

**NorthWestern Energy
Docket No. EL14-106
Settlement Filing
Interim Refund Plan**

NorthWestern Energy submits the following plan for refunding the portion of the interim rates collected that will exceed the amount of the rate increase authorized in the South Dakota Public Utilities Commission (“SDPUC”) Order issued on _____, 2015. The interim rate period subject to refund is July 1, 2015 through the date that the Big Stone AQCS is placed in service (projected to be January 1, 2016). This Interim Refund Plan is based on final rates being effective January 1, 2016, but it will be adjusted to the actual date.

On May 29, 2015, NorthWestern filed its Notice of Intent to Implement Interim Rates pursuant to SDCL 49-34A-17. On July 1, 2015, NorthWestern implemented an interim increase of \$26,509,557 on an annual basis for service occurring on and after July 1, 2015.

In its _____, 2015 Order, the SDPUC approved an annualized increase in South Dakota jurisdictional electric revenues of \$20,919,313. This increase amount includes, among other things, the Beethoven purchase and Big Stone AQCS project. Beethoven was purchased on September 25, 2015. Prior to that date, interim rate revenue was not allowed to be recognized for this purchase. Since the Big Stone AQCS is not expected to be placed into service until January 1, 2016, interim rate recovery for this project will be refunded to customers. The annualized refund amount relating to revenues collected on an interim basis, including interest is \$7,443,979.

As part of its refund plan, NorthWestern intends to distribute the refunds no later than April of 2016. The timing of NorthWestern’s refund to its customers is affected by the time it takes to take intermediate steps. This plan assumes that final rates will become effective January 1, 2016. January will be a pro-rate month in which part of the rate charged to customers will be interim rate and part will be final rate. The pro-rate is based on the billing days determined by the meter read dates. February will have similar pro-rate scenarios although the number of days and dollars will be much smaller. In order to capture as much of the appropriate interim charges as possible, and yet balance with a timely refund, it has been determined to use February 29, 2016 as the cutoff refund date. The month of March will be used for calculating the final interim rate revenue collection and refund percentage. The refund will then be distributed to customers during the April billing cycles.

The refund calculation uses two time periods, July 1 – September 24 and September 25 – January 1, 2016. The first refund period represents the rate increase allowed for the pre-Beethoven purchase rate increase. Based on the calculations shown on page 1 of 3, column b, line 4 of the Interim Refund Plan, this time period requires a refund of 74.34%. The second refund period from September 25 forward, includes the revenue requirement of the Beethoven purchase. Column (c), line 4 on page 1 shows the calculation of the refund of 40.32% for the second time period. The two refund percentages are combined together and weighted by the interim revenue collected on line 5 of page 1. The resulting overall refund percentage is 52.99% as shown on line 13, column d.

The estimated weighted average interim refund percentage of 52.99% is applied to the monthly interim revenues collected to provide monthly interim refund amounts. See Interim Refund Plan, Page 2 of 3, Column (d). Please note that Page 2 of 3 includes estimated interim refund collections for the period from October 1, 2015, through February 29 2016. Actual interim

collections will be used in the calculations when they are available. The total interim refund amount without interest is estimated at \$7,216,235 Page 1 of 3, Line 6.

As part of the refund, NorthWestern will include interest, calculated by applying a 7% annual interest rate to the average refund balance for each month that interim revenues were collected (July 1, 2015, through February 29, 2016). The interest calculation is shown on Page 3 of 3, with total interest charges through March 31, 2016, estimated at \$227,744.

The interim refund amount (Page 1 of 3, Line 6) plus interest (Page 1 of 3, Line 7) equals the total refund obligation of \$7,443,979 (Page 1 of 3, Line 8). The total refund obligation as a percent of interim revenue collected equals the interim refund factor, which is estimated to be a weighted average of 54.66% (Page 1 of 3, Line 15).

For every customer assessed an interim rate charge, a refund will be calculated by multiplying the customer's actual interim rate charges during the period from July 1, 2015, through February 29, 2016, by the interim refund factor. The estimated refund for a residential customer using 750 kWh per month is a total refund of \$54.97. Refunds of the applicable sales taxes will also be included in the refund amount. The interim rate refunds will be credited to accounts during a monthly billing cycle beginning no later than April 1, 2016. Refunds for existing customers will be in the form of a bill credit posted to the customer's account. A bill message will be developed to briefly describe the refund credit. Customers due a refund who are no longer NorthWestern customers will receive a check if the refund amount is \$5.00 or more. Any residual non-refunded dollars will be included in the Fuel and Purchased Power Adjustment true-up for distribution to all remaining customers.