Pre-filed Direct Testimony and Exhibits
Jeffrey J. Decker

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

Witness Information

Q. Please state your name and business address.

A. My name is Jeffrey J. Decker and my business address is 600 Market St W., Huron, South Dakota 57350.

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

A. I am employed by NorthWestern Energy Public Service Corporation d/b/a NorthWestern Energy ("NorthWestern" or "Company") as a Lead 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 Specialist Regulatory for NorthWestern Energy. In 2023, I was promoted to Lead Regulatory Specialist. Since 1996, I have been responsible for developing the NorthWestern's natural 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 testimony in this proceeding?

A. I support the revenue adjustments, revenue requirement, cost of service study, and the rate design changes to the applicable tariff schedules. In addition, I explain a proposed new Rate 89 tariff to serve the large transport customers and support some minor changes to the Rate 87 transportation general terms.

Pro Forma Adjustments – Operating Income Statement

Q. Please refer back to Statement M-1. Would you please explain each individual pro forma adjustment to the operating income statement?

A. I will address adjustments 1 through 6. Witness Jeffrey B. Berzina will address the remaining adjustments in his testimony.

Adjustment No. 1 – Weather Normalization

Details and calculation of this adjustment are shown on Statement I-1, pages 1 and 2. The adjustment is the total of column f, rows 17 and 25 on page 2. This adjustment decreases the revenue requirement by $60,773. As shown on Schedule M-1, the natural gas costs associated with this adjustment total $49,020, resulting in a margin impact of $11,753. This adjustment determines the natural gas supply cost adjustments using weather normalized sales requirements and the cost component of each rate schedule. The Purchased Gas Cost rate used in this filing was the average natural gas cost rate for the test period.

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 slightly warmer than normal weather in the base year. Heating degree days during the base year were approximately 99.87 percent of normal, as shown on Exhibit JJD-1. In summary, NorthWestern divided actual base year volumes into temperature sensitive and non-temperature sensitive volumes. The non-temperature sensitive volume was determined using the July and August 2023 volumes in the base period. NorthWestern then calculated the temperature sensitive volume for the year 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, 2023.

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. NorthWestern calculated heating degree-days for actual and normal on a billing cycle basis to provide a better match with revenues. NorthWestern then applied this normalization factor 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. The National Oceanic and Atmospheric Administration reported the normal and actual heating degree-days. The monthly normal heating degree days are based on a thirty-year average for the period of 1991-2020, and the adjustment uses 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.

Adjustment No. 2 – Book to Bill

NorthWestern made this adjustment to the actual revenues booked during the test year to account for the variance between booked revenues and billed revenues in the test year. The reason that the booked and billed revenues differ is because of situations where there are pro-rated billing cycles, account close-outs, meter misreads, and out-of-period adjustments that ultimately affect the amount of revenues booked by the Company versus the revenues billed. This is a test year revenue adjustment that decreases test year revenues to the billed revenue amount at current rates, and thus eliminates the need for the booked-to-billed revenue ratio in rate design. The billed revenues were determined based on the test year billing determinants for each rate element multiplied by the tariff rates in effect during the test year. This adjustment decreases operating revenues by approximately $37,820, as shown on Schedule I-1, page 3.

Adjustment No. 3 – Remove Management Fee Income

Adjustment 3 represents the removal of the annual management fee income that NorthWestern received from several large transport customers. The management fee income is based on the Federal Energy Regulatory Commission ("FERC") method of calculating a return for a large customer whose rate base dollars have been previously recovered. NorthWestern has referenced this method in multiple contract with deviation filings that it has made with the South Dakota Public Utilities Commission ("SDPUC") over the last 10 years. The management fee represents the return to NorthWestern for serving this group of customers. Without the removal of the fee income, NorthWestern would give back all returns from these customers to the existing customer base through the cost of service and NorthWestern's shareholders would be left without a return for serving these customers. Removing this income provides the intended return to the Company from this group of customers. The calculation for the adjustment of $89,045 is shown on Exhibit JJD-2 Confidential.

Adjustment No. 4 – Contract Renewal Revenue Change

Adjustment 4 reduces revenue for changes in contracted rates for the test year compared to the base year. Revised rates from contracts that went into effect during the test year of 2023 make up this adjustment. NorthWestern filed each adjustment as a contract with deviation filing in 2023. Row 39 of Exhibit JJD-3 Confidential, Sch 2.1a, pages 3, 4, 5 and row 40 of page 10 provide the detailed changes (test year revenue at present rates less base year revenue) that total this $32,366 revenue reduction. The lines on pages 3, 4 and 10 stated above also include management fee income reduction of $35,888. This should be subtracted from the differences on pages 3, 4 and 10 in order to represent the contract renewal revenue change.

Adjustment No. 5 – New Customer Revenue

Adjustment 5 increases revenue for new customers served under Contract with

Deviation who began service or increased usage during 2023. Row 40 of Exhibit JJD-3 Confidential, Sch 2.1a, page 13 provides the detail change for the adjustment of an increase to revenue of $40,549.

Adjustment No. 6 – Manufactured Gas Plant ("MGP") Cost Reduction

In Docket No. NG11-003, the SDPUC approved base rates that included the recovery of costs associated with the MGP site in Aberdeen. Since that time, system sales volumes have increased, resulting in higher recoveries. Additionally, remediation costs for this site have substantially declined. In 2016, the Company sought approval for a refund plan, which the SDPUC granted in Docket No. NG16-010. This allows the Company to refund the amount collected in base rates for remediation costs above what it spent. The SDPUC has approved this refund plan annually since 2016. During the 2023 test year, revenue recoveries totaled $2,174,459, which NorthWestern offset in full by regulatory amortization of $2,174,459.

Statement I-1 provides a comparison of the 5-year historical expense and the 5-year forecasted expense for the Aberdeen site. Arcadis, whom the Company has hired to monitor the MGP sites and estimate future costs, provided the forecast numbers. The 2024 forecast amount was not included due to it being significantly higher than the forecast for the years that new rates will be in effect. Based on the 2025 – 2029 forecasted annual expense of $355,000, the annual reduction to revenue and regulatory debits/credits is $1,819,459. Statement I-1, page 5, provides the detail behind this adjustment.

The Company previously had an MGP tracker, as ordered in Docket No. NG96-015. NorthWestern recovered the remediation costs via a separate charge in the tariff and the recovery of such costs was not included in base rates. In Docket No. NG07-013, the costs were moved into base rates, with the stipulation that costs and recovery continue to be tracked with the over-recovered balance owed to customers, with interest. As part of this filing, NorthWestern is proposing to move the MGP recovery out of base rates and again into its own tracker. The current process of collecting revenue in base rates, tracking actual expenditures, and then refunding the difference is functioning as a tracker, but with the limitations of having a locked in recovery amount through base rates that is significantly higher than necessary, resulting in significant over-recovered balances. Given the changes in recovery since the 2011 rate review, establishing a separate tracker rate will be a prudent means of recovering this cost from customers while eliminating the administrative burden on the SDPUC and the Company with annual refund filings.

To accomplish this change, a separate tariff sheet will contain the recovery rate applicable to customers. NorthWestern will continue to track monthly the actual costs and recoveries with interest applied to the over- or under-collected position at a rate equal to the approved return on rate base from this proceeding. There will be a separate line item on the bill for MGP recovery. NorthWestern will revise the rate each month and filed alongside the Purchased Gas Adjustment and Ad Valorem tracker recovery filings. The actual costs tracked will include all South Dakota MGP sites, in addition to the Aberdeen site, that NorthWestern is monitoring. As of this date, sites in Woonsocket, Mitchell, and Yankton have incurred remediation costs totaling $94,929. With this filing, NorthWestern asks for the approval to recover those costs as part of the recovery tracking of MGP site costs. NorthWestern is proposing the balance be moved into the MGP recovery/expense account. NorthWestern also seeks clarity on whether future costs can automatically be recovered through the MGP recovery mechanism.

Class Cost of Service Study

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

A. NorthWestern based the study on South Dakota jurisdictional operations for the twelve-month period ending December 31, 2023, 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 (“O&M”) expenses, depreciation, and other cost elements.

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

A. NorthWestern examined the utility plant, revenue, and expense accounts 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 NorthWestern 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 Nos. NG99-002, NG07-013, and NG11-003. As a result, the 2023 study applies cost allocation principles in a manner consistent with previous studies approved by the SDPUC.

Q. How did NorthWestern define classes for the purpose of the 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 No. 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 80,000 therms per year. This service rate option carries a smaller customer charge than Option B service; however, the non-gas commodity charge is approximately $0.03 per therm higher.

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 relate to the capacity that NorthWestern must build into the system to meet peak operating conditions. NorthWestern allocates the demand-related costs on the basis of the January 2023 volumetric requirements for each of the classes.

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

A. NorthWestern allocated the costs associated with meters, services, and regulators based on the number of customers, adjusted to account for differences in cost for the size of customer. In general, NorthWestern allocated expenses based on the plant to which they relate. NorthWestern allocated supervision and engineering expenses on the basis of the other related O&M accounts while customer accounting expenses were allocated on the basis of weighted customer counts. NorthWestern generally allocated administrative and general costs, including common plant investment, 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. Statement O, pages 2 and 3 summarize the results. Page 3 of the study shows, based on pro forma results at present rates, the following rates of return by class of customer:

Residential	3.35%
Small Commercial	2.73%
Large Commercial	1.80%

The level of revenue requirement needed by each customer class to attain the overall rate of return of 7.75% requested by NorthWestern in this filing is shown on page 2 of the study.

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

A. Based on results of this study, I find that existing natural gas revenues fail to cover South Dakota natural gas jurisdictional revenue requirements by just over $6 million.

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

A. These amounts and percentage increases are as follows:

Residential	$2,826,425	or	26.69% Increase
Small Commercial	1,153,133	or	35.07% Increase
Large Commercial	2,063,665	or	32.89% Increase
Total	$6,043,223	or	29.99% Increase

Q. What are the revenue deficiency amounts by class of customer and the percentage increase in non-gas cost revenue required, when comparing to the total billed revenue?

A. The amount of revenue deficiencies by class of customers are the same as reflected in the prior answer. The percentage increases compared to total billed revenue are as follows:

Residential	7.95% Increase
Small Commercial	6.29% Increase
Large Commercial	16.76% Increase
Total	9.13% 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 and large commercial classes have the lowest rates of return and should therefore receive the greatest percentage increases. As a basic approach to apportioning the total requested increase of approximately $6.0 million, the goal is to move every class to the system average return of 7.75%.

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

A. No, NorthWestern is not recommending any changes in rate structure. The only recommended changes are increases to the customer and non-gas cost delivery service charge component of rates.

Q. Are you recommending any changes to purchased natural gas cost recovery?

A. Yes. NorthWestern recommends one change to the Released Capacity and Balancing Service Surcharge. This surcharge is part of tariff rates 84, 85 and 86.

Q. What is the change you are recommending?

A. The change proposed is to increase the rate from $0.017 to $0.0327 per therm. Exhibit JJD-5 Confidential Surcharge Cost shows the calculation of this rate. Costs have increased since the last review in 2011 and this will update the rate to be current with the costs NorthWestern experiences from the upstream pipelines. Section 3, Sheets 3.2, 5.1 and 9b of the tariff show the revised rate. The rate of $0.017 shown in tariff section 3, sheet 6.1. NorthWestern based that rate originally on the balancing service surcharge. However, an update to that rate is not appropriate as NorthWestern considered the charge to the customer within the calculation of the rate for the Milbank pipeline recovery rate discussed within this testimony.

Q. Will this change result in additional revenue margin for NorthWestern?

A. No. NorthWestern passes the revenue received from this surcharge back to customers through the purchased gas adjustment that is filed each month with the SDPUC.

Q. Please describe your proposed rate change for residential Rate 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 $10.00. The class cost of service study indicates that a fully loaded customer charge for this type of account should be approximately $17 per month. NorthWestern included the remaining increase, not collected via the proposed customer charge increase, 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 $2.00 to $12.00. The class cost of service study indicates that a fully loaded customer charge for this type of account should be approximately $19 per month. NorthWestern included the remaining increase, not collected via the proposed customer charge increase, 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 No. 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 is $100 per month compared to the cost of service recovery that shows the customer charge should be just over $140. For the "B" customers, the current monthly customer charge is $300 per month compared to the cost of service number of $377. NorthWestern is proposing a $20 increase to the current monthly $100 charge for Rates 84A and 85A. Rates 86A and 87A monthly charges will remain at $150. For Rates 84B and 85B, NorthWestern proposes to increase the current monthly charge of $300 to $320, and for Rate 86B and 87B, NorthWestern proposes to increase the current monthly charge of $350 to $370. The remaining increase not collected through the fixed charge is included in the distribution delivery rate.

Q. Are you proposing to update demand charges in Rate 87 for the Milbank line?

A. Yes. The rates for recovery of this line were originally established under Contract with Deviation in Docket No. NG11-001. In the rate review in Docket No. NG11-003, the rates were established in tariff rate 87. NorthWestern currently charges four large customers for this service. The current rate in the tariff is $1.08. As shown on Exhibit JJD-4 Confidential, page 1, the proposed rate is $1.20. The underlying calculations for this rate are shown on pages 1 and 2 of this exhibit. The annual proposed increase to revenue is $65,141. This is shown on row 39 of page 2.

Q. On page 2, why is the Net Book Value higher than the original purchase cost?

A. The South Dakota Department of Transportation performed work on Highway 15 that required this pipeline to be moved. This occurred in 2022 and the project costs were charged to the Milbank Pipeline.

Q. Are you proposing any new tariff rates in this filing?

A. Yes we are proposing to add Rate 89, High Volume Transport Customers.

Q. What customers will be subject to this rate?

A. This tariff rate will apply to customers whose annual volumes exceed 10,000,000 therms, who have a direct connect to an upstream pipeline, and whose pipeline installation costs were recovered through a contract with deviation.

Q. Why are you requesting a separate rate for this group of customers?

A. NorthWestern serves this group of customers under Contracts with Deviation. This requires updated filings every five years for each customer. Currently, NorthWestern calculates the customers' rates as a class that it updates annually. As a customer's five-year contract expires, the customer moves to the new rate, requiring a new contract with the customer and a SDPUC filing. By serving this group of customers under a tariff rate, the time and work required by the current approval process will be eliminated.

Q. Will there be a change to the current method of cost recovery calculation?

A. No. NorthWestern will continue the same method of cost recovery, including the calculation of the management fee based on FERC methodology. Docket No. NG23-021, Exhibit B, shows the most recently approved method of calculating the rate.

Q. Are you proposing new tariff sheets for this rate?

A. Yes. Section 3, Sheets 7 and 7.1 contain the proposed tariff. The tariff includes the provisions of Section 5, general terms and conditions, and the conditions of Rate 87 that begins with section 3, sheet 6.1, with the exceptions noted for rate 89 in section 3, sheets 7 and 7.1. The tariff includes language to recover construction project costs through a surcharge for pipeline upgrades or pipeline moves. NorthWestern included the security for construction costs and take or pay volumes to ensure the cost recovery and protection of customers.

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. NorthWestern is proposing several updates to the general terms and conditions and two additional changes to tariff sheets as described below. The changes include an increase to the non-sufficient funds charge amount and updates to general terms tariff language, transportation tariff language, and updates to the community list and service map.

Q. Please describe the update to the non-sufficient funds charge.

A. We are proposing to increase the non-sufficient funds charge from $15.00 to $30.00. This change will increase the charge to the current amount used in NorthWestern's electric tariff approved by the SDPUC. Statement H-13 shows the proposed revenue impact of this adjustment and Section 5, Sheet 4 of the proposed natural gas tariff shows the revised language for this charge.

Q. Please describe the change to natural gas imbalance charges for Rate 87.

A. In Section No. 3, Sheet No 6.4A of the tariff, NorthWestern is proposing to remove the language "Daily charges on imbalance will be waived if the customer's daily imbalance is in the opposite direction of the Company's daily net system pipeline imbalance, as determined by the Gas Control personnel." This change will align NorthWestern's tariff with upstream pipeline tariffs and make it more consistent for customers. Given the fact that our transporters are unaware of NorthWestern's overall position until the following month's bill, this should not change the way transport customers nominate or purchase gas, and will likely help transporters estimate their total costs more accurately since they will no longer be impacted by NorthWestern's overall position. NorthWestern believes the tariff's current 10% tolerance calculation is adequate and also aligns with the parameters that NorthWestern follows. Marketers will continue to have the option to buy daily imbalance services, as there is no proposed change to that tariff language. There are times when NorthWestern operationally makes a decision to go long or short on a pipeline, and in these instances, it would not be a benefit to NorthWestern or its retail customers for a marketer's imbalance to be in the opposite position. In order to strive to maintain excellent service with our customers and in keeping with our desire to be transparent, NorthWestern contacted the marketers that represent our transportation customers about the desired change. NorthWestern has had good discussion with three marketers regarding this change and has received no concerns from our transportation customers.

Q. What other changes to the tariff are you proposing?

A. NorthWestern is updating Section 2, Sheets 1 and 2. NorthWestern has added the towns of Harrisburg, Sioux Falls, and Tea to the communities served listing and map as it has obtained franchises to serve natural gas in these communities.

Q. Why is NorthWestern proposing to delete language in Section 3, Sheets 3.3, 4.2 and 5.2 of the tariff?

A. The Company no longer provides propane peaking gas. In addition, the availability of propane gas from an upstream service provider for an individual customer during a curtailment period is very unlikely. No customer has utilized this surcharge provision for at least the past 10 years and therefore, this change will not affect any customer.

Q. Why are you updating Section 5, Sheet 1b?

A. The intent of this change is to decrease the number of Contract with Deviation filings. The current tariff allows for security requirements for project costs and references projects that “term longer than one year”. The additional language will clarify that NorthWestern’s tariff allows take or pay volumes and construction surcharges for construction cost recovery.

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

A. Yes, it does.