

Prefiled Direct Testimony and Exhibits
Jeffrey B. Berzina

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

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EXHIBITS

Work papers for Statements D & E Normalizing Adjustments	Exhibit__(JBB-1)
Post-test year capital investments	Exhibit__(JBB-2)
Jurisdictional Allocation of Shared Administrative Costs	Exhibit__(JBB-3)
Electric and Gas Allocation of Shared Administrative Costs	Exhibit__(JBB-4)

1 **Witness Information**

2 **Q. Please state your name and business address.**

3 **A.** My name is Jeffrey B. Berzina. My business address is 3010 W. 69th Street,
4 Sioux Falls, South Dakota, 57108.

5
6 **Q. By whom are you employed and in what capacity?**

7 **A.** I am the Controller of NorthWestern Corporation d/b/a NorthWestern Energy
8 (“NorthWestern” or “Company”).

9
10 **Q. Please summarize your educational and employment experiences.**

11 **A.** I have been with NorthWestern since April 2020. My primary responsibilities
12 include management of the accounting and financial reporting functions. This
13 includes overseeing compliance with financial reporting requirements established
14 by the Securities and Exchange Commission and Federal Energy Regulatory
15 Commission (“FERC”), reviewing NorthWestern’s financial statements, and
16 implementing and overseeing accounting policies and procedures. Prior to
17 joining NorthWestern, I held various roles within accounting, finance, and
18 corporate development at Black Hills Corporation (“Black Hills”), a utility holding
19 company with electric and natural gas utility operations. Prior to Black Hills, I
20 was an auditor with Ketel, Thorstenson, LLP. I have a Bachelor of Science
21 degree in Business Administration and am a Certified Public Accountant
22 (inactive).

1 **Q. Have you previously testified before the South Dakota Public Utilities**
2 **Commission (“Commission”)?**

3 **A.** Yes, I provided testimony in Docket No. EL12-061 when I was at Black Hills.
4

5 **Purpose of Testimony**

6 **Q. What is the purpose of your testimony in this proceeding?**

7 **A.** My testimony:

- 8 1. Discusses the Revenue Requirement and the Statements and Schedules
9 included in the filing;
- 10 2. Presents a detailed explanation of various adjustments to the rate base
11 and income statement;
- 12 3. Discusses the proposed depreciation rates as developed in the 2022
13 Depreciation Study developed by Gannett Fleming Valuation and Rate
14 Consultants, LLC (“Gannett Fleming”); and
- 15 4. Discusses NorthWestern’s method of allocating shared administrative
16 costs.

17
18 **Overview of Revenue Requirement, Statements and Schedules**

19 **Q. What was your role in preparing the revenue requirement in this filing?**

20 **A.** I supervised the preparation of the information based on the books and records
21 of the Company as well as the pro forma information contained in this filing,
22 including the Statements and supporting Schedules. NorthWestern used a
23 revenue requirement model consistent with the model used in Docket No.

1 EL14-106, NorthWestern's last general rate review. Statement M details the
2 revenue requirement.

3
4 **Q. What test year is used in this filing?**

5 **A.** NorthWestern is using a 12-month test year based on historical data, ending
6 December 31, 2022, as adjusted with known and measurable changes. The
7 financial statements are in compliance with FERC rules and regulations.

8
9 **Q. What Statements are included in this filing and who sponsors them?**

10 **A.** The following is a list of Statements provided, along with the respective sponsor:

11 **A.** Balance Sheet (Jeffrey B. Berzina)

12 **B.** Income Statement (Jeffrey B. Berzina)

13 **C.** Statement of Retained Earnings (Jeffrey B. Berzina)

14 **D.** Utility Plant in Service (Jeffrey B. Berzina)

15 **E.** Accumulated Depreciation (Jeffrey B. Berzina)

16 **F.** Working Capital (Jeffrey B. Berzina)

17 **G.** Cost of Capital (Crystal D. Lail)

18 **H.** Operation and Maintenance Expense (Jeffrey B. Berzina)

19 **I.** Operating Revenues (Jeffrey B. Berzina)

20 **J.** Depreciation Expense (Jeffrey B. Berzina)

21 **K.** Income Taxes (Aaron J. Bjorkman)

22 **L.** Taxes other than Income (Jeffrey B. Berzina)

23 **M.** Overall Revenue Requirement (Jeffrey B. Berzina)

24 **N.** Allocated Cost of Service by Jurisdiction (Jeffrey J. Decker)

1 **O.** Allocated Cost of Service by SD Customer Class (Jeffrey J. Decker)

2 **P.** Energy Cost Adjustment Factors (Jeffrey J. Decker)

3 **Q.** Description of Utility Operations (Jeffrey B. Berzina)

4 **R.** Affiliate Transactions (Jeffrey B. Berzina)

5
6 **Q. What Schedules are included in this filing?**

7 **A.** Schedules with supporting information have been included for Statements D, E,
8 F, G, H, I, J, K, L, M, N, O and P. These Schedules detail any adjustments made
9 to the test year data.

10
11 **Q. Please describe rate base.**

12 **A.** NorthWestern’s rate base is based on a 13-month average of all asset accounts
13 as of December 31, 2022. This is shown on Schedule D-3. This plant balance is
14 reduced by accumulated depreciation, as shown on Statement E. Rate base
15 also includes materials, supplies, fuel stock, and a prepayment to the Southwest
16 Power Pool (“SPP”) required to participate in auctions. Statement F calculates
17 the cash working capital reduction to rate base. Schedule F-3 details other
18 reductions to rate base for cash received for customer deposits and for the
19 regulatory liability related to the Tax Cuts and Jobs Act (“TCJA”) Docket GE17-
20 003. Prepayments for items such as insurance, BT maintenance agreements
21 and electric supply, along with accumulated provision for uncollectibles, and
22 accumulated provision for injuries and damages balances have been removed
23 from rate base, as these items have already been properly captured in the lead-
24 lag study in the cash working capital adjustment (as shown on Schedule M-1,

1 Rows 28, 36, and 38). One prepayment for a deposit paid to SPP is included in
2 rate base given it is not captured in the lead-lag study in the cash working capital
3 adjustment. This deposit is required per the SPP tariff in order to participate in
4 the Transmission Congestion Rights auctions. Statement K details the
5 accumulated deferred federal income taxes reduction to rate base.

6
7 **Q. Has Construction Work in Progress (“CWIP”) been included in rate base?**

8 **A.** No, CWIP is not included in rate base. Rate base includes only plant investment
9 that is used and useful prior to the time rates go into effect in this docket.

10
11 **Q. Does NorthWestern plan to adjust test year rate base by including post-test
12 year investments in this filing?**

13 **A.** As allowed in Docket EL14-106, NorthWestern requests the opportunity to adjust
14 rate base to include additional non-revenue producing plant additions placed in
15 service after January 1, 2023 through the expected completion of this filing.
16 Please see Exhibit JBB-2 for a list of additions expected to be in service before
17 the completion of this filing. Additional depreciation expense has been included in
18 Statement J, as well as a corresponding increase in accumulated depreciation
19 shown in Statement E for this project. Additionally, NorthWestern proposes to
20 adjust for any significant retirements that may happen after January 1, 2023 up
21 until the completion of this filing.

1 **Normalization Adjustments to Rate Base**

2 **Q. Please describe the proposed major adjustments for plant additions as well**
3 **as other rate base adjustments.**

4 **A.** The rate base normalizations are as follows:

5
6 **Adjustment #1 – Normalize investments during test year to reflect a full**
7 **year**

8 An adjustment was made to the test year rate base to reflect non-revenue
9 producing major investments (\$500,000 or greater) as if they were in service for
10 the entire year. This increased rate base just over \$39 million. Related
11 adjustments were also made to accumulated depreciation and depreciation
12 expense for \$1.5 million for these assets. Exhibit__(JBB-1) details these
13 adjustments. There is a deferred tax adjustment required for these adjustments
14 which is shown on Schedule M-1 on Row 34. Witness Bradley Wenande covers
15 the details of the transmission, distribution and generation projects noted in
16 Exhibit __(JBB-1) in his testimony.

17
18 **Adjustment #2 – Post test year investments in service at time of rate**
19 **increase**

20 An adjustment was made to reflect plant investments that are expected to be
21 used and useful prior to the rates going into effect, as detailed on Exhibit__(JBB-
22 2). These additions are related to the Chamberlain Junction project, and do not
23 include additional revenue-producing assets. The adjustment reflects a full year
24 of accumulated depreciation, shown on Statement E, and Schedule M-1 reflects

1 associated accumulated deferred income taxes for these assets. Witness
2 Bradley Wenande addresses the Chamberlain Junction project in his pre-filed
3 direct testimony. NorthWestern requests the opportunity to true-up this list prior
4 to finalizing this docket. Adjustments for this investment are included in
5 Statements D, E, and J.

6
7 **Adjustment #3 – New depreciation rates**

8 An adjustment was made to reflect the new depreciation rates as a result of the
9 Gannett Fleming 2022 depreciation study. The amount of this adjustment
10 increases depreciation and amortization expense by approximately \$8.1 million.
11 Statement J details this adjustment and Statement E reflects it as well.

12
13 **Adjustment #4 – Rate Case Expense**

14 An adjustment was made to rate base to reflect the five-year amortization of the
15 estimated expense to file this rate review. Schedule H-9 shows this calculation.
16 The Company proposes to amortize projected rate review costs over a five-year
17 period and include the average unamortized amount of \$75,023 in rate base.

18
19 **Q. How was working capital calculated and included in rate base?**

20 **A.** Statement F details the working capital calculation. A lead-lag analysis was
21 performed to examine the timing of the Company's receipt of service revenues
22 from customers in relation to the Company's payment of expenses to vendors
23 and employees. It includes a separate expense lead for vacation pay, a separate
24 expense lead for uncollectible accounts, a separate expense lead for injuries and

1 damages, and a separate expense lead for cost of fuel and purchased power,
2 labor, other operating and maintenance (“O&M”), property taxes, and payroll
3 taxes. It calculates a separate rate base deduction for tax collections, which the
4 Company receives in advance of turning the related payments over to the taxing
5 authorities. The adjustment for working capital is shown on Schedule M-1, Row
6 29, which shows a negative cash working capital.

7
8 **Q. What is indicated by the negative cash working capital?**

9 **A.** When cash working capital is negative, working capital is being provided by
10 customers and vendors. Accordingly, the negative cash working capital is
11 included as a decrease to rate base and reduces the annual revenue
12 requirement.

13
14 **Normalization Adjustments to the Operating Revenues and Expenses**

15 **Q. Please describe normalizing adjustments made to the test year operating**
16 **revenues and expenses.**

17 **A.** These adjustments are described below, and can be found on Schedule M-1.

18
19 **Adjustment #1 – Option L Revenue**

20 In 1997, NorthWestern began offering an Extended Service Rider termed “Option
21 L” which involved long-term service agreements with large industrial customers
22 and discounts for service depending on the length of the agreement. Docket No.
23 EL97-014 states this lost margin cannot be collected from other customers. The
24 customers served under Option L received discounts totaling \$121,533 during

1 the test year. A normalizing adjustment was made to test year revenue to ensure
2 other customers are not paying for this revenue shortfall. Schedule I-1 shows the
3 details of this calculation. Option L is set to expire in June 2024.

4
5 **Adjustment #2 – Book to Bill**

6 This adjustment is made to the actual revenues booked during the test year to
7 account for the variance between booked revenues and billed revenues in the
8 test year. The reason that the booked and billed revenues differ is because of
9 situations where there are pro-rated billing cycles, account close-outs, meter
10 misreads, and out-of-period adjustments that ultimately affect the amount of
11 revenues booked by the Company versus the revenues billed. This is a test year
12 revenue adjustment increasing test year revenues to the billed revenue amount
13 at current rates, and thus eliminates the need for the booked-to-billed revenue
14 ratio in rate design. The billed revenues were determined based on the test year
15 billing determinants for each rate element multiplied by the tariff rates in effect
16 during the test year. This adjustment increases operating revenues by
17 approximately \$78,655, which can be seen on Schedule I-1.

18
19 **Adjustment #3 – TCJA Regulatory Liability**

20 The rate order received in Docket GE17-003 created a regulatory liability related
21 to the TCJA of 2017. NorthWestern is currently holding a regulatory liability of
22 \$155,000 that it desires to return to its electric customers as part of this filing.
23 The Company proposes a five-year amortization of this regulatory asset, and has
24 included \$31,000 of regulatory amortization in Schedule M-1 to reflect this.

1 **Adjustment #4 – Capacity Costs**

2 The adjustment shown on Schedule H-2 adjusts the capacity costs to reflect a
3 five-year average of costs incurred from January 1, 2018 through December 31,
4 2022. The effect of this adjustment increases capacity costs by \$346,800. For
5 comparison, NorthWestern signed an agreement for capacity in 2023 for 40
6 megawatts totaling \$720,000 to meet its Planning Reserve Margin portion of the
7 Resource Adequacy Requirement within the SPP.

8
9 **Adjustments #5, #6, #7 – Labor Expense, Payroll Taxes, and 401K**

10 **Contribution**

11 Consistent with prior ratemaking treatment, actual base year labor allocated or
12 directly charged to South Dakota operations was increased 2.7% annually for
13 2023 and 3.02% for 2024, as per the contract covering bargaining unit
14 employees. We adjusted non-union wages for 2023 based on the budgeted
15 4.25% increase. Payroll taxes have also been increased accordingly for both
16 years as shown on Statement L, which includes a calculation to accommodate
17 for the fact that FICA is capped whereas Social Security is not. Similar to the
18 adjustment made in Docket EL14-106, we determined the Company-wide
19 percentage of labor dollars subject to FICA in the test year is 92.65%. This was
20 calculated by taking Company-wide total wages subject to FICA divided by
21 Company-wide total wages subject to Medicare (as Medicare is uncapped).
22 There are no proposed adjustments to Federal Unemployment Tax and State
23 Unemployment Tax, as wages subject to these taxes are capped. The net
24 increase for payroll taxes is \$36,578. NorthWestern's 401K expense, which is

1 comprised of a 4% Company match for those who contribute at least 4%, and a
2 non-elective Company contribution of at least 5% for all participants, has also
3 been increased by \$46,538 as shown on Schedule H-3. The Company match
4 was calculated to be 3.7% and the non-elective match was 5.78%.

5
6 **Adjustment #8 – Family Protector Plan (“FPP”) Amortization**

7 The test year included an amortization of a gain related to the Company’s FPP
8 plan. Although the plan was terminated in 1999, there were participants who
9 were grandfathered in given their age. NorthWestern recorded an actuarial gain
10 in 2021 and began amortizing it over three years, from 2021-2023, as three years
11 was the remaining life expectancy of the remaining participants. Given this
12 amortization will end in 2023, a normalizing adjustment of \$349,004 has been
13 made to show \$0 impact to the test year for this amortization that will not exist
14 after 2023.

15
16 **Adjustments #9 and #10 – Advertising Expense**

17 Consistent with prior ratemaking treatment, an adjustment was made to reflect
18 the removal of promotional, institutional, and non-jurisdictional advertising
19 expenses of \$90,145, which includes \$855 of labor, originally recorded as an
20 operating expense. This is reflected on Schedule H-3 as a reduction to FERC
21 Accounts 909 and 913. Additionally, an adjustment of \$90,238 was made to
22 FERC Account 930.1, General Advertising, to remove our South Dakota State
23 Fair Sponsorship, our sponsorship of sporting events such as SDSU and
24 Stampede Hockey games, and other non-jurisdictional or economic development

1 related items that are capped under Docket EL14-106. Schedule H-3a provides
2 all claimed advertising expenses that the Company has included in its test year
3 for energy efficiency, informational, and safety advertising. Samples of these
4 expenses are available upon request.

5
6 **Adjustment #11 – Leadership South Dakota Sponsorship**

7 NorthWestern has removed its sponsorship of \$8,549 for Leadership South
8 Dakota from Account 930.1, as was done in EL14-106.

9
10 **Adjustment #12 – Economic Development**

11 NorthWestern is able to support its communities in fostering economic growth by
12 providing financial support to local or area economic development organizations.
13 The adjustment for economic development in Schedule H-3 reflects a 50/50 split
14 between electric utility customers and shareholders, capped at \$70,000 annually,
15 as per Docket No. EL14-106. NorthWestern provides an annual report by March
16 31 to show economic development-related expenses. While financial support for
17 these groups has a role, it is important to note that NorthWestern provides
18 additional support through employee participation on local economic
19 development boards, regional economic development organizations, and state-
20 led initiatives. NorthWestern does not track individual employee hours spent on
21 economic development activities, as it is our culture to support customers,
22 communities, and the states we serve while meeting daily operations and
23 customer care activities. It is also important to note that employee involvement in
24 local and state economic development partnerships is not limited to normal

1 working hours. NorthWestern employees dedicate many hours outside the
2 normal work day in participating on economic development boards that provide
3 benefits to customers and their communities as well. Schedule H-3 includes a
4 normalizing entry of \$91,388, which removes the economic development costs
5 allocated to South Dakota electric customers that are above the capped amount
6 dictated in Docket EL14-106.

7
8 **Adjustment #13 – Association Dues**

9 NorthWestern charges the lobbying portion of dues expense to Account 426.4,
10 which appropriately removes them from ratemaking. Additionally, NorthWestern
11 has removed its dues paid to the SD Electric Utility Companies, as was required
12 in Docket EL14-106. This removed \$69,728 of dues expense from Account
13 930.2.

14
15 NorthWestern has included industry association dues expense for Midwest
16 Energy Association (“MEA”), Edison Electric Institute (“EEI”), and North Central
17 Electric Association (“NCEA”).

18
19 MEA was founded as a trade association over 100 years ago by distribution
20 utilities, whose vision was to improve safety and efficiency. Today, utilities and
21 energy delivery companies around the globe benefit from MEA's industry learning
22 seminars, operations summits, and other events. Safety is a priority for all the
23 member companies, and members and staff share the innovative best practices
24 that help improve safety. Members and staff connect with each other and discuss

1 current and emerging issues in the energy delivery industry. EEI represents all
2 U.S. investor-owned electric utilities, which serve more than 220 million
3 Americans and make up 70 percent of the U.S. electric power industry. The
4 mission of NCEA is to enhance the association members' services to their
5 customers through education and information exchanges. The objective of NCEA
6 is largely educational and for the fullest development and advancement of the art
7 and science of the production, distribution, and use of electricity for light, heat,
8 and power for public service. Since 1919, NCEA has provided services and has
9 grown to serve investor-owned electric utilities in the North & Central region of
10 the United States.

11
12 **Adjustment #14 – Board-Related Costs**

13 Consistent with prior treatment, an adjustment has been made to remove the
14 cost associated with board of director deferred compensation plans, which
15 totaled \$68,802.

16
17 **Adjustment #15 – Internal Generation Operations**

18 An adjustment was made to normalize expenses for the daily operations of the
19 Bob Glanzer Generating Station. NorthWestern has contracted with Caterpillar to
20 provide this service, and the test year only included expenses incurred after the
21 commercial date of operation, which was May 27, 2022. The adjustment is
22 shown on Schedule H-6.

23
24 **Adjustment #16 – Bad Debt Adjustment**

1 We have made an adjustment to normalize bad debt expense using a five-year
2 historical period. The average bad debt expense during the five-year period was
3 divided by average billed revenue to determine the bad debt expense percentage
4 for NorthWestern. Once calculated, the percentage was applied to the adjusted
5 test year revenue amount to determine the test period bad debt expense. The
6 resulting increase to bad debt expense of \$36,677 is adjusted in Statement H
7 and detailed on Schedule H-7.

8
9 **Adjustment #17 – Company Aircraft**

10 Consistent with prior ratemaking treatment in Docket No. EL14-106, an
11 adjustment was made to remove \$4,438 of expenses related to spouses riding
12 on NorthWestern’s airplane, as well as all costs related to the trip to attend the
13 National Lineman’s Rodeo. This adjustment is shown on Schedule H-8.

14
15 **Adjustment #18 – Rate Case Expense**

16 Consistent with prior ratemaking treatment, an adjustment was made for the
17 expenses related to filing this rate review. This is detailed in Schedule H-9.
18 NorthWestern intends to update this number as expenses become final.

19
20 **Adjustments #19 and #20 – Incentive Removal**

21 NorthWestern offers its employees opportunities to earn incentive compensation
22 in addition to their base salaries and wages. The Company offers these
23 opportunities under three separate plans: the Long-Term Incentives Plan, the
24 Employee Incentive Compensation Plan, and the Retirement Savings Plan

1 Incentive Match. Consistent with prior ratemaking treatment, an adjustment was
2 made to remove all costs related to the Long-Term Incentive Plan, and a portion
3 of the Short Term Incentive Plan, and corresponding Retirement Savings Plan
4 Incentive Match costs that were awarded based on achieving financial targets.
5 The only incentive expense remaining in the test year is the portion related to
6 safety, customer satisfaction, and reliability.

7
8 **Adjustment #21 – Claims Expense**

9 The adjustment shown on Schedule H-11 adjusts the claims and injury
10 compensation expense to reflect a five-year average of claims and injury
11 compensation expenses from January 1, 2018 through December 31, 2022. The
12 effect of this adjustment decreases operating expenses by \$504,415.

13
14 **Adjustment #22 – Storm Expense**

15 The adjustment shown on Schedule H-14 normalizes storm damage expenses to
16 reflect a five-year average using the period from January 1, 2018 through
17 December 31, 2022. The effect of this adjustment decreases labor and other
18 operating expenses by \$247,793, which includes adjustments to both
19 transmission and distribution.

20
21 **Adjustment #23 – Vegetation Management Expense**

22 The adjustment shown on Schedule H-15 normalizes vegetation management
23 expenses to reflect a five-year average using the period from January 1, 2018
24 through December 31, 2022. The effect of this adjustment increases operating
expenses by \$6,215.

1 **Adjustments #24 and #25 – Depreciation Expense**

2 As part of this rate filing, NorthWestern has completed Statement J which reflects
3 depreciation rates for its electric utility assets, as determined by a depreciation
4 study completed by Gannett Fleming. The implementation of the new rates for
5 electric utility assets results in an increase to test year depreciation expense of
6 \$8.1m. Additionally, depreciation expense was adjusted for the impact of
7 normalizing the investments made during the test year to record a full year of
8 depreciation expense. This adjustment increased depreciation expense by
9 approximately \$1.5m. An adjustment was also made to include depreciation
10 expense for the assets added post-test year, which totaled \$180,180.

11
12 **Adjustment #26 – Gross Receipts Tax**

13 Consistent with prior ratemaking treatment, this adjustment reflects the change in
14 gross receipts tax related to the increase in revenue. This adjustment is detailed
15 on Schedule L-1.

16
17 **Adjustment #27 – Interest Synchronization**

18 Consistent with prior ratemaking treatment, this adjustment reflects the change in
19 federal income taxes by using the interest synchronization method of computing
20 the interest deduction for income tax purposes. Under this method, interest in
21 the income tax calculation was set equal to the implied interest in the proposed
22 cost of capital included in this filing. See Schedule H-12 for details.

23
24 **Adjustment #28 – Carrying Charges**

1 During the test year, the Company recorded interest income from customers
2 calculated on under-collected tracker balances. An adjustment has been made
3 to remove that income from the test year, as it is not guaranteed or known for
4 any periods beyond the test year. Schedule H-13 details this adjustment and it is
5 included on Schedule M-1.

6
7 **Q. Did you include adjustments for ad valorem tax, Yankton Sioux Tribe**
8 **discount, transmission expenses, or the cost of fuel and purchased power**
9 **in this filing?**

10 **A.** No. Recovery of ad valorem tax, Yankton Sioux Tribe discount, transmission
11 expenses, and fuel and purchased power costs occurs through separate
12 trackers.

13
14 **Q. Does this filing include any lobbying costs, charitable donations, mergers**
15 **and acquisitions expenses, demand side management, severance expense,**
16 **or non-utility costs?**

17 **A.** No, it does not.

18
19 **2022 Depreciation Study**

20 **Q. Is NorthWestern proposing new depreciation rates as part of this filing?**

21 **A.** Yes. NorthWestern engaged John J. Spanos, President of Gannett Fleming
22 Valuation and Rate Consultants, LLC, to present the Depreciation Study with this
23 filing. Gannett Fleming has extensive experience conducting depreciation
24 studies. The testimony of Mr. Spanos discusses the process and conclusions for

1 the electric and common utility assets, and he provides the study as
2 Exhibit__(JJS-2) to his testimony. NorthWestern plans to adopt these new rates
3 upon receiving a rate order in this docket.
4

5 **Jurisdictional Allocations of Shared Costs**

6 **Q. Please briefly describe the methods used to allocate costs to the South**
7 **Dakota Electric Utility Operations.**

8 **A.** NorthWestern has three state regulatory jurisdictions consisting of Montana,
9 South Dakota, and Nebraska. In addition, NorthWestern has electric generation
10 consisting of a 30% ownership interest in Colstrip Unit #4 (“CU4”) in Montana.
11

12 NorthWestern’s administrative costs are allocated between jurisdictions and its
13 ownership interest in CU4 using a three-factor formula, consisting of gross plant,
14 margin, and labor. The three-factor formula is updated annually through an
15 internal administrative allocation study. The 2022 jurisdictional allocation
16 methodology is attached as Exhibit__(JBB-3).
17

18 In addition, NorthWestern uses a three-factor formula to allocate shared costs
19 between South Dakota electric and natural gas operations and Nebraska natural
20 gas operations consisting of plant, customers, and O&M labor expense for each
21 of the electric and natural gas segments of its business. This formula is also
22 updated annually through an internal administrative allocations study. The 2022
23 electric and natural gas allocation methodology is attached as Exhibit__(JBB-4).
24

These allocation methods were approved in NorthWestern’s most recent natural

1 gas filing, Docket No. NG11-003, and the most recent electric filing, Docket No.
2 EL14-106.

3

4 In addition to the allocations described above, common plant and common
5 depreciation are allocated between electric and natural gas using rate base
6 percentage. The 2022 allocation percentage to electric was 84%. This is shown
7 on Schedule E-3.

8

9 **Q. Does this complete your testimony?**

10 **A.** Yes, it does.