

1 Montana Public Service Commission  
2 Docket No. 2022.07.078  
3 Electric and Natural Gas General Rate Review  
4  
5  
6

7 PRE-FILED DIRECT TESTIMONY

8 OF ANDREW D. DURKIN

9 ON BEHALF OF NORTHWESTERN ENERGY  
10

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1 **Witness Information**

2 **Q. Please provide your name, employer, and title.**

3 **A.** My name is Andrew D. Durkin. I am NorthWestern Energy's  
4 ("NorthWestern") Manager of Regulatory Affairs.  
5

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

8 **A.** I have been with NorthWestern for seven years. In my current position as  
9 Manager of Regulatory Affairs, I primarily manage the preparation of  
10 testimony, exhibits, and workpapers in NorthWestern's proceedings before  
11 the Montana Public Service Commission ("Commission" or "MPSC").  
12 Before serving in this role, I worked in NorthWestern's Finance  
13 Department as a Property Accountant addressing various utility plant and  
14 rate base-related issues. Prior to joining NorthWestern, I was a public  
15 accountant for a regional accounting firm based in Montana. I have a  
16 Bachelor of Science in Accounting, a Master of Professional Accountancy,  
17 and am a Certified Public Accountant.  
18

19 **Purpose and Summary of Testimony**

20 **Q. What is the purpose of your testimony in this docket?**

21 **A.** My testimony and related exhibits:

- 22 1. Present and describe the Electric and Natural Gas Utility Income  
23 Statements and Revenue Requirement Exhibits and explain the

1 adjustments, or a portion of those adjustments, that NorthWestern  
2 made to the actual expenses in developing the test period cost of  
3 service as presented in these income statements. I also sponsor the  
4 computation of the required return amount and necessary revenue  
5 increases.

- 6 2. Present and describe the Electric and Natural Gas Utility Operating  
7 Revenues at current rates as well as the normalizing adjustments  
8 made to arrive at normalized test period proposed revenues.
- 9 3. I present an updated Natural Gas Production Revenue Requirement  
10 Step-Down.
- 11 4. I present projected incremental revenue requirement calculations  
12 associated with NorthWestern's Enhanced Wildfire Mitigation Plan  
13 ("Wildfire Plan").
- 14 5. I present illustrative rate impact projections associated with  
15 incremental Cyber Security and Business Technology cost increases  
16 and recovery.
- 17 6. With regard to the Reliability Rider NorthWestern is proposing in this  
18 filing, I discuss how the Reliability Rider would apply to NorthWestern's  
19 Yellowstone County Generating Station. Additionally, I detail the  
20 timing and information NorthWestern will provide in compliance filings  
21 under the Reliability Rider to allow for interim recovery.
- 22 7. Regarding NorthWestern's request to update the Power Costs and  
23 Credits Adjustment Mechanism ("PCCAM") Base Costs, I present the

1 total electric supply rate and customer bill impacts. Regarding  
2 NorthWestern's request to update the PCCAM Base Costs annually, I  
3 explain how NorthWestern will implement the annual rate adjustments.  
4 Finally, I provide a red-line of the PCCAM tariff changes needed to  
5 implement NorthWestern's PCCAM redesign proposals.

6  
7 NorthWestern calculates the revenue at present rates to define the  
8 revenue increases it proposes. In support of NorthWestern's requested  
9 revenue requirements, I sponsor Statement G (Income Statement  
10 Adjustments). I also sponsor Statement H (operating revenues). I present  
11 the test year revenues at present rates; the normalizing adjustments to  
12 transmission and distribution ("T&D"), generation, Colstrip Unit 4  
13 generation ("CU4"), natural gas production, and other revenues to arrive at  
14 normalized revenues; and the resulting proposed revenues. I also  
15 sponsor relevant portions of Statement O (Pictorial Exhibits).

16  
17 **Q. Please summarize your testimony.**

18 **A.** NorthWestern's overall required revenue increase for the Electric Utility is  
19 \$102,893,198. The required revenue increase calculation is attached as  
20 Exhibit ADD-1. NorthWestern's overall required revenue increase for the  
21 Natural Gas Utility is \$22,992,291. The required revenue increase  
22 calculation is attached as Exhibit ADD-2.

1            **Electric and Natural Gas Utility Revenues and Cost of Service**

2   **Q.    Are you sponsoring any of the Statements that are included in the**  
3   **Statements and Workpapers volume of this filing?**

4   **A.**    Yes. I sponsor Statement G – Income Statement Adjustments as required  
5   by ARM 38.5.156, Statement H– Operating Revenues as required by ARM  
6   38.5.164, and Statement O – Pictorial Exhibits as required by ARM  
7   38.5.190.

8  
9            **Electric Income Statements and Adjustments**

10   **Q.    Please describe the Electric Utility Income Statements that you**  
11   **sponsor.**

12   **A.**    I present an income statement for the Total Electric Utility and a separate  
13   income statement for each segment of NorthWestern’s Electric Utility  
14   operations. These income statements are: Total Electric Utility, T&D,  
15   Total Generation and Supply, and PCCAM Base Costs. The statements  
16   attached as Exhibit ADD-3 are duplicates of the statements included in  
17   Statement G - Income Statement Adjustments, in the Statements and  
18   Workpapers volume of this filing.

19  
20   Each statement begins with 2021 actual revenues and expenses.

21   Adjustments to actual 2021 data are included to derive the test period cost  
22   of service. I explain each of these statements in more detail below.

1 **Q. Please identify the adjustments NorthWestern made to the income**  
2 **statements to derive the test period cost of service and which**  
3 **witness addresses them.**

4 **A.** I will explain the following adjustments:

5 Revenue and Revenue Related Adjustments

6 Sales and Administrative and General Adjustment

7 Labor Adjustment

8 One-Time Expense Adjustments:

9 ○ Cyber Security

10 ○ Dave Gates Generating Station (“DGGS”) Maintenance  
11 Adjustment

12 ○ Western Energy Imbalance Market (“EIM”) Participation  
13 Adjustment

14

15 The remaining adjustments are addressed by the following witnesses:

16 Corporate Allocation Adjustment J. Berzina

17 Depreciation Adjustment J. Berzina

18 Stipulation Adjustment J. Berzina

19 Amortization Adjustment J. Berzina

20 Property Tax Adjustment A. Bjorkman

21 Pension Adjustment J. Berzina

22 2022 Forecasted Plant Adjustment J. Berzina

23 Working Capital Adjustment J. Berzina

1	Income Taxes	A. Bjorkman
2	Interest Synchronization	A. Bjorkman
3	Deferred Income Taxes	A. Bjorkman

4

5 **Q. What is the purpose of the Total Electric Utility Income Statement?**

6 **A.** The Total Electric Utility Income Statement summarizes the adjusted  
7 revenue requirement calculations for NorthWestern’s T&D, Generation  
8 and Supply (excluding PCCAM), and PCCAM Base Costs functions to  
9 present a test period adjusted income statement for the entire Electric  
10 Utility.

11

12 **Q. Please describe each column on the Total Electric Utility Income**  
13 **Statement.**

14 **A.** The Total Electric Utility Income Statement presented on page 1 of  
15 Electric Statement G includes the following columns:

- 16 • Transmission & Distribution – This column presents the total  
17 adjusted test year cost of service for T&D from Statement G, tab  
18 “elec\_21\_T&D”, column AC.
- 19 • Generation (Excluding Colstrip) – This column presents the total  
20 adjusted test year cost of service for Generation and Supply  
21 (excluding Colstrip and the PCCAM Base Costs) from  
22 Statement G, tab “Generation wo CU4”, column AD.

- 1 • Colstrip Unit 4 – This column presents the total adjusted test  
2 year cost of service for NorthWestern’s interest in Colstrip Unit 4  
3 from Statement G, tab “CU4\_21”, column AD.
- 4 • PCCAM – This column presents the total adjusted test year cost  
5 of service or the PCCAM Base Costs from Statement G, tab  
6 “PCCAM\_21”, column Z.
- 7 • Total – This column presents the sum total for NorthWestern’s  
8 Electric Utility cost of service.

9

10 **Transmission & Distribution Income Statement**

11 **Q. What is the purpose of the T&D Income Statement?**

12 **A.** The T&D Income Statement included in Statement G, tab “elec\_21\_T&D”,  
13 presents the test period income statement for NorthWestern’s T&D  
14 operations. The income statement starts with 2021 actual revenues and  
15 expenses and adjustments to those actuals are made to derive the test  
16 period cost of service for NorthWestern’s T&D operations. I explain the  
17 adjustments below.

18

19 **Q. Please explain Column C Electric Utility.**

20 **A.** This column shows the unadjusted actual data based on NorthWestern’s  
21 books and records for the 12-month period ended December 31, 2021, as  
22 filed in NorthWestern’s annual report to the Commission.

23

1 **Q. Please explain Column D Generation & Supply.**

2 **A.** Column D represents the total 2021 unadjusted revenues and expenses  
3 for all generation and supply functions. This total is deducted from the  
4 Column C total to arrive at the T&D revenues and expenses.

5  
6 **Q. Please explain Column E, Electric Transmission & Distribution  
7 Utility.**

8 **A.** This column presents the total 2021 unadjusted revenues and expenses  
9 for the electric T&D function.

10

11 **Q. Please explain Column F, Revenue and Revenue Related Adjustment.**

12 **A.** The revenue adjustments in Column F, lines 9–13, are necessary to adjust  
13 actual 2021 revenues to revenues on a normalized basis. I further explain  
14 these adjustments below, under Electric Utility Revenues.

15

16 Column F, line 28, presents the adjustment for Uncollectible Accounts of  
17 \$1,761,469. The uncollectible accounts adjustment has been calculated  
18 using the ratio between uncollectible expense and the gross revenues  
19 from residential and commercial customers, for calendar years 2017,  
20 2018, and 2019. The ratio is then applied to the test period revenues for  
21 residential and commercial customer classes to determine test period  
22 uncollectible expense. The detailed calculation supporting this adjustment  
23 is presented on Electric Statement G, page 11. NorthWestern excluded

1 2020 and 2021 from the calculation as the actual realized uncollectible  
2 accounts in those years were affected by the COVID-19 pandemic and  
3 would have led to inclusion of significant uncollectible expense from 2020,  
4 a year that NorthWestern was under a utility shut-off moratorium and  
5 when many customers experienced hardship. 2021 was a year that  
6 NorthWestern largely received recoveries of much of the 2020 write-offs  
7 and as a result realized overall negative uncollectible accounts expense.  
8 For these reasons, NorthWestern excluded those unusual years with  
9 regard to uncollectible accounts expense from the calculation of the ratio.

10

11 Column F, line 31, presents the adjustment for Universal System Benefits  
12 Charge (“USBC”) expense of (\$10,063,929). This adjustment removes  
13 USBC expense from the 2021 actual Administrative & General Expense.  
14 NorthWestern recovers these expenses through a separate USBC tariff  
15 and are not included in this filing. The details supporting this adjustment  
16 are presented Electric Statement G, page 13.

17

18 Column F, line 44 presents the adjustment for Montana Consumer  
19 Counsel (“MCC”) and MPSC taxes. The MCC and MPSC tax adjustment  
20 is an increase of \$133,960. This adjustment is made to increase actual  
21 MPSC and MCC taxes to an amount based on the test period level of  
22 revenues. The test period amount is calculated by multiplying the test  
23 period revenue by the current MPSC and MCC tax rates as of October 1,

1 2021, approved in Commission Order Nos. 7808 and 7809. The detailed  
2 calculation of this adjustment is presented on Electric Statement G, page  
3 12.

4

5 **Q. Please explain Column G, Sales & Administrative & General**  
6 **Adjustment.**

7 **A.** Column G, line 30 presents the adjustment of (\$231,976) to remove non-  
8 allowable advertising from the test period Sales Expense. This  
9 adjustment eliminates advertising expense not related to conservation,  
10 safety, time of use, or information about alternative sources of energy.

11

12 Column G, line 31 presents the adjustment of \$2,083,451 for various  
13 administrative and general expenses as follows:

14

- \$14,789 increase to Federal Energy Regulatory Commission  
15 (“FERC”) Account 920, Labor. This adjustment increases test year  
16 severance expense to a three-year average level of expense. The  
17 three-year average was calculated using 2019 through 2021 actual  
18 severance payments. Electric Statement G, page 18, Column C,  
19 line 12 presents this amount.

20

- \$199,631 increase to FERC Account 921 to adjust 2021 office  
21 expenses and travel expenses to a five-year average level of  
22 expense. The five-year average was calculated using 2017

1 through 2021 actual FERC Account 921 expenses. Electric  
2 Statement G, page 15, Column E, line 27 presents this amount.

- 3 • \$4,663 increase to FERC Account 923, Outside Services. This  
4 adjustment increases test year expense for external auditor fees to  
5 the 2022 contract amount. Electric Statement G, page 15, Column  
6 E, line 28 presents the calculation of this amount.
- 7 • \$60,564 increase to FERC Account 924, Property Insurance. This  
8 adjustment increases test year property insurance expense to 2022  
9 levels. Electric Statement G, page 15, Column E, line 29 presents  
10 the calculation of this amount.
- 11 • \$795,627 increase to FERC Account 925, Liability Insurance. This  
12 adjustment increases test year liability insurance expense to 2022  
13 levels. Electric Statement G, page 15, Column E, line 30 presents  
14 the calculation of this amount.
- 15 • \$864,840 increase to FERC Account 926, Fringe Benefits. This  
16 adjustment increases test year expenses for fringe benefits, except  
17 pension benefits, to anticipated 2022 expense. The Pre-filed Direct  
18 Testimony of Jeffrey B. Berzina discusses the adjustment for  
19 pension and benefits. Electric Statement G, page 15, Column E,  
20 line 31 presents the calculation of this amount.
- 21 • \$265,555 increase to FERC Account 928, Regulatory Expense.  
22 This adjustment adjusts regulatory expense to the three-year  
23 average level of expense based on 2020 and 2021 actual expenses

1 and 2022 anticipated expenses. Electric Statement G, page 23,  
2 Column G, line 16 presents the calculation of this amount.

3 • \$(5,029) decrease to FERC Account 930.1, General Advertising.

4 This adjustment removes non-allowable advertising from test year  
5 Administrative & General Expense. Electric Statement G, page 15,  
6 Column E, line 34 presents this amount.

7 • \$(45,309) decrease to FERC Account 930.2, Misc. General  
8 Expenses. This adjustment removes dues and contributions that  
9 the Commission has previously disallowed from test year  
10 expenses. Electric Statement G, page 15, Column E, line 35  
11 presents the calculation of this amount.

12 • \$(71,880) removal of expenses recorded in 2021 related to  
13 environmental costs not recovered from customers. Electric  
14 Statement G, page 14, Column F, line 31 reflects this amount.

15

16 **Q. Please explain Column H, Labor Adjustment.**

17 **A.** Column H, lines 22 through 31 adjusts labor to normalized test year levels.  
18 NorthWestern makes the labor adjustment to reflect test period changes in  
19 wages and salaries. Labor adjustment details are shown on Electric  
20 Statement G, pages 24 through 39. The determination of the test period  
21 labor expense consists of:

22 • Adjusting 2021 actual expense to normalize for one-time events  
23 and to remove non-allowed lobbying expenses;

- 1 • Annualizing for the incremental change between hires and
- 2 terminations during 2021;
- 3 • Annualizing the adjusted 2021 labor expense to reflect the year-end
- 4 wage and salary levels for a full year and increasing the annualized
- 5 2021 labor expense to reflect 2022 wage and salary increases;
- 6 • Increasing the annualized labor expense for wage and salary levels
- 7 at year-end noted above to adjust for an unusually high level of
- 8 current open positions as a result of tight labor market. This
- 9 adjustment to the test period is necessary to reflect normal
- 10 employment levels and labor expense.
- 11 • Reducing labor expense to remove executive stock-based
- 12 compensation from test year expenses; and
- 13 • Adjusting payroll taxes to reflect test period labor changes.

14

15 **Q. Please explain Column I, Corporate Allocation Adjustment.**

16 **A.** Column I presents adjustments to corporate allocations. Mr. Berzina  
17 explains these adjustments. Electric Statement G, page 44, Column G  
18 presents the calculation of this amount.

19

20 **Q. Please explain Column J, Depreciation Adjustment.**

21 **A.** Column J presents the test year adjustment for depreciation expense. Mr.  
22 Berzina explains the depreciation expense adjustment.

23

1 **Q. Please explain Column K, Stipulation Adjustment.**

2 **A.** Column K includes a reduction to rate base as a result of a Stipulation  
3 related to Electric and Natural Gas T&D functions from a prior rate review.  
4 Mr. Berzina further explains this adjustment.

5  
6 **Q. Please explain Column L, Amortization Adjustment.**

7 **A.** Column L, line 37 \$6,109,239 adjusts 2021 expense to remove the  
8 Bonneville Power Administration (“BPA”) Residential Exchange Credit  
9 amount allocated to NorthWestern in 2021. Removal of this credit from  
10 the fixed revenue requirement is necessary as NorthWestern tracks the  
11 credit in a separate annual tracker.

12  
13 Line 38 (\$8,593,270) removes the 2021 amortization of a prior year  
14 deferred property tax tracker deferral. Removal of that amortization from  
15 the fixed revenue requirement is necessary as NorthWestern tracks the  
16 amortization in a separate annual tracker.

17  
18 Line 41 adjusts 2021 expenses account by \$542,714 for amortization of  
19 the current under-collected balance of MPSC/MCC taxes. Mr. Berzina  
20 further explains this adjustment.

21

22

1 **Q. Please explain Column M, Taxes Other Than Income Adjustment.**

2 **A.** Column M presents the test year property tax adjustment. The adjustment  
3 for property taxes is explained in the Pre-filed Direct Testimony of Aaron J.  
4 Bjorkman.

5  
6 **Q. Please explain Column N, Cyber Security.**

7 **A.** Column N presents the adjustment to test year expenses related to Cyber  
8 Security and Business Technology costs projected to be incurred during  
9 2022. The adjustment for Business Technology and Cyber Security costs  
10 is further explained in the Pre-filed Direct Testimony of Jeanne M. Vold.

11

12 **Q. Please explain Column P, EIM Participation Adjustment.**

13 **A.** Column P presents the adjustment to test year expenses related to  
14 Transmission Operations. NorthWestern joined the EIM during 2021 and  
15 this adjustment is necessary to normalize the expenses for a full year of  
16 EIM-related costs. NorthWestern's participation in the EIM is further  
17 explained in the Pre-filed Direct Testimony of Joseph M. Stimatz.

18

19 **Q. Please explain Column R, Pension Adjustment.**

20 **A.** Column R presents an adjustment to test year expenses to reflect the  
21 anticipated 2022 cash funding levels of NorthWestern's Montana pension.  
22 NorthWestern will true up this amount using 2022 actual expenses at the

1 time of its rebuttal filing. Mr. Berzina further explains the adjustment for  
2 pension costs.

3 **Q. Please explain Column U, 2022 Forecasted Plant Adjustment.**

4 **A.** Column U presents the adjustment to incorporate average rate base  
5 related to 2022 known and measurable rate base changes. The column  
6 includes adjustments for the 2022 projected depreciation expense as well  
7 as the 2022 average rate base projections. NorthWestern will true up  
8 these amounts using 2022 actual average rate base and depreciation  
9 expense at the time of its rebuttal filing. Mr. Berzina further describes the  
10 2022 known and measurable rate base projections.

11

12 **Q. Please explain Column V, Working Capital Adjustment.**

13 **A.** Column V presents an adjustment for working capital. Mr. Berzina  
14 explains the working capital adjustment.

15

16 **Q. Please explain Column W, Income Tax Adjustment.**

17 **A.** Column W presents adjustments for income taxes. Mr. Bjorkman explains  
18 in detail income taxes.

19

20 **Q. Please explain Column X, Interest Synchronization Adjustment.**

21 **A.** Column X presents an adjustment for interest synchronization. Mr.  
22 Bjorkman also explains in detail this adjustment.

23

1 **Q. Please explain Column Y, Total Updates & Adjustments.**

2 **A.** Column Y is the total of all adjustments in Columns F through X.

3 **Total Generation Income Statement**

4 **Q. What is the purpose of the Total Generation Income Statement?**

5 **A.** The Total Generation Income Statement included in Electric Statement G,  
6 pages 56-60 presents the test period income statement for  
7 NorthWestern's Generation operations, excluding the PCCAM Base  
8 Costs. The Total Generation Income Statement summarizes the revenues  
9 and expenses of CU4, DGGs, Spion Kop Wind ("Spion"), Two Dot Wind  
10 ("Two Dot"), and hydroelectric generation ("Hydros"). The income  
11 statement starts with 2021 actual revenues and expenses for these  
12 generating units. NorthWestern then makes adjustments from actual 2021  
13 results to derive the test period cost of service. I explain the adjustments  
14 below.

15

16 **Q. Please explain Column C, Generation, on the Total Generation**  
17 **Income Statement.**

18 **A.** This column summarizes the actual data based on NorthWestern's books  
19 and records for the 12-month period ended December 31, 2021, for the  
20 fixed and variable costs for CU4, DGGs, Spion, Two Dot, and Hydros.  
21 Income statements for the individual generating units are presented in  
22 Electric Statement G.

23

1 **Q. Please explain Column D, Remove Deferred Revenues.**

2 **A.** Column D removes deferred revenues and offsetting expenses associated  
3 with PCCAM deferred balances. Column D is deducted from Column C as  
4 part of the calculation of Fixed Generation.

5  
6 **Q. Please explain Column E, Remove Revenue Credits & Variable.**

7 **A.** Column E removes the variable costs, credits, and revenues that are part  
8 of the PCCAM Base Costs from 2021 actual revenues and expenses.  
9 This total is also deducted from Column C as part of the calculation of  
10 Fixed Generation.

11  
12 **Q. Please explain Column F, Generation with CU4.**

13 **A.** Column F is the sum of Column C, Column D, and Column E. This  
14 column presents the total 2021 unadjusted revenues and expenses for the  
15 electric Generation function.

16  
17 **Q. Please explain Column G, Revenue and Revenue Related**

18 **Adjustment.**

19 **A.** The revenue adjustments in Column G, lines 9 through 13, are necessary  
20 to adjust actual 2021 revenues to revenues on a normalized basis. I  
21 further explain these adjustments below.

22

1 Column G, line 28, presents the adjustment for Uncollectible Accounts of  
2 \$110,982. The uncollectible accounts adjustment has been calculated  
3 using the ratio between uncollectible expense and the gross revenues  
4 from residential and commercial customers, for calendar years 2017,  
5 2018, and 2019. The ratio is then applied to the test period revenues for  
6 residential and commercial customer classes to determine test period  
7 uncollectible expense. The detailed calculation supporting this adjustment  
8 is presented on Electric Statement G, page 11. NorthWestern excluded  
9 2020 and 2021 from the calculation as the actual realized uncollectible  
10 accounts in those years were affected by the COVID-19 pandemic and  
11 would have led to inclusion of significant uncollectible expense from 2020,  
12 a year that NorthWestern was under a utility shut-off moratorium and  
13 when many customers experienced hardship. 2021 was a year that  
14 NorthWestern largely received recoveries of much of the 2020 write-offs  
15 and as a result realized overall negative uncollectible accounts expense.  
16 For these reasons, NorthWestern excluded those unusual years with  
17 regard to uncollectible accounts expense from the calculation of the ratio.

18  
19 Column G, line 44 presents the adjustment for MCC and MPSC taxes.  
20 The MCC and MPSC tax adjustment is an increase of \$178,636. This  
21 adjustment is made to increase actual MPSC and MCC taxes to an  
22 amount based on the test period level of revenues. The test period  
23 amount is calculated by multiplying the test period revenue by the current

1 MPSC and MCC tax rates as of October 1, 2021, approved in Commission  
2 Order Nos. 7808 and 7809. The detailed calculation of this adjustment is  
3 presented on Electric Statement G, page 13.

4

5 **Q. Please explain Column H, Sales & Administrative & General**  
6 **Adjustment.**

7 **A.** Column H, line 30 presents the adjustment of (\$95,699) to remove non-  
8 allowable advertising from the test period Sales Expense. This  
9 adjustment eliminates advertising expense not related to conservation,  
10 safety, time of use, or information about alternative sources of energy.  
11 Column H, line 31 presents the adjustment of (\$6,148,820) for various  
12 administrative and general expenses as follows:

- 13 • \$10,966 increase to FERC Account 920, Labor. This adjustment  
14 increases test year severance expense to a three-year average  
15 level of expense. The three-year average was calculated using  
16 2019 through 2021 actual severance payments. Electric Statement  
17 G, page 72, Columns G and K, line 15 presents this amount.
- 18 • \$81,804 increase to FERC Account 921 to adjust 2021 office  
19 expenses and travel expenses to a five-year average level of  
20 expense. The five-year average was calculated using 2017  
21 through 2021 actual FERC Account 921 expenses. Electric  
22 Statement G, page 73, Column E, line 27 presents this amount.

- 1           • \$1,911 increase to FERC Account 923, Outside Services. This  
2           adjustment increases test year expense for external auditor fees to  
3           the 2022 contract amount. Electric Statement G, page 68, Column  
4           E, line 28 presents the calculation of this amount.
- 5           • \$291,581 increase to FERC Account 924, Property Insurance. This  
6           adjustment increases test year property insurance expense to 2022  
7           levels. Electric Statement G, page 66, Column E, line 29 presents  
8           the calculation of this amount.
- 9           • \$163,388 increase to FERC Account 925, Liability Insurance. This  
10          adjustment increases test year liability insurance expense to 2022  
11          levels. Electric Statement G, page 68, Column E, line 30 presents  
12          the calculation of this amount.
- 13          • \$356,780 increase to FERC Account 926, Fringe Benefits. This  
14          adjustment increases test year expenses for fringe benefits, except  
15          pension benefits, to anticipated 2022 expense. Mr. Berzina  
16          discusses the adjustment for pension and benefits. Electric  
17          Statement G, page 68, Column E, line 31 presents the calculation  
18          of this amount.
- 19          • \$183,456 increase to FERC Account 928, Regulatory Expense.  
20          This adjustment adjusts regulatory expense to the three-year  
21          average level of expense based on 2020 and 2021 actual expenses  
22          and 2022 anticipated expenses. Electric Statement G, page 78,  
23          Column H, line 16 presents the calculation of this amount.

- 1           • \$(8,205) decrease to FERC Account 930.1, General Advertising.  
2           This adjustment removes non-allowable advertising from test year  
3           Administrative & General Expense. Electric Statement G, page 68,  
4           Column E, line 34 presents this amount.
- 5           • \$(18,509) decrease to FERC Account 930.2, Misc. General  
6           Expenses. This adjustment removes dues and contributions that  
7           the Commission has previously disallowed from test year  
8           expenses. Electric Statement G, page 68, Column E, line 35  
9           presents the calculation of this amount.

10

11 **Q. Please explain Column I, Labor Adjustment.**

12 **A.** Column I, lines 19 through 31 adjusts labor to normalized test year levels.  
13 The labor adjustment is made to reflect test period changes in wages and  
14 salaries. Labor adjustment details are shown on Electric Statement G,  
15 pages 81-92. The determination of the test period labor expense consists  
16 of the same adjustments noted above for the T&D Income Statement.

17

18 **Q. Please explain Column J, Corporate Allocation Adjustment.**

19 **A.** Column J presents adjustments to corporate allocations. Again, Mr.  
20 Berzina explains these adjustments. Electric Statement G, page 97,  
21 Column G presents the calculation of this amount.

22

23

1 **Q. Please explain Column K, Depreciation Adjustment.**

2 **A.** Column K presents the test year adjustment for depreciation expense. Mr.  
3 Berzina explains the depreciation expense adjustment.

4 **Q. Please explain Column M, Amortization Adjustment.**

5 **A.** Column M, line 38 (\$2,398,291) removes the 2021 amortization of a prior  
6 year deferred property tax tracker deferral. Removal of that amortization  
7 from the fixed revenue requirement is necessary as NorthWestern tracks  
8 the amortization in a separate annual tracker.

9  
10 Line 41 (\$299,268) adjusts 2021 expenses account for amortization of the  
11 current under-collected balance of MPSC/MCC taxes. Mr. Berzina further  
12 explains this adjustment.

13

14 **Q. Please explain Column N, Property Taxes Adjustment.**

15 **A.** Column N presents the test year property tax adjustment. Mr. Bjorkman  
16 explains the adjustment for property taxes.

17

18 **Q. Please explain Column O, Cyber Security.**

19 **A.** Column O presents the adjustment to test year related to Cyber Security  
20 and Business Technology costs that NorthWestern projects to incur during  
21 2022. Ms. Vold further explains the adjustment for Cyber Security and  
22 Business Technology costs.

23

1 **Q. Please explain Column P, DGGS Maintenance Adjustment.**

2 **A.** Column P presents an adjustment of \$402,258 to increase test year FERC  
3 Account 553 Maintenance Expense at DGGS to a five-year average level  
4 of expense. DGGS maintenance expense varies from year to year;  
5 therefore a five-year average is being used to levelize the maintenance  
6 expense included in the test year. The five-year average is calculated  
7 using 2017 through 2021 actual maintenance expense. Statement G,  
8 page 103 presents the calculation of this amount.

9  
10 **Q. Please explain Column S, Pension Adjustment.**

11 **A.** Column S presents an adjustment to test year expenses to reflect the  
12 anticipated 2022 cash funding levels of NorthWestern's Montana pension.  
13 NorthWestern will true up this amount using 2022 actual expenses at the  
14 time of its rebuttal filing. Mr. Berzina further explains the adjustment for  
15 pension costs.

16  
17 **Q. Please explain Column U, 2022 Forecasted Plant Adjustment.**

18 **A.** Column U presents the adjustment to incorporate average rate base  
19 related to 2022 known and measurable Generation rate base changes.  
20 The column includes adjustments for the 2022 projected Generation  
21 depreciation expense as well as the 2022 average rate base projections.  
22 NorthWestern will true up these amounts using 2022 actual average rate  
23 base and depreciation expense at the time of its rebuttal filing. Mr.

1 Berzina further describes the 2022 known and measurable rate base  
2 projections.

3

4 **Q. Please explain Column V, Working Capital Adjustment.**

5 **A.** Column V presents an adjustment for working capital. Mr. Berzina  
6 explains the working capital adjustment.

7

8 **Q. Please explain Column W, Income Tax Adjustment.**

9 **A.** Column W presents adjustments for income taxes. Mr. Bjorkman explains  
10 in detail income taxes.

11

12 **Q. Please explain Column X, Interest Synchronization Adjustment.**

13 **A.** Column X presents an adjustment for interest synchronization. Mr.  
14 Bjorkman also explains in detail this adjustment.

15

16 **Q. Please explain Column Y, Total Updates & Adjustments.**

17 **A.** Column Y is the total of all adjustments in Columns F through X.

18

19 **Natural Gas Income Statements and Adjustments**

20 **Q. Please describe the Natural Gas Utility Income Statements that you**  
21 **sponsor.**

22 **A.** I present an income statement for the Total Natural Gas Utility and a  
23 separate income statement for each segment of NorthWestern's Natural

1 Gas Utility operations. These income statements are: Total Natural Gas  
2 Utility, Natural Gas Transmission, Distribution, and Storage (“TD&S”), and  
3 Natural Gas Production (“Production”). The statements attached as  
4 Exhibit ADD-4 are duplicates of the statements included in Natural Gas  
5 Statement G, Income Statement Adjustments, in the Statements and  
6 Workpapers volume of this filing.

7  
8 Each statement begins with 2021 actual revenues and expenses.  
9 NorthWestern then adjusts the actual 2021 data to derive the test period  
10 cost of service. I explain each of these adjustments in more detail below.

11  
12 **Q. Please identify the adjustments NorthWestern made to the Natural**  
13 **Gas Utility Income Statements to derive the test period cost of**  
14 **service and which witness addresses them.**

15 **A.** I will explain the following adjustments:

16 Revenue and Revenue Related Adjustments

17 Sales and Administrative and General Adjustment

18 Labor Adjustment

19 One-Time Expense Adjustments:

20 ○ Cyber Security / Business Technology

21 The following witnesses address the remaining adjustments:

22 Corporate Allocation Adjustment J. Berzina

23 Depreciation Adjustment J. Berzina

1	Stipulation Adjustment	J. Berzina
2	Amortization Adjustment	J. Berzina
3	Property Tax Adjustment	A. Bjorkman
4	Pension Adjustment	J. Berzina
5	2022 Forecasted Plant Adjustment	J. Berzina
6	Working Capital Adjustment	J. Berzina
7	Income Taxes	A. Bjorkman
8	Interest Synchronization	A. Bjorkman
9	Deferred Income Taxes	A. Bjorkman

10

11 **Q. What is the purpose of the Total Natural Gas Utility Income**

12 **Statement?**

13 **A.** The Total Natural Gas Utility Income Statement summarizes the adjusted  
 14 revenue requirement calculations for NorthWestern’s TD&S and  
 15 Production functions to present a test period adjusted income statement  
 16 for the entire Natural Gas Utility.

17

18 **Q. Please describe each column on the Total Natural Gas Utility Income**  
 19 **Statement.**

20 **A.** The Total Natural Gas Utility Income Statement presented on page 1 of  
 21 Natural Gas Statement G includes the following columns:

- 22 • TD&S – This column presents the total adjusted test year for  
 23 TD&S from Statement G, tab “gas\_21\_T&D”, column V.

- 1 • Gas Production – This column presents the total adjusted test  
2 year for Natural Gas Production from Statement G, tab  
3 “Production\_21”, column V.
- 4 • Total – This column presents the sum total for NorthWestern’s  
5 Natural Gas Utility.

6

7 **Transmission, Distribution & Storage Income Statement**

8 **Q. What is the purpose of the TD&S Income Statement?**

9 **A.** The TD&S Income Statement included in Natural Gas Statement G, tab  
10 “gasc\_21\_T&D”, presents the test period income statement for  
11 NorthWestern’s TD&S operations. The income statement starts with 2021  
12 actual revenues and expenses, and adjustments to those actuals are  
13 included to derive the test period cost of service for NorthWestern’s TD&S  
14 operations. I explain the adjustments below.

15

16 **Q. Please explain Column C Natural Gas Utility.**

17 **A.** This column shows the unadjusted actual data based on NorthWestern’s  
18 books and records for the 12-month period ended December 31, 2021, as  
19 filed in NorthWestern’s annual report to the Commission.

20

21

1 **Q. Please explain Column D Supply Function.**

2 **A.** Column D represents the total 2021 unadjusted revenues and expenses  
3 for all Production and supply functions. This total is deducted from the  
4 Column C to arrive at the TD&S revenues and expenses.

5  
6 **Q. Please explain Column E, Natural Gas Transmission, Distribution, &  
7 Storage Utility.**

8 **A.** This column presents the total 2021 unadjusted revenues and expenses  
9 for the Natural Gas TD&S function.

10

11 **Q. Please explain Column F, Revenue and Revenue Related Adjustment.**

12 **A.** The revenue adjustments in Column F, lines 9–13, are necessary to adjust  
13 actual 2021 revenues to revenues on a normalized basis. I explain these  
14 adjustments below.

15

16 Column F, line 27, presents the adjustment for Uncollectible Accounts of  
17 \$529,004. The uncollectible accounts adjustment has been calculated  
18 using the ratio between uncollectible expense and the gross revenues  
19 from residential and commercial customers, for calendar years 2017,  
20 2018, and 2019. The ratio is then applied to the test period revenues for  
21 residential and commercial customer classes to determine test period  
22 uncollectible expense. The detailed calculation supporting this adjustment  
23 is presented on Natural Gas Statement G, page 10. NorthWestern

1 excluded 2020 and 2021 uncollectible expense and revenues from the  
2 calculation as the actual realized uncollectible accounts in those years  
3 were affected by the COVID-19 pandemic and would have led to inclusion  
4 of significant uncollectible expense from 2020, a year that NorthWestern  
5 was under a utility shut-off moratorium and when many customers  
6 experienced economic hardship. 2021 was a year that NorthWestern  
7 largely received recoveries of much of the 2020 write-offs and, as a result,  
8 realized overall negative uncollectible accounts expense. For these  
9 reasons, NorthWestern excluded those unusual years with regard to  
10 uncollectible accounts expense from the calculation of the ratio.

11

12 Column F, line 30, removes \$3,487,008 for USBC expense from the 2021  
13 actual Administrative & General Expense. NorthWestern recovers these  
14 expenses through a separate USBC tariff and are not included in this  
15 filing. The detail supporting this adjustment is presented on the Natural  
16 Gas Statement G, page 12.

17

18 Column F, line 43 presents the adjustment for MCC and MPSC taxes.  
19 The MCC and MPSC tax adjustment is a decrease of \$244,803. This  
20 adjustment is made to decrease actual MPSC and MCC taxes to an  
21 amount based on the test period level of revenues. The test period  
22 amount is calculated by multiplying the test period revenue by the current  
23 MPSC and MCC tax rates as of October 1, 2021, approved in Commission

1 Order Nos. 7808 and 7809. The detailed calculation of this adjustment is  
2 presented on the Natural Gas Statement G, page 11.

3

4 **Q. Please explain Column H, Sales & Administrative & General**  
5 **Adjustment.**

6 **A.** Column H, line 29 presents the adjustment of (\$105,440) to remove non-  
7 allowable advertising from the test period Sales Expense. This  
8 adjustment eliminates advertising expense not related to conservation,  
9 safety, time of use, or information about alternative sources of energy.

10

11 Column H, line 30 presents the adjustment to remove \$(989,803) for  
12 various administrative and general expenses as follows:

13 • \$12,036 increase to FERC Account 920, Labor. This adjustment  
14 increases test year severance expense to a three-year average  
15 level of expense. The three-year average was calculated using  
16 2019 through 2021 actual severance payments. Natural Gas  
17 Statement G, page 17, Columns G through I, line 10 presents this  
18 amount.

19 • \$73,618 increase to FERC Account 921 to adjust 2021 office  
20 expenses and travel expenses to a five-year average level of  
21 expense. The five-year average was calculated using 2017  
22 through 2021 actual FERC Account 921 expenses. Natural Gas  
23 Statement G, page 13, Column E, line 30 includes this amount.

- 1           • \$2,097 increase to FERC Account 923, Outside Services. This  
2           adjustment increases test year expense for external auditor fees to  
3           the 2022 contract amount. Natural Gas Statement G, page 18,  
4           Columns I through K, line 12 presents the calculation of this  
5           amount.
- 6           • \$(24,047) decrease to FERC Account 924, Property Insurance.  
7           This adjustment decreases test year property insurance expense to  
8           2022 levels. Natural Gas Statement G, page 19, Column J, line 26  
9           presents the calculation of this amount.
- 10          • \$180,656 increase to FERC Account 925, Liability Insurance. This  
11          adjustment increases test year liability insurance expense to 2022  
12          levels. Natural Gas Statement G, page 19, Column J, line 68  
13          presents the calculation of this amount.
- 14          • \$393,094 increase to FERC Account 926, Fringe Benefits. This  
15          adjustment increases test year expenses for fringe benefits, except  
16          pension benefits, to anticipated 2022 expense. Mr. Berzina  
17          discusses the adjustment for pension and benefits. Natural Gas  
18          Statement G, page 20, Column J, lines 11 through 26 and 28  
19          through 31 present the calculation of this amount.
- 20          • \$29,124 increase to FERC Account 928, Regulatory Expense. This  
21          adjustment increases regulatory expense to the three-year average  
22          level of expense based on 2020 and 2021 actual expenses and

1           2022 anticipated expenses. Natural Gas Statement G, page 21,  
2           Column G presents the calculation of this amount.

3           • (\$1,057) decrease to FERC Account 930.1, General Advertising.

4           This adjustment removes non-allowable advertising from test year  
5           Administrative & General Expense. Natural Gas Statement G,  
6           page 15, Column J, line 10 presents this amount.

7           • (\$20,265) decrease to FERC Account 930.2, Misc. General  
8           Expenses. This adjustment removes dues and contributions that  
9           the Commission has previously disallowed from test year  
10          expenses. Natural Gas Statement G, page 13, Column E, line 30  
11          includes this amount.

12          • (\$1,635,058) removal of expenses recorded in 2021 related to  
13          environmental costs not recovered from customers. Natural Gas  
14          Statement G, page 13, Column F, line 31 reflects this amount.

15

16   **Q.    Please explain Column H, Labor Adjustment.**

17   **A.**Column H, lines 20 through 30 adjusts labor to normalized test year levels.

18          The labor adjustment is made to reflect test period changes in wages and

19          salaries. Labor adjustment details are shown on Natural Gas Statement

20          G, pages 23 through 34. The determination of the test period labor

21          expense consists of the same adjustments noted above for the Electric

22          T&D Labor Adjustment.

23

1 **Q. Please explain Column I, Cyber Security.**

2 **A.** Column I presents the adjustment to test year related to Cyber Security  
3 and Business Technology costs that NorthWestern projects to incur during  
4 2022. Ms. Vold explains the adjustment for Cyber Security and Business  
5 Technology costs.

6

7 **Q. Please explain Column J, Corporate Allocation Adjustment.**

8 **A.** Column J presents adjustments to corporate allocations. Mr. Berzina  
9 explains these adjustments. No adjustments for gas were necessary for  
10 the test year.

11

12 **Q. Please explain Column K, Stipulation Adjustment.**

13 **A.** Column K includes a reduction to rate base as a result of a Stipulation  
14 related to Electric and Natural Gas Transmission and Distribution  
15 functions from a prior rate review. Mr. Berzina explains this adjustment.

16

17 **Q. Please explain Column L, Pension Adjustment.**

18 **A.** Column L presents an adjustment to test year expenses to reflect the  
19 anticipated 2022 cash funding levels of NorthWestern's Montana pension.  
20 NorthWestern will true up this amount using 2022 actual expenses at the  
21 time of its rebuttal filing. Mr. Berzina further explains the adjustment for  
22 pension costs.

23

1 **Q. Please explain Column M, Amortization Adjustment.**

2 **A.** Column M, line 36 (\$675,010) removes the 2021 amortization of a prior  
3 year deferred property tax tracker deferral. Removal of that amortization  
4 from the fixed revenue requirement is necessary as NorthWestern tracks  
5 the amortization in a separate annual tracker.

6

7 Line 37 (\$740,062) adjusts 2021 expense to remove the amortization of  
8 the prior year USBC under-collection. Removal of this amount from the  
9 fixed revenue requirement is necessary as NorthWestern tracks the  
10 balance in a separate annual tracker.

11

12 Line 41 (\$169,767) adjusts 2021 expenses account for amortization of the  
13 current under-collected balance of MPSC/MCC taxes. Mr. Berzina further  
14 explains this adjustment.

15

16 **Q. Please explain Column N, 2022 Forecasted Plant Adjustment.**

17 **A.** Column N presents the adjustment to incorporate average rate base  
18 related to 2022 known and measurable rate base changes. The column  
19 includes adjustments for the 2022 projected depreciation expense as well  
20 as the 2022 average rate base projections. NorthWestern will true up  
21 these amounts using 2022 actual average rate base and depreciation  
22 expense at the time of its rebuttal filing. Mr. Berzina further describes the  
23 2022 known and measurable rate base projections.

1

2 **Q. Please explain Column O, Taxes Other Than Income Adjustment.**

3 **A.** Column O presents the test year property tax adjustment. Mr. Bjorkman  
4 explains the adjustment for property taxes.

5

6 **Q. Please explain Column P, Depreciation Adjustment.**

7 **A.** Column P presents the test year adjustment for depreciation expense. Mr.  
8 Berzina explains the depreciation expense adjustment.

9

10 **Q. Please explain Column R, Working Capital Adjustment.**

11 **A.** Column R presents an adjustment for working capital. Mr. Berzina  
12 explains the working capital adjustment.

13

14 **Q. Please explain Column S, Income Tax Adjustment.**

15 **A.** Column S presents adjustments for income taxes. Mr. Bjorkman explains  
16 income taxes.

17

18 **Q. Please explain Column T, Interest Synchronization Adjustment.**

19 **A.** Column T presents an adjustment for interest synchronization. Mr.  
20 Bjorkman also explains this adjustment.

21

22 **Q. Please explain Column U, Total Updates & Adjustments.**

23 **A.** Column U is the total of all adjustments in Columns F through T.

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**Total Natural Gas Production Income Statement**

**Q. What is the purpose of the Total Natural Gas Production Income Statement?**

**A.** The Total Production Income Statement included in Natural Gas Statement G, pages 49 through 51 presents the test period income statement for NorthWestern’s Production natural gas operations. The Total Production Income Statement summarizes the revenues and expenses of Battle Creek, Bear Paw and South Bear Paw Production facilities. The income statement starts with 2021 actual revenues and expenses for these Production facilities. NorthWestern then adjusts the actual 2021 results for the adjustment I explain below to derive the test period cost of service.

**Q. Please explain Column C, Natural Gas Production, on the Total Generation Income Statement.**

**A.** This column summarizes the actual data based on NorthWestern’s books and records for the 12-month period ended December 31, 2021, for Battle Creek, Bear Paw, and South Bear Paw fixed and variable costs.

**Q. Please explain Column D, Natural Gas Production Variable.**

**A.** Column D removes variable Production expenses, such as royalties and other supply costs, recovered through NorthWestern’s Natural Gas Supply

1 Tracker. Column D is deducted from Column C as part of the calculation  
2 of Fixed Production costs.

3

4 **Q. Please explain Column E, Natural Gas Production Fixed.**

5 **A.** This column presents the total 2021 unadjusted revenues and expenses  
6 for the Production function.

7

8 **Q. Please explain Column F, Revenue and Revenue Related Adjustment.**

9 **A.** The revenue adjustments in Column F, lines 10 through 14, are necessary  
10 to adjust actual 2021 revenues to revenues on a normalized basis. I  
11 explain these adjustments below.

12

13 Column F, line 43 presents the adjustment for MCC and MPSC taxes.  
14 The MCC and MPSC tax adjustment is a decrease of (\$42,926). This  
15 adjustment is made to decrease actual MPSC and MCC taxes to an  
16 amount based on the test period level of revenues. The test period  
17 amount is calculated by multiplying the test period revenue by the current  
18 MPSC and MCC tax rates as of October 1, 2021, approved in Commission  
19 Order Nos. 7808 and 7809. The detailed calculation of this adjustment is  
20 presented Natural Gas Statement G, page 53.

21

22

1 **Q. Please explain Column G, Sales & Administrative & General**  
2 **Adjustment.**

3 **A.** Column G, line 29 presents a decrease adjustment of \$15,755 to remove  
4 non-allowable advertising from the test period Sales Expense. This  
5 adjustment eliminates advertising expense not related to conservation,  
6 safety, time of use, or information about alternative sources of energy.

7  
8 Column G, line 30 presents a decrease adjustment of \$(140,692) for  
9 various administrative and general expenses as follows:

- 10 • \$1,798 increase to FERC Account 920, Labor. This adjustment  
11 increases test year severance expense to a three-year average  
12 level of expense. The three-year average was calculated using  
13 2019 through 2021 actual severance payments. Natural Gas  
14 Statement G, page 58, Column J, line 10 presents this amount.
- 15 • \$11,000 increase to FERC account 921 to adjust 2021 office  
16 expenses and travel expenses to a five-year average level of  
17 expense. The five-year average was calculated using 2017  
18 through 2021 actual FERC account 921 expenses. Natural Gas  
19 Statement G, page 55, Column E, line 26 presents this amount.
- 20 • \$313 increase to FERC Account 923, Outside Services. This  
21 adjustment increases test year expense for external auditor fees to  
22 the 2022 contract amount. Natural Gas Statement G, page 59,  
23 Column L, line 12 presents the calculation of this amount.

- 1           • \$26,995 increase to FERC Account 925, Liability Insurance. This  
2           adjustment increases test year liability insurance expense to 2022  
3           levels. Natural Gas Statement G, page 60, Column K, line 68  
4           presents the calculation of this amount.
- 5           • \$58,738 increase to FERC Account 926, Fringe Benefits. This  
6           adjustment increases test year expenses for fringe benefits, except  
7           pension benefits, to anticipated 2022 expense. Mr. Berzina  
8           discusses the adjustment for pension and benefits. Natural Gas  
9           Statement G, page 61, Column K, lines 11 through 26 and 27  
10          through 31 presents the calculation of this amount.
- 11          • \$4,741 increase to FERC Account 928, Regulatory Expense. This  
12          adjustment increases regulatory expense to the three-year average  
13          level of expense based on 2020 and 2021 actual expenses and  
14          2022 anticipated expenses. Natural Gas Statement G, page 62,  
15          Column H presents the calculation of this amount.
- 16          • (\$158) decrease to FERC Account 930.1, General Advertising.  
17          This adjustment removes non-allowable advertising from test year  
18          Administrative & General Expense. Natural Gas Statement G,  
19          page 56, Column K, line 10 presents this amount.
- 20          • (\$3,028) decrease to FERC Account 930.2, Misc. General  
21          Expenses. This adjustment removes dues and contributions that  
22          the Commission has previously disallowed from test year

1 expenses. Natural Gas Statement G, page 56, Column K, line 16  
2 presents the calculation of this amount.

- 3 • (\$241,091) removal of expenses recorded in 2021 related to  
4 environmental costs not recovered from customers. Natural Gas  
5 Statement G, page 13, Column F, line 31 reflects this amount.

6

7 **Q. Please explain Column H, Labor Adjustment.**

8 **A.** Column H, lines 19 through 31 adjusts labor to normalized test year levels.

9 The labor adjustment is made to reflect test period changes in wages and  
10 salaries. Labor adjustment details are shown on Natural Gas Statement  
11 G, pages 63 through 81. The determination of the test period labor  
12 expense consists of those adjustments described above under the Labor  
13 Adjustment for the Electric T&D Utility.

14

15 **Q. Please explain Column I, Cyber Security.**

16 **A.** Column I presents the adjustment to test year related to Cyber Security  
17 and Business Technology costs NorthWestern projects to incur during  
18 2022. Ms. Vold explains the adjustment for these costs.

19

20 **Q. Please explain Column L, Pension Adjustment.**

21 **A.** Column L presents an adjustment to test year expenses to reflect the  
22 anticipated 2022 cash funding levels of NorthWestern's Montana pension.  
23 NorthWestern will true up this amount using 2022 actual expenses at the

1 time of its rebuttal filing. Mr. Berzina further explains the adjustment for  
2 pension costs.

3

4 **Q. Please explain Column M, Amortization Adjustment.**

5 **A.** Column M, line 36 (\$301,459) removes the 2021 amortization of a prior  
6 year deferred property tax tracker deferral. Removal of that amortization  
7 from the fixed revenue requirement is necessary as NorthWestern tracks  
8 the amortization in a separate annual tracker.

9

10 Line 41 (\$44,203) adjusts 2021 expenses account for amortization of the  
11 current under-collected balance of MPSC/MCC taxes. Mr. Berzina  
12 explains this adjustment.

13

14 **Q. Please explain Column N, 2022 Forecasted Plant Adjustment.**

15 **A.** Column N presents the adjustment to incorporate average rate base  
16 related to 2022 known and measurable Production rate base changes.  
17 The Column includes adjustments for 2022 projected Production  
18 depreciation expense as well as 2022 average rate base projections.  
19 NorthWestern will true up these amounts using 2022 actual average rate  
20 base and depreciation expense at the time of its rebuttal filing. Mr.  
21 Berzina further describes the 2022 known and measurable rate base  
22 projections.

23

1 **Q. Please explain Column O, Property Taxes Adjustment.**

2 **A.** Column O presents the test year property tax adjustment. Mr. Bjorkman  
3 explains the adjustment for property taxes.

4

5 **Q. Please explain Column P, Depreciation Adjustment.**

6 **A.** Column P presents the test year adjustment for depreciation expense. Mr.  
7 Berzina explains the depreciation expense adjustment.

8

9 **Q. Please explain Column R, Working Capital Adjustment.**

10 **A.** Column R presents an adjustment for working capital. Mr. Berzina also  
11 explains the working capital adjustment.

12

13 **Q. Please explain Column S, Income Tax Adjustment.**

14 **A.** Column S presents adjustments for income taxes. Mr. Bjorkman explains  
15 income taxes in detail.

16

17 **Q. Please explain Column T, Interest Synchronization Adjustment.**

18 **A.** Column T presents an adjustment for interest synchronization. Mr.  
19 Berzina explains this adjustment.

20

21 **Q. Please explain Column U, Total Updates & Adjustments.**

22 **A.** Column U is the total of all adjustments in Columns F through T.

23

1                    **Natural Gas Production Revenue Requirement Step-down**

2    **Q.    Is NorthWestern proposing to continue using the Natural Gas**  
3           **Production Step-down to the revenue requirement that the**  
4           **Commission required in Final Order No. 7522g in Docket D2016.9.68?**

5    **A.**    Yes, NorthWestern believes using the methodology the Commission  
6           ordered in Final Order No. 7522g, which estimated an annual reduction to  
7           the Natural Gas Production revenue requirement to account for  
8           anticipated reductions in annual depletion expense, is still appropriate.  
9           However, the amounts estimated for revenue requirement reductions in  
10          Final Order No. 7522g must be updated to reflect (1) the current level of  
11          non-depleted natural gas reserves; (2) the estimate of annual natural gas  
12          production volumes to be realized; (3) the estimated amount of future  
13          asset retirement obligations associated with the Natural Gas Production  
14          facilities; and (4) other necessary changes to the overall natural gas  
15          production cost of service. The latest estimate of the annual Natural Gas  
16          Production Step-Down is presented below and the related calculations are  
17          detailed in Exhibit ADD-119.

<b>Total Gas Production Revenue Requirements</b>	
	Percentage
<u>Year</u>	<u>Reduction</u>
2023	-3.31%
2024	-3.20%
2025	-3.01%
2026	-3.03%
2027	-2.85%
2028	-2.51%
2029	-2.75%
2030	-2.65%
2031	-2.56%
2032	-2.46%

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**Electric Utility Revenues**

**Q. How were normalized revenues calculated for NorthWestern’s electric test year?**

**A.** Each of the billing determinates (test period usage, demand usage, and number of customers) for each customer class were multiplied by the current base rate. Miscellaneous revenues were added to that product.

**Q. How did NorthWestern determine the billing determinants?**

**A.** NorthWestern relied on actual historical billing data, adjusted for weather, known and measurable changes, and anticipated fundamental load changes as a result of the COVID-19 pandemic. The Commission has approved revenue requirement calculations based on this methodology in previous dockets, with the exception of anticipated load changes due to COVID-19, which adjustments are explained by Ms. Fang.

1 **Q. Does NorthWestern’s billing data reflect revenue collected by**  
2 **calendar month?**

3 **A.** No. The billing data reflects the monthly billing cycles that normally  
4 include usage for the current and prior month (e.g., a July 15 meter read  
5 would include 15 days of usage in July and 15 days of usage in June).  
6 NorthWestern converts this cyclical usage revenue to calendar usage  
7 revenue, which represents a customer’s usage as if it was recorded for the  
8 calendar month.

9

10 **Billing Determinants**

11 **Q. Do you sponsor an exhibit presenting billing determinants?**

12 **A.** Yes, Exhibit ADD-5 presents the test period billing determinants. The  
13 exhibit contains information calculated by NorthWestern’s Load Research  
14 department to develop the test year billing determinants.

15

16 **Q. Please explain how the Yellowstone National Park loads are treated**  
17 **in the derivation of rates process.**

18 **A.** NorthWestern recovers the costs for Yellowstone National Park through a  
19 separately negotiated contract rate. Therefore, NorthWestern excludes  
20 the loads and corresponding revenues from any Commission jurisdictional  
21 rate design. Yellowstone National Park loads are not included in the  
22 actual delivered load or normalized loads included in Electric Statement H,  
23 Exhibit ADD-3.

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**Adjustments to Electric Test Period Revenues**

**Q. Did NorthWestern make adjustments to the Electric test period revenues?**

**A.** Yes. NorthWestern made the following adjustments to Electric test period revenues:

- T&D Revenue
- Generation Revenue
- Generation CU4 Revenue
- PCCAM Revenues
- Miscellaneous Revenues
- Other Transmission Revenues

**Q. What adjustments did NorthWestern make to Electric T&D Revenue?**

**A.** The T&D revenue adjustments are included in Electric Statement G, page 5, Column F. The adjustment on line 9 removes unbilled revenues, BPA credit revenues, Competitive Transition Charge revenues, and USBC revenues so that only T&D revenues remain in the test period. In addition, as shown on page 2 of Electric Statement H, the usage is converted from actual usage to normalized usage. The adjustment on line 12 adjusts transmission revenues and the adjustment on line 13 adjusts miscellaneous revenues. I explain these adjustments to lines 12 and 13 below.

1

2 **Q. What adjustments did NorthWestern make to Generation revenues?**

3 **A.** The Generation revenue adjustments are included in Electric Statement  
4 G, page 55, Column G. These adjustments affect revenue associated  
5 with CU4, DGGs, Hydros, Spion, and Two Dot. The adjustment on line 9  
6 removes unbilled revenues and reflects the difference between test period  
7 normalized revenues and actual revenues booked in 2021. As shown on  
8 pages 23 through 24 of Electric Statement H, the actual 2021 usage is  
9 converted to normalized 2021 usage. The adjustment on Electric  
10 Statement G, page 5, line 11 removes rate refund revenues associated  
11 with NorthWestern's last electric general rate review (Docket No.  
12 2018.02.012), including a refund of the difference between approved  
13 interim rates and final approved rates and a refund of over-collected  
14 DGGs construction costs. The adjustment on line 13 reflects an  
15 adjustment to miscellaneous revenues, which I discuss further below.

16

17 **Q. Please explain NorthWestern's normalizing adjustments to**  
18 **miscellaneous revenues.**

19 **A.** Miscellaneous revenues include revenues such as the low-income  
20 discount, rents from electric property, and sales of materials. First,  
21 NorthWestern made known and measurable changes to reflect prior  
22 period adjustments, one-time charges, or expiration of contracts. Second,  
23 NorthWestern annualized contract or price changes. Third, NorthWestern

1 normalized the low-income discount revenue to zero, to reflect 100% of  
2 revenues from low-income discount customers being recognized in the  
3 revenue requirement. These changes are shown on Electric Statement H  
4 page 57 for T&D and Electric Statement H page 106 for Generation.

5  
6 **Q. Please explain NorthWestern’s method for normalizing adjustments**  
7 **to Transmission Revenues.**

8 **A.** Transmission revenues are revenues from services provided under  
9 NorthWestern’s Open Access Transmission Tariff (“OATT”). The  
10 revenues include Point-to-Point (“PTP”) revenues and transmission  
11 revenues for retail customers who have moved to choice to purchase  
12 electric commodity service from another supplier (“Network”).  
13 NorthWestern normalized Transmission Revenues by using an average of  
14 2019, 2020, and 2021.

15  
16 In addition to normalizing transmission revenues for average revenues,  
17 the 2021 booked revenues included two one-time items that were fully  
18 removed for purposes of this rate filing. NorthWestern deferred 100% of  
19 all FERC rate revenue increases until it received a final order from FERC  
20 for those increases. As such, during 2021, NorthWestern realized a \$4.7  
21 million gain from the release of those deferrals. That amount was  
22 removed through an adjustment included in Electric Statement G, line 12,  
23 Column F. Additionally, upon receiving the FERC final order,

1 NorthWestern updated its FERC retail revenue credit as previously  
2 estimated in Docket 2018.02.012. That update required a one-time true-  
3 up of the revenue credit amount based upon revenues approved in the  
4 FERC final order. As such, Montana retail customers received refunds  
5 during 2021 to reflect the true-up. The amount of those refunds were  
6 removed through an adjustment included in Electric Statement G, line 12,  
7 Column F in order to reflect normal transmission revenues in this filing.

8

9 **Q. Why did NorthWestern use a three-year average to derive PTP and**  
10 **Network test period revenues?**

11 **A.** Changes to PTP contracts result in NorthWestern's transmission revenues  
12 increasing or decreasing. For example, one customer's failure to renew  
13 its PTP contract for 2022 does, by itself, result in a decrease in revenues.  
14 However, that same customer has continued to purchase PTP service via  
15 a monthly contract. In order to best capture these fluctuations,  
16 NorthWestern used a three-year average, as shown on page 10 of Electric  
17 Statement G. For consistency, NorthWestern used the three-year  
18 average for Network customers.

19

20 **Q. Please explain how NorthWestern derived the revenue from ancillary**  
21 **services.**

22 **A.** As defined in NorthWestern's OATT, ancillary services are: "Those  
23 services that are necessary to support the transmission of capacity and

1 energy from resources to loads while maintaining reliable operation of the  
2 Transmission Provider's Transmission System in accordance with Good  
3 Utility Practice.”<sup>1</sup> Ancillary services include Regulation and Frequency  
4 Response Service (Schedule 3/3A), Spinning Reserve Service (Schedule  
5 5), Supplemental Reserve Service (Schedule 6), Flex Reserve Service  
6 (Schedule 11), and Energy Imbalance Service (Schedule 9).

7  
8 NorthWestern used a three-year average of actual revenues received for  
9 Schedules 3/3A and 11 and a two-year average of actual revenues  
10 received for Schedules 5 and 6 to normalize for fluctuations in these  
11 revenues, as shown on page 10 of Electric Statement G. NorthWestern  
12 did not begin collecting Schedule 5 and 6 revenues until 2020, which is  
13 why only a two-year average was utilized for those revenues.

14  
15 The net impact (revenue less expense) of Energy Imbalance Service  
16 revenue has been adjusted in this filing so that the revenue and expense  
17 are equal, because energy imbalance service theoretically should have no  
18 net income impact for Montana customers. This adjustment is reflected in  
19 Column P, line 24 on the Electric Utility Income Statement, Statement G,  
20 page 52.

21  

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<sup>1</sup> NorthWestern Corporation FERC Electric Tariff, Volume No. 5 (rev) effective March 12, 2016 (MT), Section 1.

1 **Actual, Normalized and Proposed Revenues**

2 **Q. Have you prepared an exhibit that presents NorthWestern’s Electric**  
3 **Utility actual, normalized, and proposed revenues?**

4 **A.** Yes, Exhibit ADD-7 presents this information in the Statement H format.  
5 This exhibit along with supporting workpapers is also included as Electric  
6 Statement H in the Statements and Workpapers volume of this filing.

7  
8 **Q. Please describe Exhibit ADD-7.**

9 **A.** Page 1, Column B describes the customer class. Columns C and D  
10 contain the average number of customers and megawatt-hour (“MWh”)   
11 consumption for the actual 12-month period ending December 31, 2021.  
12 Column E contains actual 2021 revenues, which include actual property  
13 tax revenues during the entire year.

14  
15 Columns G through I contain the average number of customers, MWh  
16 consumption, and revenues for the normalized test period. These  
17 columns contain actual data, normalized and adjusted for known and  
18 measurable changes, including the determination of revenues under  
19 current rates.

20  
21 Columns J through L contain the test period revenues computed using the  
22 rates proposed by NorthWestern in this proceeding, along with the  
23 required increase in both dollar and percentage terms.

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**Q. Please explain the rates used to develop revenues.**

**A.** The pro forma test period revenues are based on NorthWestern’s most recent rates that went into effect by operation of law as part of Docket No. 2021.11.129 (“Tax Tracker Docket”). NorthWestern did not include the amortization of the 2021 deferred balance from that docket in these rates. The total deferred property tax balance is for electric T&D, natural gas TD&S, Colstrip, Spion, Hydros, Two Dot and Natural Gas Production.

**Q. Why did NorthWestern exclude the 2021 deferred balance from the rates?**

**A.** The amortization of the 2021 deferred balance is due to the tracking of taxes and fees from the prior period and should not be used in a general rate review to establish rates on a prospective basis. Therefore, it should not be included in the test period.

**Q. How did NorthWestern derive the proposed electric rates?**

**A.** NorthWestern’s proposed rates are supported by the Pre-filed Direct Testimony of Paul M. Normand and the Pre-filed Direct Testimony of Cynthia S. Fang and are presented in Statement M – Rate Design. Details of the revenues at proposed design rates are shown in the Statement H workpapers.

1 **Natural Gas Utility Revenues**

2 **Q. How did NorthWestern calculate normalized revenues for its Natural**  
3 **Gas test year?**

4 **A.** Each of the billing determinants (number of customers, demand, and  
5 dekatherms) for each customer class were multiplied by the current base  
6 rate. Miscellaneous revenues were added to that product.

7  
8 **Q. How did NorthWestern determine the billing determinants?**

9 **A.** NorthWestern relied on actual historical billing data, adjusted for weather,  
10 and known and measurable changes. The Commission has approved  
11 revenue requirement calculations based on this methodology in previous  
12 dockets.

13  
14 **Q. Please describe the Natural Gas Utility Delivery Services operating**  
15 **revenues exhibit.**

16 **A.** The Natural Gas Delivery Services operating revenues shown on Exhibit  
17 ADD-8 page 2, reflect the 2021 actual billing determinants and operating  
18 revenue information (customers, demand, dekatherms, and revenues) in  
19 columns B through E. The actual revenues include only distribution,  
20 transmission, and storage revenues. The pro forma test period operating  
21 revenue information is shown in Columns L through R. The pro forma test  
22 period revenues utilize current base rates, the derivation of which I  
23 described below, and normalized loads and customer counts. Column P

1 shows the revenues at the proposed rate design. Columns Q and R show  
2 the revenue requirement increase in both dollar and percentage terms for  
3 each customer class.

4

5 **Q. Were there any adjustments to the customer count for the Natural**  
6 **Gas test period?**

7 **A.** No. The customer count used was the 2021 actual number of customers.  
8 The customer count information is reflected on Exhibit ADD-8 page 3.

9

10 **Q. Were there any adjustments made to the actual load information?**

11 **A.** Yes, NorthWestern adjusted the core loads to reflect weather normalized  
12 test period loads based upon the MPSC-approved methodology  
13 established in prior rate cases. That methodology applies a normalized  
14 weather adjustment based upon 10 years of weather data to the test  
15 period load information. The normalized load information is reflected on  
16 Exhibit ADD-8, page 8. The adjustments result in an increase to actual  
17 2021 loads and revenues for Core Customers and Non-Core Customers.

18

19 **Q. What adjustments has NorthWestern made to miscellaneous Natural**  
20 **Gas revenues?**

21 **A.** Miscellaneous revenues include revenues such as the low-income  
22 discount, rents from natural gas and common property, and sales of  
23 materials. First, NorthWestern made known and measurable changes to

1 reflect prior period adjustments, one-time charges, or expiration of  
2 contracts. Second, NorthWestern annualized contract or price changes.  
3 Third, NorthWestern normalized the miscellaneous low-income discount  
4 revenues to zero, as NorthWestern recovers the amount through the  
5 USBC charges that are tracked through a separate annual tracker.

6

7

**Actual, Normalized and Proposed Revenues**

8 **Q. Have you prepared an exhibit that presents NorthWestern’s Natural**  
9 **Gas Utility actual, normalized, and proposed revenues?**

10 **A.** Yes, Exhibit ADD-8 presents this information in the Statement H format.  
11 This exhibit along with supporting workpapers is also included as Natural  
12 Gas Statement H in the Statements and Workpapers volume of this filing.

13

14 **Q. Please describe Exhibit ADD-8.**

15 **A.** Page 2, Column A describes the customer class. Columns B and D  
16 contain the average number of customers and dekatherm consumption for  
17 the actual 12-month period ending December 31, 2021. Column E  
18 contains actual 2021 revenues, which include actual property tax  
19 revenues during the entire year.

20

21 Columns G through I contain the average number of customers,  
22 dekatherm consumption, and revenues for the normalized test period.

23 These are actual data, normalized and adjusted for known and

1 measurable changes, including the determination of revenues under  
2 current rates.

3

4 Columns J through L contain the test period revenues computed using the  
5 rates proposed by NorthWestern in this proceeding, along with the  
6 required increase in both dollar and percentage terms.

7

8 **Q. Please explain the rates used to develop revenues.**

9 **A.** As with the electric rates and revenues, the pro forma test period  
10 revenues are based on NorthWestern's most recent rates that went into  
11 effect by the operation of law in the Tax Tracker Docket. NorthWestern  
12 also did not include the amortization of the 2021 deferred balance from  
13 that docket in these rates.

14

15 **Q. Why did NorthWestern exclude the 2021 deferred balance from the  
16 rates?**

17 **A.** The amortization of the 2021 deferred balance is due to the tracking of  
18 taxes and fees from the prior period and should not be used in a general  
19 rate review to establish rates on a prospective basis. Therefore, it should  
20 not be included in the test period.

21

22

1 **Q. How did NorthWestern derive the proposed Natural Gas rates?**

2 **A.** NorthWestern’s proposed rates are supported by Mr. Normand and Ms.  
3 Fang and are presented in Statement M – Rate Design. Details of the  
4 revenues at proposed design rates are shown in the Natural Gas  
5 Statement H workpapers.

6

7

**Customer Bill Impacts**

8 **Q. How will the base and property tax rate updates as proposed in this**  
9 **filing affect average residential electric and natural gas customers?**

10 **A.** As a result of the electric base rate increase proposed in this filing, the  
11 average residential customer using 750 kilowatt-hours per month will see  
12 an increase of \$12.97 or 14.2% on their monthly bill compared to current  
13 rates. As a result of the property tax rate update proposed in this filing,  
14 the same average residential customer will see an increase of \$1.55 or  
15 1.7%. The electric bill impact analysis is included in Exhibit ADD-13.

16

17 As a result of the natural gas base rate increase proposed in this filing, the  
18 average residential natural gas customer using 65 therms per month will  
19 see an increase of \$5.91 or 8.6% on their monthly bill compared to current  
20 rates. As a result of the property tax rate update proposed in this filing,  
21 the same natural average residential customer will see an increase of  
22 \$1.66 or 2.4%. The natural gas bill impact analysis is included in Exhibit  
23 ADD-14.

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**Enhanced Wildfire Mitigation Plan**

**Q. Please describe NorthWestern’s regulatory request related to its Wildfire Plan.**

**A.** As discussed by Ms. Fang, NorthWestern proposes a five-year Wildfire Plan and requests Commission approval for the necessary annual funding for such plan for the period of 2024 through 2028. The Pre-filed Direct Testimony of Gregory F. Bailly presents the five-year budget and details the incremental costs NorthWestern will incur related to the Wildfire Plan. NorthWestern requests annual updates to rates to reflect the additional, and actual costs and incremental revenue requirement.

**Q. Did you calculate the incremental increases to the electric revenue requirement associated with this request?**

**A.** Yes, Exhibit ADD-15 calculates the after tax impact to the Electric T&D revenue requirement for the five-year period.

**Q. Will NorthWestern make annual filings related to the Wildfire Plan? If so, what information will be included?**

**A.** Yes, as noted by Ms. Fang, NorthWestern is proposing to make annual compliance filings detailing the actual Wildfire Plan activities of the prior calendar year as well as updated estimates for costs in the upcoming year. Details of the annual compliance filings would include:

- 1 • Actual Wildfire Plan capital additions;
- 2 • Actual Wildfire Plan expenses;
- 3 • Incremental Wildfire Plan revenue requirements;
- 4 • Proposed rate updates; and
- 5 • Customer bill impacts.

6

7

### Cyber Security and Business Technology

8

**Q. Please describe NorthWestern’s regulatory request related to Cyber Security and Business Technology.**

9

10

**A.** As noted by Ms. Fang, NorthWestern requests Commission approval for incremental revenue requirement adjustments associated with an inflation factor determined by the annual GDP deflator amount which would be applied towards NorthWestern’s normalized test year Cyber Security and Business Technology costs in subsequent years. The annual adjustment would lead to year-over year rate increases until NorthWestern’s next electric and/or gas general rate review(s).

11

12

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18

**Q. Have you calculated the amount of incremental increases to the test year revenue requirement related to Cyber Security and Business Technology?**

19

20

21

**A.** The Pre-filed Direct Testimony of Jeanne M. Vold presents the information regarding estimates for projected Cyber Security costs in a table on page JMV-28. Her estimates equate to a \$5,145,109 increase for 2022. I used

22

23

1 that information to increase the test-year revenue requirement to account  
2 for the incremental Cyber Security and Business Technology costs. In  
3 accordance with the proposal noted in Ms. Fang's testimony above, those  
4 costs will be inflated each year based upon GDP deflator rates in  
5 subsequent years. For illustrative purposes, NorthWestern calculated the  
6 most recent five-year average GDP deflator rate of 2.32% and applied that  
7 percentage to estimate year-over-year bill increases which can be found in  
8 Exhibit ADD-16.

9

10 **Q. Have you presented anticipated rate increase proposals and**  
11 **customer bill impacts related to Cyber Security and Business**  
12 **Technology?**

13 **A.** Yes, Exhibit ADD-16 presents the proposed annual rate increases and  
14 customer bill impacts for this program.

15

16 **Reliability Rider**

17 **Q. How will NorthWestern's Reliability Rider impact this rate review?**

18 **A.** As noted by Ms. Fang, through this rate review NorthWestern is  
19 requesting Commission approval of a Reliability Rider, which would allow  
20 for immediate interim recovery of critical reliability investments. This  
21 Reliability Rider would apply to the Yellowstone County Generating  
22 Station and allow for the interim recovery of the cost of service associated  
23 with the plant once it becomes operational.

1

2 **Q. Under the Reliability Rider, what information would NorthWestern**  
3 **provide related to the Yellowstone County Generating Station?**

4 **A.** NorthWestern will make a compliance filing no later than 90 days prior to  
5 the Yellowstone County Generating Station's anticipated in-service date.  
6 That compliance filing will include the anticipated revenue requirement of  
7 the facility. Subsequently, and no later than 15 days prior to the in-service  
8 date of the facility, NorthWestern will file a tariff letter requesting  
9 implementation of interim rates effective on the first of the month following  
10 the in-service date reflecting the anticipated revenue requirement of the  
11 facility.

12

13 **Q. Under the Reliability Rider, when would costs be reviewed for**  
14 **prudence?**

15 **A.** A prudence review would be conducted in NorthWestern's next electric  
16 general rate review following implementation of the interim rates.

17

18 **Q. Will the estimated revenue requirement be trued-up to actual**  
19 **results?**

20 **A.** Yes, similar to the way in which the DGGGS plant was placed into rates,  
21 NorthWestern would propose to update the estimated revenue  
22 requirement with the actual capital costs incurred to construct the plant

1 and reflect either a refund of any over-collections or surcharge of under-  
2 collections of actual results compared to interim rates.

3 **Q. Are you presenting the estimated annual revenue requirement for the**  
4 **Yellowstone County Generating Station in this filing?**

5 **A.** Yes, Exhibit ADD-17 details the estimated annual revenue requirement for  
6 the Yellowstone County Generating Station. It should be noted that this  
7 estimate will be updated to more accurate figures later in the construction  
8 process and in accordance with the proposed timing of the compliance  
9 filing, which, again, NorthWestern would make no later than 90 days prior  
10 to the anticipated in-service date of the facility.

11

12 **Electric Demand Side Management Rate Base Proposal**

13 **Q. How will rates be adjusted under NorthWestern’s Demand Side**  
14 **Management (“DSM”) Rate Base Proposal?**

15 **A.** As discussed by Mr. Berzina, in this filing, NorthWestern is proposing to  
16 rate base Electric DSM costs as opposed to the current treatment of such  
17 costs, which are collected through the Electric Supply Rate and updated  
18 annually through NorthWestern’s PCCAM filing. Upon receipt of a Final  
19 Order approving rate base treatment of DSM costs, NorthWestern will  
20 make a compliance filing to discontinue collections of DSM costs through  
21 the Electric Supply Rate and will begin to capitalize those costs. Any  
22 over- or under-collected DSM cost balances until the date of a Final Order  
23 will be trued-up in NorthWestern’s subsequent annual PCCAM filing(s).

1 **PCCAM Base Costs Update - Electric Supply Rate**

2 **Q. What PCCAM Base Costs rates does NorthWestern request in this**  
3 **docket?**

4 **A.** As explained by Mr. Stimatz, NorthWestern is requesting to update the  
5 PCCAM Base Costs to \$206,715,885. Currently, the PCCAM Base Costs  
6 is an individual component of the total electric supply rate, which also  
7 includes QF costs, DSM, generation fixed cost, property taxes, and other  
8 one-time rate true-ups or adjustments as needed. An update to the  
9 PCCAM Base Costs not only affects the PCCAM Base Costs, but also the  
10 QF component of the supply rate. While the QF costs are not tracked as  
11 part of the PCCAM Base Costs, those costs inform the forecast of the  
12 costs and credits in the PCCAM Base Costs.

13  
14 **Q. Do you have an exhibit portraying the components of the total**  
15 **electric supply rate?**

16 **A.** Yes. Exhibit ADD-12, page 2 show the rates for residential, general  
17 service, irrigation, and lighting customers. Columns D through P list the  
18 individual components in the rates, and Column T shows the total electric  
19 supply rate for that customer class.

20  
21 **Q. How did you calculate the new rates for the PCCAM Base Costs?**

22 **A.** The rate design methodology in Exhibit ADD-12 is designed to collect  
23 PCCAM Base Costs including \$73,662,254 of Base Power Costs &

1 Credits, \$77,520,939 of Base QF Costs, and \$55,532,692 of Base  
2 Purchased Capacity Costs.

3

4 **Q. How will the new total electric supply rates affect the average  
5 residential customer?**

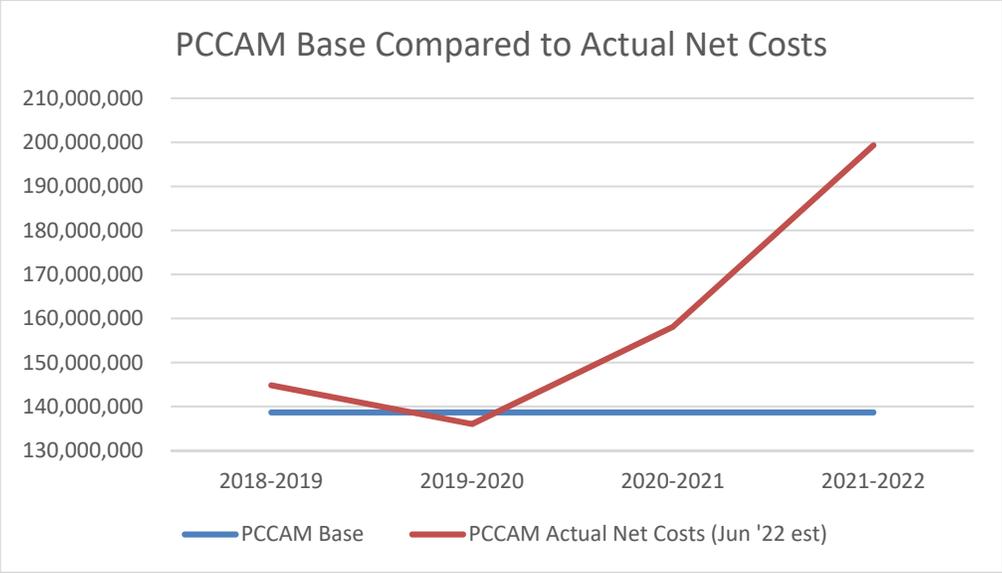
6 **A.** The average residential customer using 750 kilowatt-hours per month will  
7 see an increase of \$8.24 or 9.0% on their monthly bill compared to current  
8 rates as a result of the PCCAM Base Costs update. The bill impact  
9 analysis is included in Exhibit ADD-13.

10

11 **PCCAM Base Costs - Annual Updates**

12 **Q. Has NorthWestern's forecasted PCCAM Base Costs reflected actual  
13 costs since its 2018 Rate Review?**

14 **A.** No. As shown in the table below actual costs incurred have generally  
15 been significantly greater than that of the last approved PCCAM Base  
16 Costs.



1 **Q How does NorthWestern propose to adjust electric supply rates if the**  
 2 **Commission approves annual updates to the PCCAM Base Costs?**

3 **A.** As highlighted above, there is a need to update the PCCAM Base Costs  
 4 annually to reflect the evolving energy market. NorthWestern proposes to  
 5 update the PCCAM Base Costs annually through a compliance filing and  
 6 tariff letter, which would be made at least 15 days prior to the new period  
 7 PCCAM Base Costs rates effective date. NorthWestern proposes that an  
 8 automatic adjustment to rates have an effective date that coincides with  
 9 the PCCAM tracking period of July 1 through June 30. NorthWestern  
 10 would submit the compliance filing and tariff letter by June 15 noting the  
 11 automatic adjustment to the PCCAM Base Costs, which would be effective  
 12 for the subsequent July 1 through June 30 PCCAM period. The updated  
 13 PCCAM Base Costs would be collected, on an interim basis, beginning  
 14 July 1.

1 **PCCAM Tariff Changes**

2 **Q. What tariff changes are required to implement annual updates?**

3 **A.** Exhibit ADD-18 is a redline of the Annual Power Costs and Credits  
4 Adjustment Mechanism tariff (“PCCAM Tariff”) that revises the language  
5 discussing the Base Power Costs & Credits Costs, Base QF Costs and  
6 Base Purchased Capacity Costs. Within the tariff, NorthWestern proposes  
7 to note that the PCCAM Base Costs will be updated automatically, on an  
8 interim basis, after submission of the annual compliance filing noted  
9 above. Such update to the PCCAM Base Costs will be final upon  
10 issuance of a Commission Final Order in annual PCCAM dockets.  
11 Included in the tariff changes is proposed new language related to the  
12 proposal to apply interest to the PCCAM deferred balance. In addition to  
13 those changes note above, the tariff has also been further refined to  
14 increase readability in an effort to make the tariff easier to understand and  
15 interpret. Finally, NorthWestern proposes changes to the PCCAM tariff to  
16 allow for monthly adjustments to lessen impact of rate shock that occurs  
17 when these costs are only adjusted on an annual basis.

18  
19 **Q. What tariff changes are required to implement NorthWestern’s**  
20 **proposal to recover 100% of capacity costs?**

21 **A.** Included in the proposed changes to the PCCAM Tariff, Exhibit ADD-18  
22 includes redlines reflecting the fact that capacity charges for capacity  
23 purchase agreements will be recovered through the annual PCCAM filings

1 and will not be subject to 90% / 10% sharing. Ms. Fang and Mr. Stimatz  
2 provide more details on this proposal including the support for why it is  
3 appropriate to remove capacity contracts from sharing. Those costs will  
4 be developed and based on capacity costs at the time such costs and  
5 rates are reviewed and approved by the Commission. Those rates will be  
6 adjusted annually in conjunction with the NorthWestern's annual PCCAM  
7 filings.

8

9 **Q. What tariff changes are required to implement NorthWestern's**  
10 **proposal to apply interest on deferred balances?**

11 **A.** The PCCAM Tariff has been revised to include discussion of application of  
12 a carrying charge on the deferred balance that will be calculated based  
13 upon the difference between current revenues collected under the  
14 PCCAM mechanism and actual costs incurred. The carrying charge will  
15 be calculated by applying one-twelfth of the interest rate on three-month  
16 Commercial Paper for the previous month, as reported by the Federal  
17 Reserve Statistical Release, to the monthly deferred account balance as  
18 calculated by the PCCAM mechanism.

19

20 **Q. How does NorthWestern propose to adjust supply rates monthly for**  
21 **changes in the PCCAM deferred balance?**

22 **A.** As discussed by Ms. Fang, NorthWestern proposes to adjust the deferred  
23 supply rate monthly, as opposed to the current practice of only updating

1 that rate on an annual basis. NorthWestern proposes to make monthly  
2 filings requesting interim deferred supply rate adjustments as necessary.  
3 NorthWestern's annual PCCAM filing will present a projection of monthly  
4 PCCAM revenue collections as well as a projection of monthly PCCAM  
5 net costs. In subsequent months as actual revenue collections and costs  
6 differ from projections, NorthWestern will make monthly filings detailing  
7 actual revenues and costs and compare actual resulting deferred  
8 balances to projected deferred balances. In an effort to achieve a zero  
9 ending deferred balance for each tracker period, NorthWestern will  
10 propose monthly adjustments to the deferred supply rate.

11

12 This process will be similar to that of the methodology in NorthWestern's  
13 current annual Natural Gas Tracker filing, the most recent docket of which  
14 is Docket No. 2021.07.098. The ability of NorthWestern to adjust the  
15 natural gas supply rate monthly allows for less rate adjustment impact on  
16 customers by allowing for more timely rate updates in response to natural  
17 gas market fluctuations. Additionally, it does not lead to NorthWestern  
18 carrying significant deferred balances for extended periods of time as has  
19 been the case under the current PCCAM design.

20

21 **Q. Does this conclude your testimony?**

22 **A.** Yes, it does.

**VERIFICATION**

This Pre-filed Direct Testimony of Andrew D. Durkin is true and accurate to the best of my knowledge, information, and belief.

/s/ Andrew D. Durkin  
Andrew D. Durkin