BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF SOUTH DAKOTA

IN RE:	)	
	)	**Docket No. NG11-___**
NORTHWESTERN CORPORATION	)	
d/b/a NorthWestern Energy	)	

PREFILED DIRECT TESTIMONY OF JEFFREY J. DECKER
ON BEHALF OF NORTHWESTERN ENERGY

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Exhibits

Exhibit JJD-1 (Revenue Requirements Model)

Exhibit JJD-2 through JJD-5

Reference to Required Statements

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

A. Jeffrey J. Decker, 600 Market Street West, Huron, South Dakota 57350.

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

A. I am employed by NorthWestern Energy as a Regulatory Specialist.

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

A. I graduated in 1986 from Dakota Wesleyan University with a Bachelor of Arts degree in Business Administration. I joined NorthWestern Public Service in 1988 as a corporate accountant working with financial reporting. Starting in 1993, I worked with NorthWestern Growth Corporation. My responsibilities included financial analysis of potential acquisitions. In 1995 I became the director of rates. I was promoted to Manager of Financial Services – NEC in 1998. In 2004, my title was changed to Regulatory Specialist for NorthWestern Energy. Since 1996 I have been responsible for developing the NorthWestern Energy Gas Revenue budgets for South Dakota and Nebraska. I also maintain and analyze heating degree-day data for both states on a monthly basis.

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

A. I am supporting the weather normalization pro forma adjustment to the income statement. The heating degree-days by cycle are shown in Exhibit JJD-2. The revenue adjustments are calculated on Exhibit JJD-1, Schedule No.2.1, pages 1 through 14.

Weather Normalization

Q. Please explain Exhibit JJD-1, Schedule No. 2.1.

A. The 2010 test year was slightly warmer than normal, which resulted in lower sales and revenues. I adjusted the test year revenues to correspond to normal weather.

Q. What affect did weather normalization have on South Dakota revenues?

A. The total net weather adjustment reflects an increase to the Company's test year net income as a result of weather normalizing billed sales and unbilled sales for twelve months ending December 31, 2010. The calculations to obtain this adjustment are included in JJD-1, Schedule No. 2.1. Natural gas volumes were adjusted by class. Adjusted volumes were then used to calculate revenues at present and proposed rates.

Q. Please explain the methodology used to calculate the weather normalization adjustment.

A. The methodology used for the normalization is consistent with that used in determining the annual forecasted sales for the calculation of the NorthWestern budget projections. This method calculates a normalization factor by taking the sum of the monthly heating degree-day normals and dividing them by the sum of the monthly degree-day actuals. Heating degree-days for actual and normal are calculated on a billing cycle basis to provide a better match with revenues. This normalization factor is applied to actual annual sales (less base load sales) to either decrease actual sales if it is colder than normal or increase sales if it is warmer than normal.

Q. Please state the source for the normal and actual heating degree-day information.

A. The normal and actual heating degree-days are reported by the National Oceanic and Atmospheric Administration. The monthly Normal Heating Degree Days are based on a thirty-year average for the period of 1971-2000.

In calculating consistently with the NorthWestern gas revenue budget methodology, I used the Huron weather service actual and normal heating degree data. Huron is located close to the center of our service territory and represents a reasonable average of the weather affecting our customers.

Q. Have you prepared any analysis which indicates the use of Huron only weather data is reasonable in your weather adjustment?

A. Yes, I have. This is contained on Exhibit JJD-2.

Q. What does this exhibit demonstrate?

A. Shown on this exhibit is the heating degree data for calendar year 2010 for Aberdeen, Brookings, Huron, and Mitchell, South Dakota. The data was derived from the NOAA Weather Service except for Brookings, which was derived from the SDSU Website. NorthWestern's gas markets fall in or near these locations. The data shows that Huron experienced heating degree-days that were 97.31% of normal. The four-city average experienced weather that was 97.09% of normal during 2010. This data, although reported on a calendar basis as opposed to billing cycle basis, supports the assumption that the Huron weather is representative of our service territory.

Deferred Costs in NG11-001

Q. What is the purpose of the deferred costs referred to on JJD-4?

A. In docket NG11-001, the Company was granted permission by the Commission to create a regulatory asset to defer costs related to the Company's purchase of the NNG pipeline near Milbank, SD until the next general rate filing. Included as part of this filing, the Company is proposing to include the deferred amount as shown in Exhibit JJD-4, column C, rows 13-15 (see also Adjustment #15). This $52,823 is calculated by taking seven months of the annual deferred costs amortized over three years. The company also requests the costs of purchase and ownership, as evidenced in Docket NG11-001, are included in the rates developed under this filing (see Adjustment #19). Moving the costs of purchase and ownership into rates allowed the Company to reduce the purchased gas adjustment by $374,406 as evidenced in its April 2, 2011 purchased gas adjustment filing. In summary, the pipeline assets were prudently purchased and resulted in a savings to customers.

Revenue Requirements Study

Q. Have you prepared an exhibit in support of your revenue requirement testimony?

A. Yes, I am sponsoring an exhibit related to my revenue requirements testimony in this case, Exhibit JJD-1. Various schedules are included as part of this Exhibit and it sets forth the South Dakota Gas Revenue Requirements study.

Q. Was this exhibit prepared by you or under your direction and supervision?

A. Yes, it was. Certain pro forma adjustments to operating income are supported by other NorthWestern witnesses. I address those witnesses under the discussion of the pro forma.

Q. Does this exhibit reflect the information shown on NorthWestern's books and records for the corresponding base period?

A. Yes. The information shown per books, or actual, was taken from the books and records of NorthWestern for the base period consisting of the twelve-month period ending December 31, 2010. The Federal and State Income Taxes were calculated using a rate of 35%. The repairs tax benefit of $300,650 is assumed to be available in future years and is returned to customers after the calculation of the tax liability using the 35% rate. The historical base period amounts were adjusted for known and measurable changes expected to occur during the time proposed rates go into effect.

Q. What is contained in Exhibit JJD-1?

A. Exhibit JJD-1 is the South Dakota Gas Revenue Requirement study.

Q. Would you briefly summarize what is included as part of Exhibit JJD-1?

A. Schedule No. 2, consisting of 3 pages, is a summary of natural gas sales and transportation revenues, containing actual base year billing units and revenues. Revenues have been broken down into: type of revenue recovery, customer

charges, distribution delivery charges, ad valorem tax adjustment clause, and gas costs. In addition, test year billing units are shown with associated revenues derived using present and proposed rates.

Schedule No. 2.1, consisting of 14 pages, contains the weather normalization of billing unit results. Each page sets forth revenues at base year actual, present and proposed rates by rate schedule.

Schedule No. 2.1.a, consisting of 13 pages, sets forth the revenues derived from customers with Contracts with Deviations.

Schedule No. 2.2, consisting of 1 page, contains the monthly heating degree- days for Huron, South Dakota.

Schedule No. 3, consisting of 1 page, sets forth the details of other revenues, by account, during the base period and two years prior to the base period.

Schedule No.5, consisting of 1 page, shows information on the depreciation and amortization expense.

Schedule No. 7, consisting of 1 page, shows the computation of income taxes. A 35% Federal tax rate was assumed in all calculations.

Schedule No. 9, consisting of 1 page, contains the computation of rate base and return.

Schedule No. 9.1, consisting of 2 pages, shows the book balances of plant accounts as of December 31, 2009 and 2010, along with base and test year adjusted thirteen-month average balances.

Schedule No. 9.3, consisting of 5 pages, contains the calculation of the thirteen-month average balance for certain rate base items, including any allocation of common costs to South Dakota gas.

Pro Forma Adjustments – Operating Income Statement

Q. Mr. Decker, can you please refer to Statement N pages 2 through 5? Would you please explain each individual pro forma adjustment to the operating income statement?

A. I will address adjustments 1, 2, 13, 14, 15 and 16. Witness Kendall Kliewer has addressed the remaining adjustments in his testimony.

Adjustment No. 1 – Weather Normalization

Details and calculation of this adjustment are shown on Schedule Nos. 2.1 and 2.2. This adjustment decreases the revenue requirement by $116,898.

NorthWestern has made certain adjustments to base year volumes in determining test year volumes. The upward adjustment to base year volumes delivered to retail customers is primarily the result of warmer than normal weather in the base year. Heating degree-days during the base year were approximately 98% of normal, as shown on Schedule 2.2. In summary, actual base year volumes were divided into temperature sensitive and non-temperature sensitive volumes. The non-temperature sensitive volume was determined using the August and September 2010 volumes in the base period. The temperature sensitive volume for the year was then calculated by subtracting the non-temperature sensitive volume from the total volume. The temperature sensitive volumes are normalized in a linear manner adjusting the base period temperature sensitive volumes by the ratio of historical normal heating degree days to the actual heating degree days matched to billing cycles during the twelve months ended December 31, 2010.

This adjustment also determines the gas supply cost and ad valorem tax adjustments using weather normalized sales requirements and the cost component of each rate schedule using the twelve month average rate in effect during the 2010 test year.

Adjustment No. 2 – Other Revenues

Details and calculation of this adjustment are shown on Schedule No. 3. This adjustment increases the revenue requirement by $139,287. Late payment charge revenue was eliminated from cost of service, consistent with treatment in the 2007 rate case.

Adjustment No. 13 – Milbank Deferred Costs

This adjustment increases the revenue requirement by $52,823. In NG11-001, NWE requested to defer the costs of pipeline ownership and operation from April 1, 2011 until the settlement of the rate case. Details for this adjustment are shown on Exhibit JJD-4 in column c, rows 13-15.

Adjustment No. 14 – South Dakota Wheat Growers Dryer Additions

The result of this adjustment is a $304,048 decrease in the revenue requirement. This is the result of including a thirteen month average of the rate base value, take-or-pay revenue and associated costs in the test period. These contracts were approved in docket NG10-003, NG10-004, NG10-005 and NG10-006.

Adjustment No. 15 – Milbank Pipeline

This adjustment includes the revenues and expenses of purchasing and operating the Milbank Pipeline as described in docket NG11-001. The result of this adjustment is a $245,161 decrease in the revenue requirement, which is the Contracts with Deviation revenue of $516,311 less O&M, depreciation and other taxes of $271,150.

Adjustment No. 16 – NNG Farm Taps

In column c, rows 33 and 34, of Exhibit JJD-4 is the estimated revenue and cost of serving the NNG farm taps. The result of this adjustment is a $38,751 increase in the revenue requirement. The revenue is based on a four year historical average provided by MERC. The O&M costs were estimated as shown on JJD-5.

Pro Forma Adjustments – Gas Rate Base

Q. Would you please explain each individual pro forma adjustment to rate base, summarized on Statement N page 5?

A. ***Adjustment No. 17 – Power Plan, New e-CIS Software***

This adjustment increases rate base by $393,020 with an associated revenue requirement impact of $46,054 for return and associated income taxes. This adjustment is further described in the testimony of Witness Kliewer on page 7.

Adjustment No. 18 – SDWG Plant Additions

This adjustment reflects the first year thirteen month average balance of the SDWG grain dryer projects that were approved in Contract with Deviation filings. This adjustment increases rate base by $2,618,264 with an associated revenue requirement impact of $306,808 for return and associated income taxes.

Adjustment No. 19 – Milbank Pipeline Plant Additions

This adjustment is summarized on Exhibit JJD-4. This adjustment increases rate base by $4,914,776 with an associated revenue requirement impact of $575,913 for return and associated income taxes.

The $4,914,776 includes Contract with Deviation rate base of $2,682,427. The demand recovery rate in the Contracts recovers $245,161 of revenue requirement net of costs, as described in adjustment 15. After reducing the increase of $575,913 by the $245,161 from adjustment 15, the net increase to

retail customers from the Milbank line is $330,752. This requested increase is less than the $374,406 that was removed in NorthWestern's April 2011 PGA filing.

This pro forma adjustment to rate base is the result of including in rate base the thirteen month average balance of the Milbank pipeline assets. The plant balances were merged into NorthWestern at acquisition value per the order in Docket NG11-001, dependent upon approval in this rate case filing.

Class Cost of Service Study

Q. What is the basis for the class cost of service study contained in the required Statement O?

A. The study is based on South Dakota jurisdictional operations for the twelve month period ending December 31, 2010 as adjusted for known and measurable changes. The revenue requirement study previously mentioned provides the operating income and rate base numbers used in the cost of service study.

Q. What is the purpose of a class cost of service study?

A. A class cost of service study is an allocation to each rate schedule or class of customers of all revenues and costs relative to furnishing the utility service, including appropriate assignment of revenues, operations and maintenance expenses, depreciation and other cost elements.

Q. Would you briefly describe the steps involved in preparing a class cost of service study?

A. The utility plant, revenue and expense accounts are examined and, where possible, amounts are assigned directly to certain classes of service or customers, based on details derived from the books and records of the utility or by special analysis and studies. Amounts not directly assigned are analyzed by functional responsibility and groupings of accounts, such as production and distribution, and

then are allocated on the basis of demand, energy use and the number of customers associated with the various functional responsibilities.

Q. How would you describe your overall approach to the cost allocation study?

A. This cost allocation study utilizes the methods employed in Docket NG99-002 and NG07-013. As a result, the 2011 study applies cost allocation principles in a manner consistent with previous studies.

Q. How are classes defined for the purpose of your class cost of service study?

A. There are three service classes used for this class cost of service study: residential (Rate No. 81 – Residential Gas Service); small commercial (Rate No. 82 – General Gas Service); and large commercial (Rate Nos. 84 & 85 for sales service, Rate 86 customers and Rate No. 87 for transportation service). Rates for large commercial accounts are offered under either an Option A or B. Option A service is currently chosen by large commercial accounts generally using less than 110,000 therms per year. This service rate option carries a smaller customer charge than Option B service; however, the non-gas commodity charge is approximately $0.04 per therm higher. The class cost of service study assumes all service classes are firm due to a continuing shift away from the sale of gas toward the transportation of gas. In the past, interruptible service was related to gas supply and pipeline constraints, not to the general capability of the distribution system.

Q. Discuss the principal classification and allocations used in Statement O.

A. Pages 5 and 6 contain the development of the classification ratios of cost for customer, demand or commodity, while the allocation ratios to customer class are shown on pages 7 and 8. Demand-related costs are those that relate to the utility's ability to meet and sustain the maximum gas flow required by customers. On NorthWestern's system, these days occur when it is extremely cold. Demand-related costs thus relate to the capacity that must be built into the system to meet

peak operating conditions. Demand-related costs on NorthWestern's system include those associated with investments in peaking facilities and a substantial portion of distribution mains investment and related costs. In my study, I have classified 95% of distribution mains and 100% of peaking facilities as a demand-related cost. The demand-related costs are allocated on the basis of the January 7, 2010 requirements, grossed up to a 90 heating degree-day for each of the classes. The average temperature on that date was approximately 6 degrees Fahrenheit below zero.

Q. How were most of the other distribution costs allocated?

A. Costs associated with meters, services and regulators were allocated on the basis of the number of customers, adjusted to account for differences in cost for the size of customer. In general, expenses were allocated on the basis of the plant to which they relate. Supervision and engineering expenses were allocated on the basis of the other related O&M accounts. Customer accounting expenses were allocated on the basis of weighted customers. Administrative and general costs, including common plant investment, were generally allocated in proportion to the allocation of distribution and production plant investment and expenses.

Q. What are the results of the class cost of service study?

A. The results are summarized on Pages 2 and 3 of Statement O. Page 3 of the study shows, based on pro forma results at present rates, the following rates of return by class of customer:

Residential	-0.19%
Small Commercial	5.61%
Large Commercial	6.60%

Shown on Page 2 of the study is the level of revenue requirement needed by each customer class to attain an overall rate of return of 8.68% as requested by NorthWestern in this filing.

Q. What are the principle conclusions you reach from your study?

A. Based on results of this study, I find that existing gas revenues fail to cover South Dakota Gas jurisdictional revenue requirements by just over $4.1 million.

Q. What are the revenue deficiency amounts by class of customer and the percentage increase in non-gas cost revenue required?

A.

Residential	$2,996,267	or 32.93% Increase
Small Commercial	468,014	or 17.21% Increase
Large Commercial	658,754	or 19.48% Increase
Total	$4,123,035	or 19.45% Increase

Rate Design and Proposed Rates

Q. Please explain NorthWestern's rate design goals in this Docket.

A. NorthWestern's primary goal is that its prices for natural gas delivery service be cost-based and competitively priced to alternate fuel choices for customers. The revenues to be recovered by proposed rates are consistent with the class cost of service study results. The class cost of service study indicates that the small residential and large commercial classes have the lowest rate of return and should therefore receive the greatest percentage increase. As a basic approach to apportioning the total requested increase of approximately $4.1 million, the goal is to move every class to the system average return of 8.68%.

Q. Are you recommending a change to the current rate structure of NorthWestern's rate schedules?

A. No changes in rate structure are being recommended. The only changes being made are increases to the customer and non-gas cost delivery service charge component of rates.

Q. Please describe your proposed rate change for the residential class (Rate No. 81).

A. Overall proposed revenue increases for residential customers are consistent with

revenue levels required in the class cost of service study. NorthWestern is proposing to increase its monthly customer charge for residential customers by $2.00 to $9.00. The class cost of service study indicates that a fully loaded customer charge for this type of account should be in the $20 per month range. The remaining increase, not collected via the proposed customer charge increase, was included in the distribution delivery commodity charge. More of the increase was put into the first rate block to compensate for the entire customer related costs not being collected in the monthly customer charge.

Q. Please describe your proposed rate change for the small commercial class (Rate No. 82 or General Gas Service).

A. Overall proposed revenue increases for small commercial customers are consistent with revenue levels required in the class cost of service study. NorthWestern is proposing to increase its monthly customer charge for small commercial customers by $1.00 to $10.00. The class cost of service study indicates that a fully loaded customer charge for this type of account should be in the $22 per month range. The remaining increase, not collected via the proposed customer charge increase, was included in the distribution delivery commodity charge. The remaining increase was put into the first rate block to compensate for the entire customer related costs not being collected in the monthly customer charge.

Q. Please describe your proposed rate change for the large commercial class (Rate Nos. 84 and 85 – Sales, Rate 86 Contract Sales and Rate No. 87 - Transportation).

A. Again, overall proposed revenue increases for large commercial customers are consistent with revenue levels required in the class cost of service study. NorthWestern is proposing the customer charge for both the "A" and "B" customers increase $20 per month. The "A" customer monthly charge currently averages $99 per month compared to the cost of service recovery that shows the

customer charge should be just over $156. For the "B" customers the current monthly customer charge averages $328 per month compared to the cost of service number of just under $396. NWE is proposing a $20 increase to the current monthly $80 charge for Rates 84A and 85A and a $20 increase to the current Rate 86A and 87A monthly charge of $130. For Rates 84B and 85B, the current monthly charge of $280 is proposed to be increased to $300, and for Rate 86B and 87B, the current monthly charge of $330 is proposed to be increased to $350. The remaining increase is included in the distribution delivery rate.

In dockets NG11-001, demand rates were established for the four large customers currently served under Contracts with Deviation. In the staff filing review, it was determined that a charge within Rate 87 could not be changed outside of a rate case. With this filing, NWE proposes to add the demand charge for the four large customers to Rate 87. The rate will be identical to that approved in the CWD filings. This will also provide the benefit of the rate impact on all other customers as part of this filing. The proposed change is shown on the Rate 87 tariff sheet.

Q. Why are you proposing to remove the $2,100 from the telemeter language?

A. The company would like to charge a standard amount to all customers who install telemetering. The amount needs to be grossed up for taxes at the rate set by the government which can and has changed. The tax on CIAC's has been lowered from 30% to 15% and is currently 0%. This change will allow us to charge the rate currently in effect and should be most fair to the customers based on current government mandates.

Changes to the General Terms and Conditions

Q. Please explain the rate related changes made to NorthWestern's General Terms and Conditions as part of this filing.

A. With this filing NWE is proposing a change to add a tampering fee to its general terms and conditions. This additional language is shown on Sheet 2, Section 5.

Q. Why is there a need for additional tampering fee language in the tariff?

A. NWE proposes to include a penalty of $100 for customers who reconnect their own gas service after it has been disconnected. In addition to the current tariff language, this change will provide the Company with an additional means to discourage customers from tampering with its meters.

Q. Does this complete your testimony?

A. Yes it does.