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South Dakota

PUBLIC UTILITIES COMMISSION

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Lee Pfeiffer

[REDACTED]
Huron, SD 57350

Dear Mr. Pfeiffer:

This is in response to your letter regarding NorthWestern Energy's electric rate increase request filed on Dec. 19, 2014 and currently being analyzed by the commission. I appreciate your concern about rising costs as a consumer on a fixed income. Unfortunately, the cost of living increases for all of us due to cost causers over which we have little or no control.

Here are excerpts from NW's letter filed with this rate request application:

NorthWestern last filed a general electric rate case in 1980, approximately 34 years ago. NorthWestern's addition of the Aberdeen peaker plant to its generation fleet, upgrades to the environmental controls at NorthWestern's thermal generation facilities, the Yankton transmission project, and NorthWestern's move to integrate with the Southwest Power Pool ("SPP") are the primary drivers for the need to increase electric rates in South Dakota.

The additional revenue requested in the Application is needed to offset the increased costs incurred by NorthWestern in providing service to its customers, including the costs caused by federally required upgrades for environmental emissions controls at Big Stone, Coyote, and Neal #4; the addition of new peaking generation in Aberdeen; transmission and distribution upgrades; and NorthWestern's participation in SPP.

Items such as plant construction and maintenance are included in base rates, and NW can only change these rates through a rate case request application. Because NW is a public utility and must operate within the laws that specifically govern public utilities, it cannot save in advance via customers' rates for plant construction or replacement or upgrade costs to comply with federal mandates. It must capture revenue for those expenses via customer rates. Rate increases to allow for such expenses must be approved by the Public Utilities Commission.

When a utility files a rate case with the commission, the commissioners and staff are obligated by law to thoroughly process the case. The commission cannot simply reject it since we are required to investigate and make a just and reasonable decision. This process can take almost a year to complete. Each commissioner, the commission's staff and expert consultants hired by staff as needed will review the entire case or docket separately, as will any intervenors in the case. These separate parties to the case will request and review additional data from the utility before commissioners ultimately render a decision. The law provides guidance as to how we must process and consider such a case, and it requires a decision be made within a year of the application. The commission typically needs most of that one-year period to complete its work.

You state: "I have a difficult time understanding how NorthWestern can implement the rate increase without your official approval. There are two items on this bill that caught my attention. First, the Customer Service Charge (meter charge) increased from \$5.00 in the June billing to \$9.00 in this August billing. An outrageous 80% increase! Next, the electricity rate increased from \$.108 per KWH in the July billing to \$.123 per KWH in this August billing. An unbelievable 13.9% increase! My total electricity charges are \$96.16 for 784 KWH before taxes in this August billing."

To help you better understand the processing of rate increase requests, a document titled Electric Rate Increase Requests Info Guide is enclosed. As referenced in this document, six months after filing a rate increase request application, a utility may put interim rates into effect, subject to refund depending on the commission's decision. NW implemented interim rates on July 1, 2015. However, if the final rates approved by the commission are lower than the interim rates, customers will be refunded the difference, with interest. These interim rates are the increased charges you noticed on your August billing.

The commission currently has an open electric rate case docket from not only NW, but also from Montana-Dakota Utilities as well as a natural gas rate case for the latter. We wrapped up rate cases from Black Hills Power, Xcel Energy and MidAmerican Energy as well as a natural gas rate case for MidAmerican, during the past six months. This group represents five of South Dakota's six investor-owned electric utilities. We are also hearing of rate increases in the news from rural electric cooperatives and municipal electric systems. If you access the applications filed by the utilities mentioned and regulated by the PUC, available on our website, you will find the reasons cited by the utilities as to their stated need for these proposed increases. Every one references new federal mandates including recent EPA mandates.

NorthWestern Energy has a monthly budget billing plan that you may wish to look into if you haven't already. With budget billing, you pay the same amount each month. Amounts are calculated based upon the past 12 months of usage at your current location and the rates in effect. NorthWestern will review your budget billing amount periodically to prevent a large overpayment or underpayment from accumulating on your account. Contact the utility's customer service staff by calling (800) 245-6977 to inquire about this to help manage your utility expenses.

Your comments and this response will be filed in docket. You can find it by going to www.puc.sd.gov and clicking on Commission Actions, Commission Dockets, Electric Dockets, 2014 Electric Dockets, and EL14-106.

Thank you for taking the time to share your concerns and allowing me the opportunity to provide answers to your questions.

Sincerely,



Chris Nelson