

Prefiled Direct Testimony
Brian B. Bird

Before the South Dakota Public Utilities Commission
of the State of South Dakota

In the Matter of the Application of
NorthWestern Corporation, d/b/a NorthWestern Energy

For Authority to Increase Electric Utility Rates
in South Dakota

Docket No. EL23-_____

June 15, 2023

TABLE OF CONTENTS

Witness Information.....	1
Purpose and Summary of Testimony	1
NorthWestern Energy’s Responsibility and Services.....	2
Overview of NorthWestern Operations.....	12
Rate Review Overview	14
Introduction of Witnesses	14

1 **Witness Information**

2 **Q. Please identify yourself, your employer, and your job title.**

3 **A.** My name is Brian B. Bird. I am NorthWestern Energy’s (“NorthWestern” or
4 “Company”) President and Chief Executive Officer.

5
6 **Q. Please provide a description of your relevant employment experience and
7 other professional qualifications.**

8 **A.** I have 37 years of experience within the fields of corporate finance, treasury, tax,
9 audit, and accounting and was promoted to my current position on January 1,
10 2023. Prior to that, I served two years as NorthWestern’s President and Chief
11 Operating Officer and 18 years as Chief Financial Officer.

12
13 I have Bachelor’s degrees in both Finance and Accounting and a Master’s degree
14 in Finance and hold a Certified Public Accountant certificate.

15
16 **Purpose and Summary of Testimony**

17 **Q. What is the purpose of your testimony?**

18 **A.** The purpose of my testimony is to provide the overarching policy testimony that
19 guides NorthWestern’s 2023 Regulatory Rate Review for our South Dakota
20 electric utility. I introduce NorthWestern’s witnesses who provide a more detailed
21 explanation of NorthWestern’s major initiatives and investments in the utility
22 infrastructure needed to provide critical energy services that have occurred since
23 out last electric rate review in South Dakota and the reasons the South Dakota
24 Public Utilities Commission (“Commission”) should grant our request.

25 **Q. Please summarize your testimony.**

1 **A.** NorthWestern’s goal in this rate review is to seek recovery of the costs incurred to
2 provide safe and reliable service to our customers since our last electric rate
3 review. Timely cost recovery is necessary to ensure that NorthWestern is able to
4 continue meeting our customers’ needs for safe and reliable service at reasonable
5 rates.

6
7 Since our last electric rate review considered by the Commission in 2014 in
8 Docket EL14-106, NorthWestern has invested over \$267 million dollars in our
9 South Dakota electric critical infrastructure business and currently is not
10 recovering the costs of these investments.

11
12 In pursuit of this goal, consistent with prior rate reviews, NorthWestern includes: a
13 presentation of updated cost of service to support our request for authorized
14 revenue requirement for a 2022 test year with adjustments for known and
15 measurable adjustments for 2023, updated depreciation rates, and an updated
16 rate of return.

17
18 **NorthWestern Energy’s Responsibility and Services**

19 **Q. Please provide an overview of NorthWestern and the services it provides.**

20 **A.** For more than 100 years, NorthWestern has delivered safe, reliable, and
21 innovative energy solutions. We build, maintain, and operate electric and natural
22 gas systems in Montana, South Dakota, Nebraska, and Yellowstone National
23 Park, as reflected in Figure 1 below.

Figure 1: Our Service Territory



1 NorthWestern’s 1,483 employees serve a total of 764,200 natural gas and electric
2 customers across Montana, South Dakota, and Nebraska, which encompasses
3 electric service to 318 communities and natural gas service to 183 communities.
4 Within South Dakota, NorthWestern’s 267 employees serve 64,700 electric
5 customers and 49,397 natural gas customers in 116 communities collectively. This
6 rate review is limited to the cost of service related to our South Dakota electric
7 customers. In addition to the ownership and operation of critical electric and
8 natural gas transmission and distribution systems and natural gas production,
9 NorthWestern owns and operates a diverse generation fleet of hydro, wind, natural
10 gas, and coal-fired resources that is 55% carbon free for our utility overall and
11 45% carbon free in South Dakota in 2022.¹

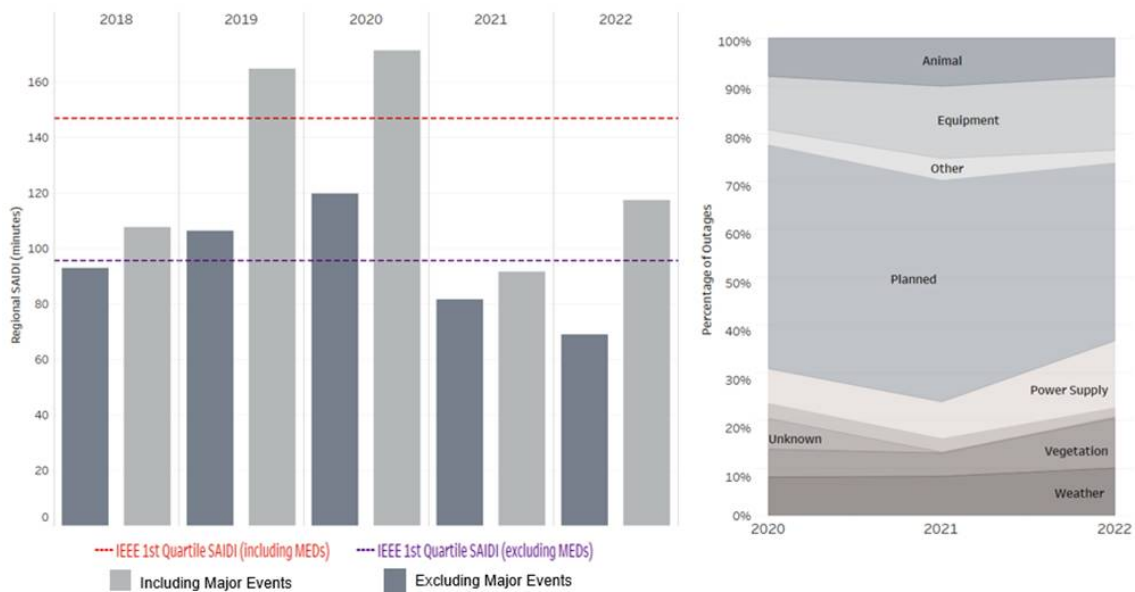
¹ See NorthWestern 10K at page 9. [Inline XBRL Viewer \(sec.gov\)](#). NorthWestern is carbon free 55% across its territory and 45% carbon free in South Dakota.

As a public utility, NorthWestern is subject to direct government regulation of prices and services in South Dakota by the Commission. Ensuring South Dakota customers receive safe and reliable energy services is the shared responsibility of both NorthWestern and the Commission. As such, NorthWestern requests the Commission consider and approve its request in this 2023 Rate Review.

Q. What is NorthWestern’s role?

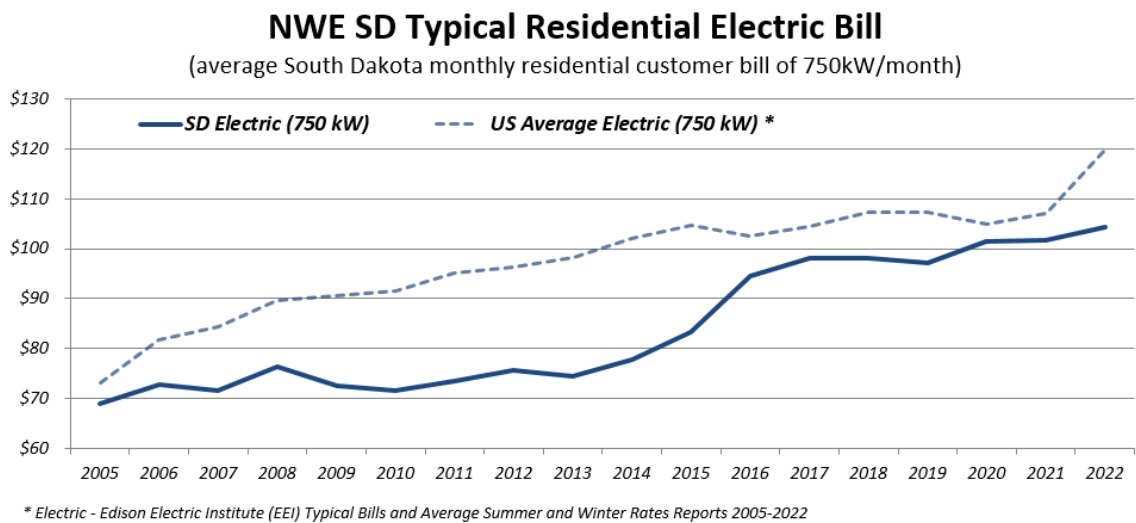
A. We recognize the critical role that energy services provide in the quality of life for our customers. NorthWestern is guided by three pillars: Reliability, Affordability and Sustainability. NorthWestern has a proven record of providing First Quartile electric reliability services to our South Dakota Customers as shown in Figure 2 below.

Figure 2: South Dakota Electric Reliability
NWE SD Electric Reliability 2018 - 2022



1 We are continually making investments in maintaining and modernizing our
2 infrastructure to improve safety and reliability and operate a portfolio of electric
3 generation resources that is 55% carbon free.² Overall, South Dakota ranks well
4 compared to other states concerning affordability and reliability of electric rates
5 and services.³ We provide affordable electric services giving the average South
6 Dakota customer monthly bills below the national average for over a decade as
7 presented in Figure 3 below.

Figure 3: Typical Residential Bill



8
9 As per our Mission Statement, NorthWestern is committed to “working together to
10 deliver safe, reliable and innovative energy solutions that create value for
11 customers, communities, employees and investors.” The testimonies presented

² *Id.*

³ See *Electric Utility Performance: A State-by-State Data Review*, The Citizens Utility Board (CUB) Report (https://www.citizensutilityboard.org/wp-content/uploads/2021/07/Electric-Utility-Performance-A-State-By-State-Data-Review_final.pdf).

1 by NorthWestern discuss the actions we are taking to achieve this and how this
2 rate review supports those actions.

3
4 **Q. Can you please identify the critical services that NorthWestern provides to**
5 **its South Dakota customers?**

6 **A.** The energy services we provide, electricity and natural gas, are an essential part
7 of modern life and important to the U.S. economy. Our residential customers use
8 electricity for basic essentials necessary in life such as lighting, heating, cooling,
9 and refrigeration, and most recently to enable work and school from home when
10 necessary, and natural gas service for heating and cooking. These energy
11 services are just as critical for the basic day-to-day operations of our South Dakota
12 business customers.

13
14 According to the Department of Homeland Security, there are “16 critical
15 infrastructure sectors whose assets, systems, and networks, whether physical or
16 virtual, are considered so vital to the United States that their incapacitation would
17 have a debilitating effect on security, national economic security, national public
18 health or safety, or any combination thereof.”⁴

19
20 The energy sector is uniquely critical because it provides an “enabling function”
21 across all 16 critical infrastructure sectors. In other words, without NorthWestern’s
22 electric and natural gas infrastructure, our quality of life would suffer and our

⁴ See Cybersecurity & Infrastructure Security Agency Brief [Critical Infrastructure Sectors | CISA](#) (visited May 26, 2023).

1 security (economic or otherwise) would be severely impacted. Energy provides
2 the building block for everyday life.

3
4 **Q. What challenges does NorthWestern currently face in delivering safe and**
5 **reliable service to customers?**

6 **A.** NorthWestern must continue to ensure that our customers receive reliable energy
7 services to meet their critical needs. In order for NorthWestern to meet this
8 essential obligation, continued investment in our infrastructure – distribution,
9 transmission, and generation – is required to ensure it is sufficient to meet our
10 customers' energy and capacity needs.

11
12 To continue to effectively provide safe and reliable energy services to our
13 customers, NorthWestern must be a financially healthy utility. One of the most
14 essential requirements for a utility's financial health is timely cost recovery. More
15 timely cost recovery allows better cash flows and earnings to improve rating
16 agency metrics and financial results, which lead to more attractive debt and equity
17 costs that are ultimately passed on to customers. To continue investment in
18 infrastructure to provide safe, reliable, and affordable service, NorthWestern needs
19 affordable access to capital from both debt and equity. A financially healthy utility
20 ultimately delivers lower costs to customers.

21
22 The ever changing federal regulatory landscape is another challenge to our ability
23 to provide reliable and affordable energy services. Energy utilities like
24 NorthWestern need regulatory certainty when making long-term decisions for

1 capital investments. This is especially important as we consider electric supply
2 alternatives for energy and capacity needs. Witness Bleau LaFave provides a
3 more detailed overview of our energy supply planning process.

4
5 Weather also presents significant challenges to the delivery of electricity to our
6 customers. South Dakota weather is often unpredictable. In the past few years,
7 we have experienced tornadoes, derechos, blizzards, Storm Uri, ice storms,
8 drought and flooding. I am very proud of the effort put forth by our employees in
9 quickly responding to outages caused by these weather events. The Edison
10 Electric Institute (EEI) recently recognized our team's efforts to restore power to
11 our South Dakota customers following the May 2022 derecho when it awarded
12 NorthWestern its Emergency Recovery Award.

13
14 Tracking equipment failures can also help us to identify areas of our system that
15 need attention. Such was the case with our radial line from Mt. Vernon to
16 Chamberlain. In response, NorthWestern is working with East River Electric to
17 construct a new switch yard in the Chamberlain area that will provide increased
18 reliability for customers and resolves transmission shortfalls for both utilities.

19 Witness Bradley Wenande provides more details on this project and other capital
20 investments to improve overall system reliability in South Dakota.

21
22 **Q. What additional services does NorthWestern provide customers and our**
23 **communities?**

1 **A.** NorthWestern’s South Dakota service territory essentially covers the eastern half
2 of our state. As such, we have a tremendous economic impact not only within the
3 communities we serve but also within the state of South Dakota.

4
5 NorthWestern commissions an annual economic impact analysis by Circle
6 Analytics,⁵ a Montana-based consultant. The analysis quantifies the financial
7 impact NorthWestern makes on the states and communities it serves. The study
8 found NorthWestern has a significant impact on the financial well-being of the
9 state. Through our investments and services, we provide 1,228 good-paying jobs
10 for others and have an annual \$2.9 million impact on gross economic output in the
11 state.

12
13 Our economic impact within our South Dakota service territory extends beyond the
14 analysis described above. NorthWestern is a proud economic development
15 partner with our communities and the State of South Dakota through our
16 Advantage South Dakota effort. Advantage South Dakota represents a
17 collaborative regional effort to advance economic development priorities for
18 communities we serve and the State of South Dakota. Some of the priority issues
19 identified by the Advantage South Dakota collaborative include workforce
20 development, workforce housing, educating site selectors about the advantages of
21 doing business in their communities and our region, and promoting expansion
22 opportunities for existing businesses. NorthWestern appreciates the recognition it

⁵ [About Us – Circle Analytics](#).

1 has received from our community partners, the State of South Dakota and the
2 Commission in supporting Advantage South Dakota.

3
4 Every day our electric personnel in the field interact with our customers to restore
5 service or add new services to our communities. Our customer service employees
6 help customers with any questions or complaints they may have regarding that
7 service. These customer service personnel are located at our call centers and at
8 our service centers in our larger locations scattered throughout our South Dakota
9 service area.

10
11 NorthWestern is an active partner in each of the communities we serve. With
12 nearly 267 South Dakota employees, we are a significant employer in the state,
13 and many of our employees are very active in their communities. For example,
14 many of our South Dakota employees actively participate on non-profit community
15 boards such as local humane societies, chamber or economic development
16 related boards, service clubs, Feeding South Dakota, Habitat for Humanity, and
17 other community-based charitable organizations.

18
19 **Q. Is there a relationship between NorthWestern's financial health and the**
20 **utility's ability to reliably serve customers?**

21 **A.** Yes. A financially healthy utility drives lower costs for customers and encourages
22 economic development. Utilities compete for capital, and financially healthy
23 utilities attract more capital and thus are able to attract it at a lower cost for their
24 customers. It is simple supply and demand economics. We have proof of this

1 over the history of this Company. After we emerged from bankruptcy in late 2004,
2 our credit ratings started to rise just as we were increasing the amount of
3 investment as a company. With those higher credit ratings, the amount of credit
4 spread (think premium on our interest cost) came down, which was a reduction in
5 costs for our customers. Unfortunately, as of late, our credit ratings have come
6 down and our credit spreads necessary to pay investors have gone up higher than
7 what our peer utilities have to pay. Thus, the financial health of the Company has
8 a direct impact on customers.

9
10 **Q. Why is NorthWestern seeking a rate increase at this time?**

11 **A.** Since our last rate review, we have invested over \$267 million in capital additions
12 to our electric system in South Dakota. As a result of our investments, our system
13 is more resilient and reliable. The cumulative impact of these capital investments
14 is the most significant driver of our need for a general rate review at this time,
15 coupled with cost pressures in key areas including business technology and labor.
16 In order to limit the impact to our customers, we have kept our operations and
17 maintenance expenses low.

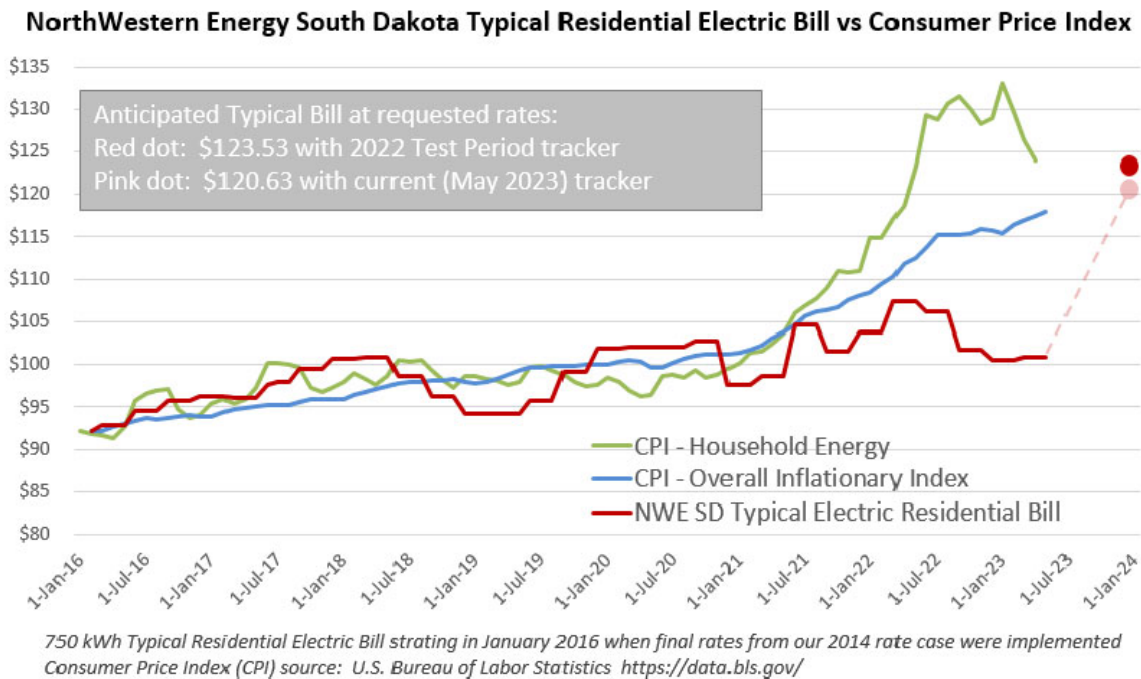
18
19 This rate review filing also includes updated depreciation rates that are described
20 in testimony submitted by NorthWestern consultant John J. Spanos. Another
21 component of this rate review filing is related to the treatment of taxes as
22 presented by Witness Aaron Bjorkman in his testimony. Both of these matters
23 significantly contribute to the need for a rate increase at this time.

24

1 **Q. How does the requested rate relief compare with inflation over the time**
2 **period since NorthWestern last filed an electric general rate review in South**
3 **Dakota?**

4 **A.** Figure 4 below compares the impacts of NorthWestern’s requested rate relief on
5 the typical residential customer’s bill for electric services with inflation since
6 January 2016. Based on our current expectations, typical residential customer
7 bills should remain in line with the anticipated impacts of inflation.

Figure 4: NorthWestern’s Electric Bill vs. CPI



8
9 **Overview of NorthWestern Operations**
10 **Q. How do the requests for cost recovery in this rate review support safe and**
11 **reliable service for South Dakota consumers?**

1 **A.** The scope of this rate review addresses historic 2022 costs NorthWestern incurred
2 in providing service to our customers, with the ability to adjust for “known and
3 measurable” projected costs related to assets in service in 2023. All investments
4 made in our electric utility infrastructure and new energy supply resources were for
5 the purpose of providing safe, reliable, and affordable services to our South
6 Dakota customers. As part of our internal review process, project costs are vetted
7 to provide justification in expending capital and supporting the project’s purpose.
8 Each project was carefully evaluated and thoroughly reviewed to make sure it met
9 not only the needs of the utility, but our customers’ needs too.

10 **Q. How does NorthWestern plan to meet the future needs of its customers?**

11 **A.** NorthWestern continues to make investments with clear benefits for South Dakota
12 customers, including modernizing, securing, and hardening our systems. We also
13 continue to invest in energy supply resources, like the construction of a new
14 natural gas-fired Bob Glanzer Generating Station, to provide needed capacity
15 when the wind is not blowing and the sun is not shining. We continue to expand
16 our electric transmission and distribution facilities to ensure current capacity
17 constraints can be mitigated over time. We continue to implement technologies
18 that will identify problems in our delivery system before they occur and thus better
19 enable us to focus our efforts and dollars. We deployed advanced metering
20 infrastructure (“AMI”) to our customers to not only improve information available to
21 us to enhance our service, but also information that is ultimately available to
22 customers so they can make better energy usage decisions.

23

1 **Rate Review Overview**

2 **Q. Please provide a summary of what NorthWestern proposes in this rate**
3 **review.**

4 **A.** We are proposing to achieve base cost recovery with a test year revenue
5 requirement, appropriate known and measurable adjustments, and a fair ROE.
6 NorthWestern is requesting a \$30.9 million (16.32%) increase to rate base and a
7 10.7% return on equity (ROE).

8
9 NorthWestern’s case represents a very important rate review that relies heavily on
10 a reasonable outcome so that we can maintain our financial health, which will
11 allow us to continue serving our customers going forward. NorthWestern presents
12 witnesses that discuss each of these proposals in greater detail and I introduce
13 those witnesses below.

14
15 **Introduction of Witnesses**

16 **Q. Please identify the additional witnesses testifying on behalf of NorthWestern**
17 **in this proceeding.**

18 **A.** The following are the NorthWestern experts who provide the further details
19 supporting proposals in this rate review, listed by key functional areas.

20
21 **Generation:** For electricity generation, NorthWestern generates or contracts for
22 power using, wind turbines, natural gas generators, and coal-powered generators.
23 If NorthWestern does not generate enough energy to meet our customers’ needs
24 then electricity must be bought from the Southwest Power Pool (“SPP”) market.

- Bleau J. LaFave describes NorthWestern’s activities to continue to manage its generation portfolio to meet our customers’ energy needs and the Bob Glanzer Generating Station.

Distribution: For electricity service, distribution consists of the power poles and lines or underground lines from substations to customer homes and businesses. The voltage of the power is reduced repeatedly until it can go into homes and businesses. NorthWestern is responsible for the distribution up to each customer’s meter.

- Bradley S. Wenande provides an overview of investment in our electric distribution system and AMI deployment in South Dakota.

Finance: Finance plays the critical role of ensuring sufficient funding and access to capital that are necessary to enable our operations departments to ensure safe and reliable service for our customers given our regulatory environment.

- Crystal D. Lail presents the Company’s capital structure and proposed rate of return.
- Jeffrey B. Berzina presents NorthWestern’s proposed updated rate base and revenue requirement for our South Dakota electric utility based on a 2022 historical test year and known and measurable 2023 adjustments.
- Consultant Adrien M. McKenzie presents NorthWestern’s updated ROE analysis.
- Consultant John J. Spanos presents NorthWestern’s updated Depreciation Study.

- 1 • Aaron J. Bjorkman presents the updated tax information related to
2 NorthWestern’s rate review.
- 3 • Jeffery J. Decker presents our proposed rate design and updated tariffs.
- 4 • Consultant Paul M. Normand presents the Class Cost of Service Study.
- 5 **Q. Does this complete your testimony?**
- 6 **A.** Yes, it does.