

Pre-filed Direct Testimony  
Aaron J. Bjorkman

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

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

For Authority to Increase Gas Utility Rates  
In South Dakota

Docket No. NG24-\_\_\_\_\_

June 21, 2024

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**Witness Information**

**Q. Please provide your name, employer, and title.**

**A.** My name is Aaron J. Bjorkman, and I am the Director – Corporate Taxes for NorthWestern Energy Public Service Corporation d/b/a NorthWestern Energy (“NorthWestern” or “Company”). I am responsible for all tax-related compliance, research, and planning activities for NorthWestern.

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

**A.** I have over 22 years of experience in the field of corporate taxation, 16 years of which I spent working in the public utility sector with NorthWestern. Prior to my employment at NorthWestern, I worked as a Certified Public Accountant for Deloitte and for RSM, spending the majority of my time on corporate taxation. I have a Bachelor of Science degree in Accounting and a Master’s in Professional Accountancy from the University of South Dakota.

**Q. Have you previously testified before the South Dakota Public Utilities Commission (“Commission” or “SD PUC”)?**

**A.** Yes, I provided testimony in electric Docket No. EL23-016.

**Purpose of Testimony**

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

1 **A.** I provide testimony in support of income tax-related items included in this filing.  
2 All income tax items in both the income statements and rate base statements  
3 were prepared under my supervision and control. I am sponsoring Statement K -  
4 Income Taxes.

5  
6 **Income Taxes**

7 **Q. Have income taxes in this filing been calculated in a manner consistent**  
8 **with the methodology approved by the Commission in prior rate**  
9 **proceedings?**

10 **A.** Yes. The income taxes included in this filing have been calculated utilizing the  
11 partial flow-through method that the Commission has approved in prior dockets.  
12 Partial flow-through was utilized as part of recent dockets, including EL14-106,  
13 GE17-003, and EL23-016. Plant-related tax adjustments, except for those  
14 subject to mandatory normalization under Section 168 of the Internal Revenue  
15 Code (“IRC”), are generally flowed through to customers as a reduction to the  
16 income tax expense included in the revenue requirement.

17  
18 **Q. Have the impacts of the Tax Cuts and Jobs Act (“TCJA”) been reflected in**  
19 **this filing?**

20 **A.** Yes. The TJCA methodologies related to Excess/Deficient Deferred Income  
21 Taxes (“EDIT”) as established in Docket No. GE17-003 are continued as part of  
22 this rate review.

23

1 **Rate Base Deferred Taxes**

2 **Q. What are deferred income taxes?**

3 **A.** Deferred taxes are differences between the book and tax treatment for certain  
4 transactions. Accelerated tax depreciation generally exceeds book depreciation  
5 during the early years of an asset's service life, creating an accumulated deferred  
6 income tax liability.

7  
8 **Q. Why are certain deferred income taxes a reduction to rate base?**

9 **A.** Since deferred income taxes are typically liabilities for taxes due in future  
10 periods, they represent a source of funds. Accordingly, the average accumulated  
11 deferred income tax liability balance is deducted from rate base to recognize  
12 such funds are available for NorthWestern to use between the time they are  
13 collected in rates from customers and the time they are eventually remitted to the  
14 government.

15  
16 **Cost of Removal and Salvage Change**

17 **Q. Are the adjustment concepts made with respect to the tax accounting**  
18 **related to cost of removal ("COR") and salvage in Docket No. EL23-016**  
19 **applied to this natural gas filing?**

20 **A.** Yes, NorthWestern has made the following adjustments as part of the  
21 normalizing plant adjustments in order to comply with Internal Revenue Service  
22 normalization rules:

1 1. NorthWestern will no longer combine accrued COR with book depreciation.

2 As a result, the following will be impacted:

3 a. There will no longer be an excess amount of book depreciation  
4 resulting in an amount of protected plant EDIT reversing under the  
5 Average Rate Assumption Method (“ARAM”) in excess of the amount  
6 permitted under the normalization rules.

7 b. Accrued COR (i.e., an originating book/tax difference) will  
8 prospectively receive flow-through treatment, and a more appropriate  
9 matching of the tax effects of accrued COR and incurred COR will  
10 occur.

11 2. NorthWestern will no longer net estimated salvage within accrued COR.

12 3. NorthWestern will no longer combine salvage value received into net COR  
13 incurred and will instead prospectively normalize salvage value received (i.e.,  
14 a reversing book/tax difference).

15 4. NorthWestern proposes to recover the regulatory asset that has resulted from  
16 recording net COR under the flow-through method but recording the accrual  
17 of net COR under the normalization method evenly over 10 years beginning  
18 with the effective date of the rates.

19  
20 **Q. What are the consequences if NorthWestern does not comply with the**  
21 **deferred tax normalization requirements, including the rules related to**  
22 **TCJA excess deferred taxes, as discussed above?**

1 **A.** If NorthWestern does not comply with the deferred tax normalization  
2 requirements, it will prospectively lose the right to deduct accelerated  
3 depreciation. Instead, tax depreciation will equal regulatory depreciation  
4 expense for public utility property subject to regulation by the Commission that is  
5 in service at the time of the violation or placed in service after the violation  
6 occurs.

7

8 **Q.** Does this complete your pre-filed direct testimony?

9 **A.** Yes, it does.