

Pre-filed Direct Testimony
Brian B. Bird

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

For Authority to Increase Natural Gas Utility Rates
in South Dakota

Docket No. NG24-__

June 21, 2024

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1 **Witness Information**

2 **Q. Please identify yourself, your employer, and your job title.**

3 **A.** My name is Brian B. Bird. I am President and Chief Executive Officer of
4 NorthWestern Energy Public Service Corporation, d/b/a NorthWestern Energy
5 (“NorthWestern” or “Company”).

6
7 **Q. Please provide a description of your relevant employment experience and**
8 **other professional qualifications.**

9 **A.** I have 38 years of experience within the fields of corporate finance, treasury, tax,
10 audit, and accounting and was promoted to my current position on January 1,
11 2023. Prior to that, I served two years as NorthWestern’s President and Chief
12 Operating Officer and 18 years as Chief Financial Officer. I have Bachelor’s
13 degrees in both Finance and Accounting and a Master’s degree in Finance and
14 hold a Certified Public Accountant certificate.

15
16 **Purpose and Summary of Testimony**

17 **Q. What is the purpose of your testimony?**

18 **A.** The purpose of my testimony is to provide the overarching policy testimony that
19 guides NorthWestern’s 2024 Regulatory Rate Review for our South Dakota natural
20 gas utility. I introduce NorthWestern’s witnesses who provide a more detailed
21 explanation of NorthWestern’s major initiatives and investments in the utility
22 infrastructure needed to provide critical energy services and the reasons why the
23 South Dakota Public Utilities Commission (“Commission”) should grant our
24 request.

1 **Q. Please summarize your testimony.**

2 **A.** NorthWestern’s goal in this rate review is to seek recovery of the costs incurred to
3 provide safe and reliable service to our customers. Timely cost recovery is
4 necessary to ensure that NorthWestern is able to continue meeting our customers’
5 needs for safe and reliable service at reasonable rates.

6
7 Our last natural gas rate review considered by the Commission (Docket No.
8 NG11-003) was filed in 2011 using a 2010 test year. Since 2010, NorthWestern
9 has invested over \$82.1 million in our South Dakota natural gas critical
10 infrastructure business. Currently, NorthWestern is not recovering the costs of
11 these investments. And, quite simply, with the passage of 13 years since our last
12 rate review, increased operating costs driven by inflation support the need for a
13 rate increase at this time.

14
15 In pursuit of this goal, NorthWestern includes proposals typically expected in a rate
16 review – a presentation of updated cost of service to support our request for
17 authorized revenue requirement for a 2023 test year with adjustments for known
18 and measurable adjustments for 2024, updated depreciation rates, and an
19 updated rate of return.

20

21 **NorthWestern Energy’s Role and Services**

22 **Q. Please provide an overview of NorthWestern and the services it provides.**

1 **A.** For more than 100 years, NorthWestern has delivered safe, reliable, and
2 innovative energy solutions. We build, maintain, and operate electric and natural
3 gas systems in Montana, South Dakota, Nebraska, and Yellowstone National
4 Park, as reflected in Figure 1 below.

5
6 NorthWestern's 1,573 employees serve a total of 775,300 natural gas and electric
7 customers across Montana, South Dakota, and Nebraska, which encompasses
8 electric service to 337 communities and natural gas service to 202 communities.
9 Within South Dakota, NorthWestern's 267 employees serve approximately 64,800
10 electric and 49,800 customers in 116 communities between its electric and natural
11 gas utilities. This rate review is limited to the cost of service related to our South
12 Dakota natural gas customers in 63 communities.

13

Figure 1: Our Service Territory



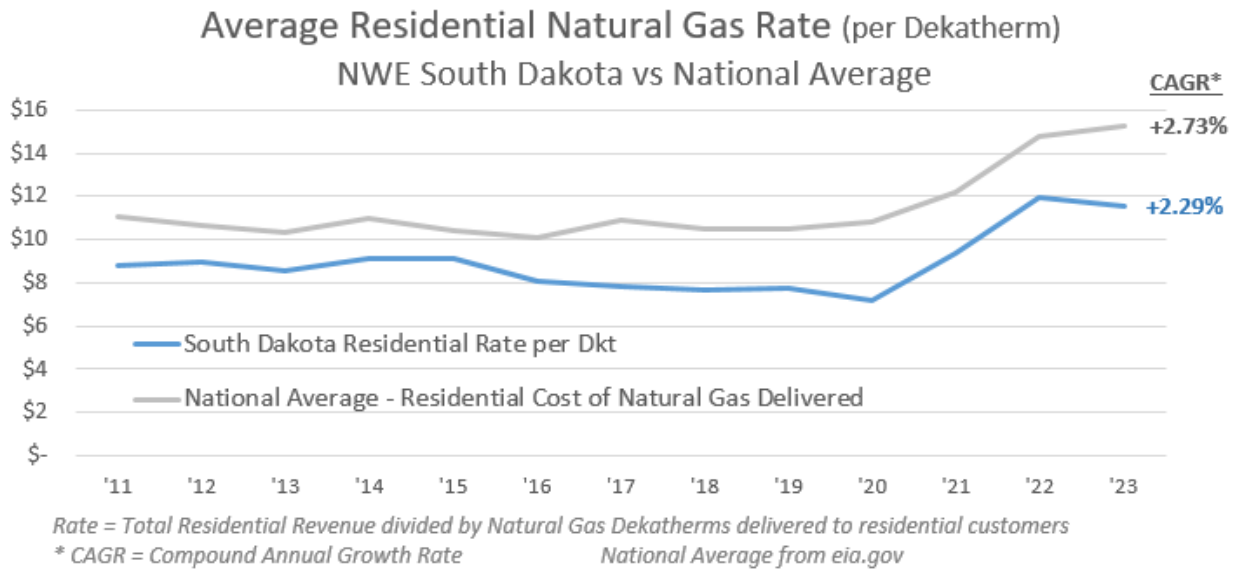
1 In addition to the ownership and operation of critical natural gas and electric
2 transmission and distribution systems and natural gas production, NorthWestern
3 owns and operates a diverse generation fleet of hydro, wind, natural gas, and
4 coal-fired resources that is 55% carbon free for our utility overall.

5
6 As a public utility, NorthWestern is subject to direct government regulation of
7 prices and services in South Dakota by the Commission. Ensuring South Dakota
8 customers receive safe and reliable energy services is the shared responsibility of
9 both NorthWestern and the Commission. As such, NorthWestern requests the
10 Commission consider and approve its request in this 2024 Rate Review.

11
12 **Q. What is NorthWestern's role?**

13 **A.** We recognize the critical role that energy services provide in the quality of life for
14 our customers. NorthWestern is guided by three pillars: Reliability, Affordability,
15 and Sustainability. We are continually making investments in maintaining and
16 modernizing our infrastructure to improve safety and reliability. Overall, South
17 Dakota ranks well compared to other states concerning affordability and reliability
18 of natural gas rates and services. We provide affordable natural gas services that
19 have given our average South Dakota customer monthly bills that are below the
20 national average for over a decade as presented in Figure 2 below.

Figure 2: Typical Residential Bill



1 NorthWestern is committed to our mission of “Working together to deliver safe,
 2 reliable and innovative energy solutions that create value for customers,
 3 communities, employees and investors.”

4
 5 The testimonies presented by NorthWestern discuss the actions we are taking to
 6 achieve these goals and how this rate review supports those actions.

7
 8 **Q. Can you please identify the critical services that NorthWestern provides to**
 9 **its South Dakota customers?**

10 **A.** The natural gas services we provide are an essential part of modern life and
 11 important to the U.S. economy. Our residential customers primarily use natural
 12 gas service for heating and cooking. Our commercial and industrial customers
 13 use natural gas as a low-cost energy resource for their daily operations to keep

1 their businesses viable and competitive – not only in South Dakota, but also in our
2 regional and national economic arenas.

3
4 According to the Department of Homeland Security, there are “16 critical
5 infrastructure sectors whose assets, systems, and networks, whether physical or
6 virtual, are considered so vital to the United States that their incapacitation would
7 have a debilitating effect on security, national economic security, national public
8 health or safety, or any combination thereof.”¹

9
10 The energy sector is uniquely critical because it provides an “enabling function”
11 across all 16 critical infrastructure sectors. In other words, without NorthWestern’s
12 natural gas infrastructure, our quality of life would suffer and our security
13 (economic or otherwise) would be severely impacted. Energy is the building block
14 for everyday life.

15
16 **Q. What challenges does NorthWestern currently face in delivering safe and
17 reliable service to customers?**

18 **A.** NorthWestern must continue to ensure that our customers receive reliable energy
19 services to meet their critical needs. In order for NorthWestern to meet this
20 essential obligation, continued investment in our South Dakota natural gas
21 distribution infrastructure is required to ensure it is sufficient and safe to meet our
22 customers’ energy needs.

¹ See Cybersecurity & Infrastructure Security Agency Brief [Critical Infrastructure Sectors | CISA](#) (visited April 9, 2022).

1 To continue to effectively provide safe and reliable energy services to our
2 customers, NorthWestern must be a financially-healthy utility. One of the most
3 essential requirements for a utility's financial health is cost recovery. More timely
4 cost recovery allows better cash flows and earnings to improve rating agency
5 metrics and financial results, which lead to more attractive debt and equity costs
6 that are ultimately passed on to customers. To continue investment in
7 infrastructure to provide safe, reliable, and affordable service, NorthWestern needs
8 affordable access to capital from both debt and equity investors. A financially-
9 healthy utility ultimately delivers lower costs to customers.

10
11 The ever-changing federal regulatory landscape is another challenge to our ability
12 to provide reliable and affordable energy services. Energy utilities like
13 NorthWestern need regulatory certainty when making long-term decisions for
14 capital investments. This is especially important, as we need to make continued
15 investment in our natural gas infrastructure to ensure our system meets all pipeline
16 safety regulations and emission-related regulations being imposed by the
17 Environmental Protection Agency (EPA).

18
19 **Q. What additional services does NorthWestern provide customers and our**
20 **communities?**

21 **A.** NorthWestern has a significant impact not only in the 116 communities we serve
22 but across all of South Dakota.

23

1 NorthWestern commissions an annual economic impact analysis by Circle
2 Analytics,² a Montana-based consultant. The analysis quantifies the financial
3 impact NorthWestern makes on the states and communities it serves. The study
4 found NorthWestern has a noteworthy impact on the financial well-being of South
5 Dakota. Through our investments and services, 1,135 good-paying jobs have
6 been created for other South Dakotans and we have an annual \$268.8 million
7 impact on gross economic output in the state.

8
9 Our economic impact within our South Dakota service territory extends beyond the
10 analysis described above. NorthWestern is a proud economic development
11 partner with the communities we serve and the State of South Dakota through our
12 active involvement in various economic development partnerships.

13
14 Every day our natural gas personnel in the field interact with our customers to
15 restore service or add new services to our communities. Our customer service
16 employees help customers with any questions or complaints they may have.
17 These customer service personnel are located at our call centers and in our eight
18 South Dakota walk-in local offices.

19
20 NorthWestern is an active partner in each of the communities we serve. Many of
21 our employees are very active in their communities. For example, our South
22 Dakota employees actively participate on non-profit community boards such as

² Circle Analytics Link: <https://www.northwesternenergy.com/docs/economicimpact>

1 chamber or economic development-related boards, service clubs, local United
2 Ways, and other community-based charitable organizations.

3
4 **Q. Is there a relationship between NorthWestern's financial health and the
5 utility's ability to serve customers reliably?**

6 **A.** Yes. A financially healthy utility drives lower costs for customers and encourages
7 economic development. Utilities compete for capital, and financially healthy
8 utilities attract more capital and at a lower cost for their customers. It is simple
9 supply and demand economics. We have proof of this over the history of this
10 Company. After we emerged from bankruptcy in late 2004, our credit ratings
11 started to rise just as we were increasing the amount of investment as a company.
12 With those higher credit ratings, the amount of credit spread (think premium on our
13 interest cost) came down, which was a reduction in costs for our customers.
14 Unfortunately, as of late, our credit ratings have come down and our credit
15 spreads necessary to pay investors have gone up higher than what our peer
16 utilities have to pay. Thus, the financial health of the Company has a direct impact
17 on customers. NorthWestern Witness Emilie T. Ng speaks more to the importance
18 of financial health to the Company in her testimony.

19
20 **Q. Why is NorthWestern seeking a rate increase at this time?**

21 **A.** Since our last rate review 13 years ago, we have invested approximately \$82.1
22 million in capital additions in our natural gas infrastructure. As a result of our
23 investments, our system is more resilient and reliable. The cumulative impact of

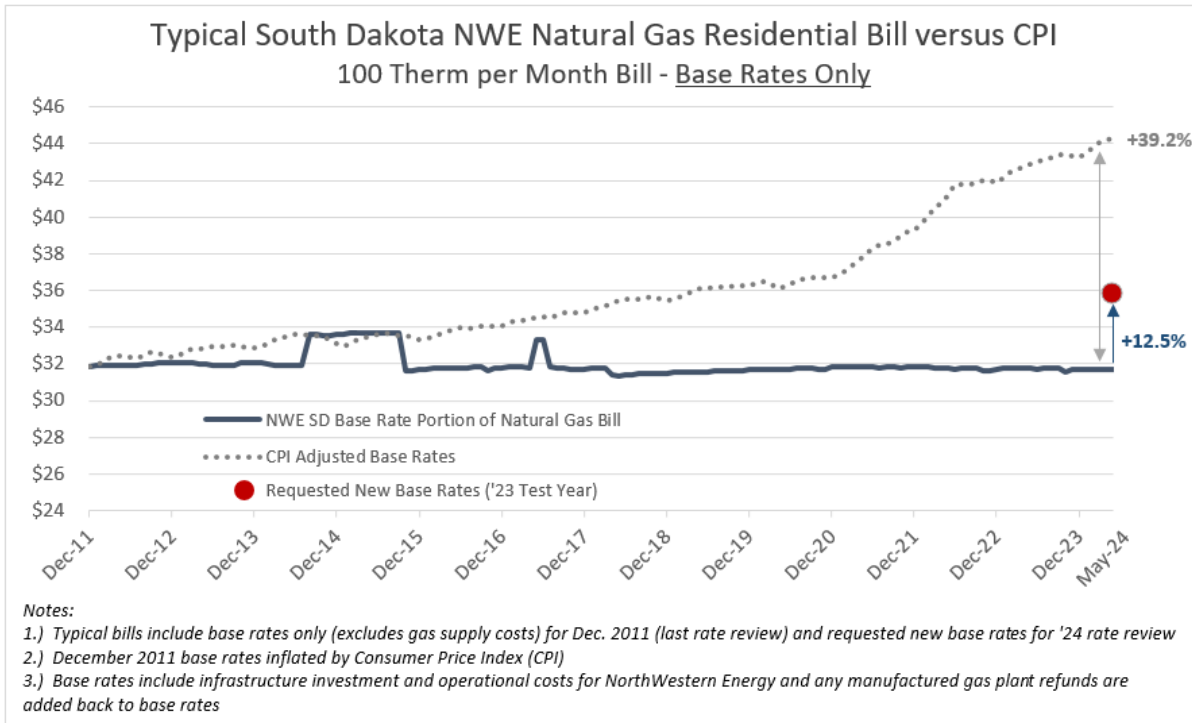
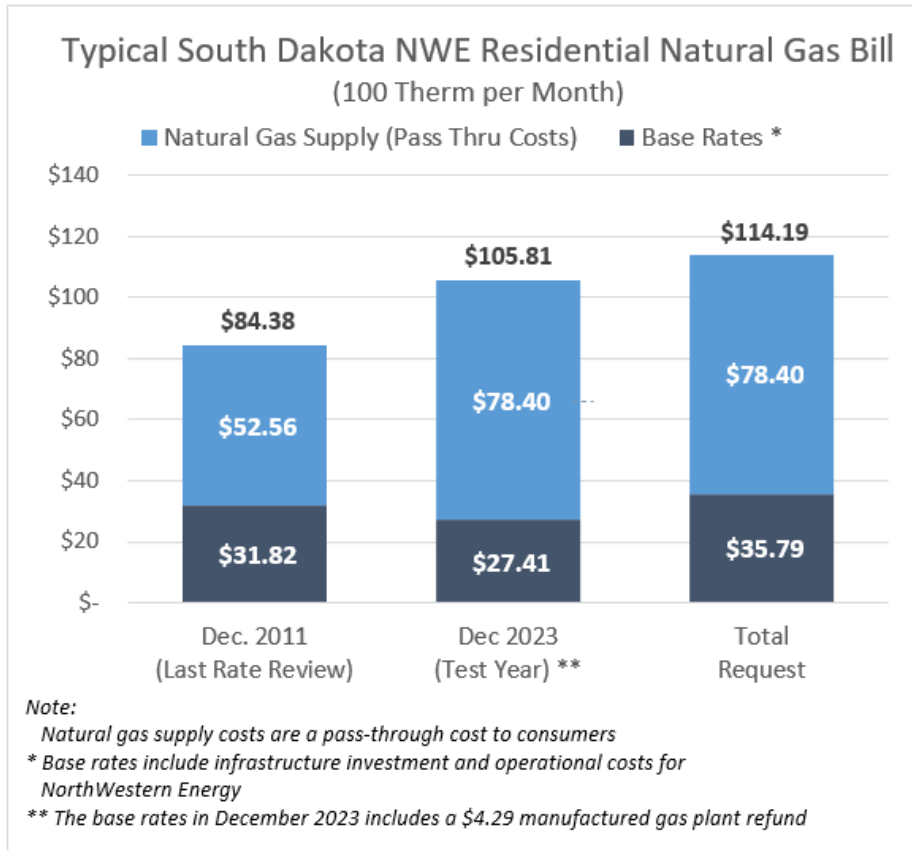
1 these capital investments is the most significant driver of our need for a general
2 rate review at this time, coupled with cost pressures in key areas including
3 business technology, regulation, and labor.

4
5 This rate review filing also includes updated depreciation rates that are described
6 in testimony submitted by NorthWestern consultant, John J. Spanos.

7
8 **Q. How does the requested rate relief compare with inflation since**
9 **NorthWestern last filed a rate review?**

10 **A.** Figure 3 below contains two graphs that show how this requested rate relief
11 compares with inflation since our last rate review in 2011. The first graph
12 compares the impacts of NorthWestern's requested rate relief in this rate review
13 filing on a typical residential customer's bill for natural gas services since
14 December 2011. The second graph shows that based on our current
15 expectations, typical residential customer bills will continue to be below the
16 impacts of inflation.

Figure 3: NorthWestern’s Natural Gas Residential Bill Impact



1 **Overview of NorthWestern Operations**

2 **Q. How do the requests for cost recovery in this rate review support safe and**
3 **reliable service for South Dakota customers?**

4 **A.** The scope of this rate review addresses historical 2023 costs NorthWestern
5 incurred in providing service to our customers, with the ability to adjust for “known
6 and measurable” projected 2024 costs. All investments made in our natural gas
7 utility infrastructure were for the purpose of providing safe, reliable, and affordable
8 services to our South Dakota customers. As part of our internal review process,
9 NorthWestern vets project costs to provide justification in expending capital and
10 supporting the project’s purpose. Each project was carefully evaluated and
11 thoroughly reviewed to make sure it met not only the needs of the utility, but our
12 customers’ needs too.

13
14 **Q. How does NorthWestern plan to meet the future needs of its customers?**

15 **A.** NorthWestern continues to make investments with clear benefits for South Dakota
16 customers, including modernizing and securing our systems. We also continue to
17 invest in our natural gas infrastructure to improve the safety and reliability of our
18 natural gas utility services. We continue to implement technologies that will
19 identify problems in our delivery system before they occur and thus better enable
20 us to focus our efforts and dollars. We deployed automated meter reading
21 (“AMR”) to enhance our services, decrease our meter reading costs, and to set the
22 stage for future metering technologies. NorthWestern Witness Bradley S.
23 Wenande will provide additional information regarding our continued capital

1 investments to support and enhance our South Dakota natural gas delivery
2 infrastructure and services to customers.

3
4 **Rate Review Overview**

5 **Q. Please provide a summary of what NorthWestern proposes in this rate**
6 **review.**

7 **A.** We are proposing to achieve base cost recovery with a test year revenue
8 requirement, appropriate known and measurable adjustments, and a fair Return
9 on Equity (“ROE”). NorthWestern is requesting a \$6.0 million increase to base
10 rates and a 10.7% ROE.

11
12 Within this rate review, NorthWestern is also requesting an increase to the
13 economic development cap for rate recovery as established in Docket No. NG11-
14 003. The current economic development cap is set at \$30,000 annually and that is
15 split 50/50 between shareholders and our customers for a total of \$15,000 to be
16 recovered through rates. As demonstrated in our annual economic development
17 filings, NorthWestern substantially exceeds the \$30,000 annual cap each year.
18 NorthWestern is proposing to increase the cap by \$20,000 for a total annual
19 budget of \$50,000 that will continue to be split 50/50 between shareholders and
20 customers. Witness Jeffrey B. Berzina will provide additional information in
21 support of this request.

1 NorthWestern's case represents a very important rate review that relies heavily on
2 a reasonable outcome so that we can improve our financial health, which will allow
3 us to better serve our customers going forward. NorthWestern presents witnesses
4 that discuss each of these proposals in greater detail and I introduce those
5 witnesses below.

7 Introduction of Witnesses

8 **Q. Please identify the additional witnesses testifying on behalf of NorthWestern**
9 **in this proceeding.**

10 **A.** The following are the NorthWestern experts who provide the further details
11 supporting proposals in this rate review, listed by key functional areas.

12
13 **Distribution:** For natural gas service, distribution consists of the meters and
14 underground pipelines to customer homes and businesses. NorthWestern is
15 responsible for the distribution up to each customer's meter.

- 16 • Bradley S. Wenande provides an overview of investment in our natural
17 gas distribution system and AMR deployment in South Dakota.

18
19 **Finance:** Finance plays the critical role of ensuring sufficient funding and access
20 to capital that are necessary to enable our operations departments to ensure safe
21 and reliable service for our customers given our regulatory environment.

- 22 • Emilie T. Ng presents the Company's capital structure and proposed
23 rate of return. She describes what is needed to be a financially healthy

1 utility and how the Company's financial health is critical to our ability to
2 serve our customers in an affordable manner.

3 • Jeffrey B. Berzina presents NorthWestern's proposed updated rate base
4 and revenue requirement for our South Dakota natural gas utility based
5 on a 2023 historical test year and known and measurable 2024
6 adjustments.

7 • Aaron J. Bjorkman is providing testimony in support of deferred taxes in
8 rate base and tax-related items in the income statement for this filing.

9 • Consultant Adrien M. McKenzie presents NorthWestern's updated ROE
10 analysis.

11 • Consultant John J. Spanos presents NorthWestern's updated
12 Depreciation Study.

13 • Jeffery J. Decker presents our proposed rate design, revenues, and
14 updated tariffs.

15

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

17 **A.** Yes, it does.