

BEFORE THE SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

DOCKET NG07-013

**IN THE MATTER OF THE APPLICATION BY NORTHWESTERN
CORPORATION D/B/A NORTHWESTERN ENERGY FOR AUTHORITY TO
INCREASE RATES FOR NATURAL GAS SERVICE**

Testimony and Exhibits of

Nathan D. Solem

On Behalf of

the Staff of the Public Utilities Commission of South Dakota

October 19, 2007

- 1 **Q. Please state your name, business address and current position.**
2
- 3 A. My name is Nathan D. Solem and my business address is South Dakota Public
4 Utilities Commission, 500 East Capitol, Pierre, SD 57501. I am presently
5 employed as a Staff Utility Analyst.
6
- 7 **Q. Please describe your educational background and experience.**
8
- 9 A. I received a Bachelor of Science degree in Metallurgical Engineering from the
10 South Dakota School of Mines and Technology in May 1975. I received a Master
11 of Business Administration degree from the University of Phoenix in 1986. I had
12 over 20 years of industrial experience prior to commencing employment with the
13 Public Utilities Commission in January 2006. I have handled the General &
14 Administrative portion of one previous rate case for Staff.
15
- 16 **Q. Are you familiar with NorthWestern Energy's (NWE's) application for an
17 increase in revenue?**
18
- 19 A. Yes, I have reviewed the direct testimony of the Company witnesses, their
20 exhibits and the responses to Staff data requests pertinent to the preparation of
21 my testimony and exhibits.
22
- 23 **Q. What is the purpose of your testimony in this proceeding?**
24 A. I shall express my opinion regarding adjustments to NWE's charitable
25 contribution expenses, economic development expenses, industry and
26 association dues, lobbying expenses, advertising expenses, and rate case
27 expense.
28
- 29 **Q. Did NWE include charitable contribution expenses in the South Dakota test
30 year claimed cost of service?**
31
- 32 A. No. NWE has charged charitable contributions as a below the line item for rate
33 making purposes. No charitable contribution amounts were included in the South
34 Dakota test year claimed cost of service.

1 **Q. Do you have an opinion regarding the association dues NWE has proposed**
2 **to recover from South Dakota ratepayers?**

3
4 A. It is my opinion that an adjustment of (\$15,471.00) be made to NWE's cost of
5 service (see Exhibit__(NDS-1), Schedule 1). The organizational dues, which I
6 have excluded, consist of payments to the Utility Shareholders of South Dakota
7 organization. The Utility Shareholders of South Dakota was established as an
8 independent organization to represent the collective interests, rights and
9 concerns of utility investors in South Dakota. Membership in this organization is
10 not necessary for the rendition of safe, adequate and reliable gas service in
11 South Dakota. Also, NWE should not be allowed to force ratepayers to
12 contribute to organizations with which they may not be in agreement. The
13 American Gas Association (AGA), on the other hand, serves both shareholder
14 and ratepayer interests. Therefore, I have proposed using the most recent data
15 from AGA regarding 2006 lobbying activities to disallow the portion of AGA dues
16 related to lobbying (2.30 %). It has been a long-standing Staff policy not to allow
17 expenses for lobbying which ratepayers may not comport with. The Midwest
18 Energy Association does not participate in lobbying or public relations activities
19 but rather focuses on training, education and development so this expense was
20 allowed. The Energy Safety Association of South Dakota disseminates energy
21 safety practice information and has been fully allowed. The last adjustment in
22 the amount of (\$3,978) is due to a reassignment of association dues based on
23 allocation factors to direct allocation based on details provided in Data Response
24 1-1.

25
26 **Q. Based on your review of the filing and subsequent information provided by**
27 **NWE, what is your opinion regarding advertising expenses?**

28
29 A. I have accepted the company's proposed adjustment to books of (\$103,440.00)
30 for promotional and institutional advertising depicted on Schedule H-3 which
31 removes all those expenses from the cost of service. I have also accepted the
32 company's proposed adjustment of (\$2,000) to safety advertising as found on
33 Schedule H-3. I have adjusted the safety, informational and conservation
34 advertising to reflect the correct allocation of 20.9 % for South Dakota gas

1 operations for joint electric and gas advertising resulting in an adjustment of
2 \$5,360.26. I have also adjusted the safety carbon monoxide advertising to the
3 correct allocation of 55 % for gas company only ads resulting in an adjustment of
4 (\$5,785.33). These changes result in a net adjustment to FERC account 909
5 advertising of (\$425.07). See Exhibit ____ (NDS-1), Schedule 2. The total
6 adjustment to the per books amount for FERC accounts 909 and 913 advertising
7 is (\$105,865.07).

8
9 **Q. What is your opinion regarding economic development expenses proposed**
10 **by NWE to be included in the claimed cost of service?**

11
12 A. The Company has included \$2,839.00 for South Dakota gas economic
13 development expenses along with \$6,460.00 of associated labor and benefits in
14 the claimed cost of service. I recommend that the total amount of \$9,299.00 be
15 disallowed (see Exhibit __ (NDS-1), Schedule 3). If NWE wants to include
16 economic development expenses in rates, they should develop a program,
17 subject to Commission approval, whereby the ratepayer and the shareholder
18 share in the cost of the program and the program is designed to benefit
19 ratepayers as well as shareholders. Historically, Staff has included labor and
20 benefits in economic development costs since most companies track this
21 particular labor cost.

22
23 **Q. What are you recommending with regard to NorthWestern Energy's rate**
24 **case expense?**

25
26 A. I have accepted NWE's proposed adjustment for rate case expense of \$150,000
27 amortized over five years with half of the rate case expense added to rate base
28 (see Exhibit __ (NDS-1), Schedule 4).

29
30 **Q. Has NWE included any lobbying expenses in the cost of service?**

31
32 A. No. NWE has proposed an adjustment of (\$2,537.00) to remove all known and
33 measurable lobbying expenses from utility operating expense. I concur with this
34 adjustment.

1

2 **Q. Does that conclude your testimony?**

3 Yes.

	(a)	Company Per Books (b)	Staff Pro Forma Adjustments (c)
1	Energy Safety Association of SD	\$1,045	
2	Utility Shareholders of South Dakota	\$11,286	\$(11,286)
3	Midwest Energy Association	\$3,342	
4	AGA Membership Dues	\$8,993	\$(207)
5	O & M Adjustment to Correct Reassignment of Dues		\$(3,978)
6	Total	\$24,666	\$(15,471)
6	Staff Pro Forma adjustment		\$(15,471)

Sources:
 Columns a & b, Lines 1-4: Data Response 1-11
 Column c, Line 4: 2.30 % of b4 based on 2006
 lobbying activities per AGA email to Solem.
 Line 6 Column c: Represents total adjustment
 Column c, Line 5: Page 13 of Exhibit 1 in Data
 Response 1, SD Gas Column, last line
 and phone call from Jeff Decker on 10-5-07.

	(a)	Advertising Expenses Company Per Books (b)	Staff Pro Forma Adjustments (c)
1	Account 909 Advertising	\$56,326	\$(2,000)
2	Account 913 Advertising	\$103,440	\$(103,440)
3	Adjustment to correct SD gas allocation factor		\$5,360.26
4	Adjustment to correct CO ad allocation factor		\$(5,785.33)
	Total	\$159,766	\$(105,865.07)
5	Staff Pro Forma Total adjustment		\$(105,865.07)

Sources:

Column a and b, Line 1: Schedule H-3, Page 1
of 1, Lines 2-5, column c
Column c, Line 1: Schedule H-3, Page 1 of 1,
Lines 3, column d
Column a and b, Line 2: Schedule H-3, Page 1
of 1, Lines 6-7, column c
Column c, Line 2: Schedule H-3, Page 1 of 1,
Lines 6-7, column d
Column c, Line 3: Adjustment of \$5,360.26 to
use correct allocation factor of 20.9 % instead
of 17.1 %
for all ads common to gas and electric. (Data
Response 2-3 and Work Paper NDS-01.)
Column c, Line 4: Adjustment of (\$5,785.33) to
use correct factor for CO ads of 55 % instead of
68%.
(Data Response 2-3 and Work Paper NDS-01.)

NorthWestern Corporation, dba
NorthWestern Energy
South Dakota - Gas

Economic Development

Adjusted Test Year Ended December 31,
2006

Exhibit _____
_(NDS-1)
Schedule 3
Page 1 of 1

		Other O & M Expenses Per Books	Staff Pro Forma Adjustments
	(a)	(b)	(c)
1	Economic Development	\$2,839	\$(2,839)
2	Labor and Benefits	\$6,460	\$(6,460)
	Total	\$9,299	\$(9,299)
3	Staff Pro Forma adjustment - Total Company		\$(9,299)
4	Staff Pro Forma adjustment		\$(9,299)

Sources:

Column b, Line 1: Data response 1-10
(Exhibit 5)
Column b, Lines 2: Data response 1-15
Column c, Line 4: represents total
adjustment

CO	\$44,556.69		\$24,506.18	\$30,291.51	\$24,506.18	\$(5,785.33)
Commeri						
cial						
	<u>\$185,194.53</u>	<u>\$24,033.05</u>	<u>\$53,899.49</u>			<u>\$(425.07)</u>