statement N | | |
| Column k, line 14: | Statement N | | |

NorthWestern Energy
 Docket NG07-013
 Interest Synchronization Adjustment
 Adjusted Test Year Ending December 31, 2006

| Line | Description | Amount |
|------|---|--------------------|
| | (a) | (b) |
| 1 | Investment To Be Financed (Average Rate Base) | \$ 51,072,429 |
| 2 | Weighted Cost of Long Term Debt | <u>3.200%</u> |
| 3 | Synchronized Interest Expense | 1,634,318 |
| 4 | Interest Expense as filed | <u>1,372,595</u> |
| 5 | Difference In Interest Expense | 261,723 |
| 6 | Federal Income Tax Adjustment (35%) | \$ (91,603) |

To KAS-1, Sch 3, col c, line 25

SOURCES:

Column b, line 1: KAS-2, schedule 1, page 1, column d, line 34
 Column b, line 2: BLC-1, schedule 1, column e, line 1
 Column b, line 3: Line 1 times line 2
 Column b, line 4: Compnay response to DR 8-2
 Column b, line 5: Line 3 less line 4
 Column b, line 6: line 7 times 35% (inverse)

NorthWestern Energy
Docket NG07-013
Sale of Aircraft (N246NW)
Adjusted Test Year Ending December 31, 2006

| Sale of Aircraft (N246NW) | | Amount | Gas Allocation 38% | SD Allocation 55% |
|---------------------------|--|------------------|---|----------------------|
| 1 | 2005 Auquisition value | \$ 3,806,826 | (Company response to DR 7-11b) | |
| 2 | Accumulated Depreciation | <u>1,208,676</u> | (Company response to DR 7-11d) | |
| 3 | Net Book Value | 2,598,150 | | |
| 4 | Sale price | <u>3,100,000</u> | (Company response to DR 7-11f) | |
| 5 | Gain on Sale | 501,850 | 190,703 | 104,887 |
| 6 | 5 Year Amortization | | | \$20,977 |
| 6a | Average unamortized balance | | | \$52,444 |
| <hr/> | | | | |
| 7 | 2006 13 month average plant balance (total company (Company response to DR2-25 - Exhibit 18, column p, line 12) | 878,498 | 333,829 | 183,606 |
| <hr/> | | | | |
| 8 | SD Gas 2006 actual depreciation expense (KAS-1, Schedule 6, column f, line 55) | 18,217 | 6,922 | 3,807 |
| <hr/> | | | | |
| 9 | 12/31/05 Accumulated Depreciation (Total Company) | 237,442 | (Company response to DR7-10 - Exhibit 7-10, column c, line 13 | |
| 10 | 1/31/06 Accumulated Depreciation | 246,551 | plus 9,109 (2006 depr exp / 2 months) | |
| 11 | 2/28/06 Accumulated Depreciation | 255,659 | plus 9,109 (2006 depr exp / 2 months) | |
| 12 | Total | <u>739,652</u> | | |
| 13 | 13 Month Average | 56,896 | 21,620 | 11,891 |

NorthWestern Energy
Docket NG07-013
Depreciation Rate Change Adjustment
Adjusted Test Year Ending December 31, 2005

| Line No. | Account No. | Description | SD GAS Plant Balance 12/31/2005 (b) | SD GAS Plant Balance 12/31/2005 (c) | SD GAS Avg Plant Balance (d) | Avg Plant Bal SD GAS Common Share (e) | Total Actual Depreciation Exp (f) | SD GAS Total Actual Depreciation Exp (g) | Test Year Depreciation Rate (h) | SD GAS Calculated Test Year Depreciation Exp (i) | NWE Proposed Rate (j) | Calculated Test Year NWE Proposed Calculated Test Year Depreciation Exp (k) | Staff Proposed Rates (l) | Calculated Test Year Staff Proposed Calculated Test Year Depreciation Exp (m) | Difference Between Test Year Calculated & Staff Proposed (n) |
|----------|-------------|--|-------------------------------------|-------------------------------------|------------------------------|---------------------------------------|-----------------------------------|--|---------------------------------|--|-----------------------|---|--------------------------|---|--|
| 1 | | PRODUCTION | | | | | | | | | | | | | |
| 2 | 304 | Land And Land Rights | 40,057 | 40,057 | 40,057 | | | | | | | | | | |
| 3 | 305 | Structures And Improvements | 258,910 | 218,946 | 238,778 | | | 3,251 | 1.42% | 3,391 | 1.97% | 4,704 | 1.97% | 4,704 | 1,313 |
| 4 | 311 | Liquefied Petroleum Gas Equipment | 1,213,577 | 1,110,761 | 1,162,169 | | 28,967 | | 2.41% | 28,008 | 2.17% | 25,219 | 2.17% | 25,219 | (2,789) |
| 5 | 320 | Other Equipment | 11,567 | 1,160 | 6,353 | | 48 | | 1.27% | 81 | -0.51% | -32 | -0.51% | -32 | (113) |
| 6 | | Total Gas Production | 1,523,811 | 1,370,924 | 1,447,357 | | 32,266 | | | 31,480 | | 29,891 | | 29,891 | (1,569) |
| 7 | | | | | | | | | | | | | | | |
| 8 | | DISTRIBUTION | | | | | | | | | | | | | |
| 9 | 374 | Land And Land Rights | 305,647 | 331,079 | 318,513 | | | | | | | | | | |
| 10 | 375 | Structures And Improvements | 62,095 | 62,095 | 62,095 | | 1,559 | | 2.51% | 1,559 | 0.80% | 497 | 0.80% | 497 | (1,062) |
| 11 | 376 | Mains-Plastic | 14,463,283 | 14,965,016 | 14,724,650 | | 506,156 | | 3.42% | 503,583 | 2.43% | 357,899 | 2.20% | 323,942 | (179,641) |
| 12 | 376 | Mains-Steel | 14,057,116 | 16,378,434 | 15,517,775 | | 509,676 | | 3.42% | 530,768 | 2.09% | 324,321 | 1.02% | 282,424 | (248,284) |
| 13 | 378 | Measuring & Regulating Station Equip-General | 1,340,568 | 1,776,294 | 1,558,426 | | 43,787 | | 2.75% | 50,961 | 2.76% | 43,013 | 2.76% | 43,013 | (7,948) |
| 14 | 379 | Measuring & Regulating Station Equip-City | 1,391,980 | 1,391,980 | 1,391,980 | | 38,269 | | 2.75% | 38,279 | 3.31% | 46,075 | 3.31% | 46,075 | 7,796 |
| 15 | 380 | Services-Plastic | 13,549,780 | 13,919,193 | 13,734,487 | | 481,704 | | 3.48% | 477,960 | 3.55% | 487,574 | 2.48% | 340,615 | (137,345) |
| 16 | 380 | Services-Steel | 2,333,707 | 2,326,267 | 2,329,993 | | 81,179 | | 3.48% | 81,084 | 3.22% | 75,026 | 2.48% | 57,784 | (23,300) |
| 17 | 381 | Meters | 5,956,690 | 6,152,096 | 6,059,393 | | 154,252 | | 2.59% | 156,930 | 2.14% | 129,671 | 2.14% | 129,671 | (27,267) |
| 18 | 382 | Meter Installation | 2,643,514 | 2,685,675 | 2,764,594 | | 100,228 | | 3.53% | 97,590 | 2.14% | 95,162 | 2.14% | 95,162 | (38,428) |
| 19 | 383 | Regulators | 975,309 | 975,309 | 975,309 | | 34,043 | | 3.49% | 34,038 | 2.14% | 20,872 | 2.14% | 20,872 | (13,166) |
| 20 | 384 | Regulator Installation | 836,703 | 1,007,250 | 921,977 | | 26,249 | | 2.70% | 24,893 | 2.14% | 19,730 | 2.14% | 19,730 | (5,163) |
| 21 | | Total Gas Distribution | 58,526,682 | 62,191,688 | 60,359,165 | | 1,977,102 | | | 1,997,593 | | 1,563,750 | | 1,323,785 | (673,608) |
| 22 | | | | | | | | | | | | | | | |
| 23 | | GAS GENERAL | | | | | | | | | | | | | |
| 24 | 303 | Miscellaneous Intangible Plant-10 Year | 7,327 | 7,327 | 7,327 | | 733 | | 10.00% | 733 | 10.00% | 733 | 10.00% | 733 | 0 |
| 25 | 303 | Miscellaneous Intangible Plant-5 Year | 0 | 8,264 | 4,132 | | 551 | | 20.00% | 826 | 20.00% | 826 | 20.00% | 826 | 0 |
| 26 | 389 | Land And Land Rights | 33,285 | 33,285 | 33,285 | | | | | | | | | | |
| 27 | 390 | Structures And Improvements | 334,495 | 334,495 | 334,495 | | 4,984 | | 1.49% | 4,984 | 3.72% | 12,443 | 3.72% | 12,443 | 7,459 |
| 28 | 391 | Office Furniture And Equipment | 21,105 | 21,105 | 21,105 | | 506 | | 2.40% | 507 | 4.60% | 971 | 4.60% | 971 | 464 |
| 29 | 391 | Office Furniture And Equipment-10 Year | 2,667 | 11,120 | 6,894 | | 65 | | 10.00% | 689 | 10.82% | 746 | 10.82% | 746 | 57 |
| 30 | 391 | Office Furniture And Equipment-5 Year | 12,564 | 12,564 | 12,564 | | 301 | | 20.00% | 2,513 | 10.82% | 1,359 | 10.82% | 1,359 | (1,154) |
| 31 | 392 | Transportation Equipment-Passenger Vehicle | 6,493 | 6,493 | 6,493 | | 436 | | 6.71% | 436 | 18.57% | 1,206 | 18.57% | 1,206 | 770 |
| 32 | 392 | Transportation Equipment-Hourly Truck | 69,624 | 80,769 | 75,197 | | 5,932 | | 7.89% | 5,933 | 7.10% | 5,339 | 7.10% | 5,339 | (594) |
| 33 | 392 | Transportation Equipment-Light Truck | 415,427 | 482,245 | 448,836 | | 20,400 | | 4.72% | 21,185 | 10.90% | 48,923 | 10.90% | 48,923 | 27,738 |
| 34 | 393 | Stores Equipment | 7,609 | 7,609 | 7,609 | | 82 | | 1.07% | 81 | 4.87% | 355 | 4.87% | 355 | 274 |
| 35 | 394 | Tools, Shop And Garage Equipment | 469,491 | 543,043 | 521,257 | | 15,188 | | 3.04% | 15,847 | 5.00% | 26,063 | 5.00% | 26,063 | 10,218 |
| 36 | 395 | Laboratory Equipment | 228,172 | 228,172 | 228,172 | | 4,026 | | 1.77% | 4,039 | 5.26% | 12,002 | 5.26% | 12,002 | 7,963 |
| 37 | 396 | Power Operated Equipment | 733,652 | 615,373 | 774,517 | | 56,356 | | 6.88% | 51,738 | 4.69% | 35,628 | 4.69% | 35,628 | (16,118) |
| 38 | 397 | Communication Equipment | 3,318 | 2,775 | 3,046 | | 39 | | 3.68% | 39 | 9.08% | 277 | 9.08% | 277 | 159 |
| 39 | 386 | Miscellaneous Equipment | 1,214 | 1,214 | 1,214 | | 39 | | 3.20% | 39 | 2.43% | 29 | 2.43% | 29 | (10) |
| 40 | | Total Gas General | 2,375,852 | 2,596,453 | 2,486,152 | | 103,903 | | | 109,688 | | 146,908 | | 146,908 | 37,232 |
| 41 | | | | | | | | | | | | | | | |
| 42 | | COMMON GENERAL | | | | | | | | | | | | | |
| 43 | 303 | Miscellaneous Intangible Plant-10 Year | 5,955,480 | 5,417,076 | 5,691,278 | 1,189,477 | 552,210 | 115,411.89 | 10.00% | 118,948 | 10.00% | 118,948 | 10.00% | 118,948 | 0 |
| 44 | 303 | Miscellaneous Intangible Plant-7 Year | 8,601,953 | 8,601,953 | 8,601,953 | 1,797,808 | 1,228,875 | 266,834.88 | 14.29% | 256,907 | 14.29% | 256,907 | 14.29% | 256,907 | 0 |
| 45 | 303 | Miscellaneous Intangible Plant-5 Year | 215,145 | 570,645 | 392,895 | 82,115 | 89,691 | 18,745.39 | 20.00% | 15,423 | 20.00% | 16,423 | 20.00% | 16,423 | 0 |
| 46 | 389 | Land And Land Rights | 392,964 | 392,464 | 392,714 | 82,077 | - | - | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0 |
| 47 | 390 | Structures And Improvements | 17,842,001 | 17,560,656 | 17,701,320 | 3,639,578 | 329,151 | 68,782.58 | 1.85% | 68,442 | 2.81% | 103,958 | 2.81% | 103,958 | 35,516 |
| 48 | 391 | Office Furniture And Equipment | 3,227,891 | 3,144,261 | 3,186,076 | 665,090 | 117,167 | 24,467.90 | 3.60% | 23,972 | 4.82% | 32,096 | 4.82% | 32,096 | 8,124 |
| 49 | 391 | Office Furniture And Equipment-10 Year | 1,414,294 | 1,451,662 | 1,432,978 | 299,492 | 143,340 | 29,958.02 | 10.00% | 29,949 | 11.58% | 34,681 | 11.58% | 34,681 | 4,732 |
| 50 | 391 | Office Furniture And Equipment-5 Year | 770,969 | 285,395 | 528,152 | 110,364 | 54,836 | 11,460.78 | 20.00% | 22,077 | 11.58% | 12,782 | 11.58% | 12,782 | (9,295) |
| 51 | 391 | Office Furniture And Equipment Limited Term | 22,678 | 1,203 | 11,940 | 2,496 | 1 | 0.21 | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0 |
| 52 | 392 | Transportation Equipment-Passenger Vehicle | 88,133 | 82,993 | 85,563 | 17,883 | 6,292 | 1,315.10 | 7.58% | 1,356 | 18.26% | 3,265 | 18.26% | 3,265 | 1,909 |
| 53 | 392 | Transportation Equipment-Hourly Truck | 135,921 | 149,892 | 142,806 | 29,847 | 5,508 | 1,163.66 | 7.58% | 2,262 | 12.36% | 3,689 | 12.36% | 3,689 | 1,427 |
| 54 | 392 | Transportation Equipment-Light Truck | 1,324,915 | 1,466,526 | 1,395,670 | 291,695 | 55,319 | 11,561.68 | 7.58% | 22,110 | 13.14% | 38,329 | 13.14% | 38,329 | 16,219 |
| 55 | 392 | Transportation Equipment-Aircraft | 3,606,826 | 0 | 1,903,413 | 397,813 | 18,217 | 3,807.35 | 0.00% | 3,807 | 0.00% | 3,807 | 0.00% | 3,807 | 0 |
| 56 | 392 | Transportation Equipment-3 year leased | 36,232 | 36,232 | 36,232 | 7,572 | 1,809 | 378.08 | 33.33% | 2,524 | 33.33% | 2,524 | 33.33% | 2,524 | 0 |
| 57 | 392 | Transportation Equipment-5 year leased | 39,099 | 39,099 | 39,099 | 8,172 | 7,820 | 1,634.38 | 20.00% | 1,634 | 20.00% | 1,634 | 20.00% | 1,634 | 0 |
| 58 | 393 | Stores Equipment | 306,759 | 306,759 | 306,759 | 64,113 | 7,056 | 1,474.70 | 2.30% | 1,475 | 4.18% | 2,680 | 4.18% | 2,680 | 1,205 |
| 59 | 394 | Tools, Shop And Garage Equipment | 651,560 | 645,222 | 638,391 | 133,424 | 13,564 | 2,834.90 | 2.01% | 2,682 | 3.40% | 4,536 | 3.40% | 4,536 | 1,854 |
| 60 | 395 | Laboratory Equipment | 337,033 | 334,062 | 335,947 | 70,213 | 6,622 | 1,384.00 | 1.97% | 1,383 | 1.53% | 1,074 | 1.53% | 1,074 | (309) |
| 61 | 396 | Power Operated Equipment | 606,107 | 655,859 | 630,983 | 131,675 | 29,078 | 6,077.22 | 4.83% | 6,370 | 4.69% | 6,185 | 4.69% | 6,185 | (185) |
| 62 | 397 | Communication Equipment | 3,146,700 | 3,071,107 | 3,108,904 | 649,761 | 128,080 | 26,768.72 | 4.12% | 26,770 | 9.48% | 61,597 | 9.48% | 61,597 | 34,827 |
| 63 | 397 | Communication Equipment-Electronic | 1,024,036 | 1,024,036 | 1,024,036 | 214,024 | 102,403 | 21,402.23 | 10.00% | 21,402 | 10.01% | 21,424 | 10.01% | 21,424 | 22 |
| 64 | 398 | Miscellaneous Equipment | 242,794 | 242,794 | 242,794 | 50,744 | 7,985 | 1,654.69 | 3.28% | 1,664 | 4.89% | 2,481 | 4.89% | 2,481 | 817 |
| 65 | | Total Common | 50,180,126 | 45,479,695 | 47,829,911 | 9,996,451 | 2,905,064 | 807,158 | | 632,157 | | 729,929 | | 729,929 | 96,663 |
| 66 | | | | | | | | | | | | | | | |
| 67 | | TOTAL DEPRECIATION | | | | | | 2,720,429 | | 2,770,698 | | 2,469,561 | | 2,229,596 | (541,302) |
| 68 | | | | | | | | | | | | | | | |
| 69 | | | | | | | | | | | | | | | |
| 70 | | | | | | | | | | | | | | | |
| 71 | | | | | | | | | | | | | | | |
| 72 | | NWE Adjustment | | | | | | | | | | | | | |
| 73 | | | | | | | | | | | | | | | |
| 74 | | NWE Proposed Depreciation Expense | 2,469,561 | (col k, line 67) | | | | 2,469,561 | (col k, line 67) | | | | | 2,229,596 | (col m, line 67) |
| 75 | | LESS SD Actual Depreciation Expense | 2,720,429 | (col g, line 67) | | | | 2,770,698 | (col i, line 67) | | | | | 2,770,898 | (col i, line 67) |
| 76 | | | (250,867) | | | | | (301,337) | | | | | | (541,302) | |
| 77 | | Aircraft difference | (3,807) | (col k, line 55) | | | | | | | | | | | |

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NorthWestern Energy
Docket NG07-013
Office Space
Adjusted Test Year Ending December 31, 2006

| | Description (a) | 2006 Expense (b) | Change (c) | K&M Expense (d) |
|----|--------------------------------------|------------------------|----------------------|-----------------------|
| 1 | 508420 Repairs & Maintenance Suplies | \$ 21,769 | | \$ 21,769 |
| 2 | 548000 Misc. Rent Expense | 64,723 | (48,820) | 15,903 |
| 3 | 548300 Building Rental Expense | 432,404 | (33,519) | 398,885 |
| 4 | 521500 Outside Service - Contractor | 55,446 | (14,840) | 40,606 |
| 5 | 521500 Outside Service - Other | 632 | | 632 |
| 6 | Utilities | | 41,900 | 41,900 |
| 7 | TOTAL | \$ 574,974 | \$ (55,279) | \$ 519,695 |
| 8 | Allocations: NWE | 25.61% | \$ (14,157.00) | |
| 9 | Gas | 38.00% | \$ (5,380.00) | |
| 10 | SD | 55.00% | \$ (2,959.00) | |

Column b, lines 1-5:
Column b, lines 8 - 10:
Column c:
Column d:

Company response to DR3-25d.
Allocation Factors
10-15-07 email from Wallman to Senger
Difference

NorthWestern Energy
Docket NG07-013
Purchase of Leased Aircraft (N777FW)
Adjusted Test Year Ending December 31, 2006

NorthWestern Energy
Calculations for Aircraft purchased October 1, 2007

| | |
|-----------------------------|------------------|
| Aircraft Cost | 4,667,740 |
| December 2007 Refurbishment | 70,000 |
| Asset Value | <u>4,737,740</u> |
| Salvage Value | 4,000,000 |
| Depreciation | 737,740 |
| 10 yr depreciation life | 73,774 |

| | <u>Rate Base</u> | <u>Depreciation</u> | <u>Ad Valorem Tax</u> |
|---------------------|------------------|---------------------|-----------------------|
| Total Company | 4,737,740 | 73,774 | Exempt |
| SD Gas Allocation % | 5.35% | 5.35% | |
| SD Gas amount | <u>253,469</u> | <u>3,947</u> | |

Source: 10/17/07 email from Decker to Senger

NorthWestern Energy
Docket NG07-013
Nekota Deferred PGA Cost
Adjusted Test Year Ending December 31, 2006

| Description (a) | Amount (b) | Source |
|--|----------------|------------------|
| 1 Nekota Pipeline Capacity - Brookings Monthly costs | \$ 22,634 | JJD- WP3, page 1 |
| 2 Nekota Pipeline Capacity - Aberdeen Monthly costs | 18,284 | JJD- WP3, page 1 |
| 3 TOTAL | 40,918 | |
| 4 Deferred from March through Nov 2007 (9 months) | 368,262 | (40,918 X 9) |
| 5 5 year amortization | 73,652 | |
| 6 Unamortized Balance in Rate Base | 184,131 | |

NorthWestern Energy
Docket NG07-013
South Dakota Gas Average Rate Base with Known and Measurable Adjustment
Adjusted Test Year Ending December 31, 2006

| Line No. | Description (a) | South Dakota Test Year Average Per Books (b) | Total Pro Forma Adjustments (c) | South Dakota Pro Forma Rate Base (d) |
|----------|---|--|---------------------------------|--------------------------------------|
| 1 | Gas Plant in Service (101) | | | |
| 2 | Production | 1,453,240 | \$ - | \$ 1,453,240.00 |
| 3 | Distribution | 59,574,648 | 12,300,859 | 71,875,507 |
| 4 | General | 2,447,270 | - | 2,447,270 |
| 5 | Common | 9,762,248 | 57,529 | 9,819,777 |
| 6 | Total Gas Plant in Service (101) | 73,237,406 | 12,358,388 | 85,595,794 |
| 7 | Gas - Completed Construction Not Classified (106) | 80,917 | - | 80,917 |
| 8 | Total Plant in Service (101 and 106) | 73,318,323 | 12,358,388 | 85,676,711 |
| 9 | Accumulated Depreciation | | | |
| 10 | Production | 657,790 | (795) | 656,996 |
| 11 | Distribution | 22,742,462 | 1,927,742 | 24,670,204 |
| 12 | General | 817,072 | 18,616 | 835,688 |
| 13 | Common | 3,284,237 | 38,515 | 3,322,752 |
| 14 | Total Accumulated Depreciation | 27,501,561 | 1,984,079 | 29,485,640 |
| 15 | TOTAL NET GAS PLANT IN SERVICE | 45,816,762 | 10,374,310 | 56,191,072 |
| 16 | Additions to Rate Base: | | | |
| 17 | Material and Supplies | 392,870 | 39,315 | 432,185 |
| 18 | Fuel Stocks (Propane & NG storage) | 1,574,580 | (354,828) | 1,219,752 |
| 19 | Prepayments | - | 183,848 | 183,848 |
| 20 | Advanced Tax Collection | - | (120,738) | (120,738) |
| 21 | Cash Working Capital | - | (661,602) | (661,602) |
| 22 | Other | - | 259,131 | 259,131 |
| 23 | TOTAL ADDITIONS TO RATE BASE | 1,967,450 | (654,874) | 1,312,576 |
| 24 | Deductions to Rate Base: | | | |
| 25 | Accumulated Deferred Income Taxes | 4,960,218 | - | 4,960,218 |
| 26 | Accumulated Investment Tax Credit | 896,615 | - | 896,615 |
| 27 | Customer Advances for Construction | - | - | - |
| 28 | Customer Deposits | 129,399 | - | 129,399 |
| 29 | Accumulated Provision for Uncollectibles | 122,772 | - | 122,772 |
| 30 | Accumulated Provision for Injuries and Damages | 269,771 | - | 269,771 |
| 31 | Miscellaneous Operating Provisions | - | - | - |
| 32 | Other | - | 52,444 | 52,444 |
| 33 | TOTAL DEDUCTIONS TO RATE BASE | 6,378,775 | 52,444 | 6,431,219 |
| 34 | TOTAL SOUTH DAKOTA RATE BASE | \$ 41,405,437 | \$ 9,666,992 | \$ 51,072,429 |

Sources:

Line 6: Sum of lines 2 through 5
Line 8: Line 6 plus line 7
Line 14: Sum of lines 10 through 13
Line 15: Line 8 less line 14
Line 23: Sum of lines 17 through 22

Line 33: Sum of lines 25 through 32
Line 34: Line 15 plus 23 less line 33
Column b: KAS-2 Schedule 2, page 1, column b
Column c: KAS-2 Schedule 2, page 1, column k
Column d: column b plus column c

NorthWestern Energy
Docket NG07-013
South Dakota Gas Average Rate Base with Known and Measurable Adjustment
Adjusted Test Year Ending December 31, 2006

| Line No. | Description | South Dakota Test Year Average Per Books | Working Capital | Nekota Plant | Rate Case Expense | Freeman Plant Additions | Depreciation Rate Change | Updates | Sale of Aircraft (N246NW) | Purchase of Leased Aircraft (N778FW) | Nekota Deferred GPA Cost | Heartland Plant | Total Staff Adjustments | Total Staff South Dakota Rate Base |
|----------|---|--|------------------|--------------------------|-------------------|-------------------------|--------------------------|----------------|---------------------------|--------------------------------------|--------------------------|-----------------|-------------------------|------------------------------------|
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) | (k) | (l) | (m) | (n) | |
| 1 | Gas Plant in Service (101) | | | | | | | | | | | | | |
| 2 | Production | \$ 1,453,240 | | | | | | | | | | | \$ - | \$ 1,453,240 |
| 3 | Distribution | 59,574,648 | | 10,979,034 | | 1,321,825 | | | | | | | 12,300,859 | 71,875,507 |
| 4 | General | 2,447,270 | | | | | | | | | | | - | 2,447,270 |
| 5 | Common | 9,782,248 | | | | | | | (183,606) | 253,469 | | (12,334) | 57,529 | 9,819,777 |
| 6 | Total Gas Plant in Service (101) | 73,237,406 | - | 10,979,034 | - | 1,321,825 | - | - | (183,606) | 253,469 | - | (12,334) | 12,358,388 | 85,595,794 |
| 7 | Gas - Completed Construction Not Classified (106) | 80,917 | | | | | | | | | | | - | 80,917 |
| 8 | Total Gas Plant in Service (101 and 106) | 73,318,323 | - | 10,979,034 | - | 1,321,825 | - | - | (183,606) | 253,469 | - | (12,334) | 12,358,388 | 85,676,711 |
| 9 | Accumulated Depreciation | | | | | | | | | | | | | |
| 10 | Production | 657,790 | | | | | (795) | | | | | | \$ (795) | 656,995 |
| 11 | Distribution | 22,742,462 | | 2,249,884 | | 14,782 | (336,904) | | | | | | 1,927,742 | 24,870,204 |
| 12 | General | 817,072 | | | | | 18,616 | | | | | | 18,616 | 835,688 |
| 13 | Common | 3,284,237 | | | | | 48,432 | | (11,891) | 1,974 | | | 38,515 | 3,322,752 |
| 14 | Total Accumulated Depreciation | 27,501,561 | - | 2,249,884 | - | 14,782 | (270,551) | - | (11,891) | 1,974 | - | - | 1,984,079 | 29,485,640 |
| 15 | TOTAL NET GAS PLANT IN SERVICE | 45,816,762 | - | 8,729,170 | - | 1,307,043 | 270,651 | - | (171,715) | 251,495 | - | (12,334) | 10,374,310 | 56,191,072 |
| 16 | Additions to Rate Base: | | | | | | | | | | | | | |
| 17 | Material and Supplies | 392,070 | | | | | | 39,315 | | | | | 39,315 | 432,185 |
| 18 | Fuel Stocks (Propane & NG storage) | 1,574,560 | | | | | | (354,828) | | | | | (354,828) | 1,219,752 |
| 19 | Prepayments | | | | | | | 183,548 | | | | | 183,548 | 183,548 |
| 20 | Advanced Tax Collection | - | (120,738) | | | | | | | | | | (120,738) | (120,738) |
| 21 | Cash Working Capital | - | (661,602) | | | | | | | | | | (661,602) | (661,602) |
| 22 | Other | - | | | 75,000 | | | | | | | | 259,131 | 259,131 |
| 23 | TOTAL ADDITIONS TO RATE BASE | 1,967,450 | (782,340) | - | 75,000 | - | - | (131,665) | - | - | 184,131 | - | (654,874) | 1,312,576 |
| 24 | Deductions to Rate Base: | | | | | | | | | | | | | |
| 25 | Accumulated Deferred Income Taxes | 4,960,218 | | | | | | | | | | | - | 4,960,218 |
| 26 | Accumulated Investment Tax Credit | 896,615 | | | | | | | | | | | - | 896,615 |
| 27 | Customer Advances for Construction | - | | | | | | | | | | | - | - |
| 28 | Customer Deposits | 129,399 | | | | | | | | | | | - | 129,399 |
| 29 | Accumulated Provision for Uncollectibles | 122,772 | | | | | | | | | | | - | 122,772 |
| 30 | Accumulated Provision for Injuries and Damages | 269,771 | | | | | | | | | | | - | 269,771 |
| 31 | Miscellaneous Operating Provisions | - | | | | | | | | | | | - | - |
| 32 | Other | - | | | | | | | 52,444 | | | | 52,444 | 52,444 |
| 33 | TOTAL DEDUCTIONS TO RATE BASE | 6,370,775 | - | - | - | - | - | - | 52,444 | - | - | - | 52,444 | 6,431,219 |
| 34 | TOTAL SOUTH DAKOTA RATE BASE | \$ 41,405,437 | \$ (782,340) | \$ 8,729,170 | \$ 75,000 | \$ 1,307,043 | \$ 270,651 | \$ (131,665) | \$ (224,169) | \$ 251,495 | \$ 184,131 | \$ (12,334) | \$ 9,666,992 | \$ 51,072,429 |
| | Source | | RLK-1, Sch 1 & 2 | Statement N | NDS-1, Sch 4 | RLK-1, Sch 3 | KAS-1, Sch 6 | RLK-1, Sch 8 | KAS-1 Sch 5 | KAS-1 Sch 9 | KAS-1 Sch 9 | RLK-1 Sch 5 | | |
| | Staff Witness Testimony | Senger | Knadle | Senger | Solem | Knadle | Senger | Knadle | Senger | Senger | Senger | Knadle | | |
| | Staff position on MDU's Adjustment | Adjusted | Staff Proposed | Accepted with Conditions | Accepted | Adjusted | Staff Proposed | Staff Proposed | Staff Proposed | Staff Proposed | Staff Proposed | Staff Proposed | | |

NorthWestern Energy
Docket NG07-013
South Dakota Gas Average Rate Base with Known and Measurable Adjustment
Adjusted Test Year Ending December 31, 2006

Sources

Line 6: Sum of lines 2 through 5

Line 8: Line 6 plus line 7

Line 14: Sum of lines 10 through 13

Line 15: Line 8 less line 14

Line 23: Sum of lines 17 through 22

Line 33: Sum of lines 25 through 32

Line 34: Line 15 plus 23 less line 33

Column b, line 2: NWE - Schedule D-3, page 2 of 2, column (i), line 5

Column b, line 3: NWE - Schedule D-3, page 2 of 2, column (i), line 18

Column b, line 4: NWE - Schedule D-3, page 2 of 2, column (i), line 32

Column b, line 5: NWE - Exh JJD-1, Schedule 9.3, page 1 of 5, column (e), line 19 & response to DR2-25, Exhibit 18, page 2 of 2, column q, line 22.

Column b, line 7: NWE - Exh JJD-1, Schedule 9.3, page 2 of 5, column (e), line 19

Column b, line 10: NWE - Statement E, page 1 of 2, column (b), line 17

Column b, line 11: NWE - Statement E, page 1 of 2, column (c), line 17

Column b, line 12: NWE - Statement E, page 1 of 2, column (d), line 17

Column b, line 13: DR7-10 (exh 7-10) and NWE - Exh JJD-1, Schedule 9.3, page 1 of 5, column (e), line 39

Column b, line 17: NWE - Exh JJD-1, Schedule 9.3, page 3 of 5, column (e), line 19

Column b, line 18: NWE - Exh JJD-1, Schedule 9.3, page 4 of 5, column (e), line 39 plus
page 5, column e line 18

Column b, line 25: NWE - Exh JJD-1, Schedule 9.3, page 3 of 5, column (e), line 39

Column b, line 26: Response to DR2-36 - exhibit 23

Column b, line 27: Response to DR2-38 - exhibit 23

Column b, line 28: Response to DR2-37 - exhibit 23

Column b, line 29: Response to DR2-39 - exhibit 23

Column b, line 30: Response to DR2-41 - exhibit 23

Column b, line 31: Response to DR2-42 & 43 - exhibit 23

Column c, line 20: RLK-1 Schedule 1, column b, line 30

Column c, line 21: RLK-1 Schedule 1, column g, line 4

Column d, line 3: Statement N

Column d, line 11: Statement N

Column e, line 22: NDS-1, Schedule 4, column c, line 6

Column f, line 3: RLK-1, Schedule 3, page 1, column b, line 1

Column f, line 11: RLK-1, Schedule 3, page 1, column b, line 2

Column g, line 10: 1/2 depreciation as found on KAS-1, Schedule 6, column n, line 6

Column g, line 11: 1/2 depreciation as found on KAS-1, Schedule 6, column n, line 21

Column g, line 12: 1/2 depreciation as found on KAS-1, Schedule 6, column n, line 34

Column g, line 13: 1/2 depreciation as found on KAS-1, Schedule 6, column n, line 65

Column h, line 17: RLK-1, Schedule 8, column c, line 4

Column h, line 18: RLK-1, Schedule 8, column c, line 13

Column h, line 19: RLK-1, Schedule 8, column c, line 17

Column i, line 5: KAS-1, Schedule 5, line 7

Column i, line 13: KAS-1, Schedule 5, line 8

Column i, line 32: KAS-1, Schedule 5, line 6a

Column j, line 5: KAS-1, Schedule 9

Column j, line 13: 1/2 depreciation as found on KAS-1, Schedule 3, column af, line 16

Column k, line 22: KAS-1, Schedule 10, column b, line 6

Column l: Sum of columns c through k

Column m: Column b plus column l