



May 16, 2014

Ms. Patricia VanGerpen, Executive Director
S.D. Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, SD 57501

Re: Small Qualifying Facility Rider Updates

Dear Ms. Van Gerpen:

With this letter, NorthWestern Corporation ("NorthWestern" or the "Company"), doing business as NorthWestern Energy, is filing with the Commission revisions to its Electric Tariff. NorthWestern respectfully requests Commission approval of these proposed revisions.

Pursuant to ARSD 20:10:13:39, the Company states:

1. The documents submitted with this filing include:

Rate No. 73 Section No. 3, 10th revised Sheet No. 30
Rate No. 74 Section No. 3, 9th Revised Sheet No. 31
Work-papers Supporting Tariff Changes. Confidential treatment requested per ARSD
20:10:01:41 (see Exhibit A to this letter);

2. The proposed effective date for the tariff revisions is July 1, 2014.

3. Brief description of the tariff changes:

This update reflects the Company's projected 2014 avoided cost of fuel and purchased power values listed on rates 73 and 74. This projection is based on the historical information for the year ended December 31, 2013. The avoided cost rates were calculated using the weighted average cost of the Company's own generation utilized, and the weighted average cost of the Company's purchased power for 2013.



The kwh generated by this class of customers was spread over the hours of the year. For each hour that NorthWestern was purchasing power, the purchased power cost was utilized. For each hour NorthWestern was not purchasing power, the cost of NorthWestern's generation was used. This method is consistent with that utilized in docket EL11-006. The exception to the EL11-006 method for Rates 73 and 74 is that an annual update is utilized as opposed to a one-time levelized cost calculation.

The "Payment for Capacity" rate has been updated on sheets 30 and 31. NorthWestern recently completed a gas-fired peaking plant in Aberdeen, SD. The opportunity to avoid the cost of building the plant, due to the availability of power from SQF's, is no longer viable. With this plant now in place, the cost of replaced capacity from SQF's is equal to currently available capacity contracts. The current rate for this capacity is \$2.50 per KW per month.

4. Reasons for the proposed tariff changes:

This change will update tariff rates 73 and 74 to reflect prices based on historical 2013 data.

5. Number of customers whose cost of service will be affected and annual changes in cost of service to such customers.

This change will affect one customer receiving service under rate 73 and one customer receiving service under rate 74.

For the year ending December 31, 2013, the two customers have sold 2,550 kwh to the Company. The annual impact of this tariff change is an increase in the dollars paid of \$20.81.

Sincerely,

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