

1 BEFORE THE PUBLIC UTILITIES COMMISSION
2 OF THE STATE OF SOUTH DAKOTA

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STIPULATION

It is stipulated and agreed by and between the above-named parties, through their attorneys of record, whose appearances have been hereinabove noted, that the deposition of Kendall Kliewer may be taken at this time and place, that is, at the offices of Woods, Fuller, Shultz & Smith, Sioux Falls, South Dakota, on the 27th day of September, 2006, commencing at the hour of 9:00 o'clock a.m.; said deposition taken before Jill M. Connelly, Notary Public within and for the State of South Dakota; said deposition taken for the purpose of discovery or for use at trial or for each of said purposes, and said deposition is taken in accordance with the applicable Rules of Civil Procedure as if taken pursuant to written notice.

KENDALL KLEWER,
called as a witness, being first duly sworn,
testified as follows:

MR. GERDES: Even though we have talked about notice, may it be stipulated that the deposition of Kendall Kliewer may be taken at this time and place before Jill Connelly, a

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3 Examination
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5 BY Mr. Moore p. 4
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10 INDEX TO EXHIBITS
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12 Marked for Offered for
13 Identification Evidence
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15 Exhibit 1 p. 34
16 (Northwestern Corporation FERC basis
17 revenue-South Dakota, Year ended
18 December 31, 2005)
19
20
21
22 *****
23 The original transcript of this deposition will
24 be given to Mr. Moore after the witness has
25 read and signed it.

Notary Public in and for the State of South Dakota, and that this deposition will be confidential subject to the Commission rules on confidentiality, and it is for all purposes authorized by the South Dakota Rules of Civil Procedure, and we're taking it without prior notice.

MR. MOORE: My only comment, I guess, is that not having heard any of the answers to the questions that I'm going to ask, I understand that we have the right to object to any portions of the deposition at a later date we may think are not confidential pursuant to the terms of the Stipulated Order that has been agreed to and the Commission's own rules on confidentiality.

MR. GERDES: I agree with that.

MS. ROGERS: I agree with that, yes.

EXAMINATION BY MR. MOORE:

20 Q. Mr. Kliewer, my name is James Moore. I'm here
21 on behalf of Heartland Consumers Power District
22 and South Dakota Power Company, who are
23 intervenors in the application of Northwestern
24 Corporation before the South Dakota Public
25 Utilities Commission.

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1	I just want to ask you some questions	
2	about Northwestern Corporation and about the	
3	revenue calculations that have been submitted	
4	to the Public Utilities Commission related to	
5	an issue of jurisdiction.	
6	I'll start by asking you some questions	
7	about yourself. Can you tell me what your	
8	position is with Northwestern Corporation?	
9	A. Yes. I'm vice president and controller of	
10	Northwestern Corporation.	
11	Q. To whom do you report?	
12	A. I report to the CFO, Brian Bird.	
13	Q. Are there employees in the controller's office	
14	at Northwestern Corporation that you supervise?	
15	A. Yes.	
16	Q. Who are they? Not by name, but by position.	
17	A. I have two managers of accounting, an SEC	
18	reporting manager, a manager of fixed assets	
19	and accounts payable, and a director of	
20	financial reporting.	
21	Q. Is there any accounting staff that reports to	
22	the chief financial officer that is not under	
23	your oversight?	
24	A. The tax director reports directly to the CFO.	
25	Q. Outside of the people that we talked about	
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1	then, are there other people in the accounting	
2	business at Northwestern Corporation?	
3	A. There are staff of my direct reports, yes.	
4	Q. How many people comprise the accounting	
5	department?	
6	A. 30 to 35, depending on the day.	
7	Q. How many are them are employed in Sioux Falls?	
8	A. I have three accountants in Sioux Falls,	
9	including the manager.	
10	Q. Can you describe for me generally what your	
11	duties as the controller are?	
12	A. I'm in charge of the accounting and financial	
13	reportings that covers SEC reporting,	
14	regulatory reporting or any financial	
15	information that is sent to the South Dakota	
16	Public Utilities Commission, the Nebraska	
17	Public Service Commission, the Montana Public	
18	Service Commission, and the FERC, Federal	
19	Energy Regulatory Commission.	
20	So I also supervise and review internal	
21	accounting, monthly closing of the books that	
22	feed up to our external reporting.	
23	Q. Can you just describe for me the external	
24	reporting that you do and the frequency with	
25	which you do it? What do you have to do for	

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- 1 A. I don't remember that date. I would have to
2 find that out for you.
- 3 Q. Was that a unilateral decision Northwestern
4 Corporation made with respect to discontinuing
5 that reporting?
- 6 A. We talked with Dave Jacobson probably over a
7 year ago, maybe a year and a half ago, and
8 asked him what reporting he needed, because we
9 were discussing with him. We kind of stopped
10 sending it altogether on a monthly basis, just
11 because we have some concerns with providing
12 that information prior to issuing our SEC 10Qs
13 or 10Ks, since it's not public until that
14 time.
- 15 We had a discussion with Dave, and resumed
16 sending him the information. During that
17 discussion we talked about what he actually
18 needed, and he wanted -- what he wanted was
19 South Dakota revenues.
- 20 Q. Do you include anything else in the reporting
21 to the South Dakota PUC besides South Dakota
22 revenues, what you define as South Dakota
23 revenues?
- 24 A. Not that I remember, but it's been -- I have a
25 staff person that sends that every month to

- 1 Q. Does it contain only South Dakota revenues and
2 not total Northwestern Corporation revenues?
- 3 A. I can't remember what we started sending them.
4 I believe it is just South Dakota revenues.
- 5 Q. How about the Nebraska regulatory agency? What
6 reporting do you do for them?
- 7 A. Nebraska has an annual filing, and it's very --
8 it's a very brief filing. It's a couple
9 questions on number of customers, and we
10 provide an annual report along with that
11 filing.
- 12 Q. What about FERC? What reporting is required?
- 13 A. FERC requires quarterly reporting and annual
14 reporting. We have the annual reporting is a
15 FERC Form 1, and that contains our financial
16 statements. Those financial statements are
17 audited by our independent auditors, as well.
- 18 Then the quarterly reports are on a FERC
19 Form 3 or a FERC 3Q, I believe it's called.
- 20 Q. With what frequency does Northwestern
21 Corporation have an audited financial
22 statement?
- 23 A. Annually.
- 24 Q. And who presently is your auditor?
- 25 A. Deloitte & Touche.

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- 1 him, and it's been a while since I looked
2 through the report.
- 3 Q. Who is the staff person responsible for that
4 report?
- 5 A. Her name is Mary Kay Stahl, S-T-A-H-L.
- 6 Q. On a monthly basis is it a one-page document, a
7 ten-page document?
- 8 A. I believe it's one page.
- 9 Q. Can you just describe for me the categories of
10 revenue information that would be provided in
11 that report?
- 12 A. No, I can't. I can't offhand. Like I said,
13 it's been a while since I looked at that
14 report.
- 15 Q. What reporting do you do to the Montana
16 regulatory agency?
- 17 A. We do an annual PSE filing for both I guess
18 three separate reports, one for electric, one
19 for natural gas, and one for propane in
20 Montana. That contains financial information.
- 21 Q. Information other than revenues?
- 22 A. Yes.
- 23 Q. Does the South Dakota reporting contain any
24 information other than revenues?
- 25 A. Not that I recall.

- 1 Q. Did they do the December 31, '05 audit?
- 2 A. Yes.
- 3 Q. Is it done on a calendar-year basis?
- 4 A. Yes.
- 5 Q. In addition to the outside reporting you
6 oversee on behalf of Northwestern Corporation,
7 what kind of internal reporting do you prepare
8 or oversee related to revenues of the
9 corporation?
- 10 A. Not very much. We have a monthly what we call
11 a pre-tax and post-tax reports. Our financial
12 planning analysis group prepares those, but I'm
13 involved in the review and determination
14 whether adjustments are required and the like.
- 15 Q. Other than the South Dakota Public Utilities
16 Commission, is there any agency or person to
17 whom Northwestern Corporation reports South
18 Dakota revenue?
- 19 A. Well, it would be included in the FERC filings.
- 20 Q. Is it broken out?
- 21 A. It's not broke out. It's on a consolidated
22 basis.
- 23 Q. Is it broken out in any report you provide,
24 other than to the South Dakota Public Utilities
Commission?

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- 1 A. No.
- 2 Q. So is it fair to say the only reporting you
3 make to any public agency that would separately
4 identify South Dakota revenue of Northwestern
5 Corporation or any of its subsidiaries is to
6 the South Dakota Public Utilities Commission?
- 7 A. Yes.
- 8 Q. Because from my reading of your 10K to the SEC,
9 there's no breakout of revenues by state.
- 10 A. Correct.
- 11 Q. Your previous position at Northwestern was
12 chief accountant. Is that correct?
- 13 A. Yes.
- 14 Q. Who did you do as the chief accountant?
- 15 A. I was hired as chief accountant in November of
16 2002, and primarily to do technical accounting
17 research and oversee the SEC reporting.
- 18 Q. Did you have any previous position at
19 Northwestern Corporation?
- 20 A. No.
- 21 Q. Do you know who your employer actually is? Are
22 you an employee of Northwestern Corporation?
- 23 A. Yes.
- 24 Q. Do you have an employment contract?
- 25 A. No.

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- 1 Q. But you get a check from Northwestern
2 Corporation?
- 3 A. Yes.
- 4 Q. To your knowledge are all the employees who
5 work in the office in Sioux Falls employees of
6 Northwestern Corporation?
- 7 A. Yes.
- 8 Q. Can you tell me what you did before you started
9 work for Northwestern Corporation?
- 10 A. Sure. I was a CPA with KPMG in Lincoln,
11 Nebraska. I was a senior manager on the audit
12 side.
- 13 Q. How long were you there?
- 14 A. I was there right at five years.
- 15 Q. Were you employed before starting with KPMG?
- 16 A. I was. I worked for a small local firm in
17 Aurora, Nebraska, for my first two years out of
18 college.
- 19 Q. When did you obtain your -- when did you become
20 a CPA?
- 21 A. May of 1994.
- 22 Q. Can you just tell me about your education after
23 high school?
- 24 A. I graduated from the University of Nebraska in
25 Lincoln with a Bachelor of Science in business

- 1 administration.
- 2 Q. What year was that?
- 3 A. May of '94.
- 4 MR. GERDES: And he is a Nebraska football
5 fan, by the way.
- 6 Q. My sympathies. I want to ask you a little
7 about Northwestern Corporation and its
8 corporate structure. My understanding, from
9 its reporting, is that Northwestern Corporation
10 is actually a Delaware corporation. Are you
11 familiar with the incorporation of
12 Northwestern?
- 13 A. Yes. I know it is a Delaware corporation,
14 yes.
- 15 Q. Can you tell me what wholly-owned subsidiaries
16 Northwestern Corporation has? We can do this
17 both as of today and as of December 31 of
18 2005.
- 19 Why don't we start with year end last
20 year, 12-31-05. What were the wholly-owned
21 subsidiaries of Northwestern Corporation?
- 22 A. Northwestern had underneath it Northwestern
23 Services Corporation. It was a wholly-owned
24 subsidiary.
- 25 Northwestern Services Corporation has its

- 1 own wholly-owned subsidiary called Nekota
2 Resources.
- 3 Northwestern -- I have to think about this
4 a little while, because we've changed a number
5 of times over the last few years. We also have
6 a captive insurance subsidiary that is Risk
7 Partners Assurance.
- 8 We have a subsidiary that's now named
9 Northwestern Investments, LLC. That was
10 formerly Northwestern Growth Corporation, and I
11 don't remember exactly when we converted it to
12 an LLC.
- 13 Those are, without seeing an org chart,
14 those are the only ones that I remember we have
15 and had as of year end.
- 16 Northwestern Investments also has some
17 wholly-owned subsidiaries. One is Montana
18 Megawatts, I believe. That one is a little bit
19 of a convoluted structure. There's three or
20 four subsidiaries within there. I don't
21 remember the exact legal names offhand.
- 22 And Northwestern Investments also had, as
23 of 12-31-05, had a subsidiary named Netexit,
24 Inc., which was liquidated and is in the -- the
25 actual legal structure has either been

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1 dissolved or is in the process. But it was
 2 liquidated in May of 2006.
 3 Also another subsidiary of Northwestern
 4 Investments, LLC, is Blue Dot. I believe the
 5 legal name is actually Blue Dot Services, LLC.
 6 Q. Is Blue Dot still in existence?
 7 A. It is.
 8 Q. Is it doing business?
 9 A. There's no business being done. It's just in
 10 the process of winding down.
 11 Q. Is there a corporate organizational chart?
 12 A. There is.
 13 Q. Is it a one-page document that lays out the
 14 corporate structure of Northwestern and all of
 15 its subsidiaries?
 16 A. Yes.
 17 Q. Could you provide that to your counsel?
 18 A. Yes.
 19 MR. MOORE: Could you provide it to me?
 20 MR. GERDES: We'll look at it. I'm sure
 21 it's producable. We'll make a determination.
 22 If I have a problem, I'll let you know.
 23 MR. MOORE: Thank you.
 24 Q. Are you familiar with Northwestern Public
 25 Service Corporation?

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1 A. There is not a legal entity called Northwestern
 2 Public Service Corporation.
 3 Q. Was there at any time in the last 10 years a
 4 legal entity called Northwestern Public Service
 5 Corporation to your knowledge?
 6 A. I believe that was the name of what is now
 7 Northwestern Corporation, but I do not remember
 8 or do not know when it was changed.
 9 Q. Let's start with Northwestern Services
 10 Corporation. First of all, is that a
 11 wholly-owned subsidiary of Northwestern
 12 Corporation?
 13 A. Yes.
 14 Q. Do you know when it was incorporated?
 15 A. I do not.
 16 Q. Do you know whether it has employees?
 17 A. There are no employees.
 18 Q. Do you know who the officers and directors of
 19 Northwestern Services Corporation are?
 20 A. Not offhand. I have to look at a list.
 21 Q. Is that information that's available through
 22 the organizational chart?
 23 A. It's a separate. We could provide that, as
 24 well.
 25 MR. GERDES: I'll take a look at it and

1 provide it, unless I have a problem with it.
 2 Q. Tell me what business Northwestern Services
 3 Corporation is in.
 4 A. Northwestern Services Corporation has -- the
 5 largest business underneath it is an
 6 unregulated gas distribution business. That's
 7 a division that sells gas to large primarily
 8 ethanol customers and various other customers
 9 throughout the state that aren't subject to
 10 regulation.
 11 Q. Does Northwestern Services Corporation do
 12 business outside of South Dakota?
 13 A. Well, it had. As part of the information that
 14 was provided, there are some revenues under
 15 Northwestern Services Corporation that related
 16 to Nebraska, and it was a management services
 17 agreement for capacity charges that were billed
 18 through Nebraska regulated customers.
 19 Q. Other than the sale of unregulated natural gas,
 20 what business does Northwestern Services
 21 Corporation do?
 22 A. They also have a very limited amount of
 23 revenues from servicing heaters, air
 24 conditioners and the like. It's I believe
 25 probably roughly half a million dollars a year,

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- 1 subsidiary of Northwestern Services
 2 Corporation.
 3 A. Correct.
 4 Q. And tell me again what Nekota does.
 5 A. It owns a pipeline, about I believe 23 miles of
 6 pipeline. It was established to hold that
 7 pipeline to serve our unregulated customers.
 8 Q. In South Dakota or in Nebraska?
 9 A. In South Dakota.
 10 Q. Is there any other business that provides
 11 revenue to Northwestern Services Corporation?
 12 A. No.
 13 Q. Is there any external reporting that
 14 Northwestern Corporation does that identifies
 15 separately the income of Northwestern Services
 16 Corporation?
 17 A. Not by itself. Our SEC reports break down our
 18 segments, and Northwestern Services Corporation
 19 rolls up under -- most of it rolls up under
 20 unregulated gas.
 21 Q. Is there separate financial reporting that's
 22 done for Northwestern Services Corporation?
 23 A. Separate external financial reporting?
 24 Q. That's fine. We can start there.
 25 A. No.

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- 1 Q. What internal financial reporting is done
 2 within Northwestern Corporation for
 3 Northwestern Services Corporation?
 4 A. It rolls up through our consolidation, and we
 5 have separate budgets. So we do a separate
 6 budget to actual comparison every month.
 7 Q. Is there a monthly financial statement that
 8 would be produced for Northwestern Services
 9 Corporation?
 10 A. Not that we would typically do on a stand-alone
 11 basis. It's included in our consolidated
 12 results.
 13 Q. When you say "our consolidated results," you
 14 mean for internal or external purposes?
 15 A. Both.
 16 Q. Is it identified? Is there a place where I can
 17 go in the report and see the revenue of
 18 Northwestern Services Corporation?
 19 A. Not that you could go, no. I could.
 20 Q. Where do you go to identify the revenue of
 21 Northwestern Services Corporation?
 22 A. Within our SAP or -- our software that does our
 23 accounting. Then we have what we term as
 24 company codes. Company codes that are part of
 25 Northwestern Services Corporation are NCS, NEC,

- 1 and NEK and GRT. Those would show you the
 2 revenues and costs of each of those company
 3 codes or divisions.
 4 Q. One of the attachments to the initial
 5 disclosure Northwestern Corporation made to the
 6 South Dakota PUC was in I believe Excel form.
 7 When I looked at it in Excel form on the
 8 computer, it had several attachments. Those
 9 pages were indicated I believe as NPS and then
 10 NEC, NCS and NEK. Are you familiar with that?
 11 A. Yes.
 12 Q. What I'm talking about.
 13 A. Yes.
 14 Q. Just so I understand exactly what it is I'm
 15 looking at, as part of that document, the chart
 16 that's attributable to NPS, is NPS a company
 17 code?
 18 A. Yes.
 19 Q. What is NPS?
 20 A. That is the regulated utility. It includes the
 21 revenues from all our regulated electric and
 22 natural gas customers.
 23 Q. The next one I think is NEC. Correct?
 24 A. Correct.
 25 Q. Again, that's a company code?

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- 1 A. That's a company code, and that's the
 2 unregulated gas sales under Northwestern
 3 Services Corporation.
 4 Q. Then NCS is a company code?
 5 A. NCS is a company code. That's the company code
 6 under Northwestern Services Corporation that we
 7 report the revenues for the folks that do the
 8 furnace and air conditioning repairs.
 9 Q. And NEK?
 10 A. NEK is the company code for Nekota.
 11 Q. The last one that you mentioned that was not
 12 part of the documents that were disclosed to
 13 the PUC was I believe GRT.
 14 A. GRT is the company code under Northwestern
 15 Services Corporation. That's the one where we
 16 hold the property. There were no revenues with
 17 that, which is why we didn't provide it.
 18 Q. Do I understand correctly that Northwestern
 19 Services Corporation has nothing to do with
 20 your regulated utility business, so there is no
 21 revenue that would be reported under
 22 Northwestern Services Corporation as part of
 23 company code NPS?
 24 A. That is correct. It does have the management
 25 agreement related to Nebraska. So there's

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1 revenues that come back through Northwestern
 2 Services Corporation, and those are included in
 3 the NEC company code. Those are kind of
 4 indirectly related to regulated customers.
 5 Q. When I look at the revenues identified as NPS,
 6 is any of that coming from or through
 7 Northwestern Services Corporation?
 8 A. No.
 9 Q. Are there any other company codes used to
 10 identify revenue of Northwestern Services
 11 Corporation?
 12 A. No.
 13 Q. Other than the categories that we've talked
 14 about, is there any other revenue source of
 15 Northwestern Services Corporation?
 16 A. No.
 17 Q. The second subsidiary we talked about was Risk
 18 Partners Assurance. Correct?
 19 A. Correct.
 20 Q. What is the business of Risk Partners
 21 Assurance?
 22 A. It's very limited. It's a captive insurance
 23 company. Northwestern is self-insured and
 24 established that captive insurance company
 25 several years ago. There's really not much

1 and start unregulated businesses. It held,
 2 previously held the investments in Cornerstone
 3 Propane, Expanets, Blue Dot. Those were all
 4 subsequently failures and either liquidated or
 5 sold off or otherwise disposed of. So we're
 6 basically winding down Northwestern
 7 Investments, LLC, as well.
 8 Q. Does Northwestern Investments, LLC, derive any
 9 revenue from South Dakota?
 10 A. No.
 11 Q. Does Northwestern Corporation have any other
 12 subsidiary, wholly-owned or not, that does
 13 business in South Dakota?
 14 A. No, not that I remember. Can I caveat that
 15 with after I look at the org chart again?
 16 Q. Sure.
 17 A. I don't believe there is.
 18 Q. As at matter of corporate structure and
 19 organization, who sells regulated electricity
 20 to South Dakota consumers?
 21 A. Northwestern Corporation is the legal entity
 22 that sells it.
 23 Q. Who sells regulated natural gas in South
 24 Dakota?
 25 A. Northwestern Corporation.

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1 left. It's winding off, because we are not
 2 insuring anything through it anymore.
 3 Q. Is it a wholly-owned subsidiary?
 4 A. Yes.
 5 Q. Of Northwestern Corporation. Does it have any
 6 employees?
 7 A. No.
 8 Q. You say it's not currently doing any business?
 9 A. Not currently doing -- we're not currently
 10 insuring anything through it, so it's kind of
 11 winding down as claims are paid.
 12 Q. The third wholly-owned subsidiary we talked
 13 about was Northwestern Investments, LLC.
 14 Correct?
 15 A. Correct.
 16 Q. Again, is that a wholly-owned subsidiary of
 17 Northwestern Corporation?
 18 A. Yes.
 19 Q. Does it have any employees?
 20 A. No.
 21 Q. What is the business of Northwestern
 22 Investments, LLC?
 23 A. It was a holding company. As I said, it was
 24 established as Northwestern Growth
 25 Corporation. It was a holding company to hold

1 Q. Who sells unregulated electricity in
 2 South Dakota?
 3 A. There are no unregulated electricity sales.
 4 Q. Unregulated natural gas sales in South Dakota?
 5 A. Unregulated natural gas is Northwestern
 6 Services Corporation.
 7 Q. Tell me in general terms what the sources of
 8 revenue for Northwestern Corporation are.
 9 A. They are the ones you just mentioned.
 10 Regulated electricity and natural gas sales in
 11 South Dakota. We also have regulated natural
 12 gas sales in Nebraska. And the largest
 13 component of our business is our regulated
 14 electric and natural gas sales in Montana. We
 15 also have some unregulated electric sales in
 16 Montana.
 17 Q. It appears to me from your 10K reporting that
 18 you report revenue in five segments, regulated
 19 electric sales, regulated natural gas,
 20 unregulated electric, unregulated natural gas,
 21 and then all other. Correct?
 22 A. Correct.
 23 Q. We may be redundant at this point. What's
 24 encompassed in all other revenue of
 25 Northwestern Corporation?

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- 1 A. Do you have a copy of our 10K available?
- 2 Q. I do. The page you are looking for might be in
3 this.
- 4 A. The all other segment includes just the
5 revenues of the Northwestern -- I'm drawing a
6 blank -- Northwestern Services Corporation, the
7 component of their revenues that relates to the
8 servicing of furnaces and air conditioners.
9 It's under the piece we show under company code
10 NCS.
- 11 Q. Again, those reporting segments are not
12 necessarily identifiable by a corporate
13 entity.
- 14 A. Correct.
- 15 Q. For purposes of the external reporting that you
16 do, are there accounting rules that commonly
17 apply to all the reporting segments?
- 18 A. There is an accounting standard on segment
19 reporting, yes.
- 20 Q. Is that part of general accounting principles?
- 21 A. Yes.
- 22 Q. Is there any SEC accounting rule that applies
23 particularly to segment reporting?
- 24 A. There is not -- the SEC will comment on
25 reporting, but they are basically following the

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- 1 segment reporting issued under generally
2 accepted accounting principles, which I believe
3 is Statement of Financial Accounting Standards
4 No. 131.
- 5 Q. Is there any FERC accounting rule different
6 from the standard that you just named related
7 to segment reporting?
- 8 A. No.
- 9 Q. When I look at your 10K and see a financial
10 statement there, that is a consolidated
11 financial statement. Correct?
- 12 A. That's correct.
- 13 Q. It includes the business of Northwestern
14 Corporation and all of its wholly-owned
15 subsidiaries we've identified today. Correct?
- 16 A. Correct.
- 17 Q. Is there any other revenue contained in that
18 consolidated financial statement that's part of
19 your 10K reporting that we haven't discussed
20 today?
- 21 A. No.
- 22 Q. Northwestern's website says Northwestern
23 Corporation has 628,500 customers. Do you know
24 as of what date that was roughly an accurate
25 number?

- 1 A. That would have been as of December 31, 2005.
- 2 Q. Do you know if that number has changed as of
3 today?
- 4 A. It does change, but very -- not very
5 substantially throughout the year.
- 6 Q. Are those all customers of Northwestern
7 Corporation?
- 8 A. Yes.
- 9 Q. If I live in South Dakota and purchase
10 regulated electricity from Northwestern
11 Corporation, who sends me a bill?
- 12 A. Northwestern Corporation.
- 13 Q. Whose name is on the bill?
- 14 A. It says Northwestern Energy. We do business as
15 Northwestern Energy.
- 16 Q. Is that true for regulated natural gas in South
17 Dakota?
- 18 A. Yes.
- 19 Q. And how about unregulated natural gas in South
20 Dakota? Whose name is on a bill that is sent
21 to a customer?
- 22 A. I don't know. I haven't looked at an
23 unregulated natural gas bill.
- 24 Q. Your website also indicates a breakdown between
25 electric and gas customers. I think it

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- 1 identifies 375,000 electric customers, 316,000
2 of those are Montana customers and 59,000 are
3 South Dakota customers. Those would be all
4 regulated services. Correct?
- 5 A. I believe that's all regulated. Yes.
- 6 Q. Does Northwestern have any -- well,
7 Northwestern Corporation has no unregulated
8 electric service in South Dakota. Correct?
- 9 A. Correct.
- 10 Q. Where is your unregulated electrical service?
- 11 A. In Montana.
- 12 Q. Can you just describe for me the scope or size
13 of that business?
- 14 A. Northwestern owns or leases a 30 percent
15 interest in a coal-fired generation plant in
16 Montana. That's in Colstrip, Montana. We call
17 it Colstrip Unit 4. It's unregulated in
18 Montana, so our portion of the generation we
19 turn around and sell as unregulated
20 electricity.
- 21 Q. Based on the 10K reporting for December 31,
22 2005, Northwestern Corporation showed total
23 revenue of \$1,165,750,000 roughly. Correct?
- 24 A. Correct.
- 25 Q. And that number is broken down into regulated

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- 1 and unregulated income, again divided between
 2 electric and gas sales. Correct?
- 3 A. Yes.
- 4 Q. And then there's a category for other income.
- 5 A. Yes.
- 6 Q. Again, there's no way I can tell from the 10K
 7 reporting what portion of any of that income is
 8 attributable to Northwestern Corporation's
 9 business in South Dakota.
- 10 A. Correct.
- 11 Q. What was your role in the preparation of the
 12 financial information that was provided to the
 13 South Dakota Public Utilities Commission in
 14 connection with this proceeding?
- 15 A. I had a couple of my staff people pull the
 16 information together and I reviewed it, and
 17 then provided it to Dave to provide to the
 18 Commission.
- 19 Q. I just want to talk primarily about these two
 20 pages, which I think were Exhibit 1, or maybe
 21 Exhibit B. I'm not sure which.
- 22 A. On the latest response?
- 23 Q. This would be the initial disclosure, year
 24 ending December 31, 2005.
- 25 A. Okay.

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- 1 MR. GERDES: Just so we're clear, this is
 2 the two-page document that is headed
 3 Northwestern Corporation, FERC Basis
 4 Revenue-South Dakota, Year Ended December 31,
 5 2005.
- 6 MR. MOORE: Let's mark it.
 7 (Kliewer Deposition Exhibit No. 1 was marked
 8 for identification.)
- 9 Q. Looking at the first page of Exhibit 1, at-the
 10 top it shows total South Dakota regulated
 11 revenue. Correct? \$159,609,000.
- 12 A. Correct.
- 13 Q. That figure is comprised of both regulated
 14 electric and regulated natural gas sales.
- 15 A. Yes.
- 16 Q. Those numbers again do not appear anywhere on
 17 your public reporting, other than the reporting
 18 you do to the South Dakota PUC.
- 19 A. Correct.
- 20 Q. But those numbers can be internally identified
 21 by the company codes we talked about earlier.
- 22 A. Yes. Those would be on the company code NPS.
- 23 Q. They would all be NPS?
- 24 A. Yes.
- 25 Q. Tell me where the next number comes from.

- 1 Total Northwestern FERC basis revenue of
 2 \$1,084,668,000.
- 3 A. That is taken from our FERC Form 1 that was
 4 filed for December 31 of 2005.
- 5 Q. Did you file that with FERC?
- 6 A. Yes.
- 7 Q. That number is different than the gross revenue
 8 number that is part of your 10K reporting?
- 9 A. Correct.
- 10 Q. That revenue number for the same reporting
 11 period, December 31, 2005, year end was
 12 \$1,165,750,000. Correct?
- 13 A. Correct.
- 14 Q. Can you just explain for me in terms that I, as
 15 a nonaccountant, will understand what the
 16 difference is between those two total revenue
 17 numbers?
- 18 MR. GERDES: Before you go forward, tell
 19 me the total you've got that you used for the
 20 FERC Form 1. I didn't write it down.
- 21 A. This number here. (Witness indicating).
- 22 MR. GERDES: The other one.
- 23 A. This number. (Witness indicating).
- 24 \$1,165,000,000.
- 25 MR. GERDES: Thank you.

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- 1 A. There are a number of differences between,
 2 because our SEC reporting is done on a
 3 generally accepted accounting principles
 4 basis. FERC reporting is done under regulatory
 5 basis. A lot of things are similar, but there
 6 are also a number of differences.
- 7 The largest single difference would be on
 8 an SEC basis we have -- I guess before I jump
 9 into that, I would point out that the South
 10 Dakota revenues, if you were to look at these
 11 total South Dakota regulated revenues of
 12 \$159.6 million, those are consistent between
 13 FERC and SEC reporting, because there are no
 14 differences.
- 15 As I was saying, there are a number of
 16 differences in our overall consolidated
 17 revenue, because there are different
 18 requirements under FERC. For instance, the
 19 biggest one would be for SEC purposes when we
 20 may buy electricity from Avista Corporation in
 21 Montana, we'll buy some from them, and we'll
 22 turn around and, based on our needs, we'll sell
 23 them some electricity, because we're always
 24 trying to balance out our system.
- 25 On an SEC basis those revenues and

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1 expenses get netted together. So when you buy
 2 and sell, you just take the net number, net
 3 difference, and it either gets reported as
 4 revenues or it gets reported as cost of sales,
 5 depending on which position you are at at the
 6 end of any given month.

7 For FERC reporting, their requirement is
 8 that you gross that up. So if we're buying
 9 from Avista, we buy \$100 million of electricity
 10 from Avista, and we sell them \$50 million of
 11 electricity. We would gross that up for FERC
 12 purposes, and we would have \$50 million of
 13 revenue and \$100 million of cost of sales.

14 SEC reporting, you would net them
 15 together, and in that example you would only
 16 show \$50 million of cost of sales, and you
 17 would have no revenue associated with the
 18 transactions with Avista.

19 That's the single largest difference.
 20 There are also a number of differences --
 21 Q. How much is the difference between the two
 22 numbers we're talking about, how much of that
 23 is accounted for by what you just described to
 24 me?
 25 A. Dave provided a response to the Commission. I

1 10K?

2 A. Yes.

3 Q. Is all of that revenue included in the total
 4 Northwestern FERC basis revenue of
 5 \$1,084,668,000?

6 A. No.

7 Q. Explain to me, first off, what part of that
 8 revenue is not included, and, secondly, why.

9 A. None of that revenue is reported on a FERC
 10 basis.

11 Q. So the \$1,084,000,000 total contains no
 12 unregulated revenue from South Dakota.

13 A. Correct.

14 Q. Does it contain -- I'm sorry to interrupt you.
 15 Does it contain unregulated revenue from any
 16 other state in which Northwestern Corporation
 17 does business, the FERC total basis revenue?

18 A. It does include our unregulated electric sales
 19 from Colstrip, Montana.

20 Q. Now the harder question for you to make me
 21 understand, which is why are those revenues not
 22 included in the total FERC basis revenue?

23 A. These are not included. This is one of the big
 24 differences between FERC reporting and SEC
 25 reporting.

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1 think you have that.

2 Q. I've seen that.

3 A. It is listed in there, and it is [REDACTED]
 4 of that difference. We also kind of line up
 5 together differences between those amounts.
 6 Most of them are classification issues,
 7 classification differences, because under FERC
 8 reporting, depending on what type of activity
 9 or sale it is, they may -- their reporting
 10 requirements dictate it be reported in a
 11 different account. So some of it gets netted
 12 against expenses. Some of it gets put into
 13 other income and the like.

14 Q. If I look at the total FERC basis revenue
 15 number, that contains all of the South Dakota
 16 regulated revenue. Correct?

17 A. Correct.

18 Q. The total revenue reported on your 10K also
 19 contains all of the South Dakota regulated
 20 revenue. Correct?

21 A. Correct.

22 Q. So let's move to the nonregulated South Dakota
 23 revenue identified on Exhibit 1 of
 24 \$154,070,000. Is all of that revenue included
 25 in the total revenue reported on Northwestern's

1 Under SEC reporting, when you have
 2 wholly-owned subsidiaries or even
 3 majority-owned subsidiaries, you consolidate
 4 those. So you are -- all this revenue comes
 5 across, and then what you do is end up
 6 eliminating the owner's equity or equity and
 7 earnings of the sub. So you show everything on
 8 a gross basis. In total you match what your
 9 parent company has.

10 Under FERC reporting you don't
 11 consolidate. You show it as -- you show it
 12 under the equity method of accounting. You do
 13 that for separate legal subsidiaries that
 14 aren't regulated. That's the reason that our
 15 Montana Colstrip unregulated electric sales are
 16 included in the FERC revenues is that it's not
 17 a separate legal entity.

18 In South Dakota these are separate legal
 19 entities, and they are treated on equity method
 20 of accounting, which means you don't
 21 consolidate and you don't include the
 22 revenues. You just include basically the net
 23 income or loss in your total amounts.

24 Q. So where, for purposes of FERC reporting, does
 25 the revenue of Northwestern Services

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1 Corporation show up?		1 the top of the schedule. The \$55,290,000 is
2 A. It would show up in that line item, I believe		2 natural gas, which ties out to the number at
3 it's titled Equity and Earnings of Affiliated		3 the top of the schedule.
4 Companies or Equity and Earnings of		4 Then the only different piece is what is
5 Subsidiaries. If you were -- I guess a simple		5 attributable to our Nebraska regulated natural
6 example, if this \$154 million, that's only the		6 gas sales.
7 revenue. If we were to go down the full income		7 Q. I understood that NPS was your company code for
8 statement for these subsidiaries, and let's		8 basically all regulated revenue of Northwestern
9 just say you had costs of \$150 million and you		9 Corporation.
10 had net income of \$4 million, for your SEC		10 A. In South Dakota, Nebraska. I'm sorry. We have
11 purposes you're going to show all those gross		11 completely separate codes for Montana. Yes.
12 and come across. So you'll include that \$154		12 Q. What is the coding for Montana revenues? Are
13 million in revenues, \$150 million in cost of		13 they not part of NPS?
14 sales, so you end up with net income of		14 A. They are not part of NPS. It's a separate
15 \$4 million.		15 company code. We call it MPU in our system.
16 For FERC purposes, you don't show the		16 Q. Is all Montana regulated revenue under that
17 revenues. You don't show the costs. You show		17 code?
18 one line item that says Equity and Earnings of		18 A. Yes.
19 Subsidiaries, \$4 million. Then that would be		19 Q. Looking at the second page of Exhibit 1, there
20 -- I don't remember exactly where it's at on		20 are three calculations there. Correct?
21 the FERC Form 1 income statement, but it's not		21 A. Correct.
22 included in revenues. It's included in a		22 Q. Could you explain to me -- before we get
23 separate line item. I can go back and look and		23 there.
24 tell you exactly where.		24 (A recess was taken)
25 Q. Let's go to the next category of numbers on the		25 Q. We were talking about the difference between
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1 first page of Exhibit 1 identified as NPS		1 SEC and FERC reporting. In Response to the
2 Revenue. There you've got FERC IS and SEC IS.		2 South Dakota PUC dated August 24, 2006, in
3 Those numbers are the same, \$214,975,502.		3 Paragraph 5 there was a question from the PUC
4 Correct?		4 about the difference. I just want to ask you
5 A. Yes.		5 about the response that was actually made there
6 Q. Tell me what those numbers are.		6 in Paragraph 5.
7 A. FERC IS stands for FERC Income Statement, and		7 A. Which question?
8 SEC Income Statement. So those are the		8 Q. The document dated August 24, 2006.
9 revenues that show up in both cases. As I		9 A. Question No. 5.
10 mentioned earlier, there's no differences in		10 Q. The first sentence of the response says, "The
11 South Dakota between SEC purposes and FERC		11 conversion from SEC reporting to FERC reporting
12 purposes.		12 for revenue is based on the direct mapping of
13 That's what we were trying to show is that		13 the natural account to the FERC accounts."
14 reconciliation down here, and then as you'll		14 A. Okay.
15 note right below that, we break it out between		15 Q. Let's define some terms. If that doesn't work,
16 South Dakota Electric, South Dakota Gas, and		16 I'll give you another chance to explain to me
17 Nebraska Gas to tie out to \$214,975,000.		17 what that sentence says.
18 Q. So that is not actually total NPS revenue.		18 A. Okay.
19 That's NPS revenue that you attribute to		19 Q. What do you mean by "direct mapping"?
20 South Dakota.		20 A. Well, maybe we should start with the accounts
21 A. The \$214,975,000 is total NPS revenue.		21 or what we have -- we call it the chart of
22 Q. It is.		22 accounts. Natural chart of accounts is what we
23 A. Yes. Right below that we show what we		23 have for -- what we call a natural chart of
24 attribute to South Dakota. The \$104.3 million		24 accounts for SEC purposes. That's basically
25 is electric, which ties out to the number at		25 you have revenues, cost of sales, and then we

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1 have several account numbers within any of
 2 these categories. We have operating expenses
 3 on down the line.

4 Q. Is this part of general accounting principles?
 5 A. Well it's basically every company may have a
 6 separate -- everybody has a chart of accounts.
 7 Your basic requirements are to break it down by
 8 revenue, cost of sales, operating expenses,
 9 taxes, interest expense, and some other
 10 categories.

11 Every company will set up their chart of
 12 accounts differently, but they all have to be
 13 fairly consistent within those categories. So
 14 you have your chart of accounts may say, okay,
 15 I've got -- you may have one account number for
 16 electricity sales, one account number for
 17 natural gas sales, and one account number for
 18 propane sales. Same thing down the line for
 19 your cost of sales, you may do the same thing.
 20 Then on down.

21 FERC prescribes a chart of accounts. It's
 22 called a FERC chart of accounts. I think it's
 23 actually called FERC Uniform System of
 24 Accounts. They're very specific in how they
 25 want things coded for FERC purposes. So they

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1 have very descriptive information for the types
 2 of revenue that would be in a certain FERC
 3 account number. You can go to their book or
 4 their guide, and you look at FERC Uniform
 5 System of Accounts, and you can figure out
 6 should this revenue be here or there.

7 So it's actually a little more cumbersome
 8 or I guess if everybody is reporting
 9 consistently on a FERC basis, then you know you
 10 are getting apples to apples between
 11 companies.

12 SEC reporting or GAP reporting is
 13 different because there's not -- since there
 14 are so many different types of industries
 15 reporting under that method, you are basically
 16 on your own to determine how you want to report
 17 it in your chart of accounts.

18 So that's what we say. When we set our
 19 SAP, our system is set up using natural --
 20 using a natural chart of accounts or an SEC
 21 accounting basis. So everything is coded that
 22 way. When any invoice is entered into the
 23 system, it's coded to an account number that
 24 then for revenues would roll into revenues.

25 Then we actually have to establish -- I

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1 guess the term "direct mapping" means we then
 2 establish orders. So we've got say a revenue
 3 account would be like 4,000. I sell you
 4 electricity, send you an invoice for \$50, and I
 5 code this revenue from you to Account 4000.

6 The mapping then is we establish orders
 7 that designate for FERC purposes where this
 8 would flow under the FERC uniform system of
 9 accounts. The orders are -- I don't know how
 10 they determine what to name them, but they are
 11 just every single natural account on the income
 12 statement has a FERC order assigned to it.
 13 That's what the mapping is is that order.

14 After we finish our SEC reporting for any
 15 given month -- internally we do it monthly.
 16 Then we turn around and convert to the FERC
 17 uniform system of accounts. Those are
 18 system-generated reports that basically if I
 19 had your revenue was coded to 4000 and it had
 20 an order that was -- say it was an electric
 21 order, it would take that number, take your
 22 amount, turn around and convert it or put it in
 23 that spot under the FERC reporting.

24 And say you had an invoice for you, as
 25 well. It was electric, but maybe there was

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1 some difference. Just a different area or
 2 something that FERC decided they wanted it
 3 reported differently. So I've got a different
 4 order number for you.

5 For SEC reporting it would end up in the
 6 same exact account. There's a different order
 7 type to it when I convert to FERC, and that's
 8 all kind of system generated, the conversion
 9 is. Since it has that separate order assigned
 10 to it, it takes and maps it to a different FERC
 11 account for FERC purposes. I don't know, that
 12 was probably way too long.

13 Q. Let's just talk about South Dakota unregulated
 14 revenue. That is part of your SEC reporting
 15 and included in your total revenue reported to
 16 SEC. Correct?

17 A. Yes.

18 Q. How is that mapped to FERC?

19 A. It's mapped because it has a separate order
 20 that takes it out of revenues for FERC purposes
 21 and moves it down to equity and earnings of
 22 subsidiary.

23 Q. So the order just carries it to a different
 24 accounting category for FERC purposes.

25 A. Right.

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1 Q. Who determines the orders that are in place? I 2 mean is that something you set up at 3 Northwestern Corporation based on what FERC 4 accounting requires, or does FERC accounting 5 say here is the order that you have to use?		1 electric segment in Montana sells to our 2 regulated electric segment. So they recognize 3 revenues. The regulated segment recognizes 4 costs. We eliminate those out because it's all 5 intercompany revenues.	
6 A. No. We set it up. The orders are set up to 7 get it to what FERC requires. We establish our 8 own orders. It's using the IT folks go in and 9 configure it so it goes to the right bucket in 10 FERC.		6 So what we did was add those, we grossed 7 them up for this purpose to show you what -- I 8 think it was basically looking at the 9 definition under the statute, and we wanted to 10 show what we considered to be gross revenues, 11 which would have encompassed all the purchases 12 or all the sales to whether they were 13 intercompany or not.	
11 Q. The second sentence of the response in 12 Paragraph 5 says, "For revenues each account is 13 directly mapped to a FERC account so there is a 14 one-to-one relationship between SEC reporting 15 and FERC reporting."		14 Q. Here is what I and someone with no accounting 15 background don't understand. You've taken an 16 SEC total revenue of \$1,165,000,000. You've 17 grossed it up, and it becomes a larger number 18 of \$1,261,000,000, and you can explain you've 19 done that by process of eliminations of 20 revenue.	
16 What I understand that sentence to say is 17 that every line item showing revenue for 18 purposes of SEC reporting has a corresponding 19 line item under FERC accounting, but it may be 20 different than it was for SEC reporting.		21 How do you go through eliminations of 22 revenue between affiliates and come up with a 23 larger total number?	
21 A. Right.		24 A. Well, this is adding those eliminations. This 25 is adding those back. For SEC purposes we	
22 Q. The revenue doesn't disappear, but it may show 23 up in a different category.			
24 A. Different place, exactly.			
25 Q. Let's go back to Exhibit 1 and talk about the			
	Page 50		Page 52
1 three calculations that are done on the second 2 page there.		1 eliminated intercompany sales, but then what 2 we're doing is saying maybe under this 3 definition of gross revenues we should show all 4 of our gross revenues. So we added -- we just 5 basically reversed that elimination and added 6 it back and said here is what our gross company 7 revenues are.	
3 First of all, starting with Calculation 4 No. 1, you've taken total South Dakota 5 regulated revenue and unregulated revenue in 6 South Dakota, and taken that total and 7 determined what percentage it is of total 8 grossed-up revenues for Northwestern 9 Corporation. Correct?		8 If you were looking -- if you were taking 9 the SEC, the \$1.1 billion, you're adding 10 roughly \$95,000,000 back. You're going to -- 11 if we were looking at this statement, you are 12 also going to add \$95,000,000 to your cost of 13 sales. That's what the elimination is.	
10 A. Correct.		14 For SEC purposes, they say don't recognize 15 that for revenue. You show it as -- you net it 16 out. For this purpose we're saying, where 17 they're asking for gross revenues, so let's 18 show them our gross revenues. If you would 19 take it one step down, you would also see 20 higher cost of sales associated with that gross 21 revenues.	
11 Q. So we have to answer the question, what is 12 grossed-up revenue, and why are we looking at 13 that as opposed to either the FERC revenue 14 number that's on the first page of Exhibit 1 or 15 the total revenue that you report for SEC 16 purposes?		22 Q. Explain for me, if you can, why it makes sense 23 to make that comparison as opposed to comparing 24 total South Dakota regulated and unregulated 25 revenue as a percentage of total SEC revenue.	
17 First of all, explain to me what total 18 grossed-up revenue is.			
19 A. Sure. The total grossed-up revenue, which is 20 the \$1,261,354,865, is basically we start with 21 our SEC reported revenue, and then there are a 22 number of eliminations that are made.			
23 So you start with \$1,165,000,000. There 24 are a number of eliminations that are made for 25 intercompany sales. So maybe our unregulated			

<p>Page 53</p> <p>1 A. I don't know -- I guess when we were reviewing 2 the statute and discussing with Dave and our 3 internal general counsel, that was kind of the 4 thought process was they are asking for gross 5 revenues, so let's show them gross revenues. 6 Personally I think you could probably do 7 it either way. It's just a matter of 8 interpreting that statute and determining what 9 everybody's comfort level is. 10 That's why we showed three calculations. 11 We weren't sure how to interpret it. Let's 12 show it a number of ways and let you guys help 13 us. 14 Q. If we take total South Dakota regulated and 15 unregulated revenue, we can agree that number 16 is \$313,679,000. Correct? 17 A. You said South Dakota. I wouldn't agree it's 18 all South Dakota, no. It's South Dakota 19 regulated revenues. It's all of our 20 unregulated gas revenues, which includes 21 Nebraska. 22 Q. The Nebraska portion of that is what's 23 attributable to the Nekota Resources? 24 A. No. The Nebraska portion does not show up -- 25 well, it is in the Northwestern Services</p>	<p>Page 55</p> <p>1 FERC revenue does not include the unregulated 2 revenues. 3 Q. But the SEC total revenue does. 4 A. Correct. 5 Q. So because I still can't answer this question 6 in my own mind, I'll just ask it again, and I 7 apologize if I'm being redundant. 8 Why from just an accounting perspective 9 does it make sense to you not to use the SEC 10 total for purposes of determining what 11 percentage of Northwestern Corporation's total 12 revenue South Dakota revenues account for, and 13 why do you use instead the grossed-up number? 14 A. Well, I think our rationale was because we're 15 dealing with an entity that has oversight over 16 our regulated operations. So does it make 17 sense to start with SEC revenues, or does it 18 make sense to start with FERC revenues? What 19 makes sense? 20 That was, as we went through it initially, 21 that was our interpretation was they're asking 22 for gross revenues of this company. So let's 23 go ahead and show gross revenues. As you 24 noted, it's not on either basis of account. 25 It's not on an SEC basis or a FERC basis.</p>
<p>Page 54</p> <p>1 Corporation, the \$152,870,000. 2 Q. But for purposes of submitting Exhibit 1 to the 3 PUC, you've identified that number of 4 \$152,000,000 as revenues of nonregulated South 5 Dakota operations. Correct? 6 A. Correct. 7 Q. So if we have that number of \$313,679,000 as 8 South Dakota revenue, and you take -- you 9 determine what percentage that is of total SEC 10 revenue reported for the same reporting period, 11 \$1,165,750,000, it is, in fact, slightly more 12 than 25 percent. My calculation was 26.9 13 percent. Do you disagree with that? 14 A. No. 15 Q. If you take it as a percentage of the FERC 16 revenue indicated on Exhibit 1 of 17 \$1,084,668,000, again, that number is more than 18 25 percent. It's naturally higher than the 19 other comparison. My calculation was 928. 20 percent. Again, you don't disagree with that 21 calculation? 22 A. I wouldn't necessarily disagree. I would 23 easily be able to tell if would be over 25 24 percent. I would not agree that was the way to 25 calculate it under a FERC basis, because the</p>	<p>Page 56</p> <p>1 But if we were to come across through our 2 accounting system and lay out and add up 3 revenues for every single company code, you end 4 up with basically this amount before you do any 5 eliminations or any other type of adjustments. 6 That was our purpose for showing then. 7 Q. Is there any rule that's part of generally 8 accepted accounting principles that would 9 suggest or require the comparison we're trying 10 to make for purposes of applying the statute 11 related to the PUC's jurisdiction over this 12 particular transaction should be total 13 grossed-up revenues, as you've calculated them 14 as part of your submission to the PUC, as 15 opposed to total SEC revenue? That's a long 16 question. Did you understand it? 17 A. Can you repeat it? 18 Q. I'll rephrase it. 19 A. Before you do that, I would add one other 20 comment on this. You asked earlier if the NPS 21 or regulated revenue included revenues from any 22 other unregulated sources. No, it doesn't. As 23 I said, one reason for grossing this up is 24 within the unregulated gas business, the 25 \$154,000,000, there are intercompany revenues</p>

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1 within there. So some of those have to be
 2 eliminated, and that's another reason.

3 When you asked why did we gross up and why
 4 did that end up being a higher number, if you
 5 don't gross up this number, then you have to
 6 back some of this out. You have to figure out
 7 what's the intercompany piece and back it out.
 8 We were consistent, I guess, in the reporting.
 9 Probably if we had to do it over again, we
 10 would show both of them net.

11 Q. Can you identify today what intercompany
 12 revenues are part of that unregulated revenue
 13 figure?

14 A. All of the unregulated Nebraska revenue is part
 15 of that number. If you look down under
 16 Calculation 3, the \$99.5 million compared to
 17 the \$154 million, that shows you roughly
 18 fifty-four and a half million dollars would be
 19 intercompany revenues.

20 Q. On the first page of Exhibit 1, Nebraska gas
 21 revenue is part of NPS revenue, identified as
 22 \$55 million.

23 A. That's a separate. Sorry. Let me clarify.
 24 This Nebraska gas here is regulated gas.

25 Q. That's regulated.

1 under FERC or SEC, my answer is no. I think
 2 your question is do any of those require us to
 3 look at it under this calculation in that way.

4 For both FERC and SEC reporting, yes,
 5 there are rules as to whether you would
 6 eliminate revenues or show them gross. That
 7 was one of the differences I described earlier
 8 between SEC and FERC basis.

9 There's nothing out there that would say,
 10 "Kendall, you should apply this in determining
 11 how you do this calculation under the South
 12 Dakota statute."

13 Q. Just a few more questions, and I'm about done.
 14 I want to understand the difference between the
 15 three calculations that were done as part of
 16 your submission to the PUC. Tell me the
 17 difference between the first calculation and
 18 the second calculation.

19 A. The difference between the first and second --

20 Q. The South Dakota revenue numbers are the same.
 21 Correct?

22 A. Correct.

23 Q. The difference is the total grossed-up
 24 revenues.

25 A. Total grossed-up revenues.

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1 A. That's completely separate than the
 2 unregulated.

3 Q. It's coincidence those numbers are close.

4 A. That they're similar, right.

5 Q. Let me try my question one more time.

6 For purposes of determining the PUC's
 7 jurisdiction in this case, we're trying to
 8 determine whether Northwestern Corporation
 9 receives more than 25 percent of its gross
 10 revenue in this state, being South Dakota.

11 My question is, is there any principle or
 12 rule of generally accepted accounting
 13 principles that tells you for purposes of
 14 making that determination that you need to use
 15 the total grossed-up revenues, as you've
 16 calculated them as part of your submission to
 17 the PUC, instead of using the total revenue
 18 reported to the SEC?

19 A. No.

20 Q. Is there any rule of FERC accounting that
 21 requires you to use one or the other?

22 A. No.

23 Q. Is there any rule of SEC accounting that
 24 requires you to use one or the other?

25 A. Not for this. When you say is there any rule

1 Q. In the second calculation it says "less
 2 adjustments."

3 A. Correct.

4 Q. And you get a smaller grossed-up revenue
 5 number. Correct?

6 A. Correct.

7 Q. So what are the adjustments that were done
 8 there, and why did you do them?

9 A. As I note under Calculation 1, we started with
 10 our SEC revenues and grossed them up for
 11 intercompany eliminations. Then when we went
 12 to the adjusted number under Calculation 2,
 13 that was adjusting for various FERC differences
 14 and reconciling between the SEC and FERC
 15 revenue basis, and the difference is about
 16 \$17 million, a little over \$17 million, I
 17 believe. We listed that out in our response,
 18 our August 24 response to Question No. 7.

19 Q. That's what I was afraid of. For purposes of
 20 the deposition today, your response to Question
 21 No. 7 in your August 24 submission to the PUC
 22 explains the difference between total
 23 grossed-up revenues in Calculation 1 and
 24 Calculation 2. Is that correct?

25 A. Correct.

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- 1 Q. Then explain for me Calculation 3. You have
 2 the same grossed-up revenue number, but
 3 different South Dakota revenue calculations.
 4 Correct?
 5 A. Correct.
 6 Q. And you excluded Nebraska in Calculation 3. Is
 7 that really the only difference?
 8 A. That is the only difference, yes.
 9 Q. I'm not sure I understand this. Why do you
 10 either include Nebraska unregulated revenue as
 11 part of South Dakota revenue, or why do you
 12 exclude it?
 13 A. That's why we laid it out, because when we were
 14 trying to interpret the statute, we weren't
 15 sure which way we should do it, I guess.
 16 Our position is that we would exclude it,
 17 because it's generated from our Nebraska
 18 customers, but it ends up being -- the reason
 19 that's included and we don't include say
 20 Montana revenue here is because really within
 21 our system we've kind of set up everything for
 22 South Dakota and Nebraska reporting all rolls
 23 up, as I said, under either company code NPS or
 24 for the unregulated piece company code NCS.
 25 Q. In the reporting you do on a monthly basis to

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- 1 what do you need? What do you want? Will you
 2 keep it confidential?" Kind of determined,
 3 well, in this case if it's just South Dakota
 4 revenue or even South Dakota and Nebraska
 5 revenue, it's not material to our overall
 6 Northwestern results if we're just providing
 7 limited information like that.
 8 So we at some point started up again. I
 9 don't remember when that was.
 10 Q. Since Northwestern emerged from bankruptcy in
 11 November of 2004, have you reported revenues to
 12 the South Dakota PUC on a monthly basis?
 13 A. Yes.
 14 Q. Is that something that PUC requires of all
 15 regulated utilities in South Dakota, or is just
 16 Northwestern doing that?
 17 A. I do not know. I don't believe it's probably a
 18 requirement. It was just a request Dave
 19 Jacobson had.
 20 Q. You aren't doing it as a result of any PUC
 21 administrative rule or any statute.
 22 A. No.
 23 Q. You are doing it because someone at the PUC
 24 asked you for it.
 25 A. Correct.

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- 1 the South Dakota PUC, is the Nebraska revenue
 2 included?
 3 A. That's what I do. I do not remember. I think
 4 we stopped reporting Nebraska revenue sometime
 5 ago, but I'd have to go back and look at the
 6 latest report that's been provided.
 7 Q. When did you start doing monthly reporting to
 8 the South Dakota PUC?
 9 A. I believe they did it for some time. Like I
 10 say, we stopped probably -- we stopped right
 11 around the time we filed for bankruptcy, which
 12 was November -- September of 2003.
 13 Then had some conversation with Dave
 14 Jacobson of the staff. That would be sometime
 15 in the first half of 2004, sometime between
 16 January and June. I don't recall when. At
 17 that time he was asking for the information.
 18 We were explaining we had stopped because we
 19 didn't want to -- I was not aware we were
 20 providing it in the first place. We stopped
 21 because we didn't want to run afoul of
 22 regulations by providing information to them
 23 that might be public and had not provided that
 24 to other investors.
 25 Once we talked with him, we said, "Okay,

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- 1 Q. One more question with respect to the three
 2 calculations. Calculation 3 has a different
 3 South Dakota revenue number which excludes
 4 Nebraska, and you've compared that to
 5 grossed-up numbers, less adjustments, the same
 6 total as in Calculation 2. Why not mix that
 7 with the total grossed-up revenues you use in
 8 Calculation 1?
 9 A. It would have been a smaller percentage if we
 10 used No. 1. So we just said --
 11 Q. But without regard to the result, can you
 12 explain to me why you would not make the
 13 comparison or the percentage determination as a
 14 result of using the revenue stream attributed
 15 to South Dakota as part of Calculation 3 as a
 16 percentage of the total grossed-up revenue that
 17 exists in Calculation 1?
 18 A. As I mentioned earlier, you would have some
 19 differences. The Nebraska revenue is
 20 intercompany revenue, so you would have to back
 21 it off of both sides, both the gross revenues
 22 and the South Dakota or in this calculation
 23 what we end up with just South Dakota
 24 revenues. I don't know. We would have to look
 25 back and see if there would be any other

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- 1 differences in that calculation.
- 2 Q. Here is the opinion question. For purposes of
3 applying the jurisdictional statute that's at
4 issue here, which of these three calculations
5 do you think is the correct calculation?
- 6 A. I believe Calculation 3 would be the correct
7 calculation.
- 8 Q. Why do you think that's correct compared to
9 Calculation 1 or 2?
- 10 A. Because we are excluding the Nebraska derived
11 revenue from that calculation.
- 12 MR. MOORE: That's all the questions I
13 have for you. Thank you.
- 14 EXAMINATION BY MS. ROGERS:
- 15 Q. Good morning. My name is Darla Rogers. I
16 represent East River Electric and Basin
17 Electric.
- 18 A. Okay.
- 19 Q. I don't have a lot of questions. I just came
20 along more for my information. If I'm a little
21 bit redundant here, I apologize for that.
- 22 A couple things with regard to some of the
23 subsidiaries you were talking about. One in
24 particular, you talked about the Risk Partners
25 Insurance.

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- 1 A. Risk Partners Assurance.
- 2 Q. Assurance. Did I understand you to say it's a
3 supplemental insurance, or is it an actual
4 insurance business?
- 5 A. It's what we call a captive, so it's a separate
6 subsidiary. Captives were set up, they were a
7 little more prevalent a few years ago, but
8 basically for tax purposes. You could set up
9 captives so you could pay your premiums to that
10 company. They would be tax deductible, and
11 they are set aside.
- 12 Northwestern is self-insured, and that was
13 the way to get some tax deductions essentially
14 for setting up a separate insurance company and
15 following that set of rules.
- 16 Q. Is the entity licensed with a Division of
17 Insurance in any state?
- 18 A. That I don't know. It was set up in Bermuda, I
19 believe.
- 20 Q. The island Bermuda? Is that what we're talking
21 about?
- 22 A. I believe it was Bermuda. Yes.
- 23 Q. So you don't know if that entity is subject to
24 any insurance regulation anywhere in the
25 country?

- 1 A. I know they are. We file statutory reports for
2 them, but we contract that out to somebody else
3 to do most of that work. I don't know the
4 specifics of who actually regulates them.
- 5 Q. You file statutory reports. Do you know where?
- 6 A. No. That's what I said, we contract it out to
7 somebody else.
- 8 Q. That is something you could --
- 9 A. I could find out.
- 10 Q. I think this has been covered, but I want to
11 make sure I understand. On these monthly
12 reports to the South Dakota Public Utilities
13 Commission, this is not a requirement of any
14 PUC rule that you are aware of. Is that
15 correct?
- 16 A. That's my knowledge, yes.
- 17 Q. And you've been filing these since November of
18 2004 for sure? Is that my understanding?
- 19 A. We've been providing it to Dave Jacobson. I
20 wouldn't say filing.
- 21 Q. Providing it.
- 22 A. Yes. Definitely since November of 2004.
- 23 Q. We've talked about the revenues on the SEC
24 filing. We've talked about the revenues for
25 purposes of FERC filings. We also have these

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- 1 PUC reports you don't file, but you provide.
2 How would the revenues you report to the
3 PUC on a monthly basis compare to either SEC or
4 FERC revenues?
- 5 A. Those reports we send are on an SEC basis.
6 They are only for that company code for NPS.
7 As I said, I believe it's just for the South
8 Dakota portion of that. But if you were to
9 look at a consolidating income statement, you
10 could bring that all the way across. At the
11 end it would match our SEC revenues.
- 12 Q. The other thing that is not real clear to me is
13 inclusion versus exclusion of Nebraska
14 unregulated revenues. Do I understand you to
15 say in the reports, the monthly reports you
16 provide to the PUC, unregulated Nebraska
17 revenue is included in those reports?
- 18 A. No. There is no unregulated revenue included
19 in those reports. What I'm not sure of is I
20 think we changed the reports sometime ago, so
21 we were only reporting South Dakota regulated
22 revenues. I know historically I think they
23 provided everything to include Nebraska
24 regulated natural gas revenues.
- 25 Q. The SEC revenues on the form we were talking

1 about.
 2 A. The 10K?
 3 Q. Does that not include both regulated and
 4 unregulated revenue?
 5 A. Yes.
 6 Q. Then I thought you just said that the reports,
 7 monthly reports you provided to the PUC would
 8 follow the SEC basis?
 9 A. Yes. We break them down by regulated versus
 10 unregulated. The unregulated revenue shows up
 11 under a separate company code, under the NCS
 12 company code, which we don't provide to Dave as
 13 part of that monthly report we send him.
 14 Q. Would it be possible for us to get copies of
 15 the monthly reports you provide to Dave?
 16 MR. GERDES: I can take a look at that.
 17 I'll produce it under the same -- based on the
 18 other productions we're going to make. I'll
 19 take a look at it, and if it's not a problem,
 20 we will. You want them how far back? Calendar
 21 '05?
 22 MS. ROGERS: For sure calendar '05. I was
 23 thinking of going back, since you know they've
 24 been provided since November of '04.
 25 MR. MOORE: I think maybe '04 and '05 to

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1 revenues, and total company grossed-up revenues
 2 less adjustments, and total company grossed-up
 3 revenues less adjustments, the source of these
 4 is not necessarily any rule or requirement.
 5 This is just something you put together for
 6 purposes of this docket. Is that correct?
 7 A. That is correct. We have a reconciliation on a
 8 quarterly basis that we pulled these numbers
 9 from. As I noted, Calculation 1 we start with
 10 the SEC revenues. We add back eliminations
 11 that are made or that have been made. So,
 12 yeah, we're starting with that number. We have
 13 the eliminations. We would go on to show the
 14 adjustments that are described in my answer to
 15 -- in our answer to No. 7 on the August 24,
 16 2006, response.
 17 MS. ROGERS: That's all I have. Thank
 18 you.
 19 MR. MOORE: I have nothing else.
 20 MR. GERDES: Under the rules you have a
 21 right to read and sign this deposition, or
 22 trusting the accuracy of the court reporter,
 23 you can waive the reading and signing. Given
 24 the detail of this, I would recommend you read
 25 and sign it.

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1 date.
 2 Q. Nebraska unregulated revenue, that is included
 3 in Calculation 1 and Calculation 2 of the
 4 attachment to your brief.
 5 A. Yes.
 6 Q. Is the Nebraska unregulated revenue reported
 7 anywhere else?
 8 A. When you say "anywhere else," you mean
 9 externally?
 10 Q. Yes.
 11 A. No. I mean it's included in the numbers in the
 12 SEC reports that are filed, but there's nowhere
 13 where you could separately distinguish it, no.
 14 Q. For example, in your annual filings with the
 15 Nebraska Public Utilities Commission?
 16 A. No. As I noted, that's a very, I think there's
 17 only three questions on the filing. Then our
 18 annual report gets filed with it. There's very
 19 limited information in the Nebraska filing.
 20 They do not include unregulated revenues.
 21 MS. ROGERS: I believe you marked this as
 22 Exhibit 1. Is that correct?
 23 MR. MOORE: Yes.
 24 Q. Just so I understand again the source of your
 25 gross, what you call total company grossed-up

1 THE WITNESS: Sure:
 2 (Witness excused)

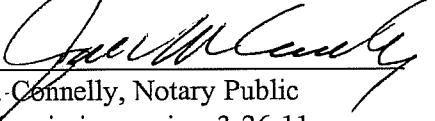
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1 STATE OF SOUTH DAKOTA)
2 :SS CERTIFICATE
3 COUNTY OF MINNEHAHA)
4 I, Jill M. Connelly, Court Reporter
5 and Notary Public within and for the State of
6 South Dakota:

7 DO HEREBY CERTIFY that the witness
8 was first duly sworn by me to testify to the
9 truth, the whole truth, and nothing but the
10 truth relative to the matter under
11 consideration, and that the foregoing pages
12 1 - 72, inclusive, are a true and correct
13 transcript of my stenotype notes made during
14 the time of the taking of the deposition of
15 this witness.

16 I FURTHER CERTIFY that I am not an
17 attorney for, nor related to the parties to
18 this action, and that I am in no way interested
19 in the outcome of this action.

20 In testimony whereof, I have hereto
21 set my hand and official seal this 4th of
22 October, 2006.

23 
24 Jill M. Connelly, Notary Public
25 My commission expires 3-26-11