

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	
Complainant,)	
)	
v.)	Docket No. U-072375
)	
PUGET SOUND ENERGY, INC.)	
)	
Respondent.)	
_____)	

EXHIBIT NO. ____ (MPG-7)
EXCERPTS OF DIRECT TESTIMONY OF BRIAN B. BIRD
IN FERC DOCKET NO. ER-07-46-000

June 18, 2008

Exhibit NWM-800

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

NorthWestern Corporation

)

Docket No. ER07-__-000

**PREPARED DIRECT TESTIMONY OF
BRIAN B. BIRD
ON BEHALF OF NORTHWESTERN CORPORATION**

October 2006

- 1 • Allowing the Electric Utility to fully recover its cost of providing service
2 will improve its financial performance and credit ratings, which over time
3 will reduce capital costs and the rates paid by electricity consumers.

4 This summary is shown on Exhibit NWM-11, Statement AV.

5 **CAPITALIZATION**

6 **Q. WHAT ELECTRIC UTILITY CAPITALIZATION ARE YOU**
7 **RECOMMENDING?**

8 A. I am recommending a 49.54% debt and 50.46% equity capitalization. This capital
9 structure is consistent with the capital structure for all of NorthWestern's Electric
10 Utility assets in Montana.

11 **Q. PLEASE EXPLAIN THE CAPITALIZATION METHODOLOGY THAT**
12 **YOU HAVE PRESENTED IN THIS CASE.**

13 A. All of the transmission assets covered in this filing are in Montana. Indeed,
14 NorthWestern's South Dakota transmission facilities are not integrated with the
15 Montana facilities and separate Open Access Transmission Tariffs apply.
16 Furthermore, NorthWestern's facilities are subject to different mortgages in the
17 different states in which the company operates. Accordingly, to more closely
18 allocate costs in a manner that reflects cost causation, I am using only the debt and
19 equity allocated to the Montana utility rather than the consolidated capital
20 structure of NorthWestern. First, by excluding all debt related to non-Montana
21 utility and non-regulated operations, I determined all the outstanding debt and
22 capital lease obligations that are directly secured by assets of the combined

1 Electric and Natural Gas Utilities in Montana for the budgeted period ending
2 December 31, 2006. Because these obligations are linked to specific physical
3 assets, it is straightforward to allocate them appropriately to NorthWestern's
4 Montana utilities (*see* Exhibit NWM-11, Statement AV). Next, I derived the
5 equity assigned to the combined Electric and Natural Gas Utilities in Montana
6 from NorthWestern's Montana only book equity adjusted to exclude all items not
7 supported by utility rates, including goodwill, a portion of qualifying facilities
8 obligations and purchase accounting adjustments. This adjustment is shown on
9 Exhibit NWM-11, Statement AV. Given that no portions of the debt or equity of
10 the combined Electric and Natural Gas Utilities in Montana are specifically
11 assigned to either the Electric Utility or the Gas Utility, the capital structure for
12 NorthWestern's Electric Utility and Gas Utility in Montana is one and the same.

13 **Q. WHAT ARE THE KNOWN AND MEASURABLE ADJUSTMENTS MADE**
14 **TO THE RECOMMENDED CAPITALIZATION FOR THE BUDGETED**
15 **PERIOD ENDING DECEMBER 31, 2006?**

16 A. No adjustments were made to the equity amount, but there are two known and
17 measurable adjustments made to the levels of the December 31, 2006 total debt
18 and capital lease obligations to appropriately reflect expected debt and equity
19 proportions. First, NorthWestern expects to fully pay off the \$365,000, 8.25%
20 First Mortgage Bonds that mature on February 1, 2007 and as such, I have
21 removed this debt from the total debt calculation. Additionally, NorthWestern has
22 approximately \$1,056,000 of capital lease obligations that mature in less than one