

Prefiled Direct Testimony and Exhibits
Jeffrey J. Decker

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

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

For Authority to Increase Electric Utility Rates
in South Dakota

Docket No. EL14-_____

December 19, 2014

TABLE OF CONTENTS

Witness Information	1
Purpose of Testimony	1
Class Cost of Service Study.....	2
Rate Design and Proposed Rates.....	4
Changes to the Electric Utility Tariff General Terms and Conditions.....	10
Changes to Section 6 Forms.....	16

EXHIBITS

Customer Reconnection Charges - Confidential	Exhibit__(JJD-1)
Contribution from Customers	Exhibit__(JJD-2)
Option X Customers	Exhibit__(JJD-3)

1 **Witness Information**

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

3 **A.** My name is Jeffrey J. Decker, and my business address is 600 Market Street
4 West, Huron, South Dakota 57350.

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

7 **A.** I am employed by NorthWestern Energy (“NorthWestern” or “the Company”) as a
8 Regulatory Specialist.

9
10 **Q. Please describe your education, business experience, and business
11 credentials.**

12 **A.** I graduated in 1986 from Dakota Wesleyan University with a Bachelor of Arts
13 degree in Business Administration. I joined NorthWestern Public Service in 1988
14 as a corporate accountant working with financial reporting. In 1993, I began
15 working with NorthWestern Growth Corporation where my responsibilities
16 included financial analysis of potential acquisitions. In 1995, I became the
17 Director of Rates. I was promoted to Manager of Financial Services –
18 NorthWestern Energy Corporation in 1998. In 2004, I became the Regulatory
19 Specialist for NorthWestern.

20
21 **Purpose of Testimony**

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

23 **A.** I recommend moderation of the results of the adjusted class cost of service

1 study (“CCOS”) included in Statements N and O for use in determining rate
2 design proposals for each class of electric utility customers. I also discuss
3 elimination of several rate schedules and rate options, and address a rate
4 structure change. Finally, I describe changes to the general terms and
5 conditions and Section 6 Forms for specific NorthWestern South Dakota electric
6 utility tariffs.

7 8 **Class Cost of Service Study**

9 **Q. What is the purpose of a CCOS?**

10 **A.** A CCOS is done to determine how the revenue requirement should be allocated
11 to each class of customers based on the cost to serve.

12
13 **Q. Who conducted the CCOS for NorthWestern?**

14 **A.** NorthWestern hired Management Applications Consulting, Inc. (“MAC”) to
15 conduct the CCOS for NorthWestern. The Prefiled Direct Testimony of Gary
16 Goble (“Goble Direct Testimony”), a consultant for MAC, discusses the technical
17 aspects of the CCOS and summarizes the results.

18
19 **Q. Did you work with Mr. Goble to prepare the CCOS?**

20 **A.** Yes, I worked closely with Mr. Goble providing information used as the basis of the
21 CCOS. Mr. Goble developed per book and adjusted studies. We developed the
22 individual rates based on moderation of the adjusted CCOS results. This will be
23 discussed further in the rate design section below.

1 **Q. What is the basis for the adjusted CCOS contained in Statements N and O?**

2 **A.** The study is based on the books and records of NorthWestern's South Dakota
3 electric utility jurisdictional operations for the 12-month period ending September
4 30, 2014 as adjusted for known and measurable changes.

5
6 **Q. What are the principle conclusions of the adjusted CCOS?**

7 **A.** Based on results of this study, I find that existing electric utility revenues fail to
8 cover South Dakota electric utility jurisdictional revenue requirements by just over
9 \$26.5 million. Based on the results of the adjusted CCOS, I find that for certain
10 customer classes, there are large disparities between current rate levels and cost
11 to serve.

12
13 **Q. What are the results of the adjusted CCOS?**

14 **A.** The study results are summarized in Table 1 on page 20 of the Goble Direct
15 Testimony. The table shows, by class, the percent increase for both the adjusted
16 CCOS revenue allocations and the proposed moderated revenues when
17 compared to base rate only revenues. As discussed below, NorthWestern utilized
18 a total billed revenue approach to moderate the increases indicated by the study.

19
20 **Q. What are the revenue deficiency amounts indicated by the adjusted CCOS by**
21 **class of customer and the percentage increase in total billed electric utility**
22 **revenue required to recover the test period revenue requirement?**

23

1	A.	Residential	\$19,629,115 or 37.75% Increase
2		Irrigation	\$256,967 or 141.95% Increase
3		Commercial	\$2,558,019 or 16.53% Increase
4		Commercial and Industrial	\$3,392,398 or 5.59% Increase
5		Municipal	(\$114,747) or 17.27% Decrease
6		<u>Lighting</u>	<u>\$787,850 or 39.26% Increase</u>
7		Total	\$26,509,602 or 20.24% Increase

8

9

Rate Design and Proposed Rates

10 **Q. Please explain NorthWestern’s rate design goals in this docket.**

11 **A.** NorthWestern’s primary goals are the development of rate design structures that
 12 recover the costs properly allocated among the various customer classes based on
 13 cost causation (as determined in the adjusted CCOS), while being mindful of
 14 significant bill impacts to customers.

15

16 As a basic approach to apportioning the requested revenue requirement, the goal
 17 is to move each customer class to the revenue requirement responsibility
 18 necessary to attain the requested electric utility system average rate of return of
 19 7.76%. However, some large disparities in rate adjustments from class to class
 20 result from the strict application of this approach. NorthWestern believes it is
 21 important and proper to work toward achieving rates that reflect costs, but given
 22 the large rate adjustments that would be required to achieve this in a single rate
 23 case, NorthWestern recommends taking incremental steps toward this objective.

1 Consistent with standard rate design practice, NorthWestern moderated the
2 adjusted CCOS results to mitigate bill impacts by class. In order to moderate the
3 effect of the overall increase and billing impacts, NorthWestern chose to use the
4 total bill revenue increase of 20.24% for all classes. When combined with the
5 customer charge revenue increases discussed on page 7 of this testimony, the
6 total increase of 20.24% provides a more uniform effect on customer classes than
7 using the adjusted CCOS results directly. Following are the proposed rate
8 increases and percent increases on the total bill by customer class:

9 Residential	\$10,522,422 or 20.24% Increase
10 Irrigation	\$36,647 or 20.24% Increase
11 Commercial	\$3,132,025 or 20.23% Increase
12 Commercial and Industrial	\$12,279,951 or 20.24% Increase
13 Municipal	\$134,489 or 20.24% Increase
14 <u>Lighting</u>	<u>\$403,963 or 20.13% Increase</u>
15 Total	\$26,509,497 or 20.24% Increase *

16 * The difference between the \$26,509,497 and the \$26,509,602 on page JJD-4 is
17 due to rounding when applying the proposed rates to the test year volumes and
18 customer count.
19

20 **Q. Are you proposing elimination of any customer rate schedules?**

21 **A.** Yes. NorthWestern is proposing to eliminate electric tariff Rate 15 (residential
22 interruptible heat) and Rate 18 (off-peak irrigation).
23

24 **Q. Why are you proposing to eliminate electric tariff Rates 15 and 18?**

25 **A.** Both rates have been in effect for over 26 years and have limited participation.

1 There are viable alternatives available in electric tariff Rates 14 and 16 to continue
2 to serve the 11 customers affected by the elimination of these tariffs.

3
4 **Q. What will be the impact on the 11 customers currently utilizing these rates?**

5 **A.** Tariff Rate 15 has been in effect since prior to 1998. There are currently seven
6 customers on Rate 15. The customers on tariff Rate 15 will be switched to tariff
7 Rate 14. This will result in a \$0.005 increase per kWh from the current rates paid
8 by these customers. For a customer using 2,000 kWh per month for electric heat,
9 this results in an increase of \$10 per month. Tariff Rate 18 has also been in effect
10 since prior to 1998 and four customers are currently charged under this rate.

11 These customers will be switched to tariff Rate 16 and will see no change in price
12 for off-peak power, which is the majority of their use. Their on-peak power rate per
13 kWh will decrease from \$0.3481 to \$0.0831.

14
15 **Q. Please describe the proposed changes to the monthly customer charges.**

16 **A.** NorthWestern is proposing to increase its monthly customer charges. Shown
17 below for each rate are the customer charges determined in the adjusted CCOS,
18 the current customer charges, and the moderated customer charges proposed in
19 this filing. As described above, this is an incremental step toward the cost-based
20 charges supported by the CCOS. Although NorthWestern would like to increase
21 the monthly customer charges to the amounts shown in the CCOS study,
22 recognition is given to the treatment of such charges in previous natural gas cases
23 and the sensitivity to customers regarding this issue. With this in mind,

1 NorthWestern generally targeted customer charges in the range of approximately
 2 50% of the adjusted CCOS values. However, where large increases in customer
 3 charges would be required to accomplish this, discretion was used in determining
 4 the proposed customer charge.

	<u>Rate</u>	<u>CCOS Customer Charge</u>	<u>Current</u>	<u>Proposed</u>
5				
6				
7	10	\$13.52	\$5.00	\$9.00
8	11	\$17.69	\$5.00	\$9.00
9	14	\$5.00	\$1.40	\$3.00
10	16 & 18	\$99.88	\$30.00	\$45.00
11	21	\$12.89	\$8.00	\$10.00
12	23	\$9.27	\$1.75	\$5.00
13	24	\$20.36	\$1.40	\$5.00
14	41	\$22.17	\$9.50	\$15.00
15	70	\$47.91	\$4.00	\$20.00

16

17 The increased customer service charges recover a portion of the increase
 18 necessary to collect the revenue requirement levels determined by the adjusted
 19 CCOS. The remainder of the increase necessary to collect the moderated
 20 revenue requirement is included in the proposed distribution delivery charge, as
 21 accomplished in recent NorthWestern natural gas rate cases.

22

23 **Q. Please describe NorthWestern’s proposed delivery rate change for the**
 24 **residential class.**

1 **A.** In addition to the changes to the monthly customer charges shown above,
2 NorthWestern is proposing to increase its residential delivery rates consistent with
3 the adjusted CCOS and the moderated increases. When combined with the
4 proposed customer charges, this results in a monthly increase of \$16.76 per
5 residential customer using 750 kWh per month.

6

7 **Q. Please describe NorthWestern’s proposed rate change for the commercial
8 and industrial classes.**

9 **A.** Overall proposed revenue increases for commercial customers are consistent with
10 the moderated revenue levels determined in the adjusted CCOS. Consistent with
11 the residential class, the portion of the revenue requirement not collected via the
12 proposed customer charge increases is recovered in the proposed distribution
13 delivery and demand charges. The per-kW demand charges will increase as
14 follows:

15 \$6.13 to \$8.65 for Rate 33 and the first 100 kW of Rate 34.

16 \$5.43 to \$7.66 for the next 400 kW of Rate 34.

17 \$4.73 to \$6.67 for any monthly kW over 500.

18

19 Customer impacts vary greatly due to the wide range of usage in the commercial
20 class. A Rate 21 customer using 1,000 kWh will see a monthly increase of
21 \$23.76. A Rate 34 customer with a peak demand of 3,000 kWh and using
22 1,080,000 kWh will see a monthly increase of \$16,545.85.

23

1 **Q. Please describe NorthWestern’s proposed rate change for the street light**
2 **and public lighting classes.**

3 **A.** Similar to the adjusted CCOS there are large disparities among the different light
4 type classes. If the CCOS rate increases were to be utilized, some customers
5 would see the cost of their lighting increase by 300 to 400% while other customers
6 would realize a rate reduction. In order to recover the moderated requested
7 revenue requirement and be mindful of customer impact, increased limits were
8 utilized in the development of the rates. As discussed in the Goble Direct
9 Testimony, no lighting class received an increase greater than 45%.

10

11 **Q. Is additional information regarding rate design included in this filing?**

12 **A.** Yes, the rate design computations are further described in the Goble Direct
13 Testimony and included in Schedules O-1 through O-11.

14

15 **Q. Are you addressing the need for LED light rates in this filing?**

16 **A.** Yes. In Rates 19 and 56 the Company is proposing new rates for LED lighting.
17 Rates are proposed for the two common Reddy Guard applications, and the five
18 common street light applications.

19

20 **Q. What is the reason for the changes to Other Provisions of the Rate 56 tariff?**

21 **A.** A fixed rate per kWh is proposed to be applied to customer-owned street lighting
22 that may vary in wattage from the five proposed standard wattages. This will allow
23 greater flexibility in meeting customers’ needs with new developments of LED

1 lighting. Also language was added that will address the cost related to customers
2 who request poles other than the standard pole sizes that the rates are designed
3 for. This will allow the Company to charge the individual customer for pole costs
4 that vary significantly from the standard pole cost. This gives NorthWestern
5 flexibility in serving the customer and provides a vehicle to place the cost with the
6 cost-causer without the need for additional contract with deviation filings.

7
8 **Q. Please describe your proposed rate change for the Public Authorities class.**

9 **A.** The proposed increase for this class of customers is \$0.016 per kWh. For an
10 average customer using 2,000 kWh, the result is a monthly increase of \$37.31.

11
12 **Changes to the Electric Utility Tariff General Terms and Conditions**

13 **Q. Please explain the rate-related changes to the Electric Utility Tariff General**
14 **Terms and Conditions proposed by NorthWestern.**

15 **A.** NorthWestern proposes to add a tampering fee to its general terms and conditions
16 tariff language. This additional language is shown on Section 5, Sheet 3.

17
18 **Q. Why is there a need for additional tampering fee language in the tariff?**

19 **A.** The proposed fee allows recovery of NorthWestern's costs incurred with the
20 tampering of Company-owned meters. This language allows the Company to bill
21 for electricity consumed, damage to equipment, and correction or removal of any
22 meter tampering or bypass equipment. NorthWestern can pursue the recovery of
23 its costs directly from the individual(s) responsible for the tampering or installing

1 bypass equipment. The revenue impact of this change is shown in the Prefiled
2 Direct Testimony of Kendall Kliewer (“Kliewer Direct Testimony”).

3
4 **Q. What changes are you proposing to the Customer Connection/Reconnection
5 Charges?**

6 **A.** NorthWestern is proposing revisions to Section 5, Sheet No. 1. The current after-
7 hours connection/reconnection customer charge is \$15. As shown in
8 Exhibit__(JJD-1) - Confidential, the actual cost to perform this service is
9 significantly higher. The increase of this charge to \$150 is designed to encourage
10 customers to have connections/reconnections accomplished during normal
11 business hours. The proposed increase will more closely align the payment
12 required from the customer for the benefit of an after-hours connection or
13 reconnection with the Company’s cost of providing the service.

14
15 **Q. Is NorthWestern also proposing to change the charge for customer
16 connections/reconnections performed during normal business hours?**

17 **A.** Yes, the Customer Connection/Reconnection Charge for services performed
18 during normal business hours will increase from \$10 to \$20 as supported in
19 Exhibit__(JJD-1) - Confidential.

20
21 **Q. Is NorthWestern proposing to change its return check charge on Sheet No. 5
22 of Section 5?**

23 **A.** Yes. The Company is proposing to raise the return check charge from \$15 to \$30.

1 The revenue impact of the change is detailed in the Kliewer Direct Testimony.

2
3 **Q. Please describe the changes regarding Economic Feasibility related to Line**
4 **Connection Costs in Section 5, Sheet 1a.**

5 **A.** NorthWestern's tariff currently allows for a fixed new service connection charge
6 plus a fixed cost-per-foot charge for new residential and commercial customers.
7 NorthWestern has made a number of Contract with Deviations ("CWD") filings over
8 the past several years in order to collect from customers a contribution in aid of
9 construction ("CIAC"). It is becoming increasingly important for NorthWestern to
10 compare the cost of installing needed infrastructure with expected revenues to
11 determine if a CIAC is required for a given project. With the tariff changes
12 discussed below, NorthWestern will be better able to respond to customer
13 installations that may require a CIAC from the customer.

14
15 **Q. How did you determine the threshold for requiring a CIAC?**

16 **A.** NorthWestern performed two reviews in order to determine a threshold. First, the
17 CWD customer filings since 2007 were examined. As shown in Exhibit__(JJD-2),
18 the shortest service length was 499 feet. Second, the 3-phase projects dating
19 back to 2008 were reviewed. This review indicated that the average service length
20 by year ranged from 266 feet to 341 feet. In each year, there were one to four
21 projects over 500 feet. Based on this assessment, a threshold for requiring a
22 CIAC was established that will apply to projects with an estimated service length of
23 greater than 500 feet. This change will allow expedient processing of customer

1 project requests and provide an instrument to collect a CIAC from customers for
2 the few projects each year that are not feasible without such contributions. The
3 length limitation will also prevent unnecessary review of all electric projects.

4
5 **Q. How will you determine the appropriate amount to charge a customer when**
6 **their estimated service length is greater than 500 feet?**

7 **A.** The Company will compare the difference between expected annual revenues and
8 estimated expenses to serve the customer to the expected cost of installation to
9 determine what, if any, additional CIAC should be made by the customer. This
10 seeks to align the costs caused by the customer with the revenue collected from
11 the same customer.

12
13 **Q. What assurance is there that the customer will provide their projected**
14 **revenue?**

15 **A.** As part of the tariff in Section 5, Sheet No. 1a, the Company proposes a “true-up”
16 that will hold both parties accountable to the original estimate. After three years,
17 NorthWestern can review the quantity of electricity used by the customer to
18 determine if the kWh usage is in line with the original projection provided by the
19 customer. If the usage varies by greater than 20% in either direction, the
20 Company will either pursue an additional contribution or refund the excess
21 contribution back to the customer.

22

1 **Q. In Section 5, Sheet No. 1a, a section to consider the costs of a Line**
2 **Extension outside of the Normal Construction Season has been added.**

3 **Please explain.**

4 **A.** Costs associated with work performed in frozen ground are higher than similar
5 work accomplished in the normal construction season. More time is required to
6 complete the service under these extreme conditions, and the additional wear and
7 tear on equipment contributes to increased maintenance expense.

8

9 **Q. What is the purpose of the grade language in Section 5, Sheet No. 1a?**

10 **A.** When a contractor requests installation of a service and the grade is later altered,
11 the service may then be too shallow or too deep. This results in a code violation,
12 an operational problem, or both. This proposed language would require the grade
13 to be within six inches of final grade at the time the service was installed and would
14 eliminate the potential for a problem that requires correction at a later date.

15

16 **Q. Please briefly describe Option I, Option N, Option L, and Option X.**

17 **A.** Options I, N and X were placed into the tariff after the addition of the Big Stone
18 Power Plant in order to encourage expansion of business and utilization of electric
19 heat as opposed to other fossil fuels. Option I (Increased) provided an incentive
20 for customers to expand their business and receive a discount on the increased
21 electric usage for their business. Option N (New) was an incentive to allow for
22 discounted electricity for new customers who chose to locate their business within
23 NorthWestern's territory. Option L (Large Load) was added in 1996 in response to

1 the potential for deregulation and provided a discount to large customers in
2 exchange for a five- to ten-year agreement that they would remain a NorthWestern
3 customer as opposed to choosing an alternate supplier under future deregulation.
4 This option provides an 8% discount on the customer's energy and demand
5 charges. Option X provided a discount for customers choosing electric heat. In
6 essence, their rate for increased usage beyond their base period, before their
7 electric heat addition, is priced at the bottom block of rate 11.

8
9 **Q. What changes are proposed for Option I, Option N, Option L and Option X?**

10 **A.** The Company is proposing to eliminate these options from its electric utility tariff.

11
12 **Q. How many customers currently utilize these option rates?**

13 **A.** There are currently no customers utilizing Options I or N. There are nine
14 customers on Option L and 21 customers on Option X.

15
16 **Q. How do you propose to eliminate Options I and N?**

17 **A.** Because there are no customers impacted, NorthWestern proposes to terminate
18 these tariff options on the effective order date of this docket.

19
20 **Q. Will Option L be terminated on a date certain or will it be allowed to gradually
21 expire?**

22 **A.** The current customer contracts under this option range from five to ten year terms.
23 These current contracts, including the declining discounts, will be allowed to

1 expire. No new contracts or renewals of existing contracts under Option L will be
2 allowed. The final contract will expire in 2023.

3
4 **Q. Please provide information regarding Option X customers.**

5 **A.** The last Option X customer was added in November 2008. Exhibit__ (JJD-3) lists
6 the current Option X customers and their start dates.

7
8 **Q. How does NorthWestern propose to terminate the Option X tariff?**

9 **A.** As of the effective date of the order in this docket, no new customers will be
10 allowed to choose Option X. Any of the current 21 customers remaining on Option
11 X five years after the effective order date in this docket will be returned to the
12 otherwise appropriate retail rate. The five-year window will allow several
13 customers to expire from Option X via their normal annual Base Period Monthly
14 Charge increase. This time frame will also allow remaining customers to transition
15 to traditional rates.

16
17 **Changes to Section 6 Forms**

18 **Q. Why is NorthWestern proposing changes to the Section 6 forms?**

19 **A.** Numerous forms were outdated. In addition, several forms have been removed
20 because they are no longer needed with the elimination of the Option discounts
21 discussed above. With the change and reorganization needed, we decided to
22 update the entire section.

1 **Q. Can you describe the changes to the individual tariff sheets?**

2 **A.** Below is a summary of the tariff changes:

3 Sheet 2 - Added new letter regarding use of old account number.

4 Sheet 3 - Updated with revised disconnect notice.

5 Sheet 4 - Replaced outdated disconnect letter with returned payment letter.

6 Sheet 5 - Replaced outdated disconnect letter with balance owing letter.

7 Sheet 6 - Updated with current received and returned payment letter.

8 Sheet 7 - Replaced with updated Broken Payment Arrangement letter.

9 Sheet 8 - Past due notice replaced by letter of balance transfer.

10 Sheet 8.1 - Final demand letter eliminated and sheet left blank.

11 Sheet 9 - Updated non-sufficient funds letter.

12 Sheets 10 and 10.1 - Updated Customer Application for Service.

13 Sheet 11 - Separate meter application eliminated. Replaced with certified funds
14 letter.

15 Sheet 12 - Rate 15 application eliminated. Replaced with request to contact.

16 Sheet 12.1 - Letter of deposit eliminated and sheet left blank.

17 Sheet 13 - Discounted agreement eliminated. Replaced with customer contact.

18 Sheet 13.1 - Discount calculation eliminated and sheet left blank.

19 Sheet 14 - Application eliminated. Replaced with Security Deposit letter.

20 Sheet 14.1 - Extended service agreement eliminated and sheet left blank.

21 Sheet 15 - Added letter of guarantor.

22 Sheet 16 - Added letter of guarantor transfer.

23 Sheet 17 - Eliminated Surety bond form. Replaced with letter of verification.

24 Sheet 18 - Added letter of credit amount.

1 Sheet 19 - Eliminated payment arrangement letter. Replaced with letter of dispute.
2 Sheet 19.1 - Added customer bill dispute questionnaire.
3 Sheet 20 - Updated residential customer handbook.
4 Sheet 21 - Removed outdated commercial customer handbook.
5 Sheet 22 - Updated bankruptcy letter.
6 Sheet 23 - Updated past due budget bill payment letter.
7 Sheet 24 - Updated deposit assessment letter.
8 Sheets 25 – 57 contain customer contact letters that have not been previously
9 tariffed.

10 **Q. In reviewing the tariff sheets it appears that all of the tariff sheets now refer**
11 **to the Company as NorthWestern Corporation d/b/a NorthWestern Energy.**
12 **Were there any tariff sheets whose only change is to the header change?**

13 **A.** The following tariff sheets fit this category:

- 14 • Section 2, sheets 1 and 2.
- 15
- 16 • Section 3, sheets 2.1, 3.1, 5.1, 6.1, 11.1, 13, 14.1, 15.1, 16, 17, 18.1, 22,
- 17 24, 26, 27, 29, 30.1, 32, 33, 34, 36.
- 18
- 19 • Section 4, sheet 1.
- 20
- 21 • Section 5, sheets 2, 6.1, 12, 13.
- 22
- 23 • Section 6, sheets 1 and 1.1.
- 24
- 25

26 **Q. Does this complete your testimony?**

27 **A.** Yes it does.