

Pre-filed Direct Testimony and Exhibits  
Jeffrey B. Berzina

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 Natural Gas Utility Rates  
in South Dakota

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

June 21, 2024

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## EXHIBITS

Work papers for Statements D & E Normalizing Adjustments	Exhibit JBB-1
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1 **Witness Information**

2 **Q. Please state your name and business address.**

3 **A.** My name is Jeffrey B. Berzina. My business address is 3010 W. 69<sup>th</sup> Street,  
4 Sioux Falls, South Dakota, 57108.

5  
6 **Q. By whom are you employed and in what capacity?**

7 **A.** I am the Controller of NorthWestern Energy Public Service Corporation d/b/a  
8 NorthWestern Energy (“NorthWestern” or “Company”).

9  
10 **Q. Please summarize your educational and employment experiences.**

11 **A.** I have been with NorthWestern since April 2020. My primary responsibilities  
12 include management of the accounting and financial reporting functions. This  
13 includes overseeing compliance with financial reporting requirements established  
14 by the Securities and Exchange Commission and Federal Energy Regulatory  
15 Commission (“FERC”), reviewing NorthWestern’s financial statements, and  
16 implementing and overseeing accounting policies and procedures. Prior to  
17 joining NorthWestern, I held various roles within accounting, finance, and  
18 corporate development at Black Hills Corporation (“Black Hills”), a utility holding  
19 company with electric and natural gas utility operations. Prior to Black Hills, I  
20 was an auditor with Ketel, Thorstenson, LLP. I have a Bachelor of Science  
21 degree in Business Administration and am a Certified Public Accountant  
22 (inactive)

1 **Q. Have you previously testified before the South Dakota Public Utilities**  
2 **Commission (“Commission”)?**

3 **A.** Yes, I provided testimony in Docket No. EL23-016, as well as in Docket No.  
4 EL12-061 when I was at Black Hills.

5

6 **Purpose of Testimony**

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

8 **A.** My testimony:

- 9 1. Discusses the Revenue Requirement and the Statements and Schedules  
10 included in the filing;
- 11 2. Presents a detailed explanation of various adjustments to the rate base  
12 and the income statement;
- 13 3. Discusses the proposed depreciation rates as developed in the 2022  
14 Depreciation Study developed by Gannett Fleming Valuation and Rate  
15 Consultants, LLC (“Gannett Fleming”); and
- 16 4. Discusses NorthWestern’s method of allocating shared administrative  
17 costs.

18

19 **Overview of Revenue Requirement, Statements and Schedules**

20 **Q. What was your role in preparing the revenue requirement in this filing?**

21 **A.** I supervised the preparation of the information based on the books and records  
22 of the Company as well as the pro forma information contained in this filing,  
23 including the Statements and supporting Schedules. NorthWestern used a  
24 revenue requirement model consistent with the model used in Docket No.

1 EL23-016, NorthWestern's last rate review in South Dakota. Statement M details  
2 the revenue requirement.

3  
4 **Q. What test year did NorthWestern use in this filing?**

5 **A.** NorthWestern is using a 12-month test year based on historical data, ending  
6 December 31, 2023, as adjusted with known and measurable changes. The  
7 financial statements comply with FERC rules and regulations.

8  
9 **Q. Please indicate what Statements are included in this filing and who  
10 sponsors them.**

11 **A.** The following is a list of Statements provided, along with the respective sponsor:

12 **A.** Balance Sheet (Jeffrey B. Berzina)

13 **B.** Income Statement (Jeffrey B. Berzina)

14 **C.** Statement of Retained Earnings (Jeffrey B. Berzina)

15 **D.** Utility Plant in Service (Jeffrey B. Berzina)

16 **E.** Accumulated Depreciation (Jeffrey B. Berzina)

17 **F.** Working Capital (Jeffrey B. Berzina)

18 **G.** Cost of Capital (Emilie T. Ng)

19 **H.** Operation and Maintenance Expense (Jeffrey B. Berzina)

20 **I.** Operating Revenues (Jeffrey B. Berzina)

21 **J.** Depreciation Expense (Jeffrey B. Berzina)

22 **K.** Income Taxes (Aaron J. Bjorkman)

23 **L.** Taxes other than Income (Jeffrey B. Berzina)

24 **M.** Overall Revenue Requirement (Jeffrey B. Berzina)

1           **N.** Allocated Cost of Service by Jurisdiction (Jeffrey J. Decker)

2           **O.** Allocated Cost of Service by SD Customer Class (Jeffrey J. Decker)

3           **P.** Gas Cost Adjustment Factors (Jeffrey J. Decker)

4           **Q.** Description of Utility Operations (Jeffrey B. Berzina)

5           **R.** Affiliate Transactions (Jeffrey B. Berzina)

6  
7   **Q.    What Schedules are included in this filing?**

8   **A.**    Schedules with supporting information have been included for Statements D, E,  
9           F, G, H, I, J, K, L, M, N, O and P. These Schedules detail any adjustments made  
10          to the test year data.

11  
12 **Q.    Please describe rate base.**

13 **A.**    NorthWestern sets rate base on a 13-month average of all asset accounts as of  
14          December 31, 2023. This is shown on Schedule D-3. Accumulated depreciation  
15          reduces this plant balance, as shown on Statement E. Rate base also includes  
16          materials, supplies, fuel stock, and prepayments. Statement F calculates the  
17          cash working capital reduction to rate base. Schedule F-3 details other  
18          reductions to rate base for cash received for customer deposits. Statement K  
19          details the accumulated deferred federal income taxes reduction to rate base.

20  
21 **Q.    Has Construction Work in Progress (“CWIP”) been included in rate base?**

22 **A.**    No, CWIP is not included in rate base. Rate base includes only plant investment  
23          that is used and useful prior to the time rates go into effect in this docket.

1 **Q. Does NorthWestern plan to adjust test year rate base by including post-test**  
2 **year investments in this filing?**

3 **A.** No.

4

5 **Normalization Adjustments to Rate Base**

6 **Q. Please describe the proposed major adjustments for plant additions as well**  
7 **as other rate base adjustments.**

8 **A.** The adjustments are as described below:

9

10 **Adjustment #1 – Normalize investments during test year to reflect a full**  
11 **year**

12 An adjustment was made to the test year rate base to reflect non-revenue  
13 producing major investments (\$500,000 or greater) as if they were in service for  
14 the entire test year. All costs related to normalizing test year additions are actual  
15 costs and no forecasts or estimates are included. This adjustment increased rate  
16 base just over \$1.1 million. NorthWestern made related adjustments to  
17 accumulated depreciation, depreciation expense, and deferred taxes for these  
18 assets. Exhibit JBB-1 details these adjustments, and Company Witness Bradley  
19 S. Wenande provides the details for these projects. There are no anticipated  
20 reductions in test year expenses as a result of less maintenance expense or  
21 operational efficiencies due to any of these projects.

22

23

24

1           **Adjustment #2 – New depreciation rates**

2           An adjustment was made to reflect the new depreciation rates as a result of the  
3           Gannett Fleming 2022 depreciation study. The amount of this adjustment  
4           increases depreciation and amortization expense by \$703,301. Statement J  
5           details this adjustment and Statement E reflects it as well.

6  
7           **Adjustment #3 – Rate Case Expense**

8           NorthWestern made an adjustment to rate base to reflect the amortization of the  
9           estimated expense to file this rate review. Schedule H-9 shows this calculation.

10          The Company proposes to amortize projected rate review costs over a three-year  
11          period and include the average unamortized amount of \$62,210 in rate base.

12  
13       **Q.    How was working capital calculated and included in rate base?**

14       **A.**    Statement F details the working capital calculation. NorthWestern conducted a  
15       lead-lag analysis to examine the timing of the Company’s receipt of service  
16       revenues from customers in relation to the Company’s payment of expenses to  
17       vendors and employees. It includes a separate expense lead for vacation pay, a  
18       separate expense lead for uncollectible accounts, a separate expense lead for  
19       injuries and damages, and a separate expense lead for cost of fuel and  
20       purchased power, labor, other operating and maintenance (“O&M”) expenses,  
21       property taxes, and payroll taxes. It calculates a separate rate base deduction  
22       for tax collections, which the Company receives in advance of turning the related  
23       payments over to the taxing authorities. Schedule M-1, Row 26 shows the  
24       adjustment for working capital, which shows a negative cash working capital.



1 **Q. What does a negative cash working capital mean?**

2 **A.** When cash working capital is negative, customers and vendors are providing  
3 working capital. Accordingly, the negative cash working capital is included as a  
4 decrease to rate base and reduces the annual revenue requirement.

5

6 **Normalization Adjustments to the Operating Revenues and Expenses**

7 **Q. Please describe normalizing adjustments made to the test year operating**  
8 **revenues and expenses.**

9 **A.** Witness Jeffrey J. Decker will discuss adjustments #1 - #6, and I will discuss  
10 adjustments #7 - #28. I describe these adjustments below, and can be found on  
11 Schedule M-1.

12

13 **Adjustments #7, #8, #9 – Labor Expense, Payroll Taxes, and 401K**

14 **Contribution**

15 Consistent with prior ratemaking treatment, actual base year labor allocated or  
16 directly charged to South Dakota operations was increased 4% annually for 2024  
17 and 4% for 2025, as per the contract covering bargaining unit employees. We  
18 adjusted non-union wages for 2024 based on the actual average increase of  
19 4.74%. Payroll taxes have also been increased accordingly for both years as  
20 shown on Statement L, which includes a calculation to accommodate for the fact  
21 that FICA Social Security withholdings are capped whereas Medicare is not.  
22 Similar to the adjustment made in Docket No. EL23-016, we determined the  
23 Company-wide percentage of labor dollars subject to FICA in the test year is  
24 95.01%. NorthWestern calculated this by taking Company-wide total wages

1 subject to FICA divided by Company-wide total wages subject to Medicare (as  
2 Medicare is uncapped). There are no proposed adjustments to Federal  
3 Unemployment Tax and State Unemployment Tax, as wages subject to these  
4 taxes are capped. The net increase for payroll taxes is \$24,036. NorthWestern  
5 increased its 401K expense, which is comprised of a 4% Company match for  
6 those who contribute at least 4% and a non-elective Company contribution of at  
7 least 5% for all participants, by \$31,749 as shown on Schedule H-5.  
8 NorthWestern calculated the Company match to be 3.72% and the non-elective  
9 match was 5.81%. There have been no positions eliminated post-test year.

10  
11 **Adjustment #10 – Family Protector Plan (“FPP”) Amortization**

12 The test year included an amortization of a gain related to the Company’s FPP  
13 plan. Although the Company terminated the plan in 1999, there were participants  
14 who were grandfathered in given their age. NorthWestern recorded an actuarial  
15 gain in 2021 and began amortizing it over three years, from 2021-2023, as three  
16 years was the remaining life expectancy of the remaining participants. Given this  
17 amortization ended in 2023, NorthWestern made a normalizing adjustment of  
18 \$90,916 to show \$0 impact to the test year for this amortization that will not exist  
19 after 2023.

20  
21 **Adjustment #11 – Medical Costs**

22 An adjustment is included in Schedule H-3 to reflect the increased medical costs  
23 we have experienced in 2024. NorthWestern based the adjustment on actual  
24 costs for the twelve months ended May 31, 2024. NorthWestern will update this

1 increase of \$75,700 with the most current twelve-month-ended period as this rate  
2 review is completed.

3  
4 **Adjustments #12 and #13 – Advertising Expense**

5 Consistent with prior ratemaking treatment, NorthWestern made an adjustment to  
6 reflect the removal, in its entirety, of promotional, institutional, and non-  
7 jurisdictional advertising expenses of \$72,157. This is reflected on Schedule H-3  
8 as a reduction to FERC Account 913. Additionally, NorthWestern made an  
9 adjustment of \$31,426 to FERC Account 930.1, General Advertising, to remove  
10 our South Dakota State Fair Sponsorship, our sponsorship of sporting events  
11 such as SDSU and Stampede Hockey games, our sponsorship of Leadership  
12 South Dakota, a contribution to the DEX building on the State Fairgrounds, and  
13 other non-jurisdictional or economic development related items that are capped  
14 under our current Economic Development policy. Schedule H-3 on Rows 29-31  
15 shows the removal of 930.1 General Advertising. Schedule H-3a provides all  
16 claimed advertising expenses that the Company has included in its test year for  
17 energy efficiency, informational, and safety advertising. Samples of these  
18 expenses are available upon request.

19  
20 **Adjustment #14 – Economic Development**

21 NorthWestern is able to support its communities in fostering economic growth by  
22 providing financial support to local or area economic development organizations.  
23 The adjustment for economic development in Schedule H-3 reflects a 50/50 split  
24 between natural gas utility customers and shareholders, capped at \$15,000

1 annually, as per Docket No. NG11-003. In addition to our financial support for  
2 these groups, NorthWestern also provides additional support through employee  
3 participation on local economic development boards, regional economic  
4 development organizations, and state-led initiatives. NorthWestern does not  
5 track individual employee hours spent on economic development activities, as it  
6 is our culture to support customers, communities, and the states we serve while  
7 meeting daily operations and customer care activities. It is also important to note  
8 that employee involvement in local and state economic development  
9 partnerships is not limited to normal working hours. NorthWestern employees  
10 dedicate many hours outside the normal workday in participating on economic  
11 development boards that provide benefits to customers and their communities as  
12 well. Within this rate review, NorthWestern is 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, which 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. Schedule H-3 includes a normalizing entry of \$13,776, which  
21 removes the economic development costs allocated to South Dakota natural gas  
22 customers that are above the capped amount dictated in Docket No. NG11-003,  
23 but with a \$10,000 increase to the capped amount.

1           **Adjustment #15 – Board-Related Costs**

2           Consistent with prior treatment, NorthWestern made an adjustment to remove  
3           the cost associated with board of director deferred compensation plans, which  
4           totaled \$21,990.

5  
6           **Adjustment #16 – Bad Debt Adjustment**

7           We have made an adjustment to normalize bad debt expense using a five-year  
8           historical period. NorthWestern divided the average bad debt expense during the  
9           five-year period by average billed revenue to determine the bad debt expense  
10          percentage for NorthWestern. Once calculated, NorthWestern applied the  
11          percentage to the adjusted test year revenue amount to determine the test period  
12          bad debt expense. The resulting increase to bad debt expense is adjusted in  
13          Statement H and detailed on Schedule H-7.

14  
15          **Adjustment #17 – Company Aircraft**

16          Consistent with prior ratemaking treatment in Docket No. EL23-016,  
17          NorthWestern made an adjustment to remove \$2,276 of expenses related to  
18          spouses riding on NorthWestern’s airplane, as well as all costs related to the trip  
19          to attend the National Lineman’s Rodeo. Schedule H-8 shows this adjustment.

20  
21          **Adjustment #18 – Rate Case Expense**

22          Consistent with prior ratemaking treatment, NorthWestern made an adjustment  
23          for the expenses related to filing this rate review. Schedule H-9 details this

1 adjustment. NorthWestern intends to update this number when expenses  
2 become final.

3  
4 **Adjustments #19 and #20 – Incentive Removal**

5 NorthWestern offers its employees opportunities to earn incentive compensation  
6 in addition to their base salaries and wages. The Company offers these  
7 opportunities under three separate plans: the Long-Term Incentives Plan, the  
8 Employee Incentive Compensation Plan, and the Retirement Savings Plan  
9 Incentive Match. Consistent with prior ratemaking treatment, NorthWestern made  
10 an adjustment to remove all costs related to the Long-Term Incentive Plan, and a  
11 portion of the Short-Term Incentive Plan, and corresponding Retirement Savings  
12 Plan Incentive Match costs that were awarded based on achieving financial  
13 targets. The only incentive expense remaining in the test year is the portion  
14 related to safety, customer satisfaction, and reliability. Additionally, as shown on  
15 Schedule H-10, NorthWestern made a \$5,897 adjustment to remove the 401K  
16 match on the incentive.

17  
18 **Adjustment #21 – Property Insurance and Claims**

19 This adjustment reflects the increase in property insurance over the test year,  
20 which is a known increase given new policies have gone into effect. The South  
21 Dakota natural gas portion of this increase is \$10,741 and impacts FERC  
22 Account 924. This is shown on Schedule H-11.

23  
24 An adjustment has also been made for FERC Account 925, which includes a

1 combination of insurance premiums, which are allocated to each jurisdiction  
2 based on the 3-factor allocation method described later this testimony, as well as  
3 costs for building self-insured reserves for Work Comp, General Liability, and  
4 Auto, which are calculated separately for each state by our actuary. Schedule H-  
5 11 provides the 5-year history of these costs to demonstrate how costs have  
6 been increasing, as well as an adjustment to the test year levels, which includes  
7 the known costs for the first six months of 2024. The Company is proposing to  
8 increase the test year amount by using the most recent twelve month total for  
9 FERC Account 925, which is the period ending June 30, 2024. This increases the  
10 insurance expense by \$57,831 over the test year level.

11  
12 **Adjustment #22 – Postage**

13 This adjustment reflects the increase in postage rates that has occurred and will  
14 occur in 2024. A normalizing adjustment has been included to reflect the January  
15 2024 and July 2024 increase over the test year postage rates.

16  
17 **Adjustment #23 – Non-sufficient Fund Check Returns**

18 This adjustment represents the change in the non-sufficient funds charge from  
19 \$15 to \$30 and decreases the revenue requirement by \$2,100 as shown in  
20 Statement H-13. Witness Jeffrey J. Decker discusses the detail of this  
21 adjustment in the General Terms and Conditions section of his testimony.

1           **Adjustments #24 and #25 – Depreciation Expense**

2           As part of this rate filing, NorthWestern has completed Statement J, which  
3           reflects depreciation rates for its natural gas and common utility assets, as  
4           determined by a depreciation study completed by Gannett Fleming. The  
5           implementation of the new rates for natural gas utility assets results in an  
6           increase to test year depreciation expense of \$703,301. Additionally,  
7           NorthWestern made an adjustment to depreciation expense for the impact of  
8           normalizing the investments made during the test year to record a full year of  
9           depreciation expense. This adjustment increased depreciation expense by  
10          approximately \$18,703.

11  
12          **Adjustment #26 – Gross Receipts Tax**

13          Consistent with prior ratemaking treatment, this adjustment reflects the change in  
14          gross receipts tax related to the increase in revenue. Schedule L-1 details this  
15          adjustment.

16  
17          **Adjustment #27 – Interest Synchronization**

18          Consistent with prior ratemaking treatment, this adjustment reflects the change in  
19          federal income taxes by using the interest synchronization method of computing  
20          the interest deduction for income tax purposes. Under this method, interest in  
21          the income tax calculation was set equal to the implied interest in the proposed  
22          cost of capital included in this filing. See Schedule H-12 for details.



1        **Adjustment #28 – Carrying Charges**

2        During the test year, the Company recorded interest income from customers  
3        calculated on under-collected tracker balances. NorthWestern made an  
4        adjustment to remove that income from the test year, as it is not guaranteed or  
5        known for any periods beyond the test year. Schedule H-6 details this  
6        adjustment and it is included on Schedule M-1.

7

8        **Q. Did you include adjustments for ad valorem tax or purchased natural gas in  
9        this filing?**

10       **A.** No. Recovery for ad valorem and natural gas costs occurs through separate  
11       trackers.

12

13       **Q. Does this filing include any lobbying costs, charitable donations, mergers  
14       and acquisitions expenses, demand side management, severance expense,  
15       judgments, settlements, fines, penalties, or non-utility costs?**

16       **A.** No, it does not.

17

18       **Q. Does this filing include any acquisition adjustments for Freeman or AMPI  
19       which were disallowed in Docket No. NG11-003?**

20       **A.** No, it does not.

21

22    **2022 Depreciation Study**

23        **Q. Is NorthWestern proposing new depreciation rates as part of this filing?**

1 **A.** Yes. NorthWestern engaged John J. Spanos, President of Gannett Fleming  
2 Valuation and Rate Consultants, LLC, to present the Depreciation Study with this  
3 filing. Gannett Fleming has extensive experience conducting depreciation  
4 studies. The testimony of Mr. Spanos discusses the process and conclusions for  
5 the natural gas utility assets, and he provides the study as Exhibit JJS-1 to his  
6 testimony. NorthWestern plans to adopt these new rates upon receiving a rate  
7 order in this docket. NorthWestern adopted the electric and common rates as  
8 approved in Docket No EL23-016.

9  
10 **Jurisdictional Allocations of Shared Costs**

11 **Q. Please briefly describe the methods used to allocate costs to the South  
12 Dakota Natural Gas Utility Operations.**

13 **A.** NorthWestern has three state regulatory jurisdictions consisting of Montana,  
14 South Dakota, and Nebraska. In addition, NorthWestern has electric generation  
15 consisting of a 30% ownership interest in Colstrip Unit #4 (“CU4”) in Montana.

16  
17 NorthWestern allocates administrative costs between jurisdictions and its  
18 ownership interest in CU4 using a three-factor formula, consisting of gross plant,  
19 margin, and labor. NorthWestern updates the three-factor formula annually  
20 through an internal administrative allocation study. The 2022 jurisdictional  
21 allocation methodology is attached as Exhibit JBB-2.

22  
23 In addition, NorthWestern uses a three-factor formula to allocate shared costs  
24 between South Dakota electric and natural gas operations and Nebraska natural

1 gas operations consisting of plant, customers, and O&M labor expense for each  
2 of the electric and natural gas segments of its business. NorthWestern also  
3 updates this formula annually through an internal administrative allocations  
4 study. The 2022 electric and natural gas allocation methodology is attached as  
5 Exhibit JBB-3. The Commission approved these allocation methods in  
6 NorthWestern's most recent natural gas filing, Docket No. NG11-003, and the  
7 most recent electric filing, Docket No. EL23-016.

8  
9 In addition to the allocations described above, NorthWestern allocates common  
10 plant and common depreciation between electric and natural gas using rate base  
11 percentage. The 2023 allocation percentage to South Dakota natural gas was  
12 10%. This is shown on Schedule E-3.

13  
14 **Q. Does this complete your pre-filed direct testimony?**

15 **A.** Yes, it does.