

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

**NORTHWESTERN ENERGY
DOCKET NO. NG07-013**

**TESTIMONY & EXHIBITS OF DAVID A. JACOBSON
ON BEHALF OF THE COMMISSION STAFF
OCTOBER 19, 2007**

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1 **Q. What is your name and by whom are you employed?**

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3 A. My name is David A. Jacobson and I am presently employed as a Utility Analyst with the
4 Commission Staff of the Public Utilities Commission (Commission). My business
5 address is Public Utilities Commission, State Capitol Building, Pierre, South Dakota
6 57501.

7 **Q. Please describe your educational background and experience.**

8 A. I received a Bachelor of Science Degree in Business Administration majoring in
9 business management from the University of South Dakota in 1980. I subsequently
10 returned to the University in 1982 and completed major course work in accounting. I
11 have been with the Commission since 1984. I have previously presented testimony in 16
12 general rate case applications and also numerous other docketed matters before the
13 Commission.

14 **Q. What is the purpose of your testimony in this Docket?**

15 A. I shall present testimony addressing NorthWestern Energy (Company) proposed
16 adjustments to operating income identified as Adjustment No. 3 – Other Revenues,
17 Adjustment No. 15 - Stock Grants and Adjustment No. 18 - General Terms Proposed
18 Changes. I shall also propose an adjustment to pension and benefit expense related to
19 certain employees involved in misconduct proceedings before the United States Security
20 Exchange Commission (SEC). I shall also offer testimony regarding the Company's

1 proposed changes to customer charges for Residential and General Service customer
2 classes.

3 **Q. What did the company propose in Adjustment No. 3, Other Revenues?**

4 A. Company Witness Decker proposed to include revenues for the categories of late
5 payment charges, miscellaneous service charges (largely connect/reconnect fees), and
6 other gas revenues (largely affiliate rents) using a three year average of these revenues
7 as opposed to test year revenue amounts.

8 **Q. What is your opinion regarding the company's proposed treatment?**

9 A. The Company has offered no explanation or evidence as to why test year amounts
10 would be inappropriate to include in this case. It is my opinion that unless such evidence
11 is presented, test year amounts, as the most current information available, are the best
12 measure of these revenues. Also, Staff witness Knadle has removed late payment
13 charges from the company's revenues as part of his Working Capital analysis. An
14 explanation of that action can be found in his testimony.

15 **Q. Have you reviewed Company Adjustment No. 15 relating to amortization of Stock
16 Grants over a three year period?**

17 A. Yes, I have reviewed the Incentive plans that precipitated the stock grants and have
18 found no evidence as to why they should be denied. Although the plans are relatively
19 new, at this time I have found no evidence which would show that a three year
20 amortization is unreasonable.

21 **Q. Have you analyzed the company's Adjustment No. 18 concerning proposed
22 changes to the General Terms and Conditions section of their tariff?**

23 A. Yes. The Company has proposed several changes which I will discuss and comment on
24 individually. Currently the Company charges \$15 for connecting customers to the utility
25 after normal working hours. The Company's tariff also specifies that the charge for being
26 reconnected to service after being disconnected for non-payment, will be based on "the
27 Company's hourly rates for service work with a one hour minimum" or in 2006, \$60.52.
28 The company has proposed to increase the charge for both types of connection to \$125.
29 The Company shows costs in this range largely because union contracts specify
30 employees be paid 2 hours minimum when called back to work after normal hours.

31 **Q. Have you accepted the Company's proposal regarding these connection charges?**

32 A. The company should be allowed to increase the connection/reconnection charge to \$75
33 at this time, but with the condition that customers be individually informed of the after

1 hours charge each time a request is made for after hours connection/reconnection. I
2 would suggest that language also be added to the tariff to make this requirement clear.
3 Montana-Dakota Utilities Co. currently has such language on Sheet 1.14 of Section 5 of
4 its gas tariff which would be appropriate for this purpose. I would also suggest that the
5 language in this section of the tariff be clarified in order to be more easily understood.
6 The result of this adjustment is reflected in Exhibit__(KAS-1), Schedule 3, page 3 of 5,
7 Column (t).

8 **Q. What is your opinion regarding the Company's proposal to increase the**
9 **connection charge for seasonal customers from \$10 during regular work hours to**
10 **\$80 and from \$15 after normal working hours to \$125.**

11 A. Seasonal customers or any customer who disconnects and reconnects on a continuing
12 basis normally do so in order to avoid paying monthly customer charges during the time
13 when service is not being utilized. The problem with such behavior is that most of the
14 delivery cost of serving natural gas customers is fixed in nature and avoiding monthly
15 customer charges, tends to shift costs to customers who stay connected year round.
16 Other utilities regulated by the Commission have tariff provisions requiring customers
17 who disconnect and reconnect at the same location within a 12 month period of time, to
18 pay the customer charges avoided during the time of being disconnected, and also pay
19 the normal connection charge. That may well be the preferred method to address this
20 situation but could be perceived as too drastic a change by customers at this time. The
21 Company is making a reasonable move in that direction with this change, and it may well
22 be possible to adopt the policy tariffed by the other companies in the next rate case. I
23 would accept the Company's proposed seasonal customer connection/reconnection
24 charges.

25 **Q. What has the Company requested regarding line extension costs to new**
26 **customers?**

27 A. For Residential customers requiring up to 150 feet of service line, no change is
28 proposed. In the case where a Residential service extension exceeds 150 feet, or where
29 customers request service without utilizing it for both space heating and water heating,
30 the Company has proposed to possibly require an Advance for Construction or a
31 Contribution in Aid of Construction based on the results of an economic feasibility
32 analysis. Commercial and Industrial customers line extensions, which previously were
33 not addressed in the tariff, would also possibly require customer contributions based on

1 an economic feasibility analysis. The proposed tariff language however, does not explain
2 or describe the methodology or factors considered in the proposed economic feasibility
3 determination. It is understood that the Company is requesting flexibility in this matter
4 however the Commission has the responsibility to make sure that all charges are just
5 and reasonable and are applied in a consistent and non-discriminatory manner to all
6 customers. The Company should be required to place in the tariff a formula or
7 methodology that can be utilized by customers, the Commission, or other interested
8 parties, to reasonably determine what line extension costs would be in a given situation.
9 The Company has proposed language very similar to that currently in effect in
10 MidAmerican Energy's tariff but I would propose that this issue also be addressed with
11 MidAmerican Energy in their next rate change application.

12 **Q. Do you have any comments regarding line extension tariffs and policy in general?**

13 **A.** Yes. Recovery of line extension costs pursuant to tariffed provisions are meant to
14 address cost recovery of the incremental facilities provided to serve a particular
15 customer or group of customers and are not meant to derive the entire rate applicable to
16 a customer(s). They do not address the appropriate contribution customers should make
17 to paying their fair share of costs related to the facilities and operation of the utility's
18 integrated system. In order to provide a transparent and supportable basis for a total rate
19 to a given customer, these two elements must be considered separately. Witness Keith
20 Senger has recommended the Company provide a class cost of service for certain large
21 customers at the time of the next filing and I would strongly support that. I would also
22 require that the Company track and report line extension costs separately for each class
23 of service.

24 **Q. Should line extension tariffs recover the entire cost of each individual line
25 extension from each individual customer?**

26 **A.** In a perfect world, this may well be the fairest way to assess line extension costs, but as
27 a practical matter it may well lead to excessive administrative costs. Many line extension
28 tariffs such as the Company's Residential line extension tariff offer a standard allowance
29 based somewhat on average cost. Many companies discount line extension costs in
30 order to make initial service hookup more affordable. However the further one goes from
31 assessing customers the true cost of line extension facilities, and as such costs escalate
32 over time, the greater the problem of cross subsidization becomes which penalizes
33 existing customers to the benefit of new customers. Inadequate line extension

1 contributions can also cause recovery lag and lead to more frequent rate increase filings.
2 The problem can become extremely acute when line extensions costing millions of
3 dollars are constructed to serve particular large customers. Risk of stranded investment
4 also becomes a big factor when such a large investment is dedicated to a single
5 customer. Also related to risk is the amount of time a customer is given to pay for his line
6 extension.

7 **Q. Are the line extension tariffs of other natural gas utilities regulated by the**
8 **Commission adequate in your opinion?**

9 A. The Commission has not addressed line extension allowances offered by the other
10 utilities for some time but I would opine that they are not suitable for very large
11 customers requiring very expensive line extensions. Simply too much cross
12 subsidization would occur. To my knowledge, very large customers of the other utilities
13 have either not required very expensive line extensions or have been served by
14 contracts with deviations.

15 **Q. Should all customers be forced to follow a generic line extension policy?**

16 A. Line extension policies need to be applied consistently and in a non-discriminatory
17 manner however the Commission has in the past made exceptions in circumstances
18 where both the Company and most importantly, the customer, provided clear and
19 compelling evidence that a discount was needed to avoid bypass or address competitive
20 situations. In such cases, the Contract with Deviation is allowed by statute to address
21 these situations. However, even in these situations, the customer must pay for the
22 incremental costs it creates and the customer and company should strive to recover all
23 costs fairly assigned and allocated.

24 **Q. What is your opinion regarding the Company's proposal allowing it to recover the**
25 **added costs of installing service lines outside of the regular construction season?**

26 A. The proposed language is reasonable and such tariff language has been approved for
27 other utilities regulated by the Commission. The Company's testimony in this regard
28 mentions added cost due to frozen ground. I would have the Company modify the
29 language they have proposed to allow extra charges during times when the ground is
30 frozen rather than referring to a "regular construction season." Prior experience with
31 customers concerning this matter has convinced me this is the best way to address this
32 matter.

1 Q. **Do you have any comments regarding the Company's proposed language**
2 **requiring final grading before service installation?**

3 A. I would approve of this tariff language.

4 Q. **Do you have an opinion regarding the proposal allowing the Company to charge a**
5 **\$20 fee if access to a meter is denied for three consecutive months?**

6 A. I would approve allowing the Company to assess this charge because of the added cost
7 created by such a customer. I would note that the tariff states the Company "may"
8 assess the charge which leaves the possibility of waiving the fee if circumstances
9 warrant. I would also note that the tariff states the Company "will" notify the customer
10 after each unsuccessful attempt to read the meter and not merely try to contact the
11 customer.

12 Q. **Is the proposed tariff language requiring a customer to be present during service**
13 **connection reasonable in your opinion?**

14 A. I would suggest that the language be changed so that the Company may require a
15 customer be present during service connection. This allows the Company the ability to
16 enforce this provision but to waive it when circumstances allow.

17 Q. **What is your opinion concerning the Company's proposal to recover the cost of**
18 **damage caused by tampering or bypassing metering facilities.**

19 A. I believe the intent of the new language is reasonable. When it can be reasonably shown
20 that the damage was caused by intentional tampering or attempted bypass, the
21 person(s) responsible should be held accountable. I would suggest a slight change in
22 wording within this new tariff section to make clear that a customer is not necessarily
23 held responsible for acts of God or other such circumstances.

24 Q. **Have you reviewed the proposed changes to the Company's Budget Payment**
25 **Plan?**

26 A. Yes. The proposed changes reflect the Budget Payment Plan currently in effect for
27 NorthWestern's electric customers and are reasonable.

28 Q. **Have you proposed an adjustment to the Company's Pension and Benefit**
29 **Expense?**

30 A. Yes. Without going into a detailed description of the Company's history and performance
31 over the last many years, among the results of that history were proceedings before the
32 Securities and Exchange Commission which resulted in punitive actions being taken.
33 The conduct leading to SEC's corrective action angered and affected untold numbers of

1 NorthWestern ratepayers, employees, shareholders and the communities served by
2 NorthWestern. Citizen's residing throughout the Company's service territory have
3 contacted the Commission expressing extreme dissatisfaction with the Company's past
4 actions. I don't believe ratepayers should compensate these individuals for those actions
5 and this should serve as deterrent to such actions in the future. The adjustment removes
6 test year pension and benefits expense related to these employees. This adjustment is
7 reflected in Exhibit__(KAS-1), Schedule 3, page 4 of 5, Column (ah).

8 **Q. Do you have an opinion regarding the Company's proposed monthly customer**
9 **charges for Residential and General Service rates?**

10 **A.** Yes. The Company has proposed increasing the Residential customer charge from \$6 to
11 \$8 and the customer charge for General Service from \$7 to \$9. While the cost analysis
12 performed by both the Company and Staff justify such an increase, I would suggest the
13 increase to Residential customers be set at \$1 and that the General Service increase of
14 \$2 be accepted. Residential customers in particular have in the past expressed deep
15 concern regarding significant changes to this charge. While Staff agrees that this rate
16 should eventually recover the appropriate assigned cost, movement towards that goal
17 should be gradual. Business customers can more easily tolerate this increase as they
18 are generally larger customers and have the ability to pass this cost along.

19 **Q. I have no further questions.**