

PREFILED DIRECT TESTIMONY OF DANIEL R. REARDON
ON BEHALF OF NORTHWESTERN ENERGY

Table of Contents

<u>Description</u>	<u>Starting Page No.</u>
Witness Information	2
Purpose of Testimony	3
Natural Gas Rate Base	4
Electric Rate Base	6
Depreciation Expense Information	8
 <u>Exhibits</u>	
Natural Gas Rate Base	Exhibit ____(DRR-1)
Electric Rate Base	Exhibit ____(DRR-2)

1 Witness Information

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

3 A. I am Daniel R. Reardon, and my business address is 40 East Broadway,
4 Butte, Montana 59701.

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

7 A. I am employed by NorthWestern Energy (NWE or NorthWestern) in the
8 Accounting Department as a Senior Accountant.

9
10 **Q. Please state your educational background and experience.**

11 A. I graduated from the University of California - Berkeley in 1976 with a
12 Bachelor's Degree in Business Administration with an emphasis in
13 accounting and finance. I began my employment with the Montana Power
14 Company (MPC) in 1978 in what is now the Regulatory Affairs Department
15 and I am currently assigned to the Accounting Department at
16 NorthWestern. My major assignments involve working with utility plant and
17 depreciation reserve data, and I have been involved in numerous natural
18 gas and electric rate cases. My experience includes computation of plant
19 data, depreciation reserve and accrual data and preparation of rate base
20 exhibits and related documents meeting the filing requirements presented
21 by NorthWestern (and its predecessor MPC) to both the Montana Public
22 Service Commission (MPSC or Commission) and the Federal Energy
23 Regulatory Commission (FERC). I have also testified before the MPSC in
24 several previous dockets.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

Q. What are your responsibilities and duties as Senior Accountant?

A. My past and present duties include developing rate base data and supporting workpapers required for rate case filings and other purposes. My other responsibilities include the development of data for other departments in the Montana utility on plant and depreciation matters.

Purpose of Testimony

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

A. My testimony explains the Montana Natural Gas Utility rate base, the Montana Electric Utility rate base and the associated book depreciation expense for this filing.

Q. Have you prepared exhibits on this subject?

A. Yes. I have prepared Exhibit ___ (DRR-1), which presents the Montana Natural Gas Utility rate base and Exhibit ___(DRR-2), which presents the Montana Electric Utility rate base. The Montana Natural Gas Utility rate base and the Montana Electric Utility rate base have been computed on a 13-month average basis.

Q. Please define the test period utilized by NorthWestern in this Application.

A. The test period in this Application is the historical calendar year ended December 2008, adjusted for known and measurable changes occurring

1 in the 12 months after December 31, 2008. This test period conforms to
2 the criteria set forth in the Commission's Minimum Rate Case Filing
3 Standards found at ARM §38.5.106.

4 **Natural Gas Rate Base**

5 **Q. Please describe in detail Exhibit ___(DRR-1) and the source of the**
6 **information it presents.**

7 A. Column (A) of Exhibit ___ (DRR-1) presents the actual 13-month average
8 rate base as of December 31, 2008 for the Montana Natural Gas Utility.
9 The source of Column (A) is the books and records of NorthWestern. This
10 2008 actual 13-month average rate base was then adjusted to reflect the
11 following known and measurable changes:

12 The adjustment shown under Column (B) reflects the
13 inclusion of the actual 13-month average rate base as of
14 December 2008 for the Canadian Montana Pipeline
15 Company (CMPL). CMPL is wholly owned by
16 NorthWestern and was established to handle the cross
17 border importation of Canadian natural gas. CMPL plant
18 includes approximately 4 miles of 16" pipeline with
19 associated controls and communication equipment.

20 The adjustment shown under Column (C) reflects the
21 allocated natural gas portion of the reduction to rate base
22 associated with the Stipulation Agreement approved in
23 Final Order No. 6852f in Docket D2007.7.82 (Stipulation
24 Agreement). The Stipulation Agreement provides for a

1 reduction in both the natural gas and electric rate bases
2 associated with total capital expenditures of \$19.4 million
3 in each of the years 2008 and 2009 (\$38,800,000 total).
4 This total is allocated 1/3rd to natural gas delivery service
5 and 2/3rds to electric delivery service pursuant to Section
6 II.1.d of the Stipulation Agreement. The net amount of the
7 reduction to the natural gas and electric rate bases
8 declines over time to reflect the annual increase to the
9 accumulated depreciation reserve associated with the
10 annual depreciation expense calculated on this
11 \$38,800,000 of plant. These reductions to rate base will
12 be in effect from 2009 thru 2039 pursuant to the
13 Stipulation.

- 14 □ The adjustment shown under Column (D) reflects the
15 changes to working capital associated with the lead/lag
16 study performed for NorthWestern by Management
17 Applications Consulting, Inc. (MAC). The Prefiled Direct
18 Testimony of Gary L. Goble explains the results of the
19 lead/lag study. The test period Gross Cash Requirement
20 for both the natural gas and electric rate bases were
21 calculated using the net lag days from the MAC studies,
22 the test period Operation and Maintenance (O&M)
23 expenses and NWE's proposed capital structure
24 components.

1 facilities as Montana regulated plant in this filing. The
2 CU4 transmission and associated microwave facilities
3 were not included in the generation rate base
4 approved in Order 6925f. The associated 2008 book
5 depreciation expense for the transmission and
6 microwave facilities are included in this filing as a
7 known change adjustment. The CU4 steam
8 generation facilities are not included in the electric
9 rate base in this filing.

- 10 □ The adjustment shown under Column (D) reflects the
11 changes to working capital as described above.

12 Column (E) presents the Montana Electric Utility's rate base
13 as of December 31, 2008, adjusted for these known and
14 measurable changes.

15

16 **Q. How has the Montana common utility plant and depreciation reserve**
17 **been allocated to and included in the Montana Natural Gas Utility and**
18 **Montana Electric Utility rate bases?**

19 A. The allocation factors shown in Statement D were used to allocate the
20 individual facilities included in common utility plant to both the Montana
21 natural gas and Montana electric rate bases. The associated depreciation
22 reserve applicable to the common plant was also allocated based on
23 these allocation factors.

24

1 Depreciation Expense Information

2 **Q. How was the test period depreciation expense calculated?**

3 A. The test period depreciation expense was taken directly from
4 NorthWestern's 2008 books and records. The annual depreciation
5 expense is calculated within the company's SAP Fixed Asset module. The
6 actual 2008 accrual was calculated by applying NorthWestern's 2005
7 Montana Depreciation Study accrual rates to the December 2007 plant
8 balances.

9

10 **Q. Were the results of the 2005 Depreciation Study submitted in NWE's**
11 **2007 rate filing in Docket D2007.7.82?**

12 A. Yes, they were. Mr. Kim Kateregga of Foster Associates Inc. submitted
13 direct testimony explaining and supporting the 2005 Depreciation Study
14 and was subject to cross examination in that proceeding. NorthWestern
15 implemented the results of the 2005 Depreciation Study in January 2008.

16

17 **Q. Did you make any known change adjustments to depreciation**
18 **expense?**

19 A. Yes. Pursuant to the Stipulation Agreement, the annual amount of book
20 depreciation expense associated with the \$38,800,000 of plant
21 investments is to be included in the cost of service for this 2009 rate filing.
22 The annual depreciation accrual rate of 3.33% associated with a 30-year
23 service life was applied to the plant investment of \$38,800,000 which
24 results in an annual depreciation expense amount of \$1,292,040. The

1 \$1,292,040 was allocated 2/3rds to the Electric utility and 1/3rd to the
2 Natural Gas utility as detailed in Section II.1.d of the Stipulation
3 Agreement. As previously mentioned, a known change adjustment has
4 also been made for the depreciation expense associated with the CU4
5 500kV transmission system.

6 **Q. Have you calculated any of the amortization expense items included**
7 **in the Income Statements?**

8 A. Yes. The amortization expense items I calculated are detailed on work
9 papers included in Statement I. Mr. DiFronzo is responsible for the non-
10 rate base related items and I am responsible for the rate base related
11 items as detailed in the work papers.

12

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

14 A. Yes, it does.

NORTHWESTERN ENERGY - MONTANA GAS UTILITY RATE BASE - 13 MONTH AVERAGE

LINE	DESCRIPTION	(A) ACTUAL 13 MONTH AVERAGE RATE BASE 12/31/08	(B) CMPL	(C) REGULATORY PLANT ADJ	(D) WORKING CAPITAL	(E) TEST PERIOD 12/31/08 ADJUSTED	LINE
1	UTILITY PLANT IN SERVICE						1
2	Gas	471,015,159	370,973	-12,804,000		458,582,132	2
3	Common	29,656,659				29,656,659	3
4	TOTAL UTILITY PLANT IN SERVICE	500,671,818	370,973	-12,804,000		488,238,791	4
5							5
6	ACCUMULATED DEPRECIATION						6
7	Gas	193,478,867	288,323	0		193,767,190	7
8	Common	14,493,062				14,493,062	8
9	TOTAL ACCUMULATED DEPRECIATION	207,971,929	288,323	0		208,260,252	9
10							10
11	TOTAL NET PLANT	292,699,889	82,650	-12,804,000		279,978,539	11
12							12
13							13
14	GAS STORED UNDERGROUND	32,096,313				32,096,313	14
15	COST OF REFINANCING DEBT	1,303,746				1,303,746	15
16	SAP DEVELOPMENT COSTS (12-2010)	512,114				512,114	16
17	GAS STORAGE SALES 2000 & 2001 (9-2039)	-13,143,430				-13,143,430	17
18	REGULATORY ASSET FAS 109	-666,649				-666,649	18
19	MPSC / MCC TAXES	-23,128				-23,128	19
20							20
21							21
22	LESS: CUSTOMER CONTRIBUTED CAPITAL						22
23	Accumulated Deferred Income Taxes						23
24	See Page 2 for Details						24
25	Personal Injury & Property Damage	27,781,049				27,781,049	25
26	Customer Advances for Construction	769,173				769,173	26
27	TOTAL CUSTOMER CONTRIBUTED CAPITAL	10,100,167	0			10,100,167	27
28		38,650,389				38,650,389	28
29	PLUS: WORKING CAPITAL						29
30	Gross Cash Requirements	-6,775,887			-3,314,562	-9,090,449	30
31	Materials and Supplies	4,234,378				4,234,378	31
32	TOTAL WORKING CAPITAL	-1,541,509			-3,314,562	-4,856,071	32
33							33
34	TOTAL GAS UTILITY RATE BASE	272,586,957	82,650	-12,804,000	-3,314,562	266,551,045	34

NORTHWESTERN ENERGY - MONTANA GAS UTILITY RATE BASE - 13 MONTH AVERAGE

LINE	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	TEST PERIOD 12/31/08 ADJUSTED	LINE
		ACTUAL 13 MONTH AVERAGE RATE BASE 12/31/08	CMPL	REGULATORY PLANT ADJ	WORKING CAPITAL			
1	Accumulated Deferred Income Taxes							1
2	Deferred Revenue	8,505				8,505		2
3	Accrued Incentive Compensation	-114,763				-114,763		3
4	Property Damages Accrued	15,408				15,408		4
5	FAS 106 & FAS 112 Post Retirements Benefits	5,967,148				5,967,148		5
6	Regulatory Liability - MPSC Taxes	-21,828				-21,828		6
7	Accelerated Depreciation	28,028,610				28,028,610		7
8	Customer Advances for Construction	-5,361,785				-5,361,785		8
9	Environmental Reserve	-73,597				-73,597		9
10	Regulatory Asset FAS 109	-666,649				-666,649		10
11								11
12	Total Deferred Income Taxes	27,781,049	0	0	0	27,781,049		12

NORTHWESTERN ENERGY - MONTANA ELECTRIC UTILITY RATE BASE - 13 MONTH AVERAGE

LINE	DESCRIPTION	(A) ACTUAL 13 MONTH AVERAGE RATE BASE 12/31/08	(B) REGULATORY PLANT ADJ	(C) COLSTRIP 500KV TRANSMISSION	(D) WORKING CAPITAL	(E) TEST PERIOD 12/31/08 ADJUSTED	LINE
1	UTILITY PLANT IN SERVICE						1
2	Electric	1,363,852,866	-25,996,000	16,620,283		1,354,477,149	2
3	Common	59,994,668				59,994,668	3
4	Milwaukee Line	3,106,285				3,106,285	4
5	TOTAL UTILITY PLANT IN SERVICE	1,426,953,819	-25,996,000	16,620,283		1,417,578,102	5
6							6
7	ACCUMULATED DEPRECIATION						7
8	Electric	632,668,680	0	7,984,886		640,653,566	8
9	Common	28,133,590				28,133,590	9
10	Milwaukee Line	2,963,914				2,963,914	10
11	TOTAL ACCUMULATED DEPRECIATION	663,766,184	0	7,984,886		671,751,070	11
12							12
13	TOTAL NET PLANT	763,187,635	-25,996,000	8,635,397		745,827,032	13
14							14
15							15
16	COST OF REFINANCING DEBT	2,637,444				2,637,444	16
17	SAP DEVELOPMENT COSTS (12-2010)	1,088,239				1,088,239	17
18	REGULATORY ASSET FAS 109	11,941,781				11,941,781	18
19	MPSC / MCC TAXES	-96,617				-96,617	19
20							20
21							21
22							22
23	LESS: CUSTOMER CONTRIBUTED CAPITAL						23
24	Accumulated Deferred Income Taxes	82,110,989				82,110,989	24
25	(See Page 2 for Details)	1,556,017				1,556,017	25
26	Personal Injury & Property Damage	38,025,165				38,025,165	26
27	Customer Advances for Construction	121,692,171	0			121,692,171	27
28	TOTAL CUSTOMER CONTRIBUTED CAPITAL						28
29							29
30	PLUS: WORKING CAPITAL						30
31	Gross cash Requirement	-9,328,610			-5,971,064	-15,299,674	31
32	Materials and Supplies	7,828,648				7,828,648	32
33	TOTAL WORKING CAPITAL	-1,499,962			-5,971,064	-7,471,026	33
34	TOTAL MONTANA ELECTRIC UTILITY RATE BASE	655,566,349	-25,996,000	8,635,397	-5,971,064	632,234,682	34

NORTHWESTERN ENERGY - MONTANA ELECTRIC UTILITY RATE BASE - 13 MONTH AVERAGE

NORTHWESTERN ENERGY COMPANY
EXHIBIT NO. ____ (DRR-2) PAGE 1 OF 2

LINE	DESCRIPTION	(A) ACTUAL 13 MONTH AVERAGE RATE BASE 12/31/08	(B) REGULATORY PLANT ADJ	(C) COLSTRIP 500KV TRANSMISSION	(D) WORKING CAPITAL	(E) TEST PERIOD 12/31/08 ADJUSTED	LINE
1	Accumulated Deferred Income Taxes						1
2	Deferred Revenue	36,852				36,852	2
3	Accrued Incentive Compensation	-266,102				-266,102	3
4	Property Damages Accrued	43,673				43,673	4
5	FAS 106 & FAS 112 Post Retirement Benefits	14,748,067				14,748,067	5
6	Regulatory Liability - MPSC Taxes	-54,816				-54,816	6
7	BPA Residential Buyback	-419,266				-419,266	7
8	Accelerated Depreciation	69,650,602				69,650,602	8
9	Customer Advances for Construction	-13,384,982				-13,384,982	9
10	Environmental Reserve	-184,820				-184,820	10
11	REGULATORY ASSET FAS 109	11,941,781				11,941,781	11
12							12
13	Total Deferred Income Taxes	82,110,989	0	0	0	82,110,989	13