

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

7 PRE-FILED DIRECT TESTIMONY

8 OF JEFFREY B. BERZINA

9 ON BEHALF OF NORTHWESTERN ENERGY
10

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6

7

Witness Information

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

9 **A.** My name is Jeffrey B. Berzina. I am NorthWestern Energy’s
10 (“NorthWestern”) Controller.

11

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

14 **A.** I have been with NorthWestern since April 2020. My primary
15 responsibilities include management of the accounting and financial
16 reporting functions. This includes overseeing compliance with financial
17 reporting requirements established by the Securities and Exchange
18 Commission and Federal Energy Regulatory Commission (“FERC”),
19 reviewing NorthWestern’s financial statements, and implementing and
20 overseeing accounting policies and procedures. Prior to joining
21 NorthWestern, I held various roles within accounting, finance, and
22 corporate development at Black Hills Corporation (“Black Hills”), a utility
23 holding company with electric and natural gas utility operations. Prior to

1 Black Hills, I was an auditor with Ketel, Thorstenson, LLP. I have a
2 Bachelor of Science degree in Business Administration and am a Certified
3 Public Accountant (inactive).

4

5 **Purpose and Summary of Testimony**

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

7 **A.** My testimony supports the following main areas:

- 8 • I provide testimony supporting NorthWestern’s plant in-service and
9 other plant-related balances for the test year of January 1, 2021
10 through December 31, 2021 (“2021 test year”), and the known and
11 measurable adjustment period through December 2022 (“2022 known
12 and measurable period”) that were used to determine the rate base
13 included in the revenue requirements. These plant balances are the
14 basis for developing depreciation and deferred taxes.
- 15 • I recommend approval of the proposed depreciation rates as
16 developed in the 2022 Depreciation Rate Study (“Depreciation Study”)
17 conducted by Ronald E. White of Foster Associates Consultants, LLC
18 (“Foster Associates”). These depreciation rates were used to compute
19 the associated depreciation and amortization expenses.
- 20 • I recommend approval of proposed calculations of annual depletion
21 expense associated with natural gas leasehold and production assets.
- 22 • I support the reasonableness of NorthWestern’s allocation of common
23 plant and shared administrative costs.

- 1 • I discuss pension and benefit adjustments that affect the test year cost
2 of service as presented in the income statements, which income
3 statements are further discussed in the Pre-filed Direct Testimony of
4 Andrew D. Durkin.
- 5 • I explain NorthWestern’s proposed amortization related to the
6 recommendation to record Demand Side Management (“DSM”) costs
7 as a component of rate base.
- 8 • I explain NorthWestern’s proposal for the future acquisition of natural
9 gas production assets and the recent acquisition of the Sleepy Hollow
10 natural gas distribution system.
- 11 • Finally, I attest to the accuracy of the accounting data NorthWestern
12 submits with this filing.

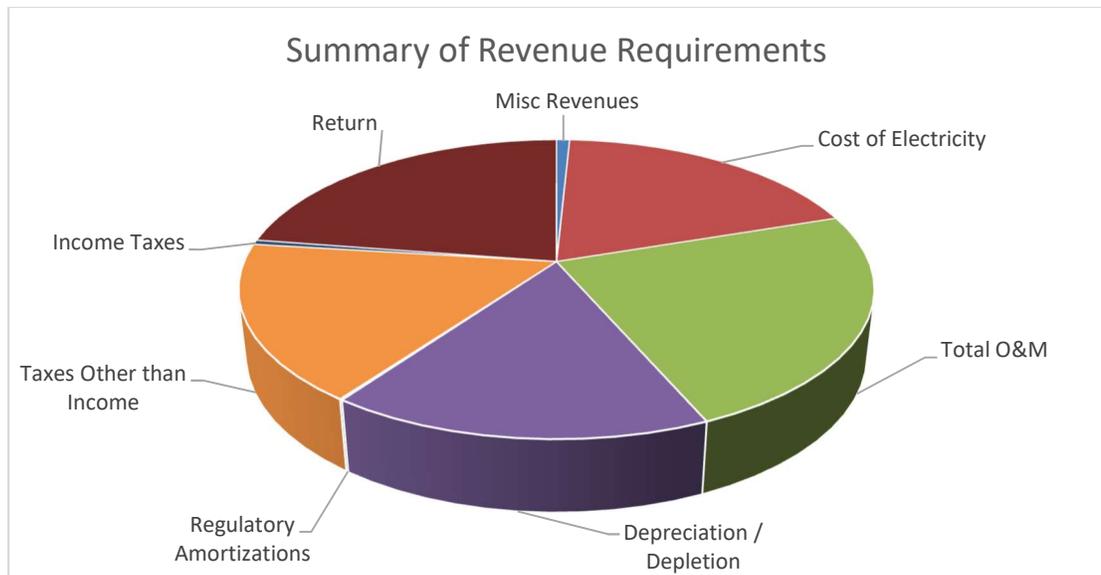
13

14 **Q. Please summarize your testimony.**

15 **A.** As depicted in Figure 1 below, which is a summary of the revenue
16 requirements in this filing and is also included in Statement O, there are
17 eight primary components in the revenue requirements. Of these eight
18 components, taxes other than income taxes (including property taxes),
19 Operation and Maintenance (“O&M”) expenses, depreciation expenses,
20 and rate of return on invested capital are the four largest components. I
21 discuss depreciation expense in my testimony, and both Mr. Durkin and I
22 explain O&M expenses. The Pre-filed Direct Testimony of Aaron J.
23 Bjorkman, NorthWestern’s Tax Director, discusses taxes, and the Pre-filed

1 Direct Testimony of Crystal D. Lail, NorthWestern’s Chief Financial Officer,
2 discusses NorthWestern’s rate of return, including the proposed return on
3 equity.

Figure 1: Revenue Requirements Components



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

6 **A.** Yes. I sponsor the following Statements for both the electric and natural
7 gas utilities:

- 8 ○ Statement A – Balance Sheet
- 9 ○ Statement B – Income Statement
- 10 ○ Statement C – Utility Plant Accounts
- 11 ○ Statement D – Accumulated Depreciation
- 12 ○ Statement E – Working Capital

- 1 ○ Statement G – Operating and Maintenance Expenses, specific to
- 2 the following items:
- 3 ▪ Corporate Allocation Adjustment
- 4 ▪ Pension and Benefits Adjustment
- 5 ▪ Depreciation Adjustment
- 6 ▪ Working Capital Adjustment
- 7 ▪ Special Accounting Accruals
- 8 ○ Statement I – Depreciation and Amortization Expense
- 9 ○ Statement N – Description of Utility Operations
- 10 ○ Statement O – Pictorial Exhibits

11

12 **Q. Please summarize your conclusions and recommendations.**

13 **A.** I present an electric utility rate base calculation of \$2,789,681,704 and a
14 natural gas utility rate base calculation of \$575,271,837 based on the
15 2021 test year, adjusted for known and measurable changes occurring in
16 the 12 months after December 31, 2021. In addition, I present the 2021
17 test year depreciation expense of \$148,243,211 for the electric utility and
18 \$30,384,975 for the natural gas utility. I recommend approval of the
19 proposed depreciation and depletion rates.

20

21 I also recommend approval of a 73% electric utility and 27% natural gas
22 utility allocation of shared administrative costs, and a 67% electric utility
23 and 33% natural gas allocation for common plant. Finally, I recommend

1 approval of the proposal to record DSM costs as a regulatory asset to be
2 included in rate base and amortized over 14 years and the creation of a
3 regulatory asset for future natural gas production asset acquisitions and
4 for the recent Sleepy Hollow acquisition.

5

6 **Allocation of Shared Administrative Costs and Common Plant**

7 **Q. How does NorthWestern derive the allocation of shared**
8 **administrative costs?**

9 **A.** NorthWestern allocates its shared administrative costs using three
10 methodologies: jurisdiction, electric and natural gas operations, and profit
11 centers.

12

13 **Q. Please explain these three methodologies.**

14 **A.** First, NorthWestern allocates administrative costs among the three
15 jurisdictions in which it operates (Montana, South Dakota, and Nebraska)
16 using a three-factor formula. This formula includes gross plant, margin,
17 and O&M labor expense. The 2021 jurisdictional allocation methodology
18 is included in Exhibit JBB-1.

19

20 Then, NorthWestern allocates the Montana jurisdictional administrative
21 costs between electric and natural gas operations segments using a three-
22 factor formula. This three-factor formula consists of plant, customers, and

1 O&M labor expense. The 2021 electric and natural gas allocation
2 methodology is also included in Exhibit JBB-1.

3
4 Finally, NorthWestern allocates the Montana electric and natural gas
5 administrative costs to profit centers using O&M labor expense. The 2021
6 electric and natural gas profit center allocation methodology is also
7 included in Exhibit JBB-1.

8

9 **Q. How does NorthWestern derive the allocation of common plant?**

10 **A.** NorthWestern allocates common plant between the electric and natural
11 gas operations using rate base percentages. The 2021 overall allocation
12 percentage was 67% to electric and 33% to natural gas, as calculated
13 within Exhibit JBB-1.

14

15 **Q. Does NorthWestern regularly update the formulas it uses for
16 allocations?**

17 **A.** Yes. NorthWestern updates its formulas annually through an internal
18 administrative allocation study.

19

20 **Q. Is this allocation methodology consistent with those utilized in the
21 past general rate review filings?**

1 **A.** Yes. The allocation methodology in this rate review filing is consistent
 2 with past general rate review filings, including the latest electric general
 3 rate review filed in Docket No. 2018.02.012.

4
 5 **Q. Have the results of NorthWestern’s allocation of shared
 6 administrative costs changed since its 2018 electric rate review?**

7 **A.** Yes, just slightly. The following table reflects the impact of applying the
 8 jurisdictional allocation methodology to the various time periods. The
 9 result is an overall 1% increase in the allocation of shared administrative
 10 costs for the Montana jurisdiction and a 1% decrease for the South
 11 Dakota/Nebraska jurisdiction.

TABLE 1:

Allocation of Shared Administrative Costs	2017 test period in Docket No. D2018.2.12	2021 Test Period	2022 Period	Normalizing Adjustment
Montana				
Transmission and Distribution	41%	43%	43%	0%
Generation	19%	17%	18%	1%
Total Electric	60%	60%	61%	1%
Transmission, Distribution, and Storage	19%	19%	19%	0%
Gas Production	3%	3%	3%	0%
Total Natural Gas	22%	22%	22%	0%
Total Montana	82%	82%	83%	1%
Total South Dakota and Nebraska	18%	18%	17%	-1%
Total	100%	100%	100%	0%

1 The following table reflects the impact of applying the electric and natural
 2 gas segment allocation methodology to the various time periods. The
 3 result is an overall 1% decrease in shared administrative costs for the
 4 electric utility, from 74% to 73%, and an overall 1% increase for the
 5 natural gas utility, from 26% to 27%.

TABLE 2:

Allocation of Shared Administrative Costs	2017 test period in Docket No. D2018.2.12	2021 Test Period	2022 Period	Normalizing Adjustment
Electric				
Transmission and Distribution	51%	52%	51%	-1%
Generation	23%	21%	22%	1%
Total Electric	74%	73%	73%	0%
Total Natural Gas	26%	27%	27%	0%
Total Montana	100%	100%	100%	0%

6 **Q. Has the allocation of shared administrative costs changed since the**
 7 **test period?**

8 **A.** Yes. While the segment allocation of 73% electric and 27% natural gas
 9 remained the same for 2021 and 2022, the electric intra-segment
 10 allocation changed in 2022. See Table 2 above. This resulted in a 1%
 11 decrease in allocations to Transmission and Distribution (“T&D”) and a 1%
 12 increase to generation. As such, the Corporate Allocation column in
 13 Statement G and Mr. Durkin’s Exhibit ADD-1 reflect this change as a
 14 normalizing adjustment. However, as the Montana jurisdictional allocation
 15 increased 1% in Generation, as reflected in Table 1 above, we reflected

1 the net normalizing adjustment only in the Generation Corporate
2 Allocation column in Statement G.

3

4 **Pension and Benefits**

5 **Q. What is included in pension and benefits?**

6 **A.** Pension and benefits primarily includes pension expense; medical, dental,
7 and vision costs; long-term disability; and benefit administration.

8

9 **Q. Is there a difference between the pension expense and pension costs
10 included in this filing?**

11 **A.** Yes. Consistent with Financial Accounting Standards Board
12 pronouncements, NorthWestern calculates pension expense independent
13 of current funding, which serves as the basis for pension cost included in
14 rates, as approved in our last general electric rate review in Docket No.
15 2018.02.012. The pension differential, which is the difference between
16 pension expense as reflected in the actuary report and funded pension
17 cost, is reflected as miscellaneous revenues and either a regulatory asset
18 or liability.

19

20 **Q. Did NorthWestern make a normalizing adjustment for pension that
21 affects test year cost of service?**

22 **A.** Yes. NorthWestern funded a total of \$9 million into the pension for the
23 2021 test year. NorthWestern expects to fund a total of \$10 million into

1 the pension in 2022. As such, a known and measurable normalizing
2 adjustment for pension cost and the pension differential is included in
3 Statement G and discussed by Mr. Durkin.

4

5 **Q. Did NorthWestern make any other normalizing adjustments for**
6 **pension and benefits?**

7 **A.** Yes. NorthWestern normalized the remainder of the benefits to the
8 estimated 2022 expense. These adjustments are also reflected in
9 Statement G. NorthWestern will true up these amounts using 2022 actual
10 expenses at the time of its rebuttal filing.

11

12 **Q. Were there any changes in the accounting for pension and benefits**
13 **since the last rate review?**

14 **A.** Yes. Historically, NorthWestern recorded pension and benefits expense in
15 FERC account 926 "Employee pensions and benefits", and at the end of
16 each month, transferred the portion of pension and benefits expenses,
17 which were applicable to utility operations, non-utility operations, and
18 construction accounts, through a payroll loading process.

19

20 However, the Uniform System of Account Instructions for account 926
21 states, "There shall be credited to this account the portion of pensions and
22 benefits expenses which is applicable to nonutility operations or which is
23 charged to construction unless such amounts are distributed directly to the

1 accounts involved and are not included herein in the first instance.” Since
2 the FERC instructions do not include crediting the portion of pension and
3 benefits expenses applicable to utility operations, NorthWestern has since
4 excluded those accounts in the payroll loading process, thus leaving these
5 expenses applicable to utility operations within account 926.

6

7 **Q. How was this item identified?**

8 **A.** This item was identified in 2019 from a review of financial audit findings
9 published by FERC.

10

11 **Q. What is the impact of this accounting change for comparability to the**
12 **last electric and natural gas rate reviews?**

13 **A.** The accounting change primarily impacts the comparability between our
14 2021 test year and the related expenses reflected within our prior 2017
15 electric and 2015 natural gas test years. To assist in this comparison,
16 Tables 3 and 4 below reflect the reclassification, for the earlier test years,
17 from utility operations back to account 926. Account 926 is reflected
18 within the “Administrative and General” lines.

19

TABLE 3: 2017 Electric Reclassification

ELECTRIC UTILITY	2017 Test Year	926 Reclass	Adjusted 2017 Test Year	2021 Test Year
STEAM POWER OPERATION	26,162,027		26,162,027	41,755,424
STEAM POWER MAINTENANCE	7,560,165		7,560,165	8,912,660
HYDRO POWER OPERATION	13,137,275	(1,398,319)	11,738,956	12,788,057
HYDRO POWER MAINTENANCE	5,890,259	(606,215)	5,284,044	3,828,695
OTHER POWER GENERATION OPERATION	10,576,264	(291,875)	10,284,389	25,363,159
OTHER POWER GENERATION MAINTENANCE	2,079,279	(79,936)	1,999,342	1,648,931
POWER SUPPLY	128,143,118	(519,354)	127,623,764	199,184,765
TRANSMISSION OPERATION	17,535,561	(1,833,372)	15,702,189	17,258,448
TRANSMISSION MAINTENANCE	4,940,519	(569,430)	4,371,088	6,211,577
DISTRIBUTION OPERATION	16,227,615	(3,177,526)	13,050,089	14,893,734
DISTRIBUTION MAINTENANCE	22,168,148	(2,407,484)	19,760,664	16,747,356
CUSTOMER ACCOUNTS EXPENSE	10,691,651	(1,230,517)	9,461,134	9,683,413
CUSTOMER SERVICE AND INFORMATION EXPENSE	4,755,713	(912,086)	3,843,627	3,991,207
ADMINISTRATIVE AND GENERAL EXPENSE	55,317,432	13,026,115	68,343,547	80,275,694
TOTAL O & M EXPENSE	325,185,025	0	325,185,025	442,543,120

TABLE 4: 2015 Natural Gas Reclassification

NATURAL GAS UTILITY	2015 Test Year	926 Reclass	Adjusted 2015 Test Year	2021 Test Year
PRODUCTION & GATHERING OPERATION	8,792,591	(660,504)	8,132,087	5,503,308
PRODUCTION & GATHERING MAINTENANCE	446,467	(58,478)	387,989	277,913
GAS SUPPLY	503,955	(112,548)	391,407	101,628
STORAGE OPERATION	1,055,284	(118,072)	937,212	1,288,240
STORAGE MAINTENANCE	359,422	(42,655)	316,767	730,362
TRANSMISSION OPERATION	7,766,588	(1,344,168)	6,422,420	7,496,671
TRANSMISSION MAINTENANCE	2,356,898	(229,500)	2,127,399	1,822,011
DISTRIBUTION OPERATION	11,047,707	(1,878,436)	9,169,271	8,357,252
DISTRIBUTION MAINTENANCE	3,508,730	(720,288)	2,788,442	2,544,624
CUSTOMER ACCOUNTS EXPENSE	3,424,406	(384,706)	3,039,700	3,399,076
CUSTOMER SERVICE AND INFORMATION EXPENSE	1,727,271	(325,049)	1,402,222	1,240,154
ADMINISTRATIVE AND GENERAL EXPENSE	19,060,173	5,874,404	24,934,577	26,365,159
TOTAL O & M EXPENSE	60,049,493	0	60,049,493	59,126,397

1 **Rate Base**

2 **Q. Please explain NorthWestern’s calculation of rate base.**

3 **A.** In regard to plant assets, rate base has two main components – plant
4 balances and accumulated reserve for depreciation (a reduction to rate
5 base). Investments in infrastructure are reflected as capital additions and
6 recorded at original cost, increasing plant balances. Depreciation
7 expense increases the accumulated reserve for depreciation, thereby
8 lowering rate base. If capital additions were equal to depreciation
9 expense, the plant-related rate base would remain constant. If plant-
10 related rate base increases, it is because capital additions are greater
11 than depreciation expense. Rate base calculations include balances for
12 plant and accumulated reserve for depreciation based on a simple
13 average of the beginning and ending balances of the measurement
14 period.

15
16 **Q. What is the measurement period?**

17 **A.** The measurement period for this general rate review is the 2021 test year,
18 which is the 12-month period ended December 31, 2021. In this general
19 rate review, NorthWestern uses plant and accumulated reserve for
20 depreciation balances based on an average of the beginning and end of
21 the 2021 test year. Additionally, NorthWestern has included known and
22 measureable adjustments to reflect plant additions, retirements,
23 accumulated depreciation, and depreciation expense related to assets that

1 NorthWestern expects to be in service during the 2022 known and
2 measurable period. The Pre-filed Direct Testimony of Cynthia S. Fang
3 discusses NorthWestern's utilization of known and measurable
4 adjustments.

5
6 **Q. Has NorthWestern included an exhibit showing the rate base**
7 **calculations and the known and measurable adjustments to rate**
8 **base?**

9 **A.** Yes. Exhibit JBB-2 and Exhibit JBB-4 portray the rate base calculations for
10 the electric and natural gas utilities, respectively, for the 2021 test year, as
11 included within the revenue requirement calculations described by Mr.
12 Durkin.

13
14 Exhibit JBB-3 and Exhibit JBB-5 portray the 2022 known and measurable
15 period rate base calculations for the electric and natural gas utilities,
16 respectively. Consistent with the 2021 test year rate base calculation, the
17 2022 calculation is a simple average of the beginning and end of the 2022
18 known and measurable period balances. These amounts are based on
19 projections and NorthWestern will true up using 2022 actual amounts at
20 the time of its rebuttal filing.

21
22 The known and measurable adjustment is calculated as the difference
23 between Exhibit JBB-3 and Exhibit JBB-2 for the electric utility, and the

1 difference between Exhibit JBB-5 and Exhibit JBB-4 for the natural gas
2 utility. The known and measurable adjustments are reflected in Column H
3 of Exhibit JBB-3 for the electric utility and Exhibit JBB-5 for the gas utility.

4

5 **Q. Please explain the process and conclusions of the 2022 Depreciation**
6 **Study.**

7 **A.** NorthWestern engaged Dr. Ronald E. White with Foster Associates to
8 present the Depreciation Study with this filing. Foster Associates has
9 extensive experience conducting depreciation studies. Dr. White
10 discusses the process and conclusions for the electric, natural gas, and
11 common utility assets in his pre-filed direct testimony and provides the
12 study as Exhibit REW-2 to his testimony.

13

14 **Q. Did NorthWestern adopt the rates from the 2022 Depreciation Study?**

15 **A.** Yes. NorthWestern adopted the depreciation rates, the use of updated
16 removal cost estimates, and the depreciation reserve reallocations in this
17 filing and anticipates reflecting the updated rates in its books and records
18 upon receipt of a Final Order in this docket.

19

20

Electric Rate Base

21 **Q. Do you explain the need or purpose of the underlying major capital**
22 **additions included in rate base?**

1 **A.** No. The following witnesses provide testimony supporting the capital
2 additions within their respective areas:

3 Mike Cashell – Transmission

4 Thomas Pankratz – Electric Transmission

5 Curt Pohl – Distribution

6 John Carmody – Electric Distribution

7 Jonathan Shafer – Montana Meter Upgrade Project

8 Lloyd Blain Nicholls – LED Lighting Project

9

10 **Q. Have you prepared an exhibit portraying the rate base calculation**
11 **and adjustments?**

12 **A.** Yes. Exhibit JBB-2 portrays the computation of the 2021 test year electric
13 utility rate base by identifying electric utility generation, transmission, and
14 distribution plant and other assets necessary for providing service and
15 deducting accumulated depreciation to determine the net plant.
16 NorthWestern adjusts net plant to include in rate base: costs of refinancing
17 debt; the regulatory liability attributable to the Tax Cuts and Jobs Act
18 (“TCJA”) Excess Deferred Income Taxes (“EDIT”); Montana Public
19 Service Commission (“MPSC” or “Commission”) and Montana Consumer
20 Counsel (“MCC”) taxes; and working capital. NorthWestern further adjusts
21 net plant to remove from rate base net accumulated deferred income
22 taxes and customer contributed capital. This information included in this
23 exhibit summarizes the more detailed information provided within

1 Statement C included in the Statements and Workpapers volume of this
2 filing.

3

4 **Q. Please explain Exhibit JBB-2.**

5 **A.** Column A presents the average of the actual beginning and end of the
6 2021 test-year balances for the Electric T&D Utility. Column C presents
7 the average of the actual beginning and end of the 2021 test-year
8 balances for the Electric Generation Utility. The source of the information
9 in both columns is NorthWestern's books and records.

10

11 In addition, Column A, line 17 includes the amount of a regulatory liability
12 attributable to the TCJA EDIT in rate base. The regulatory balance
13 includes the net amount of both Protected Plant EDIT as well as
14 Unprotected Non-Plant EDIT items in rate base. EDIT and related
15 amortization resulting from the TCJA is further described in the Pre-filed
16 Direct Testimony of Aaron J. Bjorkman.

17

18 Column A, line 18 includes the amount of a regulatory asset attributable to
19 the under-collections associated with changes in the MPSC and MCC tax
20 rates. Changes in MPSC and MCC tax rates since NorthWestern's last
21 electric general rate review have been deferred as a regulatory asset.

22 This regulatory asset will be amortized over three years consistent with

1 Commission approval in our last general electric rate review in Docket No.
2 2018.02.012.

3

4 **Q. Please explain the adjustments in Columns B, D, and E of Exhibit**
5 **JBB-2.**

6 **A.** The adjustment shown in Column B, line 2 reflects total normalizing
7 adjustments to T&D rate base. As discussed in Pre-filed Direct Testimony
8 of Bleau J. LaFave, NorthWestern is constructing the Yellowstone County
9 Generating Station. Certain costs associated with that facility have
10 impacted plant in 2021, and have been removed from rate base as that
11 facility is not expected to be commercially operational until January 2024.

12

13 The adjustments shown in Column B, lines 8 and 9 reflect the normalizing
14 adjustments for the updated depreciation rates from the 2022 Depreciation
15 Study for T&D plant.

16

17 The adjustment shown in Column D, line 2 reflects a simple average of
18 2021 asset retirement expenditures associated with Colstrip Unit 4 ash
19 ponds which, consistent with past accounting practices, should have been
20 recorded within the plant accounts.

21

1 The adjustments shown in Column D, lines 8 and 9 reflect the normalizing
2 adjustments for the updated depreciation rates from the 2022 Depreciation
3 Study for Generation plant.

4
5 The adjustment shown in Column E, line 2 reflects a reduction to rate
6 base approved in NorthWestern's rate review in Docket No. D2007.7.82.

7 As part of a stipulation in that docket, NorthWestern agreed to a reduction
8 in both the electric and natural gas rate bases associated with total capital
9 expenditures of \$19.4 million in each of the years 2008 and 2009
10 (\$38,800,000 total). The net amount of the reduction to the electric and
11 natural gas rate bases declines over time to reflect the annual increase to
12 the accumulated depreciation reserve associated with the annual
13 depreciation expense calculated on this \$38,800,000 of plant.

14 NorthWestern allocates this total two-thirds to electric delivery service and
15 one-third to natural gas delivery service pursuant to Section II.1.d of the
16 stipulation. After including the known and measurable adjustment for
17 2022, the average remaining unamortized electric balance was
18 \$14,742,332. Pursuant to the stipulation, these reductions to rate base
19 will continue through 2039.

20

21 **Q. Please explain Exhibit JBB-3.**

22 **A.** Exhibit JBB-3 is the same as Exhibit JBB-2, except that it includes the
23 average of the actual beginning and end of the 2022 known and

1 measurable period. NorthWestern will true up these amounts using 2022
2 actual amounts at the time of its rebuttal filing.

3

4 **Q. How is Exhibit JBB-3 used in the revenue requirement?**

5 **A.** Column H of Exhibit JBB-3 represents the difference between the 2021
6 test year rate base in JBB-2 and the 2022 known and measurable period
7 rate base in JBB-3. This variance reflects the known and measurable
8 forecasted plant adjustment in Statement G to include plant additions,
9 retirements, accumulated depreciation, and depreciation expense related
10 to assets that NorthWestern expects to be in service by year-end 2022.

11

12 **Q. How did NorthWestern allocate the common utility plant and
13 depreciation reserve to rate base?**

14 **A.** Statement D shows the allocation to individual facilities included in
15 common utility plant based on the Montana Electric Utility rate base.
16 Electric Utility rate base is also used to allocate the associated
17 depreciation reserve applicable to the common plant.

18

19 **Electric Depreciation Expense**

20 **Q. How did NorthWestern calculate the test period depreciation
21 expense?**

22 **A.** NorthWestern calculated the 2021 test year accrual by applying
23 NorthWestern's 2022 Depreciation Study accrual rates to the December

1 31, 2021 plant balances. See Statement I for the depreciation calculation
2 at the 2022 Depreciation Study rates.

3

4 **Q. What is the test year depreciation expense?**

5 **A.** The calculation resulted in a 2021 test year depreciation expense of
6 \$148,243,211, which is an increase in annual depreciation expense of
7 \$12,580,275. In addition, the 2022 known and measureable period
8 adjustment for depreciation reflects an increase of \$10,517,188. The
9 2022 Depreciation Study also includes a depreciation reserve rebalance
10 as discussed by Dr. White.

11

12 **Q. Did NorthWestern calculate any of the amortization expense items**
13 **included in the Income Statements?**

14 **A.** Yes. The amortization expense items NorthWestern calculated are
15 detailed in the workpapers included in Statement I of this filing. Mr. Durkin
16 is responsible for the non-rate base-related items in Statement G, and I
17 am responsible for the rate base-related items, such as intangibles and
18 acquisition adjustments, in Statement G and Statement I.

19

20 **Electric Demand Side Management (“DSM”) Rate Base Proposal**

21 **Q. Please explain NorthWestern’s proposal related to electric DSM**
22 **costs.**

1 **A.** The Commission’s rules (ARM 38.5.8218) allow NorthWestern to fully
2 recover prudently incurred costs related to procuring demand-side
3 resources. NorthWestern currently recovers these costs through its
4 Power Costs and Credits Adjustment Mechanism (“PCCAM”). In this
5 filing, NorthWestern proposes to defer the DSM expenditures with the
6 accumulated balance to be included within rate base and amortized over a
7 14-year period, on a going forward basis with the next electric rate review.
8 NorthWestern would implement this change after the Commission issues
9 an order in this docket approving new treatment for those costs.

10

11 **Q. Why is the proposal to defer DSM expenditures for future
12 amortization appropriate?**

13 **A.** Under the Commission’s rules (ARM 38.5.8202), NorthWestern is required
14 to treat DSM as a supply resource. In that respect, it is reasonable for
15 NorthWestern to treat DSM as an investment and include it in the asset
16 base, rather than as an expense. In addition, NorthWestern’s payments
17 for DSM resources may be of a relatively large amount and may vary from
18 year to year. Capitalization allows NorthWestern to spread these large
19 expenditures over a reasonable period of time without rate fluctuation.
20 From a policy standpoint, this approach better matches the treatment
21 given to supply resources. It is consistent with the concept of developing
22 demand-side resources to complement supply-side resources and

1 balances the interests of shareholders, customers, and other stakeholders
2 by not creating further disincentive to NorthWestern's investments in DSM.

3

4 **Q. Why is 14 years a reasonable amortization period for these costs?**

5 **A.** Historically, the Commission has approved amortization periods for DSM
6 of 10 to 15 years (see Order No. 5709 in Docket No. 93.6.24 and MCC
7 comments in Docket No. 90.1.3). The DSM portfolio for our 2021/2022
8 program year has a weighted average measured life of approximately 14
9 years. Therefore, a 14-year amortization period reasonably matches the
10 time period over which DSM investments produce benefits and takes into
11 consideration past Commission orders. Please see the Pre-filed Direct
12 Testimony of Danie L. Williams for a description of NorthWestern's DSM
13 programs and the average lives of DSM measures.

14

15 **Q. What are NorthWestern's DSM costs for the 2021 test year plus the**
16 **12-month known and measurable period?**

17 **A.** Ms. Williams outlines the cost of investments made in DSM for the 2021
18 test year and the 2022 known and measurable period.

19

20 **Q. Are the 2021 and 2022 DSM costs reflective of the costs that**
21 **NorthWestern will rate base if the Commission approves this**
22 **request?**

1 **A.** Not necessarily. Since NorthWestern has made no adjustment to the
2 revenue requirement for this proposal, the DSM costs reflected in Ms.
3 Williams' testimony are illustrative costs. Mr. Durkin further explains the
4 adjustments to the rates and related timing for this proposal.

5
6 **Q. Are there any short-term benefits to customers from NorthWestern's
7 proposal in this case to rate base DSM costs?**

8 **A.** Yes, in the near term, customer rates will decrease as NorthWestern will
9 not be including the current DSM costs for recovery in the PCCAM.

10

11

Natural Gas Rate Base

12 **Q. Do you explain the need or purpose of the underlying major capital
13 additions included in rate base for natural gas?**

14 **A.** No. The following witnesses provide testimony supporting the capital
15 additions within their areas:

16

Mr. Cashell – Transmission

17

Jason M. McClafferty – Natural Gas Transmission

18

Keith W. Meagor – Natural Gas Transmission, Compliance

19

Mr. Pohl – Distribution

20

21 **Q. Have you prepared an exhibit portraying the rate base calculation
22 and adjustments?**

1 **A.** Yes. Exhibit JBB-4 portrays the computation of the 2021 test year natural
2 gas utility rate base by identifying natural gas utility transmission,
3 distribution, storage, and supply production plant and other assets
4 necessary for providing service and deducting accumulated depreciation
5 to determine the net plant. NorthWestern adjusts net plant to include in
6 rate base: natural gas in storage; costs of refinancing debt; the regulatory
7 liability attributable to the TCJA EDIT; MPSC and MCC taxes; and working
8 capital. NorthWestern further adjusts net plant to remove from rate base
9 net accumulated deferred income taxes and customer contributed capital.
10 Information included in this exhibit summarizes the more detailed
11 information provided within Statement C included in the Statements and
12 Workpapers volume of this filing.

13
14 **Q. Please explain Exhibit JBB-4.**

15 **A.** Column A presents the average of the actual beginning and end of the
16 2021 test-year balances for the Natural Gas Transmission, Distribution,
17 and Storage (“TD&S”) Utility. Column C presents the average of the
18 actual beginning and end of the 2021 test-year balances for the Natural
19 Gas Production Utility. Column E presents the average of the actual
20 beginning and end of the 2021 test-year balances for the Canadian
21 Montana Pipeline Company (“CMPL”), wholly owned by NorthWestern and
22 established to handle the cross border importation of Canadian natural
23 gas. CMPL plant includes approximately 4 miles of 16-inch pipeline with

1 associated controls and communication equipment. The source of the
2 information in the three columns is NorthWestern's books and records.

3

4 **Q. Please explain each adjustment in Columns B, D, F, and G.**

5 **A.** The adjustment shown in Column B, lines 7 and 8 reflects the normalizing
6 adjustments for the updated depreciation rates from the 2022 Depreciation
7 Study for TD&S plant.

8

9 The adjustment shown in Column D, lines 7 and 8 reflects the normalizing
10 adjustments for the updated depreciation rates from the 2022 Depreciation
11 Study for Natural Gas Production plant.

12

13 The adjustment shown in Column F, lines 7 and 8 reflects the normalizing
14 adjustments for the updated depreciation rates from the 2022 Depreciation
15 Study for CMPL plant.

16

17 The adjustment shown under Column G reflects the allocated natural gas
18 portion of the reduction to rate base associated with the stipulation
19 discussed earlier, which provides for a reduction in both the natural gas
20 and electric rate bases associated with total capital expenditures of \$19.4
21 million in each of the years 2008 and 2009 (\$38,800,000 total). After
22 including the known and measurable adjustment for 2022, the average
23 remaining unamortized natural gas balance was \$7,261,148.

1 **Q. Please explain Exhibit JBB-5.**

2 **A.** Exhibit JBB-5 is the same as Exhibit JBB-4, except that it includes the
3 average of the actual beginning and end of the 2022 known and
4 measurable period. NorthWestern will true up these amounts using 2022
5 actual amounts at the time of its rebuttal filing.

6

7 **Q. How is Exhibit JBB-5 used in the revenue requirement?**

8 **A.** Column H of Exhibit JBB-5 represents the difference between the 2021
9 test year rate base in JBB-4 and the 2022 known and measurable period
10 rate base in JBB-5. This variance reflects the known and measurable
11 forecasted plant adjustment in Statement G to include plant additions,
12 retirements, accumulated depreciation, and depreciation expense related
13 to assets that NorthWestern expects to be in service by year-end 2022.

14

15 **Q. How did NorthWestern allocate the common utility plant and
16 depreciation reserve to rate base?**

17 **A.** Statement D shows the allocation to individual facilities included in
18 common utility plant based on the Montana Natural Gas Utility rate base.
19 NorthWestern also used the Natural Gas Utility rate base to allocate the
20 associated depreciation reserve applicable to the common plant.

21

22 **Q. Has NorthWestern made any other adjustments to rate base?**

1 **A.** Yes. Included in Column B line 2 is an adjustment for the estimated net
2 book value of the Sleepy Hollow natural gas utility system NorthWestern
3 anticipates acquiring during 2022. NorthWestern will true up the
4 beginning and ending of year simple-average of the estimated \$0.6 million
5 net book value using the actual balances at the time of its rebuttal filing.

6

7 **Q. How did NorthWestern derive the value for the Sleepy Hollow rate
8 base addition?**

9 **A.** NorthWestern derived this value from its initial review of the books and
10 records of Sleepy Hollow for which we estimate a net book value of the
11 utility assets to be approximately \$0.5 million. Additionally, NorthWestern
12 has an outstanding balance of approximately \$0.1 million from Sleepy
13 Hollow for unpaid natural gas supply costs NorthWestern provided to
14 Sleepy Hollow. Sleepy Hollow is unable to make payment for the
15 outstanding balance and therefore the balance will be written-off as part of
16 the acquisition transaction. Together, these amounts reflect the \$0.6
17 million rate base addition for the Sleepy Hollow acquisition transaction.

18

19 **Natural Gas Depreciation and Depletion Expense**

20 **Q. How did NorthWestern calculate the test period depreciation
21 expense?**

22 **A.** NorthWestern calculated the actual 2021 accrual by applying
23 NorthWestern's 2022 Depreciation Study accrual rates to the December

1 2021 plant balances. See Statement I for the depreciation calculation at
2 the 2022 Depreciation Study rates.

3

4 **Q. What is the test year depreciation expense?**

5 **A.** The calculation resulted in a 2021 test year depreciation expense of
6 \$30,834,975, which is an increase in annual depreciation expense of
7 \$3,980,983. In addition, the 2022 known and measurable period
8 adjustment for depreciation reflects a decrease of \$358,465. The 2022
9 Depreciation Study also includes a depreciation reserve rebalance as
10 discussed by Dr. White.

11

12 **Q. How did NorthWestern calculate the test period depreciation
13 expense?**

14 **A.** NorthWestern calculated the 2021 test year accrual by applying
15 NorthWestern's 2022 Depreciation Study accrual rates to the December
16 2021 plant balances. See Statement I for the depreciation calculation at
17 the 2022 Depreciation Study rates.

18

19 **Q. How was the test period depletion expense calculated?**

20 **A.** As presented in Statement I, the 2021 test year depletion expense was
21 taken directly from NorthWestern's books and records. As further detailed
22 in Exhibit JBB-6, depletion is calculated for the Gas Leasehold and
23 Producing Well Construction and Equipment at a rate based upon the net

1 plant book value and expectations of total natural gas reserves available.
2 That annual depletion expense is calculated within NorthWestern's
3 PowerPlan Fixed Asset System. NorthWestern depletes the Gas
4 Leasehold and Producing Well Construction and Equipment at different
5 rates for each production facility based upon the net plant book value,
6 estimated future retirement costs, and expectations of total natural gas
7 reserves available.

8

9 **Q. Did you make any adjustments to depletion expense?**

10 **A.** A normalizing adjustment is presented within Statement I for changes to
11 the actual 2021 depletion rates to adjust those rates based upon updated
12 estimates of natural gas reserves available. Available reserves were
13 provided by NorthWestern's Energy Supply department and included
14 within the second tab of JBB-6.

15

16 In addition to the depletion adjustment calculated by utilizing an updated
17 estimate of remaining natural gas reserves, NorthWestern included within
18 the depletion normalizing adjustment an adjustment to reflect expected
19 costs related to asset retirement obligations of NorthWestern's natural gas
20 production wells, depicted within the third tab of JBB-6. At the end of the
21 life of a natural gas production well, NorthWestern will be required to incur
22 costs, at a minimum, to plug and cap wells. NorthWestern estimated the
23 future retirement costs of plugging and capping wells in today's dollars

1 and inflated those costs to account for the expected time remaining until
2 the end of life of the natural gas production wells.

3

4 The overall normalizing adjustment to the depletion rate is calculated by
5 taking the sum of the natural gas leasehold and producing well net asset
6 value plus the future asset retirement costs of the wells divided by the
7 expected natural gas reserves. That rate is then applied to 2021 actual
8 natural gas production volumes. Finally, in accordance with the other
9 2022 known and measurable adjustments, NorthWestern reduced the
10 depletion expense to reflect application of the updated depletion rate
11 applied to the expected 2022 natural gas production volumes. These
12 adjustment calculations are outlined by production asset within the fourth,
13 fifth and sixth tabs of JBB-6.

14

15

Small Natural Gas Production

16

and Sleepy Hollow Acquisition – Deferred Cost Proposal

17

**Q. What is NorthWestern’s proposal for the recovery of costs
18 associated with future acquisitions of small natural gas production
19 assets?**

20

A. As described by Mr. LaFave, from time to time, NorthWestern Energy
21 Supply has the opportunity to acquire small natural gas production assets
22 at favorable terms, which provide value to NorthWestern’s natural gas
23 customers. However, as further described by Mr. LaFave, NorthWestern

1 has a disincentive when it comes to acquiring interest in natural gas wells.
2 Due to depletion being reflected as expense based upon the unit-of-
3 production method (the amount of cost of a natural gas well is depleted
4 over time based upon the amount of production realized from the well in
5 relation to the total economically recoverable natural gas reserves for that
6 well), the early years of an acquired natural gas well would give rise to a
7 significant amount of depletion. As described by Mr. Durkin,
8 NorthWestern would not be able to recover the depletion expense, or any
9 portion of a natural gas well's revenue requirement, in between rate
10 cases, absent a mechanism to defer the associated costs between rate
11 filings.

12
13 In order to allow for recovery, NorthWestern proposes to defer and
14 accumulate costs associated with any strategic natural gas production
15 assets. The costs accumulated would include the revenue requirement of
16 such facility, allowing for accumulation and eventual recovery of O&M
17 costs, depletion expense, taxes, return on rate base, etc., from the point of
18 the asset purchase until included within the utility revenues through a
19 subsequent natural gas general rate review.

20
21 At the point in time when NorthWestern files a subsequent natural gas
22 general rate review, it would include the accumulated balance of the
23 deferred costs in rate base and amortize that balance over a period of

1 three years. Doing so provides NorthWestern the opportunity to fully
2 recover its associated costs and therefore eliminates the existing
3 economic disincentive resulting from the current regulatory mechanisms.
4 Pursuing and successfully acquiring these strategic natural gas production
5 assets provides the opportunity for economic benefit and enhanced supply
6 price stability for customers by obtaining natural gas reserves at a
7 discount to the then-current market prices.

8

9 **Q. Why is three years a reasonable amortization period for these costs?**

10 **A.** Three years is a reasonable amortization period for these deferred costs
11 as NorthWestern would generally file subsequent natural gas general rate
12 reviews in a cycle of approximately within that time. Additionally, inclusion
13 into customer rates of the related amortization expense over a time frame
14 of three years would not lead to significant rate pressure.

15

16 **Q. Why does NorthWestern need an alternative recovery mechanism as
17 it relates to small natural gas acquisitions?**

18 **A.** As discussed by Mr. LaFave, the revenue requirement of NorthWestern's
19 natural gas production assets is reduced each year using a step-down
20 formula ordered by the Commission. This recovery of natural gas
21 production facility costs is significantly different than that of other
22 NorthWestern capital items. In nearly all other instances of rate base,
23 NorthWestern includes assets in rate base and recovers the cost of those

1 assets in its revenue requirement. That rate base number and the
2 revenue requirement amount do not get updated until NorthWestern files a
3 subsequent general rate filing. This mechanism generally allows
4 NorthWestern the ability to recover costs associated with rate base as well
5 as to continue to invest and maintain its critical infrastructure in between
6 general rate filings. However, the recovery of natural gas production
7 assets is different in that the natural gas production step down
8 automatically reduces the natural gas production revenue requirement
9 each year based upon an estimate of production volumes. Mr. Durkin
10 provides more details on the natural gas revenue requirement stepdown.

11
12 While NorthWestern is not opposed to the natural gas production
13 stepdown, the implications of that stepdown do affect NorthWestern's
14 ability to continue to regularly invest in and maintain its natural gas
15 production infrastructure. Additionally, it negatively affects NorthWestern's
16 ability to seek out and acquire natural gas production facilities that can
17 provide value to customers by acquiring these resources at a discount to
18 market prices.

19

20 **Q. How does NorthWestern currently account for and recover small**
21 **natural gas production acquisitions?**

22 **A.** Under current rules, if NorthWestern were to acquire a small natural gas
23 production facility it would capitalize the asset and begin depleting the

1 asset immediately, while receiving no recovery of the acquisition itself,
2 depletion, or operating costs. Customers would essentially receive free
3 natural gas for these volumes since this natural gas would replace more
4 expensive volumes that NorthWestern would have otherwise purchased
5 on the market. NorthWestern would not receive any recovery of its costs
6 until it files a subsequent general rate filing. Depending on timing of any
7 subsequent general rate filing, NorthWestern may recover some of costs
8 associated with the acquired asset, but NorthWestern would never recover
9 acquisition costs already depleted and expensed prior to a rate review
10 filing.

11

12 **Q. Can NorthWestern simply file a general rate review in order to**
13 **recover costs associated with these natural gas production**
14 **facilities?**

15 **A.** It can; however, making and processing a general rate review is a costly
16 process and places significant resource demands on NorthWestern, the
17 Commission, the MCC, and others. It is simply not practical to make a
18 general rate filing after acquiring these small natural gas production
19 facilities.

20 **Q. Can NorthWestern request a “bridge rate” in order to recover costs**
21 **of natural gas production facilities, similar to how it treated the**
22 **acquisitions of Battle Creek, Bear Paw, and South Bear Paw?**

1 **A.** Possibly. However, many of the acquisitions that Energy Supply is
2 presented with are small acquisitions. It is not practical, efficient, or
3 economic to make a bridge rate filing, which would likely lead to a
4 contested docket, for each of these small opportunities.

5
6 **Q. Can you summarize the deferred cost recovery proposal for small
7 natural gas production facility acquisitions?**

8 **A.** NorthWestern views the accumulated cost recovery approach proposed
9 as a solution to allow NorthWestern the ability to make strategic natural
10 gas production acquisitions as compared to the current disincentivizing
11 process that results in losing funds on such acquisitions from day one.
12 Removing the current disincentive would allow NorthWestern to pursue
13 these strategic acquisitions and provide customers the opportunity for
14 economic benefit in the form of a cost-effective alternative to volatile
15 market purchases. Additionally, NorthWestern views this approach as a
16 practical method that will not place undue burden on regulatory staff, the
17 Commission and its staff, and others.

18
19 **Q. What is NorthWestern's proposal for expenses related to the Sleepy
20 Hollow acquisition?**

21 **A.** Earlier in this testimony, I discuss the inclusion of a rate base adjustment
22 associated with the anticipated acquisition of the Sleepy Hollow natural
23 gas utility system. In addition to the acquisition adjustment within rate

1 base, NorthWestern seeks recovery of any and all expenses related to
2 needed maintenance and operation of the system. To accomplish
3 recovery of these expenses, a known and measurable adjustment will be
4 included within our revenue requirement for the actual 2022 expenses
5 incurred. Because of the limited financial data available from Sleepy
6 Hollow and the ongoing acquisition due diligence process, NorthWestern
7 will add the actual amount of the adjustment in its rebuttal testimony. As
8 we anticipate ongoing, and potentially increasing, expenses for the
9 acquisition past 2022, NorthWestern proposes to defer and accumulate
10 any costs incurred in excess of the included 2022 known and measurable
11 adjustment. At the point in time when NorthWestern files a subsequent
12 natural gas general rate review, it would include in its revenue requirement
13 the amortization of the accumulated balance of the deferred costs, utilizing
14 an amortization period of three years.

15

16 **Attestation**

17 **Q. Do you affirm that the accounting data presented in NorthWestern's**
18 **electric and natural gas filings reflects the actual results on**
19 **NorthWestern's books and records?**

20 **A.** Yes. The statements, workpapers, and other supporting data submitted
21 as part of this filing reflect NorthWestern's books and records.

22

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

1 **A.** Yes, it does.

VERIFICATION

This Pre-filed Direct Testimony of Jeffrey B. Berzina is true and accurate to the best of my knowledge, information, and belief.

/s/ Jeffrey B. Berzina
Jeffrey B. Berzina