

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE APPLICATION OF)	SETTLEMENT
NORTHWESTERN CORPORATION DBA)	STIPULATION
NORTHWESTERN ENERGY FOR AUTHORITY)	
TO INCREASE ITS ELECTRIC RATES)	EL14-106
)	

It is hereby stipulated and agreed by and between NorthWestern Corporation d/b/a NorthWestern Energy (“NorthWestern”) and the South Dakota Public Utilities Commission Staff (“Staff”) (collectively the “Parties”), that the following Settlement Stipulation (“Stipulation”) may be adopted by the South Dakota Public Utilities Commission (“Commission”) in the above-captioned matter. In support of its Application for Authority to Increase Its Electric Rates (“Application”), NorthWestern offers this Stipulation, the Application and all supporting materials filed December 19, 2014, and thereafter, and NorthWestern’s supplemental public response to PUC Staff Data Request 7-6 (attached as Exhibit 2) regarding NorthWestern’s acquisition of the Beethoven wind generation facility (“Beethoven”) from BayWa r.e. Wind, LLC, which is also addressed through this Stipulation. The Parties offer no answering testimony or exhibits, conditioned upon the Commission accepting the following Stipulation without any material condition or modification.

I. INTRODUCTION

On December 19, 2014, NorthWestern filed the Application through which it requested authority to increase annual base-rate revenues by approximately \$26.5 million annually based on NorthWestern’s test year ending September 30, 2014. On January 8, 2015, the Commission issued an Order Assessing Filing Fee and Suspending Operation of Rates for 180 days. On February 6, 2015, Redfield Energy, LLC, Toshiba America Business Solutions, Inc., and Trail King Industries,

Inc. (collectively “Industrial Intervenors”) filed a Petition to Intervene. Also on February 6, 2015, Wal-Mart Stores, Inc. (“Walmart”) filed a Petition to Intervene. The Commission entered an Order Granting Intervention to the Industrial Intervenors and Walmart on March 3, 2015. On March 20, 2015, twenty-seven NorthWestern customers filed a petition requesting that the Commission hold a public hearing. On April 2, 2015, the Commission issued an Order Granting Petition to Hold a Public Hearing. The Commission held a public hearing in Yankton, SD on May 14, 2015, to receive public comment. On July 1, 2015, NorthWestern implemented interim rates. On July 23, 2015, NorthWestern announced that it had entered into an agreement to purchase Beethoven. Beethoven is an 80 megawatt wind facility located near Tripp, SD and is currently a qualifying facility (“QF”) selling its output to NorthWestern pursuant to two QF contracts.

The Parties have been able to resolve all issues between them in this proceeding and have entered into this Stipulation, which, if accepted and ordered by the Commission, will determine the rates that result from NorthWestern’s Application. The Parties acknowledge that the Commission has granted intervention to the Industrial Intervenors and Walmart, who are not parties to the Stipulation.

II. PURPOSE

This Stipulation has been prepared and executed by the Parties for the sole purpose of resolving the issues between them in Docket No. EL14-106. The Parties acknowledge that they may have differing views that justify the end result, which they deem to be just and reasonable, and, in light of such differences, the Parties agree that the resolution of any single issue, whether express or implied by the Stipulation, should not be viewed as precedent setting. In consideration of the mutual promises hereinafter set forth, the Parties agree as follows:

- 1) Upon execution of the Stipulation, the Parties shall file this Stipulation with the

Commission together with a joint motion requesting that the Commission issue an order approving this Stipulation in its entirety without condition or modification.

2) This Stipulation includes all terms of settlement and is submitted with the condition that in the event the Commission imposes any material changes in or conditions to this Stipulation which are unacceptable to either Party, this Stipulation may, at the option of either Party, be withdrawn and shall not constitute any part of the record in this proceeding or any other proceeding or be used for any other purpose.

3) This Stipulation shall become binding upon execution by the Parties, provided however, that if this Stipulation does not become effective in accordance with Paragraph 2 above, it shall be null, void, and inadmissible in this case or in any other case. This Stipulation is intended to relate only to the specific matters referred to herein; neither Party waives any claim or right which it may otherwise have with respect to any matter not expressly provided for herein; neither Party shall be deemed to have approved, accepted, agreed, or consented to any ratemaking principle, or any method of cost of service determination, or any method of cost allocation underlying the provisions of this Stipulation, or be advantaged or prejudiced or bound thereby in any other current or future rate proceeding before the Commission. Neither Party nor a representative thereof shall directly or indirectly refer to this Stipulation or that part of any order of the Commission relating to this Stipulation as precedent in any other present or future rate proceeding or any other proceeding before the Commission.

4) The Parties to this proceeding stipulate that all prefiled testimony, exhibits, and workpapers will be made a part of the record in this proceeding. The Parties understand that if this matter had not been settled, Staff would have filed direct testimony, NorthWestern would have filed rebuttal testimony responding to certain positions contained in the direct testimony of Staff,

and an evidentiary hearing would have been conducted where the witnesses providing testimony would have been subject to cross-examination.

5) It is understood that Staff enters into this Stipulation for the benefit of all of NorthWestern’s South Dakota customers affected by this docket.

III. ELEMENTS OF THE SETTLEMENT STIPULATION

1. Revenue Requirement

The Parties agree that the total estimated revenue deficiency inclusive of Beethoven and the air quality control system added to the Big Stone Generating Station (“Big Stone AQCS”) is \$29,215,100 as illustrated in the chart below. When recognizing the existing Beethoven QF contracts costs to be eliminated, the net impact to customers is \$20,900,391. Per SDCL 49-34A-21, in no event shall the rates approved by the Commission exceed the level of rates requested by NorthWestern. When examining this statute, the Parties agree it is appropriate to recognize the reduction in the Delivered Cost of Fuel adjustment that will be achieved as including Beethoven in this rate case is merely a shift in the method of cost recovery and the Delivered Cost of Fuel adjustment is a rate paid by customers that impacts the total level of revenues received by NorthWestern. While the first year revenue requirement for Beethoven is \$704,108 higher than the current QF contracts, power prices under the QF contracts escalate quickly and are expected to be higher than the owned revenue requirement after the second year and throughout the remainder of the QF contracts. The Parties estimate that NorthWestern’s customers will save approximately \$44 million (\$25 million NPV) over the 20-year period by NorthWestern acquiring Beethoven versus the 20-year QF contracts. Except as noted elsewhere in this Stipulation, the table below shows the total rate impact of all of the Parties’ agreements.

	<i>NWE SD Electric</i>	<i>Beethoven</i>	<i>Total</i>
Base Rate Increase	20,196,654	20,472,104	40,668,758
Beethoven Alternative Annual Wind Tax (collected through tracker)	-	386,085	386,085
Beethoven production tax credits (passed through tracker)	-	(11,839,372)	(11,839,372)
Stipulated Revenue Deficiency	20,196,654	9,018,817	29,215,471
Existing Beethoven QF contracts cost to be eliminated		(8,314,709)	(8,314,709)
Net impact to customers	20,196,654	704,108	20,900,762
<i>Revenue at Present Rates</i>	<i>127,053,893</i>	<i>8,314,709</i>	<i>135,368,602</i>
<i>Increase to Present Rates</i>	<i>15.9%</i>	<i>8.5%</i>	<i>15.4%</i>

The actual first-year impact on NorthWestern’s customers will be less than the \$21 million net impact shown in the table above due to the effect of the delayed in-service date of some assets. Paragraphs 2, 3, and 4 below describe adjustments due to the dates at which Beethoven, the Big Stone AQCS, and incremental allowed capital investments through September 30, 2015, are put in service. The Parties agree to a 7.24% rate of return on rate base.

2. Beethoven

The Parties agree that it is consistent with South Dakota law and the Commission’s rules and orders to establish base rates for the acquisition of Beethoven. Including the full amount of Beethoven now will mitigate the need for a future rate case and associated costs to litigate as well as bring substantial energy cost benefits to customers, including associated production tax credits (“PTCs”) through the Delivered Cost of Fuel adjustment clause. As shown below, based on the agreed-upon overall rate of return and the lower Alternative Wind Tax, the Parties estimate that NorthWestern’s customers will save approximately \$44 million (\$25 million NPV) over the next 20 years as compared to the existing QF contracts.

Comparison of NWE owned (3 year levelized) to existing QF contract rates							
Year	NWE Owned (7.24% RoR)		Existing QF Contracts		Variance		
	\$/MWH	Revenue (millions)	\$/MWH	Revenue (millions)	\$/MWH	Revenue (millions)	
	<u>3 year levelized then annual cost of service</u>		Combined Beethoven I & II QF		QF Contract Greater (Less) than Owned		
1 2016	\$27.56	\$9.0	\$25.40	\$8.3	-\$2.15	(\$0.7)	
2 2017	\$27.56	\$9.0	\$26.43	\$8.7	-\$1.12	(\$0.4)	
3 2018	\$27.56	\$9.0	\$27.63	\$9.0	\$0.07	\$0.0	
4 2019	\$17.57	\$5.8	\$28.95	\$9.5	\$11.38	\$3.7	
5 2020	\$14.23	\$4.7	\$30.38	\$9.9	\$16.15	\$5.3	
6 2021	\$10.89	\$3.6	\$31.79	\$10.4	\$20.90	\$6.8	
7 2022	\$8.80	\$2.9	\$33.12	\$10.8	\$24.33	\$8.0	
8 2023	\$7.10	\$2.3	\$34.39	\$11.3	\$27.30	\$8.9	
9 2024	\$5.38	\$1.8	\$35.76	\$11.7	\$30.38	\$9.9	
10 2025	\$29.01	\$9.5	\$37.11	\$12.1	\$8.10	\$2.7	
11 2026	\$47.79	\$15.6	\$38.55	\$12.6	-\$9.25	(\$3.0)	
12 2027	\$47.17	\$15.4	\$40.00	\$13.1	-\$7.17	(\$2.3)	
13 2028	\$46.54	\$15.2	\$41.36	\$13.5	-\$5.18	(\$1.7)	
14 2029	\$45.92	\$15.0	\$42.94	\$14.1	-\$2.98	(\$1.0)	
15 2030	\$45.30	\$14.8	\$44.53	\$14.6	-\$0.76	(\$0.2)	
16 2031	\$45.57	\$14.9	\$46.16	\$15.1	\$0.59	\$0.2	
17 2032	\$45.11	\$14.8	\$47.97	\$15.7	\$2.86	\$0.9	
18 2033	\$44.65	\$14.6	\$49.67	\$16.3	\$5.02	\$1.6	
19 2034	\$44.20	\$14.5	\$51.52	\$16.9	\$7.33	\$2.4	
20 2035	\$43.74	\$14.3	\$53.48	\$17.5	\$9.74	\$3.2	
21 2036	\$43.16	\$14.1	\$55.51	\$18.2	\$12.35	\$4.0	
22 2037	\$42.83	\$14.0	\$58.04	\$19.0	\$15.21	\$5.0	
23 2038	\$42.50	\$13.9	\$60.69	\$19.9	\$18.19	\$6.0	
24 2039	\$42.17	\$13.8	\$63.45	\$20.8	\$21.28	\$7.0	
25 2040	\$41.85	\$13.7	\$66.34	\$21.7	\$24.50	\$8.0	
20 Year Comparison (millions)							
NWE Owned		Existing QF Contracts		Variance			
Total Revenue:	\$206.7	Total Revenue:	\$251.1	Total Revenue:	\$44.4		
NPV of Revenue:	\$94.1	NPV of Revenue:	\$119.5	NPV of Revenue:	\$25.4		
Discount Rate:	7.24%	Discount Rate:	7.24%	Discount Rate:	7.24%		
25 Year Comparison (millions)							
NWE Owned		Existing QF Contracts		Variance			
Total Revenue:	\$276.3	Total Revenue:	\$350.6	Total Revenue:	\$74.3		
NPV of Revenue:	\$108.2	NPV of Revenue:	\$139.4	NPV of Revenue:	\$31.3		
Discount Rate:	7.24%	Discount Rate:	7.24%	Discount Rate:	7.24%		

For rate moderation of the impact of Beethoven, the Parties agree that NorthWestern shall recover \$9.0 million for Beethoven for each of the first three years after Beethoven is placed in service. On or before October 1, 2018, NorthWestern will, at its option, file an electric general rate

case or adjust the amount in base rates for Beethoven to the cost of service calculated based on actual year 3 revenue requirements adjusted for known and measurable changes, using Staff's settlement cost of service model utilized in this rate case. At the same time, NorthWestern will adjust the authorized revenue requirement for Beethoven for any differences between operations and maintenance expenses incurred in the operation of Beethoven and the estimated amounts used in establishing the amount in base rates. The net amount over collected or under collected from customers between October 1, 2015, and September 30, 2018, will be held in a regulatory asset until such time it is refunded or billed to customers (without interest) as a one-time separate line item amount on customer bills.

The Parties acknowledge that no expenses related to Beethoven have been included in the interim rates implemented on July 1, 2015. Consequently, NorthWestern shall not include any Interim Refund for Beethoven in its forthcoming Interim Rate Refund Plan. NorthWestern expects that the Beethoven transaction will close on or before, and Beethoven will be placed in service, prior to September 30, 2015. However, if Beethoven is not acquired and placed into service prior to the effective date of rates approved in this docket, the Parties agree that a step increase in rates should occur on the actual date Beethoven is acquired and placed into service.

On the date that Beethoven is placed in service, NorthWestern will adjust its Delivered Cost of Fuel adjustment to eliminate the cost of purchased power from the Beethoven QF contracts and to include, as a credit, the PTC's associated with Beethoven.

3. Big Stone AQCS

The Parties agree that it is consistent with South Dakota law and the Commission's rules and orders to include all committed capital costs and AFUDC through project in service for the Big Stone AQCS.

Because the Big Stone AQCS is a significant capital addition that will be placed in service after the implementation of interim rates on July 1, 2015, the Parties agree to include the revenue requirement of this project in rates when the Big Stone AQCS is placed in service (expected to be November 1, 2015). The difference between the increase in rates including Big Stone AQCS and the increase in rates excluding Big Stone AQCS for the time period between July 1, 2015 and the in service date of Big Stone AQCS shall be refunded to customers through the calculation of the interim rate refund. This will be in addition to the refund of the difference between interim rates and the approved final rates, as discussed below in Paragraph 6. Final rates will be implemented following the in service date of Big Stone AQCS.

4. Incremental Allowed Capital Expenditures

The Parties agree that NorthWestern may include additional non-revenue producing capital investments completed between August 1, 2015, and October 1, 2015, in its rate base. The revenue deficiency including Big Stone AQCS, shown above, shall be increased to account for those investments and related depreciation. The additional revenue deficiency associated with these additional capital projects will be included with the final increase as described above regarding Big Stone AQCS. The estimated revenue deficiency with Big Stone AQCS includes actual capital projects through September 14, 2015. NorthWestern shall verify the additional non-revenue producing capital investments to be included through September 30, 2015, by filing an affidavit with the Commission as soon as practicable after September 30, 2015.

5. Tariffs

The Parties agree revised tariffs will be filed when final rates are available, after November 1, 2015. At that time all final adjustments to the cost of service will have been determined.

The Parties agree that the rate design to be set forth in the revisions to NorthWestern's

tariffs is just and reasonable and provides for the movement of each customer class toward its associated cost of service. The Parties agree that the increase in rates for electric service will be allocated to the affected rate classes resulting in increases as shown in Exhibit 1. The Parties agree that the rates agreed to by the Parties result in just and reasonable rates for all of NorthWestern's South Dakota customers.

The Parties agree that the revised rate schedules shall be implemented for service rendered on and after the Commission approved effective date, with the bills prorated so that usage prior to July 1, 2015, is billed at the previous rates and usage on and after July 1, 2015, is billed at the new rates.

6. Interim Rate Refund

Interim rates were implemented on July 1, 2015. Approval of this Stipulation will authorize a rate increase less than the interim rate level in effect. NorthWestern agrees to refund customers a portion of the interim rates collected during the period July 1, 2015, through the effective date of new rates, plus interest. The revenue requirement of Beethoven will be implemented in rates as of its closing date. From that date forward, the Beethoven revenue requirement will be included in rates and interim rate collections. The estimated annual Production Tax Credit amount will be included in the fuel tracker and will be applied to customers' bills beginning October 1, 2015. The Big Stone AQCS revenue requirement will be applied to rates beginning on the date Big Stone AQCS is placed in service, expected to be November 1, 2015. Amounts collected in interim rates prior to this date for the Big Stone AQCS will be refunded to customers. The final interim rate refund, after considering the closing date of Beethoven and the in-service date of the Big Stone AQCS project, will be applied to customer bills by March 2016. NorthWestern will separately file a proposal for an Interim Rate Refund Plan and the Customer Notifications.

7. Rate Case Expense

The Parties agree that the total rate case expense associated with Docket No. EL14-106 is a total of \$390,409 and that an amortized amount of \$78,082 in rate case expense is included in the revenue requirement.

8. Southwest Power Pool

In the Application, NorthWestern indicated that it intended to join the Southwest Power Pool (“SPP”) and requested adjustment to its Delivered Cost of Energy and Delivered Cost of Fuel adjustment clauses to accommodate participation in SPP. Each of the existing clauses shall be modified as described below upon NorthWestern joining SPP.

Delivered Cost of Fuel

The Parties agree that upon NorthWestern joining SPP, all revenues from the sale of energy and all expenses from purchases of energy through SPP will be included in the Delivered Cost of Fuel adjustment clause along with all other items currently included.

Delivered Cost of Energy

The Parties acknowledge that NorthWestern does not currently have any transmission assets that will be managed by SPP except those that serve NorthWestern’s South Dakota customers. The Parties further acknowledge that prior to joining SPP, NorthWestern has recovered transmission charges imposed on it by WAPA and refunded transmission revenue credited to it by WAPA through its Delivered Cost of Energy adjustment clause. The Parties agree that upon NorthWestern joining SPP, NorthWestern should be able to recover all transmission-related South Dakota costs imposed on it by SPP from its South Dakota customers and to credit the transmission-related South Dakota revenue to its South Dakota customers. The current Delivered Cost of Energy Adjustment clause will be maintained to accomplish this recovery.

9. Economic Development

The Parties agree that economic development expenses up to \$70,000 shall be equally shared by shareholders (\$35,000) and customers (\$35,000). Expenses shall include, but not be limited to, all South Dakota expenses and monetary contributions deemed to be a benefit to economic development in the NorthWestern Energy South Dakota electric territory. On an annual basis, no later than March 31 of each year, NorthWestern will submit with the Commission a filing which describes the actual cost, design, and benefits of each cost of NorthWestern's Economic Development programs in the previous calendar year and the projected cost, design, and benefits of each cost to NWE's Economic Development programs in the current calendar year. The Commission may determine that some of the programs are not appropriate for purposes of 50% rate recovery. If the remaining programs cost less than \$70,000 at the end of a program year, the unspent costs shall be "carried over" into the next program year for Commission approval of expenditure or other efficient method as the Commission determines to be appropriate. No carry over shall occur for amounts spent annually in excess of \$70,000.

10. Asset and Non-asset Based Margins

The Parties agree that South Dakota customers will be credited 100% of asset based margins in the Delivered Cost of Fuel adjustment clause. Although NorthWestern does not currently engage in non-asset based margin activities, if NorthWestern engages in such activities in the future, any positive non-asset based margins will be shared with customers (70% to shareholders; 30% to customers) through the Delivered Cost of Fuel adjustment clause. Any negative non-asset based margins will be 100% responsibility of shareholders.

11. Moratorium

A. The Parties agree that NorthWestern shall not file any rate application for an

increase in electric base rates which increase would go into effect prior to July 1, 2018; provided, this restriction would not prevent NorthWestern from filing for a base rate increase to take effect prior to July 1, 2018, if NorthWestern's cost of service is expected to increase due to an "Extraordinary Event." The Parties agree that this rate moratorium does not restrict NorthWestern from adjusting or applying to the Commission to implement any rider or other adjustment mechanism, including, but not limited to, the Delivered Cost of Fuel adjustment, Ad Valorem Taxes Paid Adjustment, Demand Side Management Adjustment, Delivered Cost of Energy, if any, Transmission Cost Recovery Adjustment, if any, phase in rate plan or environmental improvement adjustment or other rider or adjustment mechanism that may take effect on or after the effective date of final rates.

B. As used in this Stipulation "Extraordinary Event" is any one of the following occurrences:

1) Governmental Impositions – Changes in federal, state or local governmental requirements or governmental charges including, but not limited to, income taxes, taxes, charges or regulations imposed on energy, emissions, or environmental externalities requirements imposed after the effective date of final rates, upon NorthWestern that are projected to cause its South Dakota cost of service to increase by \$1,000,000 or greater. Increases in NorthWestern's South Dakota cost of service that are less than \$1,000,000 will be presumed not to be material for the purposes of this paragraph.

2) Major Capital Additions – New capital projects with individual budgets expected to be allocated to the South Dakota jurisdiction greater than \$10,000,000.

3) Force Majeure (Act of God) – A force majeure event causing an immediate material impact to NorthWestern's South Dakota cost of service which without allowing a revision to rates

would impair NorthWestern's ability to provide safe, adequate, and reliable electric service to its customers.

This Stipulation is entered into effective this 23 day of September, 2015.

NORTHWESTERN ENERGY

SOUTH DAKOTA PUBLIC UTILITIES
COMMISSION STAFF

BY: _____



BY: Karen E. Cremer

ITS: _____

VP-CFO

ITS: Staff Attorney

Exhibits to Settlement Stipulation

- Exhibit 1 Allocation of Rate Increase
- Exhibit 2 NorthWestern's Supplemental Public Response to Staff Data Request 7-6