

4
5 DIRECT TESTIMONY OF
6 AARON J. BJORKMAN
7 ON BEHALF OF NORTHWESTERN ENERGY
8

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1 **Witness Information**

2 **Q. Please identify yourself, your employer, and your job title.**

3 **A.** My name is Aaron J. Bjorkman, and I am NorthWestern Corporation d/b/a
4 NorthWestern Energy's ("NorthWestern") Director - Corporate Taxes. I am
5 responsible for all tax related compliance, research, and planning activities for
6 NorthWestern.

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

10 **A.** I have over 22 years of experience in the field of corporate taxation, 16 years
11 of which I spent working in the public utility sector with NorthWestern. Prior to
12 my employment at NorthWestern, I worked as a Certified Public Accountant
13 for Deloitte and for RSM, spending the majority of my time on corporate
14 taxation. I have a Bachelor of Science degree in Accounting and a Master's
15 in Professional Accountancy from the University of South Dakota.

16
17 **Purpose of Testimony**

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

19 **A.** I provide testimony in support of all income and property tax related items
20 included in this filing. All income and property tax items in both the electric
21 and natural gas income statements and rate base exhibits were prepared
22 under my supervision and control. I sponsor Statement J - Income Taxes as

1 required in ARM 38.5.169 and Statement K - Taxes other than Income as
2 required in ARM 38.5.173.

3
4 **Income Taxes**

5 **Q. Have income taxes in this filing been calculated in a manner consistent**
6 **with the methodology approved by the Montana Public Service**
7 **Commission (“Commission” or “MPSC”) in prior rate proceedings?**

8 **A.** Yes. The income taxes included in this filing have been calculated utilizing
9 the partial flow-through method that the Commission has approved in prior
10 dockets. Partial flow-through was required as part of Final Order No. 5709d
11 in Docket No. 93.6.24 filed by The Montana Power Company and has
12 continued to be used in recent dockets. Plant-related tax adjustments, except
13 for those subject to mandatory normalization under Section 168 of the Internal
14 Revenue Code (“IRC”), are generally flowed through to customers as a
15 reduction to the income tax expense included in the revenue requirement.

16
17 The items included as flow-through in this docket are shown on Statement J –
18 Workpapers B (“Stmt J Wkpr B”), pages 1 through 6 for electric and pages 1
19 through 4 for natural gas, lines 49-Bad Debt Expense, 51-Meters, 53-Repairs
20 Expense, 57-Accelerated Depreciation-BLM (Book Life Method) Tax vs. Book
21 Depreciation, 59-Removal Costs, 60-AFUDC Equity, and 61-AFUDC Debt,
22 net of capitalized interest. Because these temporary items do not have an
23 offsetting deferred income tax expense impact in Stmt J Wkpr B, the result is

1 flow-through by means of current income tax expense. Put differently, rather
2 than a deferred tax impact, the offset is recorded as a regulatory asset to be
3 recovered from customers at a future time when the tax position reverses.
4 Because the offset is to a balance sheet Regulatory Asset instead of deferred
5 income tax expense, these flow-through items reduce overall tax expense,
6 which, in turn, reduces the revenue requirement to customers.

7

8 **Q. Have the impacts of the Tax Cuts and Jobs Act (“TCJA”) been reflected**
9 **in this filing?**

10 **A.** Yes. For both the electric and natural gas segment, TJCA methodologies
11 accepted in Docket No. 2022.07.078 are continued as part of this rate review.

12

13

Electric Income Taxes

14 **Q. Please explain all of the provisions for deferred income taxes.**

15 **A.** The details of the deferred income taxes are shown in the Electric Statement
16 J workpapers. I describe below the deferrals shown in that statement:

17

Amortization of Excess/Deficient Deferred Income Taxes (“EDIT”) – Plant

19 Protected Plant EDIT from the TCJA results from income tax accelerated
20 depreciation of public utility property that is subject to the normalization
21 restriction in the IRC. The Internal Revenue Service (“IRS”) requires a public
22 utility to amortize Protected EDIT using the Average Rate Assumption Method
23 (“ARAM”), if possible. NorthWestern utilized this amortization method for all

1 items that have underlying book depreciation assets within our depreciation
2 software. Under ARAM, the amortization of EDIT begins when the amount of
3 tax depreciation taken with respect to each asset is less than the amount of
4 the book depreciation with respect to the asset.

5
6 For Protected Plant items without corresponding book basis, NorthWestern
7 amortizes EDIT over the average remaining book lives of the corresponding
8 asset classes.

9
10 Electric Protected Plant EDIT decreased deferred income tax expense by
11 \$1,689,123 as shown in Stmt J Wkpr B, page 3, line 14.

12

13 *Amortization of Excess/Deficient Deferred Income Taxes – NOL*

14 A net operating loss (“NOL”) occurs when a company’s allowable tax
15 deductions exceed its taxable income, resulting in negative taxable income.
16 The NOL amounts are considered “protected”, for example as provided in a
17 series of private letter rulings (“PLR”) issued by the IRS including PLR
18 202206010, as the NOLs were driven by the excess of tax over book
19 depreciation. The protected NOL EDIT were not related to specific underlying
20 public utility property and therefore using ARAM to amortize the amounts is
21 not possible. The amounts are being amortized based on the average book
22 lives of the public utility property at the time of the TCJA. The average period
23 of amortization is approximately 33 to 40 years.

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The Electric Protected NOL EDIT increased deferred income tax expense by \$922,398 as shown in Stmt J Wkpr B, page 3, line 15.

Amortization of Excess/Deficient Deferred Income Taxes - Unprotected Non-Plant

Unprotected Non-Plant EDIT results from tax timing differences that are not protected pursuant to IRS normalization rules and are not subject to flow-through by Commission precedent. Because the IRC does not require Unprotected Non-Plant EDIT to be normalized, this EDIT may be amortized. NorthWestern continues to amortize Unprotected Non-Plant EDIT over a five-year straight line amortization period, as accepted in the electric rate review Docket No. 2018.02.012, and adjusts rate base to reflect the amortization.

Electric Unprotected Non-Plant EDIT amortization increased deferred income tax expense by \$688,422 as shown in Stmt J Wkpr B, page 3, line 16.

Amortization of Investment Tax Credit

NorthWestern receives investment tax credits that are subject to the normalization rules under IRC Section 168(i)(9) and former IRC Section 46(f). Therefore, the credits received are amortized because they must be reflected in cost of service for ratemaking purposes over the period of time used in computing depreciation expense.

1 Electric amortization of investment tax credits decreased deferred income tax
2 expense by \$129,482 as shown in Stmt J Wkpr B, page 3, line 17.

3

4 Amortization of Regulatory Asset-Removal Costs

5 NorthWestern is amortizing the removal costs recorded within the FAS 109
6 Regulatory Asset over 10 years as approved in Docket No. 2022.07.078,
7 Final Order No. 7860y, ¶ 5.

8

9 Electric removal costs amortization increased deferred income tax expense
10 by \$1,912,112 as shown in Stmt J Wkpr B, page 3, line 18.

11

12 Injuries and Damages

13 For book purposes, NorthWestern accrues expenses for personal injuries and
14 damages based on actuarial studies. For income tax purposes,
15 NorthWestern deducts these expenses when paid.

16

17 NorthWestern accrued \$1,740,963 (Stmt J Wkpr B, page 6, line 64, Column
18 Z) more than it paid for these electric expenses. NorthWestern recognized a
19 decrease to deferred income tax expense of \$458,440 (Stmt J Wkpr B, page
20 3, line 20, Column Z) to account for the temporary difference and increased
21 rate base by the same amount.

22

23

1 Environmental Reserve

2 For book purposes, NorthWestern accrues expenses for environmental costs
3 based upon estimated costs of future environmental remediation. For income
4 tax purposes, NorthWestern deducts these expenses when paid.

5
6 NorthWestern accrued \$5,116 (Stmt J Wkpr B, page 6, line 63, Column Z)
7 more than it paid for these electric expenses. NorthWestern recognized a
8 decrease to deferred income tax expense of \$1,347 (Stmt J Wkpr B, page 3,
9 line 29, Column Z) to account for the temporary difference and decreased
10 rate base by the same amount.

11
12 Accrued Incentive Compensation

13 NorthWestern uses incentive pay plans for all employees as part of their
14 compensation package. NorthWestern accrues incentive pay during the
15 current year, but pays it in March of the following year. For income tax
16 purposes, NorthWestern deducts these expenses when paid.

17 NorthWestern accrued \$831,286 (Stmt J Wkpr B, page 6, line 54, Column Z)
18 less than it paid for these electric expenses. NorthWestern recognized an
19 increase to deferred income tax expense of \$218,898 (Stmt J Wkpr B, page
20 3, line 22, Column Z) to account for the temporary difference and decreased
21 rate base by the same amount.

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Accelerated Depreciation

For federal income tax purposes, NorthWestern uses accelerated tax depreciation. For calculating deferred income taxes, NorthWestern uses normalized tax depreciation computed using book lives and book methods applied to the tax basis of assets. IRC Section 169(i)(9) and related regulations require that NorthWestern calculate deferred taxes this way to remain qualified to use accelerated methods of tax depreciation on its federal tax return.

NorthWestern's electric tax depreciation exceeded its normalized tax depreciation by \$73,370,793 (Stmt J Wkpr B, page 4, line 58, Column A). Known and measurable adjustments increased the excess depreciation by \$3,221,050 (Stmt J Wkpr B, page 6, line 58, Column Y) to \$76,591,843 (Stmt J Wkpr B, page 6, line 58, Column Z). Deferred federal income tax expense increased by \$15,407,867 (Stmt J Wkpr B, page 1, line 23, Column A). Deferred income tax expenses were then increased due to the above noted adjustments by \$676,419 (Stmt J Wkpr B, page 3, line 23, Column Y) resulting in a net deferred income tax expense increase of \$16,084,286 (Stmt J Wkpr B, page 3, line 23, Column Z).

NOL Deferred Tax Asset

Again, an NOL results if tax deductions exceed taxable income in a given year. An NOL Deferred Tax Asset represents the amount of tax benefit from

1 stand-alone utility tax losses (i.e., NOL) that have been deferred as an NOL
2 tax receivable from the taxing authorities. When NorthWestern incurs future
3 current tax liabilities, it will use this NOL tax receivable to pay those liabilities.

4
5 In the test year, NorthWestern accrued electric NOL carry forwards of
6 \$213,646,870 (Stmt J Wkpr B, page 4, line 65, Column A). After
7 \$150,803,781 (Stmt J Wkpr B, page 6, line 65, Column Y) of known and
8 measurable adjustments to reflect zero current taxable income, the electric
9 NOL were adjusted to \$364,450,651 (Stmt J Wkpr B, page 6, line 65, Column
10 Z). NorthWestern recognized a decrease to deferred income taxes of
11 \$56,258,562 (Stmt J Wkpr B, page 1, line 24, Column A). Rate base was
12 computed, however, using the “With and Without Method” for computing NOL
13 to comply with the normalization under IRC Section 168(i)(9). Deferred
14 income taxes were then reduced by \$39,710,405 (Stmt J Wkpr B, page 3, line
15 24, Column Y) related to known and measurable adjustments, to result in a
16 net deferred income tax decrease of \$95,968,967 (Stmt J Wkpr B, page 3,
17 line 24, Column Z).

18 19 *Customer Advances for Construction and Contributions In Aid of Construction*

20 When NorthWestern collects a Contribution in Aid of Construction (“CIAC”) or
21 a Customer Advance for Construction (“CAC”) from customers, the booked
22 capitalized plant costs are reduced by the amount collected. For income tax
23 purposes, the IRS considers the amount collected to be taxable income to

1 NorthWestern and the tax basis of the capitalized plant costs is increased for
2 tax depreciation purposes. In Order No. 5236c in Docket No. 86.11.62, the
3 Commission determined that the cost causer, not all customers, should bear
4 the costs associated with the taxability of CIAC and CAC. To recover the
5 costs associated with the current tax liability related to receipt of CIAC and
6 CAC, which is subsequently recovered through tax depreciation deductions in
7 future years, NorthWestern is allowed to collect a surcharge from the party
8 requesting the extension of service facilities. The surcharge reduces rate
9 base and book depreciation charged to all customers. The deferred taxes
10 related to CIAC and CAC serve to offset the current taxes related to CIAC
11 and CAC to ensure that customers are not charged for amounts for which
12 they are not responsible.

13
14 NorthWestern recognized electric CIAC and CAC taxable income of
15 \$39,688,126 (Stmt J Wkpr B, page 6, line 52, Column Z). NorthWestern
16 recognized a decrease to deferred income tax expense of \$10,450,875 (Stmt
17 J Wkpr B, page 3, line 27, Column Z) and increased rate base by the same
18 amount.

19
20 Costs of Refinancing Debt

21 NorthWestern generally accounts for costs related to the refinancing of its old
22 debt by amortizing those costs over the term of the new debt. For income tax
23 purposes, NorthWestern deducts these costs in the year incurred.

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NorthWestern deducted \$169,605 (Stmt J Wkpr B, page 6, line 56, Column Z) less than it amortized for these electric costs. NorthWestern recognized a decrease to deferred income tax expense of \$44,661 (Stmt J Wkpr B, page 3, line 28, Column Z) to account for the temporary difference and increased rate base by the same amount.

MPSC and Montana Consumer Counsel (“MCC”) Taxes

NorthWestern defers for book purposes differences between MPSC and MCC taxes collected in revenue versus the amount of MPSC and MCC taxes paid. For income tax purposes, NorthWestern recognizes these revenues as taxable income when they are received, and these taxes are deducted when paid.

NorthWestern paid \$1,707,646 (Stmt J Wkpr B, page 6, line 55, Column Z) more than it accrued for these electric expenses. NorthWestern recognized an increase to deferred income tax expense of \$449,666 (Stmt J Wkpr B, page 3, line 25, Column Z) to account for the temporary difference and decreased rate base by the same amount.

Miscellaneous Temporary Items

This includes various other book tax differences that impact taxable income to the utility, but have not impacted rate base based on historical precedence.

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These items resulted in additional expenses for electric of \$344,564,383 (Stmt J Wkpr B, page 6, line 62, Column Z). NorthWestern recognized an increase to deferred income tax expense of \$90,732,416 (Stmt J Wkpr B, page 3, line 26, Column Z) to account for the temporary differences.

Q. Please further explain the Income Tax Adjustment Columns in the Statement J workpapers.

A. The Income Tax Adjustment columns on Electric Stmt J Wkpr B, line 49, Column W, include an adjustment for the bad debt expense flow-through for income taxes. As discussed in the Direct Testimony of Elaine A. Rich, NorthWestern is utilizing a five-year average for uncollectible accounts but not including 2020 and 2021. As such, there is an adjustment decrease of \$157,604 to average the 2019, 2022, and 2023 bad debt expense flow-through taxes for electric.

Q. Please further explain the Interest Synchronization Adjustment Columns in the Statement J workpapers.

A. The Interest Synchronization Adjustment column on Electric Stmt J Wkpr B, Column X, synchronizes rate base and weighted cost of debt for computing the interest expense deduction included in the income tax expense computation in compliance with long-standing Commission-mandated policy.

1 This ensures customers are not charged any income tax expense impacts
2 due to recovery of deductible interest expense.

3

4 **Q. Please explain the income tax portions of the Electric Stmt J Wkpr B,**
5 **lines 14-30 and lines 48-67, Column U, 2024 Forecasted plant**
6 **adjustment column.**

7 **A.** These adjustments represent the income tax impacts as a result of the 2024
8 known and measurable plant-related items as discussed in the Direct
9 Testimony of Jeffrey B. Berzina.

10

11

Natural Gas Income Taxes

12 **Q. Please explain all of the provisions for deferred income taxes.**

13 **A.** The details of the natural gas deferred income taxes are shown in the Natural
14 Gas Statement J workpapers. I describe below the deferrals shown in that
15 statement. Because the explanations for each deferral are the same as I
16 testify to above, I do not repeat those explanations below but only provide the
17 dollar amount impact due to the deferrals.

18

19

Amortization of Excess/Deficient Deferred Income Taxes – Plant

20 Natural Gas Protected Plant EDIT decreased deferred income tax expense by
21 \$526,316 as shown in Stmt J Wkpr B, page 2, line 14, Column Q.

22

23

Amortization of Excess/Deficient Deferred Income Taxes - Unprotected Non-Plant

1 Natural Gas Unprotected Non-Plant EDIT amortization increased deferred
2 income tax expense by \$260,157 as shown in Stmt J Wkpr B, page 2, line 16.

3

4 Amortization of Regulatory Asset-Removal Costs

5 Natural gas removal costs amortization increased deferred income tax
6 expense by \$289,932 as shown in Stmt J Wkpr B, page 2, line 18.

7

8 Injuries and Damages

9 NorthWestern accrued \$677,041 (Stmt J Wkpr B, page 4, line 64, Column Q)
10 more than it paid for these natural gas expenses. NorthWestern recognized a
11 decrease to deferred income tax expense of \$178,282 (Stmt J Wkpr B, page
12 2, line 20, Column Q) to account for the temporary difference and increased
13 rate base by the same amount.

14

15 Environmental Reserve

16 NorthWestern paid \$176,591 (Stmt J Wkpr B, page 4, line 63, Column Q)
17 more than it accrued for these natural gas expenses. NorthWestern
18 recognized an increase to deferred income tax expense of \$46,501 (Stmt J
19 Wkpr B, page 2, line 29, Column Q) to account for the temporary difference
20 and decreased rate base by the same amount.

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Accrued Incentive Compensation

NorthWestern accrued \$323,278 (Stmt J Wkpr B, page 4, line 54, Column Q) less than it paid for these natural gas expenses. NorthWestern recognized an increase to deferred income tax expense of \$85,127 (Stmt J Wkpr B, page 2, line 22, Column Q) to account for the temporary difference and decreased rate base by the same amount.

Accelerated Depreciation

NorthWestern's natural gas tax depreciation exceeded its normalized tax depreciation by \$9,649,188 (Stmt J Wkpr B, page 3, line 58, Column A). Known and measurable adjustments, most notably 2024 forecasted plant adjustments, increased the excess tax depreciation by \$2,222,336 (Stmt J Wkpr B, page 4, line 58, Column P) to an amount of normalized depreciation exceeding tax depreciation by \$11,871,525 (Stmt J Wkpr B, page 4, line 58, Column Q). Deferred federal income tax expense increased by \$2,026,330 (Stmt J Wkpr B, page 1, line 23, Column A). Deferred income tax expenses were then increased due to the above noted adjustments by \$466,690 (Stmt J Wkpr B, page 2, line 23, Column P) resulting in a net deferred income tax expense increase of \$2,493,020 (Stmt J Wkpr B, page 2, line 23, Column Q).

NOL Deferred Tax Asset

In the test year, NorthWestern accrued natural gas NOL carry forwards of \$96,249,581 (Stmt J Wkpr B, page 3, line 65, Column A). After \$25,187,575

1 (Stmt J Wkpr B, page 4, line 65, Column P) of known and measurable
2 adjustments to reflect zero current taxable income, the natural gas NOL was
3 adjusted to \$121,437,156 (Stmt J Wkpr B, page 4, line 65, Column Q).
4 NorthWestern recognized a decrease to deferred income taxes of
5 \$25,344,921 (Stmt J Wkpr B, page 1, line 24, Column A). Rate base was
6 computed, however, using the "With and Without Method" for computing NOL
7 to comply with the normalization under IRC Section 168(i)(9). Deferred
8 income taxes were then reduced by \$6,632,518 (Stmt J Wkpr B, page 2, line
9 24, Column P) related to known and measurable adjustments, to result in a
10 net deferred income tax decrease of \$31,977,439 (Stmt J Wkpr B, page 2,
11 line 24, Column Q).

12

13 *Customer Advances for Construction and Contributions In Aid of Construction*

14 NorthWestern recognized natural gas CIAC and CAC taxable income of
15 \$7,401,145 (Stmt J Wkpr B, page 4, line 52, Column Q). NorthWestern
16 recognized a decrease to deferred income tax expense of \$1,948,907 (Stmt J
17 Wkpr B, page 2, line 27, Column Q) and increased rate base by the same
18 amount.

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1 Costs of Refinancing Debt

2 NorthWestern deducted \$65,957 (Stmt J Wkpr B, page 4, line 56, Column Q)
3 less than it amortized for these natural gas expenses. NorthWestern
4 recognized a decrease to deferred income tax expense of \$17,368 (Stmt J
5 Wkpr B, page 2, line 28, Column Q) to account for the temporary difference
6 and increased rate base by the same amount.

7
8 MPSC and Montana Consumer Counsel ("MCC") Taxes

9 NorthWestern paid \$664,085 (Stmt J Wkpr B, page 4, line 55, Column Q)
10 more than it accrued for these natural gas expenses. NorthWestern
11 recognized an increase to deferred income tax expense of \$174,870 (Stmt J
12 Wkpr B, page 2, line 25, Column Q) to account for the temporary difference
13 and decreased rate base by the same amount.

14
15 Miscellaneous Temporary Items

16 These items resulted in additional expenses for natural gas of \$128,955,868
17 (Stmt J Wkpr B, page 4, line 62, Column Q). NorthWestern recognized an
18 increase to deferred income tax expense of \$33,957,304 (Stmt J Wkpr B,
19 page 2, line 26, Column Q) to account for the temporary differences.

1 **Q. Please further explain the Income Tax Adjustment Columns of**
2 **Statement J workpapers.**

3 **A.** The Income Tax Adjustment columns on Natural Gas Stmt J Wkpr B, line 49,
4 Column N, include an adjustment for the bad debt expense flow-through for
5 income taxes. Again, as discussed by Ms. Rich, NorthWestern is utilizing a
6 five-year average for uncollectible accounts but not including 2020 and 2021.
7 As such, there is an adjustment decrease of \$61,290 to average the 2019,
8 2022, and 2023 bad debt expense flow-through taxes for natural gas.

9

10 **Q. Please further explain the Interest Synchronization Adjustment Columns**
11 **of Statement J workpapers.**

12 **A.** The Interest Synchronization Adjustment column on Natural Gas Stmt J Wkpr
13 B, Column O, synchronizes rate base and weighted cost of debt for
14 computing the interest expense deduction included in the income tax expense
15 computation in compliance with long-standing Commission-mandated policy.
16 This ensures customers are not charged any income tax expense impacts
17 due to recovery of deductible interest expense.

18

19 **Q. Please explain the income tax portions of the Natural Gas Stmt J Wkpr**
20 **B, lines 14-30 and lines 48-67 Column I 2024 Forecasted plant**
21 **adjustment column.**

22 **A.** These adjustments represent the income tax impacts as a result of the 2024
23 known and measurable plant-related items as discussed by Mr. Berzina.

1 **Proration of Accumulated Deferred Income Tax Balances**

2 **Q. Do the Accumulated Deferred Income Tax (“ADIT”) balances for electric**
3 **and natural gas include an adjustment to reflect the proration formula**
4 **required by IRS normalization regulations?**

5 **A.** Yes. Northwestern has computed rate base for the proration requirement in
6 order to comply with the requirements of Treasury Regulation Section
7 1.167(l)-1(h)(6), since the interim rates are requested to be effective as of
8 October 1, 2024, which is before the end of the known and measurable
9 period.

10
11 **Q. What are the consequences if NorthWestern does not comply with the**
12 **deferred tax normalization requirements, including the rules related to**
13 **TCJA excess deferred taxes, as discussed above?**

14 **A.** If NorthWestern does not comply with the deferred tax normalization
15 requirements discussed above, it will prospectively lose the right to deduct
16 accelerated depreciation. Instead, tax depreciation will equal regulatory
17 depreciation expense for public utility property subject to regulation by the
18 Commission that is in service at the time of the violation or placed in service
19 after the violation occurs.

20

Transferability of Production/Investment Tax Credits

1
2 **Q. Please explain how production tax credits (“PTC”) benefit customers.**

3 **A.** Section 45 of the IRC provides for PTCs based on production output of a
4 qualified facility. In Montana, NorthWestern has historically earned PTCs
5 based on qualified wind and hydro production and those credits reduce
6 NorthWestern’s federal income tax liability on a dollar-for-dollar basis based
7 on energy produced and the PTC rate in effect at the time of production.
8 Under traditional ratemaking, tax benefits directly reduce the costs of
9 generating electricity and the benefits are passed through to customers.
10 NorthWestern passes these federal income tax benefits to customers through
11 the Power Costs and Credits Adjustment Mechanism (“PCCAM”).
12

13 **Q. How do PTCs impact rate base?**

14 **A.** As mentioned above, PTCs are passed to customers through the PCCAM.
15 The PTCs are passed through to customers regardless of NorthWestern’s
16 ability to utilize the credits to reduce its income tax liability. The tax credits
17 are used to offset NorthWestern’s federal tax liability dollar for dollar, subject
18 to an overall cap of seventy-five percent of the total tax liability for each year.
19 Credits in excess of NorthWestern’s annual tax appetite and therefore not
20 utilized on a tax return are accumulated as a Deferred Tax Asset (“DTA”).
21 Such DTA is included in rate base until the credits are utilized against
22 NorthWestern’s income tax liability at a future time. This thereby diminishes

1 the value of the initial PTCs due to the carrying cost to those credits in rate
2 base.

3

4 **Q. Please provide an overview of the credit transferability provisions**
5 **contained in the Inflation Reduction Act (“IRA”) of 2022.**

6 **A.** The IRA contains provisions that allow both PTCs and Investment Tax Credits
7 (“ITC”) to be transferred. Under new IRC § 6418, an eligible taxpayer can
8 elect to transfer all (or any portion specified in the election) of an eligible
9 credit to an unrelated transferee taxpayer. The transfer may have the effect
10 of accelerating monetization of these credits. The transfer, however, must be
11 paid in cash, not be included in the income of the recipient taxpayer, and not
12 be deducted by the paying taxpayer. Further, the transfer must be a one-time
13 transfer (i.e., the transferee cannot make a subsequent election to further
14 transfer any portion of the transferred credit). The taxpayer must elect to
15 transfer the credits no later than the due date (including extensions) for the
16 tax return for the tax year for which the credit is determined, and any election,
17 once made, is irrevocable.

18

19 **Q. How does NorthWestern propose to treat PTCs generated in 2024 and**
20 **forward?**

21 **A.** As noted above, customers receive credits through the PCCAM for wind and
22 hydropower credits generated pursuant to IRC Section 45.

23

1 The IRA provides a method to transfer (sell) these credits that are generated
2 in 2023 and after. NorthWestern is proposing to begin transferring these
3 credits with the 2023 tax period and continue to transfer these credits as long
4 as NorthWestern does not have a tax appetite to currently utilize the credits.
5 The new law has resulted in a market for the transfer of the PTCs to unrelated
6 third parties. These sales generally transact at a discount and include
7 transactional costs.

8

9 **Q. Please explain the request to elect to transfer either PTCs or ITCs and**
10 **how that transfer will benefit customers.**

11 **A.** NorthWestern currently has a large carryforward of PTCs and a large net
12 operating loss carryforward. As a result, NorthWestern's ability to utilize
13 PTCs or ITCs currently is limited. Rate base amounts in this filing include
14 recovery of a PTC-related deferred tax asset from previous periods resulting
15 from this inability to currently use these credits. To maximize the value to
16 customers, because NorthWestern lacks the necessary tax appetite to utilize
17 the credits, NorthWestern proposes to transfer these credits (generated in
18 2023 and after). If transferred, the discount and transaction costs incurred
19 would be offset against the credits that pass through the PCCAM. Monetizing
20 transferable credits is beneficial to customers by mitigating the amount of
21 DTA related to credits in rate base.

22

1 **Property Taxes Adjustment**

2 **Q. Please explain the amount included in this filing as an adjustment for**
3 **property taxes.**

4 **A.** This docket will reset the base used annually in the property tax tracker
5 dockets. The most recent property tax tracker docket was Docket No.
6 2023.12.100. The Statement G income statements include a column labeled
7 “Taxes-Other Than Income Adjustment” that presents the adjustment for
8 property taxes. 2024 property taxes were estimated to be \$155 million, of
9 which \$121.5 million is electric and \$33.5 million is natural gas. An additional
10 \$4.4 million has been estimated as part of the Yellowstone County
11 Generating Station normalizing adjustment. NorthWestern will update to its
12 actual 2024 property tax expense when it files rebuttal testimony in this
13 proceeding to reflect changes that will be known at that time, which is
14 consistent with prior Commission practice. The test period computation of
15 property tax expense is shown in Statement G.

16
17 **Q. Does This conclude your direct testimony?**

18 **A.** Yes, it does.
19

Verification

This Direct Testimony of Aaron J. Bjorkman is true and accurate to the best of my knowledge, information, and belief.

/s/ Aaron J. Bjorkman
Aaron J. Bjorkman