

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

**In the matter of:** )  
**NORTHWESTERN CORPORATION** )  
**d/b/a NorthWestern Energy, Applicant** ) **Docket No. NG07-\_\_\_\_**

**Application of NorthWestern Corporation  
d/b/a NorthWestern Energy**

**For Increased Natural Gas Rates**

**December 31, 2006 Test Year**

**Testimony & Exhibits**

**NorthWestern Energy**

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

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**IN RE:** )  
 ) **Docket No. NG07-\_\_\_\_\_**  
**NORTHWESTERN CORPORATION,** )  
**d/b/a NorthWestern Energy** )

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**DIRECT TESTIMONY OF MICHAEL J. HANSON**  
**ON BEHALF OF NORTHWESTERN ENERGY**

**Q. Please state your name and business address for the record.**

A. Michael J. Hanson, 125 S. Dakota Avenue, Sioux Falls, South Dakota 57104.

**Q. By whom are you employed and in what position?**

A. I am employed by NorthWestern Corporation, dba NorthWestern Energy,  
("NorthWestern" or "Company") as its President and Chief Executive Officer (CEO).

**Q. Please describe your education and business experience.**

A. I have been the President and CEO for the Company since March of 2005. I served as President and CEO of NorthWestern Public Service beginning in May 1998 until becoming Chief Operating Officer of NorthWestern Corporation from August 2003 to March 2005 and served as its President from March 2005 until May 2005 when I was named as the CEO as well. I was employed seventeen years with Northern States Power (NSP) in a variety of positions before coming to NorthWestern. I was General Manager and CEO of NSP – South Dakota from 1994-1998. I attended the United States Naval Academy from 1977-79 and graduated from the University of Wisconsin in 1982 with a Bachelor of Science in accountancy. I received a Juris Doctor degree from William Mitchell College of Law in 1989. Exhibit \_\_\_\_ (MJH-1) contains a listing of my education and business experience.

1 **Q. What is the purpose of your prepared direct testimony?**

2 A. In my prepared direct testimony, I will describe NorthWestern's rate filing and an  
3 overview of why NorthWestern is proposing an increase in its South Dakota natural gas  
4 distribution rates at this time.

5 **Q. Please describe the organization and operation of NorthWestern.**

6 A. NorthWestern is an electric and natural gas distribution utility operating in the states of  
7 South Dakota, Nebraska and Montana. Since NorthWestern's last natural gas rate filing  
8 in 1999, NorthWestern acquired the electricity and natural gas transmission and  
9 distribution assets and natural gas storage assets of the former Montana Power  
10 Company in February 2002. NorthWestern is an electric transmission and distribution  
11 utility in MT, as it does not own generation. In SD, NorthWestern is a vertically  
12 integrated electric utility. In both SD and NE, NorthWestern is a natural gas distribution  
13 and transmission utility. NorthWestern serves 110 electric and 60 natural gas South  
14 Dakota communities with approximately 42,500 natural gas and 59,250 electric  
15 customers in its South Dakota service territory. It also provides natural gas service to  
16 approximately 41,300 customers in four communities in Nebraska. NorthWestern  
17 provides electric services to approximately 322,000 customers in 187 communities in  
18 MT while its natural gas business serves approximately 174,000 customers in 105  
19 communities.

20 **Q. What is the purpose of this rate filing?**

21 A. The purpose is to request a rate adjustment that will allow NorthWestern an opportunity  
22 to earn an appropriate return on the Company's natural gas operations in South Dakota.  
23 NorthWestern last filed for a rate adjustment in 1999. Since that filing, NorthWestern  
24 has experienced increased costs in operating its natural gas utility. Additional federal  
25 government regulations have also increased the cost of operating a natural gas utility.

1 Further, the filing adds the town of Freeman to NorthWestern's service territory map and  
2 brings Freeman customers into NorthWestern's natural gas cost and rate structure.

3 **Q. Please describe the rate increase request?**

4 A. NorthWestern proposes an increase in natural gas distribution rates of approximately  
5 5.47%. Details of the proposed rates and charges are described in the direct testimony  
6 and exhibits of Jeff Decker.

7 **Q. Please describe NorthWestern's customer notification of the proposed increase.**

8 A. Simultaneous with the filing of NorthWestern's Application for a natural gas rate  
9 adjustment with the South Dakota Public Utilities Commission, NorthWestern will post a  
10 notice of proposed increase in all of its offices. On the same day, a release will be  
11 issued to the news media. Each customer will be mailed a postcard with the following  
12 information:

- 13 • notification of the natural gas rate filing with the South Dakota Public  
14 Utilities Commission;
- 15 • a description of their rights to participate in the Commission's rate review  
16 process, as prescribed in state statute; and,
- 17 • how they can view the proposed rate changes at our local offices, on  
18 NorthWestern's website ([www.northwesternenergy.com](http://www.northwesternenergy.com)), or at the  
19 Commission's website ([www.puc.sd.us](http://www.puc.sd.us)).

20 After final approval of rates by the Public Utilities Commission, a notice will be mailed to  
21 all South Dakota natural gas customers informing them of any rate changes approved  
22 by the Commission. Copies of any approved rate increase will also be available at  
23 NorthWestern's local offices and its website will be updated to appropriately reflect any  
24 approved rate changes.

25 **Q. Please explain what communities and industries NorthWestern has brought natural**

1           **gas to since its last South Dakota natural gas rate filing.**

2           A.     NorthWestern is committed to meeting the natural gas needs of all of its existing and new  
3           natural gas customers in South Dakota. At the request of the City of Freeman,  
4           NorthWestern successfully completed the purchase of their natural gas distribution  
5           system in early 2007 along with the associated pipeline system of Associated Milk  
6           Producers, Inc. (AMPI). NorthWestern also expanded its natural gas distribution system  
7           to support South Dakota's agricultural economy. System expansions have been made  
8           to help make possible a number of ethanol plants in Mitchell (Prairie Ethanol), Aurora  
9           (VeraSun Energy), Chancellor (Great Plains Ethanol), Groton (James Valley Ethanol),  
10          Hudson (Sioux River Ethanol) and Redfield (Redfield Energy). NorthWestern will  
11          continue to work with all customers to add growth and value to their operations and the  
12          economic well being of South Dakota.

13          **Q.     In addition to the expansion of its distribution system, what other developments**  
14          **have taken place at NorthWestern to add value to the service provided by**  
15          **NorthWestern to its customers?**

16          A.     NorthWestern replaced approximately 55,000 feet of main and over 1,900 services of  
17          Century brand natural gas pipe at a cost of \$4.7 million between 2002 and 2006.  
18          Recently NorthWestern made an organizational decision to merge its Nekota pipeline  
19          assets into the rate regulated portion of its utility business. NorthWestern received the  
20          Commission's approval on March 27, 2007 for the contracts with deviation associated  
21          with affected Nekota customers and established a deferral account for the purchased  
22          natural gas adjustment costs until these costs could be dealt with in this natural gas rate  
23          filing.

24          **Q.     What is NorthWestern doing to improve customer service and increase system**  
25          **efficiency and reliability?**

1 A. NorthWestern is constantly searching for ways to improve service to both its customers.  
2 Furthermore, NorthWestern continuously surveys its customers to determine what can  
3 be done to enhance the value of our services. Finally, NorthWestern is constantly  
4 reviewing its processes and procedures to keep them current and state of the art. This  
5 constant evolution will enable NorthWestern to anticipate and meet changes in the utility  
6 industry.

7 **Q. Does that conclude your prepared direct testimony?**

8 A. Yes, it does.

**Michael J. Hanson**  
**Education and Work Experience Synopsis**

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**MICHAEL J. HANSON**  
47258 272<sup>nd</sup> Street  
Sioux Falls, South Dakota 57108

Position: President & CEO  
NorthWestern Corporation

Date Effective: May 2005

Job History: 2004-2005 NorthWestern Corporation -- Chief Operating Officer  
2002-2003 NorthWestern Energy -- President & CEO  
2000-2002 NorthWestern Services Group -- President & CEO  
1998-00 NorthWestern Public Service - President & CEO  
1994-98 Northern States Power - General Manager & Chief Executive  
1989-94 Northern States Power - Attorney  
1984-89 Northern States Power - Internal Auditor  
1983-84 Northern States Power - Accountant  
1981-83 Northern States Power - Accounting Coordinator  
1981-82 Northern States Power - Gas Operating Clerk

Birth: December 12, 1958  
Sparta, Wisconsin

Military Service: Navy, 1977-1979  
Midshipman (W-4)

Education: Sparta Senior High School, 1977  
United States Naval Academy, 1977-79  
University of Wisconsin, 1982, BS  
William Mitchell College of Law, 1989, Juris Doctor

Family: Married Laura K. Eggers, Sparta, Wisconsin, February 16, 1980  
Children - Justin M. Hanson - born May 25, 1982  
Danielle M. Hanson - born March 19, 1985

Directorships:  
- South Dakota Rural Enterprises, Inc. (1998-1999 & 2001-Present)

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- South Dakota Electric Utility Companies (Chairman) (1994 – Present)
  - Sioux Falls Development Foundation (1994-1998) & (2000-Present)
  - Sioux Council Boy Scouts Board (1994-2002) (President/1999-2000)
  - Fargo Cass County Economic Development Corp (1997-1998)
  - Sioux Vocational Services (1994-1997)
  - Sioux Empire United Way (1994-1997)
  - Huron Regional Medical Center Foundation Board (Vice Chairman) (1999-2001)
  - Marquette Bank - Sioux Falls (1994-2001)

Club and Association Memberships:

- Edison Electric Institute
- Minnesota State Bar Association
- Hennepin County Bar Association
- American Bar Association
- Institute of Internal Auditors
- North East Council of Governments
- Downtown Rotary Club, Sioux Falls
- Gloria Dei Lutheran Church

Recognitions:

- Juris Doctor Magna Cum Laude (1989)
- Certificate of Excellence – Certified Internal Auditor Exam (1984)
- James R. Kelly Award (CIA Exam) (1984)
- Daughters of the American Revolution Good Citizenship Award (1977)

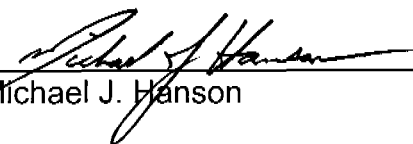


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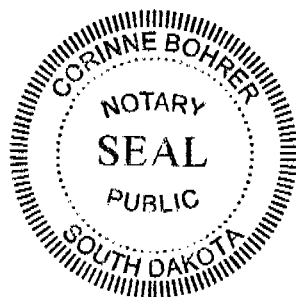
STATE OF SOUTH DAKOTA    )  
  ) ss  
COUNTY OF MINNEHAHA    )


I, Michael J. Hanson, being first duly sworn on oath, do depose and state that I have read this document and am familiar with the contents thereof and the same are true to the best of my knowledge and belief.

FURTHER THE AFFIANT SAYETH NOT.

  
\_\_\_\_\_  
Michael J. Hanson

Subscribed and sworn to before me this   1   day of May, 2007.



  
\_\_\_\_\_  
Notary Public in and for the State of South Dakota  
Commission Expires: January 30, 2009



1 BEFORE THE PUBLIC UTILITIES COMMISSION

2  
3 OF THE STATE OF SOUTH DAKOTA

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8 **IN RE:** )  
9 ) **Docket No. NG07-\_\_\_\_\_**  
10 **NORTHWESTERN CORPORATION** )  
11 **d/b/a NorthWestern Energy** )

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13  
14 **PREFILED DIRECT TESTIMONY OF KENDALL G. KLIEWER**  
15 **ON BEHALF OF NORTHWESTERN ENERGY**

16  
17 **Table of Contents**

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27 **Exhibits**

Jurisdictional Allocation of Shared Administrative Costs	<b>Exhibit_(KGK-1)</b>
Electric and Gas Allocation of Shared Administrative Costs	<b>Exhibit_(KGK-2)</b>

28  
29  
30  
31 **Witness Information**

32  
33 **Q. Please state your name and business address.**

34 **A. Kendall Kliewer, 125 South Dakota Avenue, Sioux Falls, South Dakota, 57104.**

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

2 **A.** I am the Vice President and Controller of NorthWestern Corporation (NWE or  
3 NorthWestern).

4  
5 **Q. Please summarize your educational and employment experiences.**

6 **A.** I have been the Chief Accountant of NorthWestern since November 2002, the  
7 Controller since July 2004 and a Vice President since August 2006. My primary  
8 responsibilities include, among other duties, overseeing compliance with financial  
9 reporting requirements established by the Securities and Exchange Commission  
10 (SEC) and other regulatory agencies, technical research with regard thereto,  
11 reviewing NWE's financial statements, and implementing and overseeing  
12 accounting policies and procedures. Previously, I was a Senior Manager at KPMG  
13 LLP in Lincoln, Nebraska. I was employed by KPMG from September 1996  
14 through September 1998 and again from October 1999 through November 2002,  
15 when I joined NorthWestern. During my tenure at KPMG, I coordinated financial  
16 statement audits, consulted clients on appropriate accounting practices and SEC  
17 reporting requirements, assisted clients with the preparation and review of various  
18 SEC filings, and planned and supervised audits. From September 1998 through  
19 October 1999, I was the Vice President – Regulatory Reporting Accountant, of  
20 TierOne Bank in Lincoln, Nebraska, where I was responsible for the preparation  
21 and review of various regulatory reports requiring a working knowledge of  
22 regulatory accounting principles, generally accepted accounting principles and  
23 income tax reporting requirements. I have a Bachelor of Science in Business  
24 Administration from the University of Nebraska and am a certified public  
25 accountant.

26  
27 **Purpose of Testimony**

28  
29 **Q. What is the purpose of your testimony?**

30 **A.** My testimony:

- 31 1. Provides background for any changes in the accounting function since the last  
32 rate filing, Docket No. NG99-02;

2. Discusses NorthWestern's method of allocating shared administrative costs;
3. Presents a detailed explanation of various adjustments to the income statement provided in this filing; and
4. Discusses cash working capital requirements.

## **Changes in the Accounting Function**

### **Q. What has changed since Docket No. NG99-002?**

**A.** NorthWestern has experienced many changes since the last rate filing. The most significant are as follows:

- Acquisition of Montana Power Utility Assets;
- Implementation of a new SAP Software System; and,
- Use of Fresh-Start Reporting due to NorthWestern's Bankruptcy.

### **Acquisition Montana Power Utility Assets**

On February 15, 2002, we completed the asset acquisition of the former Montana Power Company's (Montana Power) energy transmission and distribution business. As a result of the acquisition we have adopted new methods of allocating administrative costs as further described below.

### **Implementation of a new SAP Software System**

In July 2002, we replaced our previous general accounting system with SAP, a fully integrated enterprise-wide accounting software system. Through this system, our primary chart of accounts consists of a "natural chart of accounts" (NCOA) for SEC and internal reporting purposes, with an automated conversion to the Uniform System Chart of Accounts (USCOA) for regulated reporting purposes, including the Federal Energy Regulatory Commission (FERC), and the South Dakota Public Utilities Commission. The NCOA contains transactional detail in the Controlling (CO) Module through cost objects such as profit centers, cost centers and orders. This data is summarized and translated into FERC accounts through specialized FERC module configuration in SAP, as transactions cannot be posted directly to FERC

1 accounts. The FERC module provides the ability to drill down from a FERC account  
2 into the CO Module to obtain the transactional detail.

3  
4 **Use of Fresh-Start Reporting due to NorthWestern's Bankruptcy**

5 On September 14, 2003, we filed a voluntary petition for relief under the provisions  
6 of Chapter 11 of the Federal Bankruptcy Code in the United States Bankruptcy Court  
7 for the District of Delaware. On October 19, 2004, the Bankruptcy Court entered an  
8 order confirming our Plan of Reorganization (Plan), which became effective on  
9 November 1, 2004.

10  
11 In connection with our emergence from Chapter 11, effective the close of business  
12 on October 31, 2004, we applied fresh-start reporting under the American Institute of  
13 Certified Public Accountants (AICPA) Statement of Position (SOP) 90-7, *Financial*  
14 *Reporting by Entities in Reorganization Under the Bankruptcy Code*. The application  
15 of fresh-start reporting included the following:

- 16
- 17 • The reorganization value was allocated to the assets in conformity with the  
18 procedures specified by Statement of Financial Accounting Standards (SFAS)  
19 No. 141, Business Combinations. The enterprise value exceeded the sum of  
20 the amounts assigned to assets and liabilities, with the excess allocated to  
21 goodwill.
  - 22 • Deferred taxes were reported in conformity with applicable income tax  
23 accounting standards, principally SFAS No. 109, Accounting for Income  
24 Taxes. Deferred taxes assets and liabilities were recognized for differences  
25 between the assigned values and the tax basis of the recognized assets and  
26 liabilities.
  - 27 • Adjustment of our qualified pension and other postretirement benefit plans to  
28 their projected benefit obligation by recognition of all previously unamortized  
29 actuarial gains and losses.
  - 30 • Reversal of all items included in other comprehensive loss, including  
31 recognition of the minimum pension liability, recognition of all previously

1 unrecognized cumulative translation adjustments and removal of a hedge  
2 gain associated with unsecured debt.

- 3 • Each liability existing as of the Plan confirmation date, other than deferred  
4 taxes, was recorded at the present value of amounts to be paid determined at  
5 our computed incremental borrowing rate.

### 6 7 **Allocated Shared Administrative Costs**

8  
9 We have three regulatory jurisdictions consisting of Montana, South Dakota and  
10 Nebraska. In addition, we have unregulated electric operations consisting of our  
11 lease of a 30% share of Colstrip Unit 4 in Montana and unregulated natural gas  
12 operations consisting of gas supply and management services in South Dakota. Our  
13 administrative costs are allocated between jurisdictions and regulated and  
14 unregulated operations by utilizing a 3-factor formula, consisting of gross plant,  
15 labor, and revenue. The most recent jurisdictional allocation methodology is  
16 attached as Exhibit\_(KGK-1).

17  
18 In addition, we utilize a 4-factor formula to allocate shared costs between South  
19 Dakota electric and gas operations and Nebraska gas operations consisting of net  
20 plant in service, revenue, direct electric and gas expenses, and direct electric and  
21 gas payroll expense charged to O&M and construction. The most recent electric and  
22 gas allocation methodology is attached as Exhibit\_(KGK-2).

### 23 24 **Normalization Adjustments**

25 **Q. What are your explanations of the various adjustments to the income  
26 statement provided in this filing?**

27 **A.** The following narrative discusses each of these items, which are reflected in  
28 Statement N:

#### 29 30 ***Adjustment No. 4 – Rate Case Expense***

31 Consistent with prior ratemaking treatment, we have included estimated rate case  
32 expense of \$150,000 for this filing. This level of cost is proposed to be amortized

**KGK-5**

1 into expense equally over a 5-year period. Included in this estimate of cost are  
2 consultant and other outside expenses of \$50,000 and SDPUC rate case fund costs  
3 in the amount of \$100,000.

4  
5 ***Adjustment No. 5 – Merger and Acquisition (M&A) and Nonutility Costs***

6 The vast majority of M&A and nonutility related costs are tracked in specific orders  
7 and excluded from the amounts in of Statement N page 4 of 6. We did identify  
8 various costs related to the merger, bankruptcy, and other nonutility items that were  
9 allocated to the jurisdictions and have been removed from this filing. These primarily  
10 consisted of year-end legal accruals, tax related services, aircraft expenses and  
11 Board of Director fees related to the merger.

12  
13 ***Adjustment No. 6 – Advertising Expense***

14 Consistent with prior ratemaking treatment, this adjustment was made to reflect the  
15 removal of known and measurable promotional and institutional advertising expense  
16 originally recorded as a utility operating expense.

17  
18 ***Adjustment No. 7 – Labor Expense***

19 Consistent with prior ratemaking treatment, actual base year labor allocated or  
20 directly charged to South Dakota operations was increased 3 percent, or \$119,372,  
21 which is consistent with the average range of recent annual salary adjustments to  
22 employees.

23  
24 ***Adjustment No. 8 – Intra-Company Rent on Capitalized Common Assets***

25 There are certain assets that have been capitalized by one regulatory jurisdiction but  
26 are used by all jurisdictions. These “common assets” are entirely associated with  
27 computer software programs and computer hardware equipment. For example,  
28 Montana Power initially purchased and implemented SAP in 2000. This software  
29 was in use upon the acquisition by NorthWestern and is now used as our enterprise-  
30 wide accounting system. Since these common assets are used across jurisdictions,  
31 the associated operating costs should also be shared among the jurisdictions. To  
32 that end, a rental charge has been established so that South Dakota is charged for



1 using Montana common assets and Montana is charged for using South Dakota  
2 common assets. During 2005, we began separating the asset cost between  
3 jurisdictions, which removed the need for intra-company rental charges for assets  
4 placed in service after that date.

5  
6 ***Adjustment No. 9 – Interest Synchronization***

7 Consistent with prior ratemaking treatment, this adjustment reflects the change in  
8 Federal income taxes by using the interest synchronization method of computing the  
9 interest deduction for income tax purposes. Under this method, interest in the  
10 income tax calculation was set to be equal to the implied interest in our proposed  
11 cost of capital included in this filing.

12  
13 ***Adjustment No. 10 – Insurance Actuarial Adjustment***

14 In December 2006, we decreased our self-insurance reserves based on an updated  
15 annual actuarial valuation. The following is the detail of this entry:

16  
17

General liability	\$ 17,574
Worker's compensation	\$ 11,579
Automobile	\$ 6,171

18  
19  
20

21 As this valuation includes factors that were not part of our normal course of  
22 business, this entry was reversed as a normalizing adjustment to the 2006 actual  
23 income statement.

24  
25 ***Adjustment No. 11 – Depreciation Rate Change***

26 NorthWestern had a depreciation study completed by Foster and Associates in  
27 2006. This study covered the gas and common assets of South Dakota and  
28 Nebraska. The report presents a recommendation that NorthWestern adopt straight-  
29 line, vintage-group, remaining-life rates and record depreciation expense using  
30 primary account accrual rates that composite to 2.81 percent for gas operations and  
31 5.14 percent for common plant used for both gas and electric operations.

1       **Adjustment No. 12 – Association Dues**

2       Consistent with prior ratemaking treatment, this adjustment was made to reflect the  
3       reassignment of association dues to ensure this filing only includes dues allocable to  
4       the South Dakota natural gas jurisdiction.

5  
6       **Adjustment No. 14 – Eliminate O&M Charged to Nekota**

7       In 2006, we charged our unregulated business Nekota (pipeline) a management fee  
8       for the use of utility personnel. This charge covered supervision, engineering, and  
9       administrative people and was calculated using time studies. As Nekota has been  
10      merged into the utility, this management fee was eliminated and an adjustment was  
11      made to reflect a normalized level of labor expense.

12  
13      **Adjustment No. 15 – Stock Grants**

14      In late 2006, approximately 305,155 shares were granted under our stock-based  
15      incentive plan covering all non-officer employees. In addition, during 2006,  
16      NorthWestern's Board of Directors approved a long-term incentive plan covering  
17      officers and various management level employees of the company. As a result, this  
18      adjustment was to normalize the actual expense as if the shares were granted and  
19      the long-term incentive plan was approved at the beginning of the year and  
20      amortized on a straight-line basis over three years.

21  
22      **Adjustment No. 16 – IT Upgrade Labor**

23      In 2006, we utilized internal labor to perform an upgrade on the SAP system. As  
24      these labor costs were capitalized as part of the software upgrade project, this  
25      adjustment was made to reflect a normalized level of labor expense.

26  
27      **Adjustment No. 17– Government Lobby Related Costs**

28      Consistent with prior ratemaking treatment, this adjustment was made to reflect the  
29      removal of known and measurable government related costs originally recorded as a  
30      utility operating expense.

1       ***Adjustment No. 19 – Ad Valorem Tax Allocation***

2       Ad valorem taxes were initially allocated between electric and natural gas operations  
3       using the 4-factor formula described above. Upon review for this rate filing,  
4       NorthWestern determined it would be more appropriate to allocate ad valorem taxes  
5       based on net plant in service. This adjustment results from the change in allocation  
6       factors.

7  
8       **Cash Working Capital Requirements**

9  
10      **Q. Has NorthWestern made a claim for cash working capital?**

11      **A.** No, NorthWestern has not made a claim for cash working capital. Based on an  
12      internally completed lead lag analysis, NorthWestern's cash working capital  
13      requirements are negative. NorthWestern's cash working capital requirements may  
14      fluctuate significantly from year to year based on seasonal weather patterns,  
15      changes in market prices of supply costs and other factors. A negative figure  
16      resulting from a lead lag analysis does not represent an amount that is constant and  
17      available for investment by the company with any reasonable certainty. Therefore,  
18      NorthWestern does not believe a negative working capital allowance should be  
19      treated as a reduction to rate base. In addition, such a reduction does not promote  
20      efficient cash management.

21  
22      **Q. Does this complete your testimony?**

23      **A.** Yes, it does.

NorthWestern Energy  
 2006 UTILITY ADMINISTRATION STUDY

*Plant Allocation (000's Omitted)*

	In-Service	CWIP	Common Plant	Gross Plant	Percent
MTU	1,596,464	15,987	0	1,612,451	74.81%
NPS	509,246	6,190	0	515,437	23.91%
CU4	26,721	744		27,465	1.27%
<b>Total</b>	<b>2,132,431</b>	<b>19,805</b>	<b>0</b>	<b>2,155,352</b>	<b>100.00%</b>

Source: SAP Trial Balance Account 160000-165999 MT12-100, SD12-100

Revenue

MTU	332,386	52.87%
NPS	199,516	31.74%
CU4	96,739	15.39%
<b>Total</b>	<b>628,642</b>	<b>100.00%</b>

Source: Historical Income by Segment (Profit Centers) MT01-100, SD01-100

Operating Labor Allocation (000's Omitted)

MTU	37,292	78.80%
NPS	10,031	21.20%
CU4	0	0.00%
<b>Total</b>	<b>47,323</b>	<b>100.00%</b>

Source: SAP Trial Balance Account 503000-503999

Allocation of Factors

*Gross Plant:*

	MTU	74.81%
	NPS	23.91%
	CU4	1.27%

*Revenue:*

	MTU	52.87%
	NPS	31.74%
	CU4	15.39%

*Direct Labor:*

	MTU	78.80%
	NPS	21.20%
	CU4	0.00%

	Plant	Revenue	Labor	Total	%
Total MTU	74.81%	52.87%	78.80%	206.48%	68.83%
Total NPS	23.91%	31.74%	21.20%	76.85%	25.62%
Total CU4	1.27%	15.39%	0.00%	16.66%	5.55%

#### 2006 Planned NPS Common Cost Allocations

To allocate the shared costs between SD Electric, SD Gas, and NE Gas, a 4 factor approach is utilized that is consistent with SD/NE PUC past methodology.

The factors utilized to allocate costs include:

1. Net Plant in Service - Electric and Gas
2. 12 month ended May 05 Revenue for Electric and Gas
3. Direct electric and gas expenses
4. Direct electric and gas payroll expense charged to O&M and Construction

The Factors are weighted equally to come up with the breakdown between electric and gas.

After this, the total gas percentage is broken out between SD and NE by applying their respective 4 factor percentage to the overall gas percent.

The 2006 planned allocations are as follows:

Electric	62%
SD Gas	20.90%
NE Gas	17.10%

Common Gas only costs are allocated between SD and NE as follows:

SD Gas	55%
NE Gas	45%

The methodology and results were developed by Jeff Decker and are consistent with past practices.



**AFFIDAVIT**

STATE OF SOUTH DAKOTA    )  
  ) ss  
COUNTY OF MINNEHAHA    )

I, Kendall Kliewer, being first duly sworn on oath, do depose and state that I have read this document and am familiar with the contents thereof and the same are true to the best of my knowledge and belief.

FURTHER THE AFFIANT SAYETH NOT.

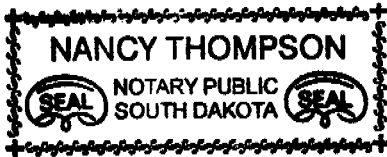


\_\_\_\_\_  
Kendall Kliewer

Subscribed and sworn to before me this 1st day of May, 2007.

Nancy Thompson  
Notary Public and for the State of South Dakota

(SEAL)



MCE 3/20/12

