

IN THE MATTER OF THE APPLICATION OF
NORTHWESTERN CORPORATION DBA NORTHWESTERN ENERGY
FOR AUTHORITY TO INCREASE ITS NATURAL GAS RATES

STAFF MEMORANDUM SUPPORTING
SETTLEMENT STIPULATION

DOCKET NG07-013

Commission Staff submits this memorandum in support of the Settlement Stipulation of November 29, 2007, between Commission Staff and Northwestern Corporation dba Northwestern Energy in the above captioned matter.

BACKGROUND

On June 1, 2007, Northwestern Corporation dba Northwestern Energy (NWE) filed for approval of an increase in rates for natural gas service in South Dakota. In its application NWE requested \$3,682,377 of additional revenue, an increase of approximately 6.7% in 2006 test year revenues.

The Commission gave notice of the filing on June 7, 2007, and set an intervention deadline of July 20, 2007. On July 2, 2007, pursuant to SDCL 49-31-14, the Commission suspended the operation of the schedule of rates proposed by NWE for 90 days beyond July 1, 2007. On August 29, 2007, the Commission issued its Order for and Notice of Procedural Schedule and Hearing ordering that a hearing be held on October 10 and 11, 2007. On September 25, 2007, the Commission granted an extension of the proposed schedule of rates for an additional 60 days beyond September 29, 2007. On September 26, 2007, the Commission issued an Amended Order For and Notice Of Procedural Schedule and Hearing ordering a Hearing be held on November 7 and 8, 2007. Staff filed testimony and exhibits supporting its case on October 19, 2007. On November 1, 2007, NWE filed a motion requesting revision of the procedural schedule to provide additional time for settlement discussions.

Settlement discussions commenced on October 25, 2007, at which time many issues were settled but agreement on major depreciation, return on equity, manufactured gas plant clean up costs, and federal income tax related issues were not reached. NWE continued to provide Staff with additional requested information and discussions continued throughout November until the remaining issues were resolved.

STAFF'S OVERVIEW OF NWE'S CASE

NWE's filing was based on a test year ending December 31, 2006, as adjusted for what NWE claimed to be known and measurable changes, and a claimed 8.99% overall rate of return reflecting an 11.25% return on common equity capital. NWE's proposed to increase residential non-gas revenues (combined monthly customer charge and non-gas commodity charge revenues) by 31.80%. The corresponding increase to the small

commercial and large commercial customers were proposed to be 30.03% and 32.73% respectively.

NWE's case consisted of 3 rate base and 19 operating income adjustments to the 2006 test year operations. NWE's witnesses testified that the requested rate increase was necessary to recover increased operating costs due to additional federal government regulations and additional costs related to new capital investments.

- 2006 Test Year

NWE adopted the calendar year 2006 as a test year during which time, according to its calculations, it had incurred an actual operating loss of \$431,502 in its South Dakota gas operations. For the same period, and before any adjustments, NWE determined that its South Dakota gas operations rate base was \$42,823,994.

- NWE's Operating Income and Rate Base adjustments to the 2006 test year

Weather Normalization – The 2006 test year heating season was warmer than normal. This resulted in NWE distributing less gas to its weather sensitive (heating) customers. It is standard practice to normalize the weather sensitive test year volumes to reflect normal weather conditions based on a 30 year average. Thus, NWE's case reflected an adjustment to normalize company revenues and gas costs based on weather normalized volumes. Although property taxes are a fixed amount not dependant on weather, NWE's weather normalization adjustment also adjusted property taxes in an attempt to match property tax expense and revenues collected during the test year. NWE's weather normalization adjustment resulted in a \$715,331 increase in operating income, thus reducing the requested increase in rates.

Nekota Customer Load – Effective March 1, 2007, Nekota was merged into NWE. As a result of this transaction, NWE assumed the former Nekota customers and the related plant, revenue and expenses of serving those customers. Thus, NWE proposed an adjustment to include \$8,729,164 in rate base and \$1,417,365 in operating income to the 2006 test year.

Other Revenues – NWE included an adjustment using a three year average for customer late payment charges, miscellaneous customer service charges and other gas revenues instead of the test year amounts. This adjustment decreased operating income by \$6,934.

Rate Case Expense – NWE proposed an adjustment to add \$150,000 of rate case expense amortized over 5 years to the test year with the average unamortized balance included in rate base as a regulatory asset. This adjustment added \$75,000 to rate base and decreased operating income by \$19,500.

Merger and Acquisition and Nonutility Costs – NWE proposed an adjustment to remove from the test year, merger and acquisition expenses and other non-utility costs that were allocated to the South Dakota gas operations. This adjustment increased operating income by \$66,310.

Advertising Expense – NWE included an adjustment to remove test year promotional and institutional advertising expense from the test year operations. This adjustment increased operating income by \$68,536.

Labor Expense – NWE proposed a known and measurable adjustment to increase labor expense by 3% from the test year labor amounts. This adjustment decreased operating income by \$78,220.

Intra-Company Rent – In its testimony NWE explained that certain computer software and hardware assets had been capitalized in one regulatory jurisdiction but used by all jurisdictions, and thus NWE added an intra-company rental charge for the use of those assets in the South Dakota gas operations. This adjustment decreased operating income by \$24,461.

Interest Synchronization – NWE proposed an “interest synchronization adjustment” to match tax deduction for interest on long term debt with the adjusted rate base and weighted cost of long-term debt reflected in its claim rate of return. This adjustment increased operating income by \$116,130.

Insurance Actuarial Adjustment – NWE proposed an adjustment which reversed a 2006 self insurance actuarial adjustment not associated with the normal course of business activities. This adjustment decreased operating income by \$22,960.

Depreciation Rate Changes – In 2006 Foster and Associates completed a depreciation study of NWE's gas and common plant facilities in South Dakota and Nebraska. That study recommended a number of depreciation rate changes on a going forward basis. NWE proposed an adjustment which reflects those changes increasing operating income by \$143,604.

Association Dues – NWE proposed an adjustment to eliminate certain association dues increasing operating income by \$4,836.

Freeman/AMPI Addition – Effective February 1, 2007, NWE purchased the Freeman and AMPI gas distribution systems. Since NWE now serves those customers, NWE proposed an adjustment reflecting the purchase of the plant and the related expenses and revenues for serving those customers. This adjustment increased rate base by \$1,547,694 and increased operating income by \$133,388.

Nekota O&M Charges – Prior to the merger of Nekota into NWE, NWE charged Nekota a management fee. With the merger of Nekota into NWE, NWE claimed this fee was eliminated and thus an adjustment was necessary to reflect a normalized level of labor. This adjustment decreased operating income by \$8,624.

Stock Grants – In 2006 shares of common stock were granted to non-officer employees as part of a stock based incentive plan. Additionally, a long-term incentive plan covering officers and various management level employees was approved. NWE proposed an adjustment to spread the total cost of these benefits over a three year period starting at the beginning of the test year. This adjustment decreased operating income by \$65,623.

IT Upgrades – NWE proposed an adjustment to normalize labor expense for what NWE indicated was an abnormal amount of labor that was capitalized in 2006 for software upgrades. This adjustment decreased operating income by \$20,850.

Lobbying Expense – NWE included an adjustment to remove lobbying expense from the cost of service. This adjustment increased operating income by \$1,649.

Changes to General Terms and Conditions Tariff - In its filing NWE proposed a number of changes to the general terms and conditions in its tariff, including:

- 1) An increase in the charge to connect customers after hours from \$15 to \$125 and an increase the charge for reconnecting customers after disconnection from \$60.52 to \$125 based on Union labor after hours costs.
- 2) An increase in the customer connection charge for Seasonal Customers from \$10 during normal working hours to \$80 and after normal working hours from \$15 to \$125 to better reflect the cost of performing a reconnection and to recover the lost monthly customer charges avoided by these customers.
- 3) Changes to the residential line extension policy and the addition of a Commercial and Industrial line extension policy whereby customers may be required to contribute to the cost of extending facilities based upon an economic feasibility analysis.
- 4) Proposed language allowing it to recover the added cost of constructing line extensions outside of the regular construction season.
- 5) A new fee in the case where access to a meter was denied for three consecutive months, and
- 6) A new fee for recovering costs due to customers tampering with or bypassing meters.

Adjustment to reflect these changes increased operating income by \$8,263.

Ad Valorem Tax Allocation – NWE proposed an adjustment to test year operations which changed the allocation of property taxes to the South Dakota gas operations. This adjustment increased operating income by \$396,211.

Other Issues – In Commission docket NG07-009 NWE asked for Commission approval to set up a deferral of all of the costs that Nekota would have recovered through the NWE PGA related to Nekota. These costs were no longer recoverable in the PGA given the corporate structure in place after the merger. The Commission allowed for the establishment of a deferral to be considered at the next general rate case, but did not determine any ratemaking treatment of the deferred costs. In this case NWE requested these deferred amounts be applied to and recovered in the PGA.

- Rate Design

NWE's case distributed the rate increase of approximately \$3,682,000 to the various classes moving every class (residential, general/small commercial and industrial/large commercial) to the same overall rate of return based on NWE's class cost of service study. NWE requested a two dollar increase in the customer charges for both the residential and general/small commercial classes. The remaining increase not collected in the customer charge was included in the volumetric distribution charge with a larger

portion of the increase included in the first block rate. NWE did not request an increase in any of the industrial/large commercial classes customer charges so the entire increase was included in the volumetric distribution charge.

OVERVIEW OF STAFF'S CASE (as filed on October 19, 2007)

Staff's determination of the appropriate revenue requirement for NWE as filed on October 19, 2007, was based on a comprehensive analysis of NWE's filing and a substantial amount of additional information gathered in discovery. Staff accepted some of the Company's claims and adjustments, made corrections to or modified other Company-proposed adjustments using more current and actual data, rejected Company adjustments that Staff believed did not reflect known and measurable conditions, and proposed additional adjustments and corrections to NWE's filed case. Staff's case as filed indicated a revenue deficiency of \$952,180 based on an overall rate of return of 7.83% reflecting a 9.0% return on equity.

- Staff's 2006 Test Year

Staff's case, as did NWE's case, started with a 2006 test year. Staff reviewed NWE's amounts reported as South Dakota gas jurisdictional test year amounts. In determining the South Dakota test year amounts, Staff reviewed NWE's test year allocations and found them generally acceptable. Staff's case differed from NWE's in that Staff's case reflected \$41,405,437 in test year rate base and \$303,945 in operating income. The differences were attributed to Staff's inclusion of deferred income taxes of (\$712,703) and Investment Tax Credit of (\$22,741) in the operating income statement and Accumulated Investment Tax Credits of \$896,615, Customer Deposits of \$129,399, Accumulated Provisions for Uncollectibles of \$122,772 and Accumulated Provision for Injuries and Damages of \$269,771 as deductions to rate base. Additionally, NWE's case removed some plant items that were retired from service during the test year prior to reporting test year amounts. For improved transparency, Staff's method left those plant amounts in the test year balances but removed them as a known and measurable change.

- Staff's treatment of NWE's Operating Income and Rate Base adjustments to the 2006 test year

After review of NWE's case, Staff accepted many of NWE's adjustments that were based on sound regulatory theory and were supported by NWE. The adjustments accepted and incorporated in Staff's filed case included NWE's adjustments for Rate Case Expense (both the operating income and rate base adjustments), Merger and Acquisition and Nonutility Expense, Labor Expense, Intra-Company Rent, Insurance Actuarial, Stock Grants, and Lobbying Expense. Interest Synchronization was accepted in principal but was adjusted to reflect other changes in Staff's case. The remaining NWE adjustments were either rejected or modified by Staff as follows:

(Note: All of the adjustments and amounts discussed below are expressed as a change to Staff's determined test year amounts, not NWE's case)

Nekota Customer Load – Staff revised the transport revenues in its case to reflect updated and corrected volumes and removed \$77,000 of management fees from NWE's adjustment. Staff accepted the addition of the former Nekota line extension plant into rate base and accepted the excess costs due to accelerated depreciation of the line extensions for these customers, with the condition that NWE agreed to cover 100% of the stranded costs, if any, of these customers exit the system before the line extension costs are recovered. That is should any or all of these customers default on their contracts and/or fail to pay for 100% of their individual line extension or other costs, NWE will not be allowed to recover these costs from other customers. Staff also recommended that should NWE in the future wish to serve any new customers under a contract with deviations or renew existing contracts once the present terms expire, NWE, prior to entering into any new contract must satisfy the Commission that the contract revenues will recover all direct associated costs and an appropriate share of all other system applicable costs, including overheads, prior to NWE entering into the contract. With regard to property taxes, Staff suggested that NWE treat any future contracts with deviations customers, including renewal of currently existing customers, similar to NWE's existing tariff customers. All of NWE's existing tariff customers are subject to an adjustment clause for property taxes and thus Staff believes property taxes should either be removed from the distribution or transportation charges and listed as a separate item for recovery in the contract rates, or at least be easily identifiable. Finally, Staff recommended the Commission order NWE to perform and file, with its next general rate increase request, a complete cost of service study, assigning and identifying assignment of cost to contract with deviations customers. As a result of these changes, Staff's adjustment reflected an increase in rate base of \$8,729,170 and an increase in operating income of \$1,471,539.

Weather Normalization – Staff proposed its own weather normalization adjustment that differed from NWE. Staff's adjustment reflected what we believed to be the appropriate adjustment to revenues and cost of gas but did not reflect a change to property taxes because property taxes are not dependant on weather. Staff did perform a property tax reconciliation adjustment to be discussed later. Staff's weather normalization adjustment increased operating income by \$431,513.

Other Revenue – Staff rejected NWE's adjustment to other revenues because it was not supported and was questionable whether it is a known and measurable adjustment.

Advertising Expense – After review of NWE's adjustment, Staff further removed amounts not removed by NWE. Staff's adjustment resulted in an increase in operating income of \$68,812.

Depreciation Expense – Staff accepted the depreciation rates that NWE proposed for all common plant accounts and for all gas plant accounts other than distribution Mains and Services. Staff proposed that the rates for these accounts be modified to reflect the 10% negative salvage (plant removal costs in excess of scrap values) allowances reflected in existing depreciation rates instead of the much higher negative salvage allowances (15% and 50%, respectively) now proposed by the company. Additionally, Staff's expense adjustment applied its recommended depreciation rates to the test year 13-month average of depreciable plan investment whereas the Company had used a simple average of beginning and end-of-year balances. Staff's depreciation expense adjustments increased test year operating income by \$351,846. Also, because

depreciation expense adjustments affect the test year depreciation reserves, Staff's expense adjustments resulted in an increase of \$270,651 in rate base.

Association Dues – In addition to the amount that NWE removed from its case for association dues, Staff further removed an additional \$8,031 from the cost of service. Staff's adjustment resulted in an increase in operating income of \$10,056.

Freeman/AMPI Addition – Staff's adjustment for the Freeman addition differed from NWE's adjustment in that Staff's adjustment reflected more current volumes (normalized for weather) and customer counts. Additionally, Staff's adjustment did not allow an acquisition adjustment for the Freeman/AMPI addition in that it recognized the sellers net book value of the Freeman/AMPI addition at the time of purchase and not the purchase price. Staff's adjustment increased rate base of \$1,307,043 and increased operating income by \$147,828.

Nekota O&M Charges – Staff rejected this adjustment because it was unclear in the support that NWE provided whether or not this labor expense was already included in the test year labor amounts and because this adjustment was too speculative for inclusion as a known and measurable change adjustment.

IT Upgrade - Staff rejected this adjustment because it is not a measurable adjustment. While the nominal amount of the adjustment is known and may be measurable, the other operating income effects can not be adequately measured.

Changes to General Terms and Conditions Tariff – Staff reviewed NWE's adjustments, accepted some, and revised others to reflect what Staff believed to be the appropriate changes in the tariffed general terms and conditions. 1) Staff proposed to move the after hours reconnection charge to \$75 to more accurately reflect costs but also recommended tariff language mandating the Company disclose this cost to customers before performing after hours work. 2) Staff contested with NWE's proposed changes to the residential line extension policy explaining that the economic feasibility finding needed to be clarified and detailed in the tariff. 3) For NWE's proposed language allowing additional cost recovery of constructing line extensions outside of the regular construction season, Staff proposed that the language state that added costs can be recovered after the ground is frozen. 4) For NWE's proposed fees for recovering costs due to customers tampering with or bypassing meters, Staff accepted these proposals with language revisions excluding damage caused by Acts of God. Staff's adjustment reflected an increase in operating income of \$5,505.

Ad Valorem Tax Allocation Adjustment – Staff's adjustment to property taxes was similar to NWE's adjustment in that it corrected for an allocation error but also adjusted the test year expenses to match test year revenues received for ad valorem taxes since any imbalance will be adjusted for in the ad valorem adjustment clause and should not be included in base rates. Staff's adjustment increased operating income by \$634,551.

- New Rate Base and Operating Income adjustments proposed by Staff

Sale of Aircraft – Staff proposed an adjustment to remove from rate base an aircraft that NWE sold during the test year and also amortized the gain on that sale over 5 years.

This adjustment decreased rate base by \$224,159 and increased operating income by \$16,110.

Purchase of Leased Aircraft – During discovery, Staff learned that NWE was leasing an aircraft after the sale of the aircraft discussed above. NWE indicated that that aircraft was purchased in 2007 and thus Staff proposed an adjustment to reflect that purchase by reducing lease expense and including that aircraft in rate base. This adjustment increased rate base by \$251,495 and increased operating income by \$18,806.

Office Space – In 2007 NWE announced it was moving its Sioux Falls corporate offices to a new location as a cost savings strategy. Therefore, Staff proposed an adjustment to capture those savings in the cost of service. This adjustment increased operating income by \$1,923.

Economic Development – Staff proposed an adjustment to eliminate economic development activities from the cost of service. This adjustment increased operating income by \$6,044.

Purchased Gas Cost Adjustment – Because gas costs are recovered dollar for dollar through the PGA clause, Staff proposed an adjustment to match the revenue collected and expenses paid during the test year. This adjustment increased operating income by \$113,688.

Rate 87, SDSU, Dakota Ethanol, and Northern Lights – Staff proposed four adjustments to correct bill determinants and volumes in NWE's filed case. These four adjustments resulted in a decrease in operating income of \$577.

Heartland Grain – Staff learned through discovery that Heartland Grain bypassed NWE in 2007. Based on the position that Staff took with the Contracts with Deviation for the Nekota plant, Staff removed the Heartland Grain plant, revenues and expenses from the cost of service. This adjustment resulted in a plant reduction of \$12,334 and a decrease in operating income of \$36,643.

Ex-Employee Pensions and Benefits – Staff proposed an adjustment to pensions and benefits expense to remove any test year benefits paid to ex-employees who have had punitive actions taken against them by the Securities and Exchange Commission. This adjustment resulted in a \$3,404 increase in operating income.

Speed Pay – In 2007 NWE implemented a program called Speed Pay which continued to allow customers to pay their bills with credit cards but it shifts the credit card processing fees from NWE to the customers using the service. Thus Staff removed the test year credit card processing fees from the cost of service resulting in an increase in operating income of \$53,069.

Nekota Deferred PGA Cost – As discussed earlier, the Commission allowed for the establishment of a deferral of all of the Nekota costs that were no longer recoverable through the PGA with the merger of Nekota. In this case, NWE requested these deferred amounts be applied to and recovered in the PGA. Staff took the position that since these costs are no longer recoverable in the PGA since the merger, the Commission should not allow them to be recovered in the PGA as requested. Thus, Staff included an

amortization of these costs in the cost of service with the average unamortized balance included in rate base as a regulatory asset. This adjustment increased rate base by \$184,131 and decreased operating income by \$47,874.

Working Capital and Late Payment Charges – Unlike NWE's case, Staff included an adjustment to rate base for working capital. This adjustment decreased rate base by \$782,340. As part of working capital, Staff eliminated late payment charge revenue from the cost of service. The revenues generated by the late payment charges are, in effect, a return due the company for extending credit to their customers that pay beyond 20 days and should be considered a below-the-line item for ratemaking purposes. This adjustment decreased operating income by \$114,080.

Updates – As Staff has done in all of its rate cases, Staff updated materials and supplies, fuel stocks and prepayments to the most current amounts available which resulted in a decrease to rate base of \$131,665.

- Rate Design

Staff's case as filed distributed its proposed rate increase of \$952,180 on an equal percentage basis to the three customer classes (residential, general/small commercial and industrial/large commercial). Staff proposed a one dollar increase in the customer charge for residential and accepted NWE's two dollar increase for the general/small commercial class and no increase in customer charges for the remaining classes. The remainder of the increase was distributed evenly across the volumetric blocks to keep the spread differences between the existing rates blocks unchanged for the residential and general/small commercial classes.

STAFF'S OVERVIEW OF SETTLEMENT

Differences between the Company and Staff positions were discussed thoroughly at the October 25, 2007, face to face settlement meetings and thereafter, when further information and supporting documentation was supplied by the Company. As a result of these discussions and exchanges, each party modified certain positions it had previously taken and each party accepted certain positions of the other on specific issues with the objective of achieving a comprehensive resolution of the issues based on sound regulatory principles, thus avoiding unnecessary litigation. Ultimately Staff and NWE were able to reach agreement on all issues including the revenue deficiency of \$3,077,543 or approximately a 5.6% increase in 2006 test year revenues or an approximate 21.2% increase in the distributions margins exclusive of gas cost and ad valorem taxes. Rates 81, 82 and the combined rate 84, 85, 86 and 87 will receive an across the board increase of 28.1% with the contracts with deviation customer receiving a 0% increase (resulting in the 21.2% increase above – see Exhibit 8, Schedule 1 as attached to this memo). The revenue deficiency and supporting calculations reflected in this memorandum and attachments depict Staff's positions regarding all components of NWE's South Dakota jurisdictional cost of service, including an appropriate return on equity. NWE and Staff have agreed to that revenue requirement, and the resulting increase in rates.

Staff performed a comprehensive analysis of NWE's filing and a substantial amount of additional information was requested in discovery and during settlement negotiations. As a result of this analysis, Staff believes this settlement provides NWE with a rate increase that is fair, just and reasonable. This rate increase allows NWE the opportunity to earn a return required to continue to provide safe, adequate and reliable service to its South Dakota retail customers. The revenue deficiency and supporting calculations reflected below and attachments depict Staff's position regarding all components of NWE's South Dakota jurisdictional cost of service, including an appropriate return on equity. (Note - All references to the change in revenue deficiency below reflect a change in the revenue deficiency of \$952,180 as filed by Staff on October 19, 2007.)

- Agreed Upon Issues

As a direct result of the October 25, 2007, face to face settlement meeting and several follow up conversations, NWE agreed with the positions that Staff filed on October 19, 2007, regarding the following issues: Nekota Customer Load (both rate base and operating income adjustments) with Staff's conditions, Weather Normalization, Other Revenues, Merger/Acquisition and Nonutility Costs, Advertising Expense, Intra-Company Rent, Insurance Actuarial, Association Dues, Nekota O&M charges, IT Upgrade Labor, Stock Grants, Lobbying Expense, General Terms and Condition Changes, Ad Valorem Tax Adjustment, Office Space, Economic Development, Correction to Rate 87, Purchased Gas Cost Adjustment, SDSU, Dakota Ethanol, Northern Lights, Late Payment charges, Purchase of Leased Aircraft (both rate base and operating income adjustments), Nekota Deferred PGA Costs (both rate base and operating income adjustments), Ex-employee Pension and Benefits, Working Capital and Staff's rate base Updates. NWE further agreed to Staff's adjustment for the Freeman/AMPI addition but took exception to the depreciation rates used for that adjustment. NWE also agreed with the theory of Staff's Interest Synchronization and Working Capital Adjustment and agreed those adjustments are dependant upon other changes and adjustments to Staff's case and thus agreed with those changes.

- 2006 Test Year Changes

Customer Deposits (Test Year) – By Commission rule, NWE is required to calculate and pay interest on customer deposits held by the Company once the deposit is returned. This interest is not included in the cost of service thus it would be inappropriate to include customer deposits as a deduction to rate base. Thus, Staff agreed to correct its case and remove the \$129,399 of customer deposits as a deduction to rate base. This correction adjustment resulted in a \$13,372 increase in the revenue deficiency from Staff's filed case.

Accumulated Investment Tax Credit (Test Year) – IRS regulations provide utilities with the right to choose from among several options the regulatory treatment to be accorded investment tax credits. A utility can choose to have its rate base reduced by the accumulated unamortized balance of ITC's or it can elect to reduce its test year income tax liability by the annual amortization of its accumulated ITC's thus reducing its tax liability by the amount of the amortization. Staff inadvertently reduced both the tax liability and rate base and thus agreed in settlement to eliminate the rate base reduction. This correction resulted in an increase in the revenue deficiency of \$92,307.

Accumulated Deferred Income Taxes (Test Year) – NWE indicated that NWE's test year amount recorded for Accumulated Deferred Income Taxes included \$94,420 for the deferred tax provision for Accumulated Provision for Injuries and Damages. Thus, Staff agreed to correct its case by removing the \$94,420 as a deduction to rate base for Accumulated Deferred Income Taxes. This change resulted in an increase in Staff's revenue deficiency of \$9,758.

Federal Income Tax (Test Year) – As noted earlier, Staff's and NWE's filed cases differed dramatically in the test year amounts recorded for Federal Income Taxes and Deferred Income Taxes. Both NWE and Staff's case reflected a negative current federal income tax liability for 2006 of \$971,437. However, Staff's case also reflected a negative deferred federal income tax liability of \$712,703 which NWE's case failed to reflect. Staff took these amounts directly from NWE's Statement K. During settlement discussions, NWE reported the amounts reported in Statement K were in error because it failed to update the tax depreciation allocation factors for the test year. Subsequently, NWE provided a revised Statement K and support for its revisions. As a result, Staff revised its case for NWE's error correction which changed the previously recorded negative current federal income tax liability of \$971,437 to a negative current federal income tax liability of \$552,613. This change resulted in an increase in Staff's revenue deficiency of \$645,156.

- Rate Base and Operating Income

Rate Case Expense Amortization – As a result of the MGP discussions, NWE and Staff agreed that NWE's original five year amortization of rate case expense was not a reasonable estimate of the filing of the next rate case. Thus, the parties agreed to refine the adjustment and match it with the three year amortization of the MGP issues. This adjustment increased Staff's originally filed rate case expense by \$20,000 and thus increased Staff's Revenue deficiency by \$20,016.

Labor Expense – NWE's original case included a \$120,338 increase in labor expense. This equated to a 3% increase in the 2006 test year labor expense. Staff accepted this adjustment in its case because Staff believed it was a conservative adjustment because NWE provided support for a larger increase. During settlement discussions NWE inquired about increasing its labor adjustment. Staff indicated that we would accept any adjustment that is known and measurable in that we would not adjust test year labor hours only labor dollars insuring it was known and measurable. In response, NWE provided additional information supporting the actual percentage increases that were effective January 1, 2007 resulting in the actual known and measurable increase of \$176,364, an increase of \$56,026 from NWE's original position. NWE also requested a further increase for the January 1, 2008, union labor contract which supported an additional increase that will become effective within the 24 month period following the test year as allowed in statue. This increased NWE's labor adjustment another \$86,020 to a total of \$262,364. Staff accepted NWE's newly proposed labor adjustments as they are known and measurable. This update resulted in an increase in Staff's revenue deficiency of \$156,309.

Depreciation – NWE agreed to accept Staff's negative salvage adjustments to the depreciation rates for Mains and Services. However, NWE demonstrated the method of developing depreciation rates for all distribution plant accounts involved a redistribution

of the depreciation reserves among the accounts (to determine the remaining, undepreciated investment in each account) thus resulting in some adjustments in the rates applicable to accounts other than Mains and Services. Staff agreed to these changes based on recalculations provided by NWE. Additionally, Staff incorporated the 13-month average plant amounts that NWE subsequently provided into its calculation of the adjustment. As a result Staff amended its depreciation expense adjustment by \$120 and accumulated depreciation by \$60 resulting in a decrease in Staff's revenue deficiency of \$114.

Freeman/AMPI Addition – As indicated earlier, NWE agreed to Staff's adjustment for the Freeman/AMPI addition with the exception for the depreciation rates. With the settlement of the depreciation rates above, the Freeman/AMPI depreciation issue was also settled by implementing those depreciation rates in Staff's Freeman/AMPI adjustment. This change decreased the Freeman/AMPI depreciation expense by \$ 240 and decreased accumulated depreciation by \$135 resulting in a decrease in Staff's revenue deficiency of \$237.

Sale of Aircraft – Because of the allocation error of the aircraft which NWE sold during the test year, it was necessary for Staff to remove the aircraft from rate base in Staff's case using only the four factor allocation. Thus, Staff also allocated the gain on the sale of that aircraft using only the four factor allocation. After discussions, NWE provided support indicating this allocation error only pertained to the aircraft plant and not the expense or how the gain was booked. Therefore, Staff agreed that the gain should be allocated first using the 3 factor allocation and then with the 4 factor allocation. As will be discussed later, NWE and Staff agreed the Company's proposed expectation of five years before the next rate case was unrealistic considering expected future cost increases. The Company and Staff therefore agreed to amortize this gain over three years. These changes decreased the yearly amortization of the gain on sale from \$20,977 to \$7,960 and increased rate base by \$40,504 resulting in an increase in Staff's filed revenue deficiency of \$17,053.

Heartland Grain – Based on the position that Staff took with the Contracts with Deviations for the Nekota plant, Staff removed the Heartland Grain net plant, revenues and expenses from the cost of service. NWE argued that Heartland was never served by Nekota and has always been on a NWE tariffed rate. This customer is no different than any other NWE customer and thus the net plant and depreciation expense should not be removed. Staff agreed and added back \$12,334 of net plant and \$422 of depreciation expense into its case. This change increased Staff's revenue deficiency by \$1,697.

Speed Pay – NWE agreed with Staff's adjustment to remove from the cost of service the \$81,645 of expenses that NWE will no longer incur with the new Speed Pay credit card payment plan. However, NWE also identified a new expense of \$1,323 that NWE will pay directly to the company handling the customer transactions fees. Staff agreed to add this amount back into the cost of service resulting in a \$1,323 increase in Staff revenue deficiency.

Deferred Federal Income Taxes – As a result of discussions regarding Federal Income taxes and the revision of Statement K, NWE supported an adjustment to deferred federal income taxes to account for book and tax depreciation differences resulting from

allocation factor errors not accounted for in NWE's original filing. This correction changed NWE's 2006 deferred income tax from a negative \$712,703 to a negative \$379,181 resulting in a \$517,326 increase in the revenue deficiency in Staff's filed case.

- **Manufactured Gas Plant Clean Up Costs**

During discovery, Staff requested information regarding costs incurred and insurance proceeds received for the environmental clean up of various manufactured gas plant (MGP) sites. In response to Staff data requests, NWE indicated it did incur test year expenses for the cleanup of MGP sites. However, NWE did not include any of those costs in its case because NWE was netting the expenses against insurance proceeds previously received. Staff reviewed the information provided. This information identified and tracked all environmental clean up costs and insurance proceeds received by the Company since 1995. The expenses incurred prior to 1995 were previously reported to the Commission. Although Staff did not agree with the jurisdictional allocation aspects of the insurance proceeds included in NWE's support, it appeared to be a comprehensive list. Since NWE was choosing not to recover any MGP cleanup costs in this case and because of NWE's desire to handle MGP issues outside of this rate case, Staff too omitted MGP environmental clean up costs from the cost of service with the expectation of handling the MGP issues in a separate docket before the Commission. During settlement discussion, Staff and NWE had lengthy discussions regarding the various options and methods of handling the MGP cleanup costs and insurance proceeds. Staff believed that a settlement of the MGP issues needed agreement on jurisdictional allocation of previously received insurance proceeds, a refund of the Huron MGP insurance proceeds pursuant to Commission Order and Settlement Agreement in NG96-015, a contribution from NWE for previously failing to notify and refund the insurance proceeds received for the Huron cleanup (that cleanup was funded by the rate payers prior to receipt of any insurance proceeds) and resolution of a method of handling the other South Dakota insurance proceeds. In the end, all of these objectives were met.

NWE identified \$6,960,598.50 of insurance proceeds that have been collected by NWE for the environmental cleanup of MGP sites in Nebraska and South Dakota. NWE also identified \$2,013,207.62 of attorney contingent fees for the collection of the insurance proceeds leaving a net collection amount of \$4,947,390.88.

Staff and the Company agreed to allocate the insurance proceeds based on a combination of actual historic clean up expenses and the present value of future expected clean up costs. This resulted in an allocation of 17.9% to Nebraska, 20.8% to Huron and 61.3% to other South Dakota sites (other than Huron).

Huron Proceeds – Based on the above agreed upon allocations, NWE and Staff agreed that \$1,027,629 of the net insurance proceeds were collected for the Huron MGP environmental clean up and were owed back to customers since those costs were previously collected from customers through a surcharge. Since the insurance proceeds were collected in 1999 and 2000, NWE agreed to pay monthly carrying charges on those amounts and agreed to add an additional \$250,000 good faith contribution to the refund amount bringing the total refund to \$2,279,582. Staff and NWE agreed to refund this amount to customers through rates by reducing the cost of service using a three year amortization of the refund amount with future carrying charges being calculated through a reduction to rate base of the average unamortized balance. This adjustment reduced

yearly operating expenses by \$759,891, decreased rate base by \$1,139,791 and resulted in a decrease in Staff's revenue deficiency of \$877,866. As will be discussed later, NWE will track this refund.

Remaining Insurance Proceeds – With the allocations noted above, Staff and NWE were able to agree that \$3,034,131 of the remaining proceeds should be allocated to other South Dakota MGP clean up sites. Since NWE collected most of the insurance proceeds for the clean up prior to incurring the expenses for clean up, NWE agreed to calculate monthly carrying charges on the unspent insurance proceeds and use this as a reduction to MGP clean up costs for sites other than Huron. After updating the information for the recent cleanup expenses for Moccasin Creek in Aberdeen, NWE showed that all the other South Dakota insurance proceeds inclusive of the carrying charges have been spent, thus leaving nothing for the reduction of future MGP site cleanup expenses.

Average Annual Clean Up Cost - Since NWE is refunding the Huron MGP site insurance proceeds and have spent all of the remaining insurance proceeds, Staff agreed that it would be appropriate to include an amount for future South Dakota clean up expense in the cost of service. After many discussions and the exchanges of supporting documentation, NWE and Staff agreed to include the average of 2006 and 2007 expense of \$1,425,400 in the cost of service. This adjustment increased Staff's revenue deficiency by \$1,426,836. Based on support provided by NWE, this amount appears to be a conservative estimate of future South Dakota MGP clean up expenses and will help extend the time between rate cases thereby providing rate stability. As will be discussed later NWE agreed to make a future rate case adjustment should the average annual MGP environmental cleanup costs drop below this accepted level.

- Rate of Return (Return on Equity)

NWE's filing was based on an overall rate of return of 8.99% derived from its actual capital structure during the 2006 test year and a proposed 11.25% return on common stock equity. *****begin confidential**

end confidential*** Staff, after deliberating all issues and considerations within the outline of the docket, believed that a rate of return of 7.96% reflecting a *****begin confidential** **end confidential***** return on common equity capital was appropriately within a range of reasonableness for NWE and incorporated that into Staff's revenue requirement. This movement upward from Staff's original filing resulted in a \$102,427 increase from Staff's filed revenue requirement. *****begin confidential**

end confidential***

A summary of all of the changes made to Staff's filed case as a result of settlement can be found on Exhibit 1 as attached to this memo. The top sheets containing Staff's version of the settled case can be found on Exhibits 2 through 7 also attached to this memo. The highlighted amount on Exhibits 5 and 7 represent the items that were charged as a direct result of this settlement.

- Conditions in Settlement Stipulation

Included in the Settlement Stipulation were 11 conditions that Staff and NWE agree to.

Class Cost of Service Study - NWE agreed to submit a Class Cost of Service Study (Statement O) in its next general rate filing that will treat contracts with deviations customers as a class, either as a single class, multiple classes or individually based on load characteristics, to which costs, including an appropriate allocation of system common costs, shall be assigned or allocated.

Reporting Requirements - The Parties also agreed that

- 1) The reporting requirement regarding Contracts with Affiliates found in Article III of the Settlement Agreement in Docket NG99-002 is terminated.
- 2) The reporting and refund requirement related to manufactured gas plant costs and insurance recoveries included in Docket NG96-015 are terminated and replaced by the reporting requirement of the Settlement Stipulation in Docket NG07-013.
- 3) NWE shall report any new insurance recoveries for environmental remediation costs within 60 days of receipt.
- 4) Beginning on January 31, 2009, and for every year thereafter, NorthWestern will provide Staff with a summaries report of the South Dakota and Nebraska environmental remediation expenses and insurance recovery detail.

Huron MGP Insurance Recoveries - NWE agreed that the settlement revenue requirement in this case includes a three year refund of \$2,279,583 for Huron MGP insurance recoveries, carrying charges and a Company contribution. Should the settlement rates be in effect for less than 36 months, NorthWestern agreed to credit the un-refunded amounts through other means.

Other MGP Cleanup Costs - NWE agreed the settlement revenue requirement in this case includes \$1,425,400 of MGP site environmental clean-up costs. If the average annual costs for MGP remediation, net of any future insurance proceeds, falls below that amount for the period that the settlement rates remain in effect, NWE will make an adjustment to credit ratepayers with the shortfall in its next general rate filing.

Rate Increase Moratorium - NWE agreed to a three year natural gas distribution rate freeze where as NWE will not be able to increase natural gas distribution rates unless the South Dakota gas cost of service, described in this filing as adjusted test year with revenue adjustment total operating expenses, less natural gas cost and property taxes, increases by more than 10% annually. This increase must be caused by (1) changes in federal, state or local governmental requirements or governmental charges; (2) a 10% annual inflation increase; or (3) the loss of a current major customer. Staff calculated this 10% increase as approximately a \$1.34 million increase in operating expenses.

Freeman/AMPI Acquisition Costs - NWE agreed not to recover any natural gas plant acquisition adjustment costs of the Freeman/AMPI distribution system in this or future natural gas rate cases.

Contract With Deviations – The Parties agreed that:

- 1) The former Nekota Pipeline plant and the Prairie Ethanol plant is included in NWE's rate base with accelerated depreciation and that the accelerated cost recovery and related reduction in its rate base will be reflected in future rate determinations.
- 2) Should any Contract with Deviations customer default on its contract obligations such that the line extension costs incurred to serve the customer are not fully recovered from the customer, NWE is responsible for such costs and they will not be allowed to recover them from its other customers.
- 3) Prior to entering into any new contract with deviations, NWE will show to the Commission in a separate filing that the contract revenues recover an appropriate share of all applicable costs, including overheads.
- 4) NWE will remove property taxes from the distribution or transportation charges in any new contract with deviations and list the property tax recovery as a separate item for recovery in the contract rates, or at least be easily identifiable insuring the property taxes recovered from the contract with deviations customers reduces the applicable ad valorem costs of the tariffed customers in the ad valorem tax adjustment clause.

- Rate Design Issues

Staff and NWE agreed to distribute the \$3,077,543 increase evenly to the residential, general/small commercial and industrial/large commercial classes with each class receiving an approximate 28.1% increase. The parties further agreed to use Staff's proposed one dollar customer charge increase for the residential class (from \$6 to \$7), and NWE's proposed two dollar customer charge increase for the general/small commercial class (from \$7 to \$9) with no customer charge increase for the remaining classes. The remainder of the increase was distributed in the volumetric rates with the first block rate in the residential and general/small commercial class, receiving a larger portion of the increase but a smaller portion than NWE originally requested. Staff's rate design can be found on Exhibit 8 as attached to this memo.

NorthWestern Energy
Docket NG07-013
Summary of Changes from Staff's Filed Case

Issues	Change In Revenue Deficiency	Revenue Deficiency
Staff's position as filed		952,180
MGP clean up costs	1,426,836	
Huron MGP Insurance Proceeds	(877,866)	
Federal Income Tax ***	645,156	
Deferred Income Tax ***	517,326	
Labor	156,309	
Return on Equity	102,427	
Investment Tax Credit	92,307	
Rate Case Amortization	20,016	
Sale of Aircraft	14,053	
Customer Deposits	13,372	
Accumulated Deferred Income Tax	9,758	
Heartland Grain	4,697	
Speed pay	1,323	
Freeman Depreciation	(237)	
Depreciation Rate Change	<u>(114)</u>	
Change in Staff's filed position		<u>2,125,363</u>
Settlement Position		3,077,543

*** Adjustment resulted from an error correction in NWE's filing

NorthWestern Energy
Docket NG07-013
South Dakota Gas Revenue Requirement
Adjusted Test Year Ending December 31, 2006

<u>Line</u>	<u>Description</u>	<u>Settlement Position South Dakota - Gas Adjusted 2006 Test Year</u>	<u>NWE Proposed South Dakota - Gas 2006 - Adjusted</u>	<u>Difference</u>
	(a)	(b)	(c)	(d)
1	Average Rate Base	\$ 51,142,682	\$ 53,175,852	\$ (2,033,170)
2	Adjusted Test Year Operating Income	<u>2,073,550</u>	<u>2,392,948</u>	(319,398)
3	Overall Rate of Return	4.054%	4.500%	
4	Rate of Return	7.960%	8.990%	
5	Required Operating Income	4,070,957	4,782,902	(711,945)
6	Income Deficiency (Excess)	1,997,407	2,389,954	(392,547)
7	Gross Revenue Conversion Factor	<u>1.53846</u>		
8	Revenue Deficiency (Excess)	3,072,934	3,676,853	(603,919)
9	Gross Receipts Tax (at 0.0015)	<u>4,609</u>	<u>5,524</u>	(915)
10	Total Revenue Deficiency (Excess)	<u>3,077,543</u>	<u>3,682,377</u>	(604,834)
11	Adjusted Test Year Revenue	65,610,989	67,290,554	(1,679,565)
12	Revenue Requirement	\$ 68,688,532	\$ 70,972,931	\$ (2,284,399)

**NorthWester Energy
Cost of Capital at December 31, 2006**

Line No.	Component (a)	Balance as of June 30, 2004 (b)	% of Total (c)	Cost (d)	Weighted Cost (e)
1	Long Term Debt		***CONFIDENTIAL***		
2	Preferred Stock		***CONFIDENTIAL***		
3	Common Equity		***CONFIDENTIAL***		
4	Total	\$1,443,376,028	100.00%		7.96%

NorthWestern Energy
Docket NG07-013
South Dakota Gas Operating Income Statement with Known and Measurable Adjustments and Revenue Adjustment
Adjusted Test Year Ending December 31, 2006

Line No.	Description	South Dakota Per Books (a)	Total Staff Adjustments (c)	Adjusted Test Year (d)	Revenue Adjustment (e)	Adjusted Test Year with Revenue Adjustment (f)
1	Sales					
2	Transportation	\$ 53,810,763	\$ 7,204,040	\$61,014,803	\$ 3,077,543	\$ 64,092,346
3	Transpiration (489) (including unbilled)	1,241,200	3,272,100	4,513,300		4,513,300
4	Other Revenues (488, 493, 495)	246,422	(163,536)	82,886		82,886
5	TOTAL OPERATING REVENUES	55,298,385	10,312,604	65,610,989	3,077,543	68,688,532
6	OPERATING EXPENSES:					
7	Operation and Maintenance:					
8	Natural Gas (accts 728, 804, 805, 808)	44,205,049	6,111,537	50,316,586		50,316,586
9	Labor	3,979,070	262,364	4,241,434		4,241,434
10	Pensions and Benefits Expense	352,485	(5,237)	347,248		347,248
11	Insurance Expense	51,569	-	51,569		51,569
12	Uncollectible Account Expense	266,691	-	266,691		266,691
13	Regulatory Commission Expense	-	50,000	50,000		50,000
14	Other Operation and Maintenance	2,956,419	640,830	3,597,249		3,597,249
15	Total Operation and Maintenance	51,811,283	7,059,494	58,870,777	-	58,870,777
16	Depreciation and Amortization	2,720,429	304,562	3,024,991		3,024,991
17	Gain on Sale	-	(7,960)	(7,960)		(7,960)
18	Taxes:					
19	Property Taxes	1,759,344	(821,172)	938,172		938,172
20	Payroll Taxes:					
21	FICA	289,706	23,665	313,371		313,371
22	Federal Unemployment	3,741	341	4,082		4,082
23	State Unemployment	56	420	476		476
24	Gross Receipts Tax	88,934	15,470	104,404	4,609	109,013
25	Federal Income Taxes	(552,613)	1,215,833	663,220	1,075,527	1,738,747
26	Deferred Income Taxes	(712,703)	333,522	(379,181)		(379,181)
27	Investment Tax Credit	(22,741)	-	(22,741)		(22,741)
28	Other Taxes	27,828	-	27,828		27,828
29	Total Taxes	881,552	768,079	1,649,631	1,080,136	2,729,767
30	TOTAL OPERATING EXPENSES	55,413,264	8,124,175	63,537,439	1,080,136	64,617,575
31	OPERATING INCOME	\$ (114,879)	\$ 2,188,429	\$ 2,073,550	\$ 1,997,407	\$ 4,070,957
32	Rate Base	42,525,871		\$51,142,682		\$ 51,142,682
33	Rate of Return	-0.270%		4.054%		7.960%
34	Staff Proposed Rate of Return			7.960%		7.960%

NorthWestern Energy
Docket NG07-013
South Dakota Gas Operating Income Statement with Known and Measurable Adjustments
Adjusted Test Year Ending December 31, 2006

Line No.	Description	South Dakota Per Books	Interest Sync	Former Nekota Customer Load	Weather Normalization	Other Revenues	Rate Case Expense	M&A Non-Utility Expense	Advertising Expense	Labor Expense
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
1	OPERATING REVENUES:									
2	Sales	\$ 53,810,763			\$ 5,713,977					
3	Transportation	1,241,200		3,303,155	37,370					
4	Other Revenues	246,422				-				
5	TOTAL OPERATING REVENUES	55,298,385	-	3,303,155	5,751,347		-	-	-	-
6	OPERATING EXPENSES:									
7	Operation and Maintenance:									
8	Natural Gas (accts 805)	44,205,049			5,078,854					
9	Labor	3,979,070								262,364
10	Pensions and Benefits Expense	352,485								
11	Insurance Expense	51,569								
12	Uncollectible Account Expense	266,691								
13	Regulatory Commission Expense	-					50,000			
14	Other Operation and Maintenance	2,956,419		79,072				(102,015)	(105,865)	
15	Total Operation and Maintenance	51,811,283	-	79,072	5,078,854	-	50,000	(102,015)	(105,865)	262,364
16	Depreciation and Amortization	2,720,429		820,740						
17	Gain on Sale	-								
18	Taxes:									
19	Property Taxes	1,759,344		134,482						
20	Payroll Taxes:									
21	FICA	289,706		-	-	-	-	-	-	23,665
22	Federal Unemployment	3,741		-	-	-	-	-	-	341
23	State Unemployment	56		-	-	-	-	-	-	420
24	Gross Receipts Tax	88,934		4,955	8,627	-	-	-	-	-
25	Federal Income Taxes (35%)	(552,613)	(92,390)	792,367	232,353	-	(17,500)	35,705	37,053	(100,377)
26	Deferred Income Taxes	(712,703)								
27	Investment Tax Credit	(22,741)								
28	Other Taxes	27,828								
29	Total Taxes	881,552	(92,390)	931,804	240,980	-	(17,500)	35,705	37,053	(75,951)
30	TOTAL OPERATING EXPENSES	55,413,264	(92,390)	1,831,616	5,319,834	-	32,500	(66,310)	(68,812)	186,413
31	OPERATING INCOME	\$ (114,879)	\$ 92,390	\$ 1,471,539	\$ 431,513	\$ -	\$ (32,500)	\$ 66,310	\$ 68,812	\$ (186,413)

NorthWestern Energy
Docket NG07-013
South Dakota Gas Operating Income Statement with Known and Measurable Adjustments
Adjusted Test Year Ending December 31, 2006

Line No.	Description	Intra-Company Rent	Insurance Actuarial Adjustment	Depreciation Rate Change	Association Dues	Freeman Addition	Eliminate O&M Charged To Nekota	Stock Grants	IT Upgrade labor	Lobbying Expense
	(a)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)
1	OPERATING REVENUES:									
2	Sales					\$ 1,633,003				
3	Transportation									
4	Other Revenues									
5	TOTAL OPERATING REVENUES	-	-	-	-	1,633,003	-	-	-	-
6	OPERATING EXPENSES:									
7	Operation and Maintenance:									
8	Natural Gas (accts 805)					1,347,084				
9	Labor									
10	Pensions and Benefits Expense									
11	Insurance Expense									
12	Uncollectible Account Expense									
13	Regulatory Commission Expense									
14	Other Operation and Maintenance	37,632	35,323		(15,471)			100,959		(2,537)
15	Total Operation and Maintenance	37,632	35,323	-	(15,471)	1,347,084	-	100,959	-	(2,537)
16	Depreciation and Amortization			(541,422)		25,104				
17	Gain on Sale									
18	Taxes:									
19	Property Taxes					30,698				
20	Payroll Taxes:									
21	FICA	-	-	-	-	-	-	-	-	-
22	Federal Unemployment	-	-	-	-	-	-	-	-	-
23	State Unemployment	-	-	-	-	-	-	-	-	-
24	Gross Receipts Tax	-	-	-	-	2,450	-	-	-	-
25	Federal Income Taxes (35%)	(13,171)	(12,363)	189,498	5,415	79,683	-	(35,336)	-	888
26	Deferred Income Taxes									
27	Investment Tax Credit									
28	Other Taxes									
29	Total Taxes	(13,171)	(12,363)	189,498	5,415	112,831	-	(35,336)	-	888
30	TOTAL OPERATING EXPENSES	24,461	22,960	(351,924)	(10,056)	1,485,019	-	65,623	-	(1,649)
31	OPERATING INCOME	\$ (24,461)	\$ (22,960)	\$ 351,924	\$ 10,056	\$ 147,984	\$ -	\$ (65,623)	\$ -	\$ 1,649

NorthWestern Energy
Docket NG07-013
South Dakota Gas Operating Income Statement with Known and Measurable Adjustments
Adjusted Test Year Ending December 31, 2006

Line No.	Description	General Terms Changes (t)	Ad Valorem Tax Allocation Adjustment (u)	Sale of Aircraft (N246NW) (v)	Office Space (w)	Economic Development (x)	Correction To Rate 87 Therms (y)	Purchase Gas Cost Adjustment (z)	SDSU (aa)	Dakota Ethanol (ab)
1	OPERATING REVENUES:									
2	Sales								\$ (142,940)	
3	Transportation						(2,227)		3,443	(2,599)
4	Other Revenues	8,482								
5	TOTAL OPERATING REVENUES	8,482	-	-	-	-	(2,227)	-	(139,497)	(2,599)
6	OPERATING EXPENSES:									
7	Operation and Maintenance:									
8	Natural Gas (accts 805)							(174,904)	(139,497)	
9	Labor									
10	Pensions and Benefits Expense									
11	Insurance Expense									
12	Uncollectible Account Expense									
13	Regulatory Commission Expense									
14	Other Operation and Maintenance				(2,959)	(9,299)				
15	Total Operation and Maintenance	-	-	-	(2,959)	(9,299)	-	(174,904)	(139,497)	-
16	Depreciation and Amortization			(3,807)						
17	Gain on Sale			(7,960)						
18	Taxes:									
19	Property Taxes		(976,232)							
20	Payroll Taxes:									
21	FICA	-	-	-	-	-	-	-	-	-
22	Federal Unemployment	-	-	-	-	-	-	-	-	-
23	State Unemployment	-	-	-	-	-	-	-	-	-
24	Gross Receipts Tax	13	-	-	-	-	(3)	-	(209)	(4)
25	Federal Income Taxes (35%)	2,964	341,681	4,118	1,036	3,255	(778)	61,216	73	(908)
26	Deferred Income Taxes									
27	Investment Tax Credit									
28	Other Taxes									
29	Total Taxes	2,977	(634,551)	4,118	1,036	3,255	(781)	61,216	(136)	(912)
30	TOTAL OPERATING EXPENSES	2,977	(634,551)	(7,649)	(1,923)	(6,044)	(781)	(113,688)	(139,633)	(912)
31	OPERATING INCOME	\$ 5,505	\$ 634,551	\$ 7,649	\$ 1,923	\$ 6,044	\$ (1,446)	\$ 113,688	\$ 136	\$ (1,687)

NorthWestern Energy
Docket NG07-013
South Dakota Gas Operating Income Statement with Known and Measurable Adjustments
Adjusted Test Year Ending December 31, 2006

Line No.	Description	Northern Lights (ac)	Heartland Grain (ad)	Late PMT Charge Revenues (ae)	Purchase of Leased Aircraft (N778FW) (af)	Nekota Deferred PGA Cost (ag)	Ex-employee Pension and Benift Reduction (ah)	Speed Pay (ai)	Normalize Deferred Taxes (aj)	Huron Insurance Proceeds Flowback (ak)
1	OPERATING REVENUES:									
2	Sales									
3	Transportation	(25)	(67,017)							
4	Other Revenues	3,754		(175,772)						
5	TOTAL OPERATING REVENUES	3,729	(67,017)	(175,772)	-	-	-	-	-	-
6	OPERATING EXPENSES:									
7	Operation and Maintenance:									
8	Natural Gas (acct 805)									
9	Labor									
10	Pensions and Benefits Expense						(5,237)			
11	Insurance Expense									
12	Uncollectible Account Expense									
13	Regulatory Commission Expense									
14	Other Operation and Maintenance				(32,879)	73,652		(80,322)		(759,861)
15	Total Operation and Maintenance	-	-	-	(32,879)	73,652	(5,237)	(80,322)	-	(759,861)
16	Depreciation and Amortization				3,947					
17	Gain on Sale									
18	Taxes:									
19	Property Taxes		(10,120)							
20	Payroll Taxes:									
21	FICA	-	-	-	-	-	-	-	-	-
22	Federal Unemployment	-	-	-	-	-	-	-	-	-
23	State Unemployment	-	-	-	-	-	-	-	-	-
24	Gross Receipts Tax	6	(101)	(264)	-	-	-	-	-	-
25	Federal Income Taxes (35%)	1,303	(19,879)	(61,428)	10,126	(25,778)	1,833	28,113	-	265,951
26	Deferred Income Taxes								333,522	
27	Investment Tax Credit									
28	Other Taxes									
29	Total Taxes	1,309	(30,100)	(61,692)	10,126	(25,778)	1,833	28,113	333,522	265,951
30	TOTAL OPERATING EXPENSES	1,309	(30,100)	(61,692)	(18,806)	47,874	(3,404)	(52,209)	333,522	(493,910)
31	OPERATING INCOME	\$ 2,420	\$ (36,917)	\$ (114,080)	\$ 18,806	\$ (47,874)	\$ 3,404	\$ 52,209	\$ (333,522)	\$ 493,910

NorthWestern Energy
Docket NG07-013
South Dakota Gas Operating Income Statement with Known and Measurable Adjustments
Adjusted Test Year Ending December 31, 2006

Line No.	Description	Know and Measurable Average Annual Clean up (al)	Unspent Insurance (3 year) (am)	(an)	Total Staff Adjustments (ao)	Adjusted Test Year (ap)
1	OPERATING REVENUES:					
2	Sales				\$ 7,204,040	\$ 61,014,803
3	Transportation				3,272,100	4,513,300
4	Other Revenues				(163,536)	82,886
5	TOTAL OPERATING REVENUES	-	-	-	10,312,604	65,610,989
6	OPERATING EXPENSES:					
7	Operation and Maintenance:					
8	Natural Gas (accts 805)				6,111,537	50,316,586
9	Labor				262,364	4,241,434
10	Pensions and Benefits Expense				(5,237)	347,248
11	Insurance Expense				-	51,569
12	Uncollectible Account Expense				-	266,691
13	Regulatory Commission Expense				50,000	50,000
14	Other Operation and Maintenance	1,425,400	-		640,830	3,597,249
15	Total Operation and Maintenance	1,425,400	-	-	7,059,494	58,870,777
16	Depreciation and Amortization				304,562	3,024,991
17	Gain on Sale				(7,960)	(7,960)
18	Taxes:					
19	Property Taxes				(821,172)	938,172
20	Payroll Taxes:					
21	FICA	-	-	-	23,665	313,371
22	Federal Unemployment	-	-	-	341	4,082
23	State Unemployment	-	-	-	420	476
24	Gross Receipts Tax	-	-	-	15,470	104,404
25	Federal Income Taxes (35%)	(498,890)	-	-	1,215,833	663,220
26	Deferred Income Taxes				333,522	(379,181)
27	Investment Tax Credit				-	(22,741)
28	Other Taxes				-	27,828
29	Total Taxes	(498,890)	-	-	768,079	1,649,631
30	TOTAL OPERATING EXPENSES	926,510	-	-	8,124,175	63,537,439
31	OPERATING INCOME	\$ (926,510)	\$ -	\$ -	\$ 2,188,429	\$ 2,073,550

NorthWestern Energy
Docket NG07-013
South Dakota Gas Average Rate Base with Known and Measurable Adjustment
Adjusted Test Year Ending December 31, 2006

Line No.	Description	South Dakota Test Year Average Per Books	Total Pro Forma Adjustments	South Dakota Pro Forma Rate Base
	(a)	(b)	(c)	(d)
1	Gas Plant in Service (101)			
2	Production	1,453,240	\$ -	\$ 1,453,240.00
3	Distribution	59,574,648	12,300,859	71,875,507
4	General	2,447,270	-	2,447,270
5	Common	9,762,248	69,863	9,832,111
6	Total Gas Plant in Service (101)	<u>73,237,406</u>	<u>12,370,722</u>	<u>85,608,128</u>
7	Gas - Completed Construction Not Classified (106)	80,917	-	80,917
8	Total Plant in Service (101 and 106)	73,318,323	12,370,722	85,689,045
9	Accumulated Depreciation			
10	Production	657,790	(1,076)	656,714
11	Distribution	22,742,462	1,917,147	24,659,609
12	General	817,072	20,292	837,364
13	Common	3,284,237	47,520	3,331,757
14	Total Accumulated Depreciation	<u>27,501,561</u>	<u>1,983,883</u>	<u>29,485,444</u>
15	TOTAL NET GAS PLANT IN SERVICE	<u>45,816,762</u>	<u>10,386,839</u>	<u>56,203,601</u>
16	Additions to Rate Base:			
17	Material and Supplies	392,870	39,315	432,185
18	Fuel Stocks (Propane & NG storage)	1,574,580	(354,828)	1,219,752
19	Prepayments	-	183,848	183,848
20	Advanced Tax Collection	-	(124,305)	(124,305)
21	Cash Working Capital	-	(621,458)	(621,458)
22	Other	-	259,131	259,131
23	TOTAL ADDITIONS TO RATE BASE	<u>1,967,450</u>	<u>(618,297)</u>	<u>1,349,153</u>
24	Deductions to Rate Base:			
25	Accumulated Deferred Income Taxes	4,865,798	-	4,865,798
26	Accumulated Investment Tax Credit	-	-	-
27	Customer Advances for Construction	-	-	-
28	Customer Deposits	-	-	-
29	Accumulated Provision for Uncollectibles	122,772	-	122,772
30	Accumulated Provision for Injuries and Damages	269,771	-	269,771
31	Miscellaneous Operating Provisions	-	-	-
32	Other	-	1,151,731	1,151,731
33	TOTAL DEDUCTIONS TO RATE BASE	<u>5,258,341</u>	<u>1,151,731</u>	<u>6,410,072</u>
34	TOTAL SOUTH DAKOTA RATE BASE	<u>\$ 42,525,871</u>	<u>\$ 8,616,811</u>	<u>\$ 51,142,682</u>

NorthWestern Energy
Docket NG07-013
South Dakota Gas Average Rate Base with Known and Measurable Adjustment
Adjusted Test Year Ending December 31, 2006

Line No.	Description	South Dakota Test Year Average Per Books	Working Capital	Nekota Plant	Rate Case Expense	Freeman Plant Additions	Depreciation Rate Change	Updates	Sale of Aircraft (N246NW)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gas Plant in Service (101)								
2	Production	\$ 1,453,240							
3	Distribution	59,574,648		10,979,034		1,321,825			
4	General	2,447,270							
5	Common	9,762,248							(183,606)
6	Total Gas Plant in Service (101)	73,237,406	-	10,979,034	-	1,321,825	-	-	(183,606)
7	Gas - Completed Construction Not Classified (106)	80,917							
8	Total Gas Plant in Service (101 and 106)	73,318,323	-	10,979,034	-	1,321,825	-	-	(183,606)
9	Accumulated Depreciation								
10	Production	657,790					(1,076)		
11	Distribution	22,742,462		2,249,864		14,647	(347,364)		
12	General	817,072					20,292		
13	Common	3,284,237					57,437		(11,891)
14	Total Accumulated Depreciation	27,501,561	-	2,249,864	-	14,647	(270,711)	-	(11,891)
15	TOTAL NET GAS PLANT IN SERVICE	45,816,762	-	8,729,170	-	1,307,178	270,711	-	(171,715)
16	Additions to Rate Base:								
17	Material and Supplies	392,870						39,315	
18	Fuel Stocks (Propane & NG storage)	1,574,580						(354,828)	
19	Prepayments							183,848	
20	Advanced Tax Collection	-	(124,305)						
21	Cash Working Capital	-	(621,458)						
22	Other	-			75,000				
23	TOTAL ADDITIONS TO RATE BASE	1,967,450	(745,763)	-	75,000	-	-	(131,665)	-
24	Deductions to Rate Base:								
25	Accumulated Deferred Income Taxes	4,865,798							
26	Accumulated Investment Tax Credit	-							
27	Customer Advances for Construction	-							
28	Customer Deposits	-							
29	Accumulated Provision for Uncollectibles	122,772							
30	Accumulated Provision for Injuries and Damages	269,771							
31	Miscellaneous Operating Provisions	-							
32	Other	-							11,940
33	TOTAL DEDUCTIONS TO RATE BASE	5,258,341	-	-	-	-	-	-	11,940
34	TOTAL SOUTH DAKOTA RATE BASE	\$ 42,525,871	\$ (745,763)	\$ 8,729,170	\$ 75,000	\$ 1,307,178	\$ 270,711	\$ (131,665)	\$ (183,655)

NorthWestern Energy
Docket NG07-013
South Dakota Gas Average Rate Base with Known and Measurable Adjustment
Adjusted Test Year Ending December 31, 2006

Line No.	Description	Purchase of Leased Aircraft (N778FW)	Nekota Deferred PGA Cost	Heartland Plant	Huron Insurance Proceeds Flowback	Unspent Insurance	Total Staff Adjustments	Total Staff South Dakota Rate Base
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)
1	Gas Plant in Service (101)							
2	Production						\$ -	\$ 1,453,240
3	Distribution						12,300,859	71,875,507
4	General						-	2,447,270
5	Common	253,469		-		-	69,863	9,832,111
6	Total Gas Plant in Service (101)	253,469	-	-	-	-	12,370,722	85,608,128
7	Gas - Completed Construction Not Classified (106)						-	80,917
8	Total Gas Plant in Service (101 and 106)	253,469	-	-	-	-	12,370,722	85,689,045
9	Accumulated Depreciation							
10	Production						(1,076)	656,714
11	Distribution						1,917,147	24,659,609
12	General						20,292	837,364
13	Common	1,974					47,520	3,331,757
14	Total Accumulated Depreciation	1,974	-	-	-	-	1,983,883	29,485,444
15	TOTAL NET GAS PLANT IN SERVICE	251,495	-	-	-	-	10,386,839	56,203,601
16	Additions to Rate Base:							
17	Material and Supplies						39,315	432,185
18	Fuel Stocks (Propane & NG storage)						(354,828)	1,219,752
19	Prepayments						183,848	183,848
20	Advanced Tax Collection						(124,305)	(124,305)
21	Cash Working Capital						(621,458)	(621,458)
22	Other		184,131				259,131	259,131
23	TOTAL ADDITIONS TO RATE BASE	-	184,131	-	-	-	(618,297)	1,349,153
24	Deductions to Rate Base:							
25	Accumulated Deferred Income Taxes						-	4,865,798
26	Accumulated Investment Tax Credit						-	-
27	Customer Advances for Construction						-	-
28	Customer Deposits						-	-
29	Accumulated Provision for Uncollectibles						-	122,772
30	Accumulated Provision for Injuries and Damages						-	269,771
31	Miscellaneous Operating Provisions						-	-
32	Other				1,139,791	-	1,151,731	1,151,731
33	TOTAL DEDUCTIONS TO RATE BASE	-	-	-	1,139,791	-	1,151,731	6,410,072
34	TOTAL SOUTH DAKOTA RATE BASE	\$ 251,495	\$ 184,131	\$ -	\$ (1,139,791)	\$ -	\$ 8,616,811	\$ 51,142,682

**Northwestern Public Service
South Dakota - Gas
Revenue Increase**

Line No.	RATE STEP	THERMS (A)	THERMS (B)	TOTAL MARGIN (C) Test Year Revenue	REVISED (D) Proposed Revenue	INCREASE (F) Revenue (Inc./Dec.)	PERCENT INCREASE (G) Percent (Inc./Dec.)
REVENUE INCREASE by RATE CODE							
1	RATE 81	29,007,280	29,007,280	\$ 7,147,898	\$ 9,156,412	\$ 2,008,514	28.1%
2	RATE 82	14,298,554	14,298,554	2,085,374	2,671,091	585,717	28.1%
3	RATE 84 (OPTION A&B)	3,212,161	3,212,161	236,392	300,314	63,922	27.0%
4	RATE 85 (OPTION A&B)	4,403,020	4,403,020	359,706	421,514	61,807	17.2%
5	RATE 86 (OPTION A&B)	3,756,803	3,756,803	265,196	337,049	71,853	27.1%
6	RATE 87 (OPTION A&B)	27,497,908	27,497,908	859,969	1,145,962	285,993	33.3%
	COMBINED RATE 84, 85, 86, and 87						
7	Sum of Line 3, 4, 5, and 6	38,869,893	38,869,893	1,721,264	2,204,839	483,575	28.1%
8	CONTRACTS with DEVIATIONS	153,247,466	153,247,466	3,586,630	3,586,630	0	0.0%
9	TOTAL (Sum of Lines 1, 2, 7, and 8)	235,423,192	235,423,192	\$ 14,541,166	\$ 17,618,972	\$ 3,077,806	21.2%

**Northwestern Public Service
South Dakota - Gas
Residential - Rate 81 and Small Commercial - Rate 82**

LINE NO.	CLASS OF SERVICE & RATE SCHEDULE CODE (A)	TYPE OF CHARGE	UNIT (B)	PRESENT QUANTITIES (C)	PROPOSED QUANTITIES (D)	PRESENT RATES (E)	PROPOSED RATES (F)	PRESENT REVENUES (G)	PROPOSED REVENUES (H)	REVENUE INC./DEC. (I)
1	Residential - Rate Code 81									
2										
3	ALL THERMS CURRENTLY (FIRST 30)	Therms		9,574,705	9,574,705	0.2055	0.3130	1,967,602	2,996,883	1,029,281
4	EXCESS	Therms		16,386,725	16,386,725	0.1270	0.1500	2,081,114	2,458,009	376,895
5										
6	CUSTOMER CHARGE	BILL		433,840	433,840	6.00	7.00	2,603,040	3,036,880	433,840
7										
8		SUBTOTAL		25,961,430	25,961,430			6,651,756	8,491,771	1,840,015 0
	Rate 81 - Weather Normalization									
1	ALL THERMS CURRENTLY (FIRST 30)	Therms		1,051,615	1,051,615	0.2055	0.3130	216,107	329,156	113,049
2	EXCESS	Therms		1,799,798	1,799,798	0.1270	0.1500	228,574	269,970	41,395
3										
4	CUSTOMER CHARGE	BILL		0	0	6.00	7.00	0	0	0
5										
6		SUBTOTAL		2,851,413	2,851,413			444,681	599,125	154,444
	Rate 81 - Freeman									
	ALL THERMS CURRENTLY (FIRST 30)	Therms		62,706	62,706	0.2055	0.3130	12,886	19,627	6,741
	EXCESS	Therms		107,320	107,320	0.1270	0.1500	13,630	16,098	2,468
	CUSTOMER CHARGE	BILL		3,523	3,523	6.00	7.00	21,138	24,661	3,523
		SUBTOTAL		170,026	170,026			47,654	60,386	12,732
	Rate 81 - Weater Normalization - Freeman									
	ALL THERMS CURRENTLY (FIRST 30)	Therms		9,003	9,003	0.2055	0.3130	1,850	2,818	968
	EXCESS	Therms		15,408	15,408	0.1270	0.1500	1,957	2,311	354
	CUSTOMER CHARGE	BILL		0	0	6.00	7.00	0	0	0
		SUBTOTAL		24,411	24,411			3,807	5,129	1,322
1		TOTAL		29,007,280	29,007,280			7,147,898	9,156,412	2,008,514

**Northwestern Public Service
South Dakota - Gas
Residential - Rate 81 and Small Commercial - Rate 82**

LINE NO.	CLASS OF SERVICE & RATE SCHEDULE CODE	TYPE OF CHARGE	UNIT	PRESENT QUANTITIES	PROPOSED QUANTITIES	PRESENT RATES	PROPOSED RATES	PRESENT REVENUES	PROPOSED REVENUES	REVENUE INC./DEC.
2	Small Commercial - Rate Code 82									
3										
4	ALL THERMS CURRENTLY (FIRST 400)	Therms		7,994,038	7,994,038	0.1309	0.1684	1,046,420	1,346,196	299,776
5	NEXT 1,600	Therms		4,235,999	4,235,999	0.0891	0.1100	377,428	465,960	88,532
6	EXCESS	Therms		558,773	558,773	0.0541	0.0865	30,230	48,334	18,104
7										
8		CUSTOMER CHARGE	BILL	64,975	64,975	7.00	9.00	454,825	584,775	129,950
9										
10			SUBTOTAL	12,788,810	12,788,810			1,908,902	2,445,265	536,363
11	Rate 82 - Weather Normalization									
12										
13	ALL THERMS CURRENTLY (FIRST 400)	Therms		851,425	851,425	0.1309	0.1684	111,452	143,380	31,928
14	NEXT 1,600	Therms		451,166	451,166	0.0891	0.1100	40,199	49,628	9,429
15	EXCESS	Therms		59,514	59,514	0.0541	0.0865	3,220	5,148	1,928
16										
17		CUSTOMER CHARGE	BILL	0	0	7.00	9.00	0	0	0
18										
19			SUBTOTAL	1,362,104	1,362,104			154,870	198,156	43,286
20	Rate 82 - Freeman									
21										
22	ALL THERMS CURRENTLY (FIRST 400)	Therms		79,467	79,467	0.1309	0.1684	10,402	13,382	2,980
23	NEXT 1,600	Therms		42,109	42,109	0.0891	0.1100	3,752	4,632	880
24	EXCESS	Therms		5,555	5,555	0.0541	0.0865	301	481	180
25										
26		CUSTOMER CHARGE	BILL	688	688	7.00	9.00	4,816	6,192	1,376
27										
28			SUBTOTAL	127,130	127,130			19,271	24,687	5,416
29	Rate 82 - Weather Normalization - Freeman									
30										
31	ALL THERMS CURRENTLY (FIRST 400)	Therms		12,820	12,820	0.1309	0.1684	1,678	2,159	481
32	NEXT 1,600	Therms		6,793	6,793	0.0891	0.1100	605	747	142
33	EXCESS	Therms		896	896	0.0541	0.0865	48	78	29
34										
35		CUSTOMER CHARGE	BILL	0	0	7.00	9.00	0	0	0
36										
37			SUBTOTAL	20,510	20,510			2,332	2,984	652
38			TOTAL	14,298,554	14,298,554			2,085,374	2,671,091	585,717

**Northwestern Public Service
South Dakota - Gas
Large Commercial/Industrial Firm - Rate 84 (Option A)**

LINE NO.	CLASS OF SERVICE & RATE SCHEDULE CODE (A)	TYPE OF CHARGE	UNIT (B)	PRESENT QUANTITIES (C)	PROPOSED QUANTITIES (D)	PRESENT RATES (E)	PROPOSED RATES (F)	PRESENT REVENUES (G)	PROPOSED REVENUES (H)	REVENUE INC./DEC. (I)	PERCENT INC./DEC. (J)
1	Large Commercial/Industrial Firm - Rate Code 84 (Option A)										
2											
3		ALL THERMS	Therms	2,934,470	2,934,470	0.0388	0.0587	113,857	172,253	58,396	
4											
5		CUSTOMER CHARGE	BILL	1,397	1,397	80.00	80.00	111,760	111,760	0	
6											
7		SUBTOTAL		2,934,470	2,934,470			225,617	284,013	58,396	
8											
9	Large Commercial/Industrial Firm - Rate Code 84 (Option A) - Weather Normalization										
10											
11		ALL THERMS	Therms	277,691	277,691	0.0388	0.0587	10,774	16,300	5,526	
12											
13		CUSTOMER CHARGE	BILL	0	0	80.00	80.00	0	0	0	
14											
11											
12		SUBTOTAL		277,691	277,691			10,774	16,300	5,526	
13		TOTAL		3,212,161	3,212,161			236,392	300,314	63,922	27.0%

**Northwestern Public Service
South Dakota - Gas
Large Commercial/Industrial Interruptible - Rate 85 (Option A and B)**

LINE NO.	CLASS OF SERVICE & RATE SCHEDULE CODE (A)	TYPE OF CHARGE	UNIT (B)	PRESENT QUANTITIES (C)	PROPOSED QUANTITIES (D)	PRESENT RATES (E)	PROPOSED RATES (F)	PRESENT REVENUES (G)	PROPOSED REVENUES (H)	REVENUE INC./DEC. (I)	PERCENT INC./DEC. (J)
1	Large Commercial/Industrial Interruptible - Rate Code 85 (Option A)										
2											
3		ALL THERMS	Therms	1,773,276	1,773,276	0.0388	0.0587	68,803	104,091	35,288	
4		CUSTOMER CHARGE	BILL	898	898	80.00	80.00	71,840	71,840	0	
5											
6											
7		SUBTOTAL		1,773,276	1,773,276			140,643	175,931	35,288	
8	Rate 85 (Option A) - Weather Normalization										
9											
10		ALL THERMS	Therms	22,113	22,113	0.0388	0.0587	858	1,298	440	
11											
12		CUSTOMER CHARGE	BILL	0	0	80.00	80.00	0	0	0	
13											
14		SUBTOTAL		22,113	22,113			858	1,298	440	
15		TOTAL		1,795,389	1,795,389			141,501	177,229	35,728	25.2%

**Northwestern Public Service
South Dakota - Gas
Large Commercial/Industrial Interruptible - Rate 85 (Option A and B)**

LINE NO.	CLASS OF SERVICE & RATE SCHEDULE CODE (A)	TYPE OF CHARGE	UNIT (B)	PRESENT QUANTITIES (C)	PROPOSED QUANTITIES (D)	PRESENT RATES (E)	PROPOSED RATES (F)	PRESENT REVENUES (G)	PROPOSED REVENUES (H)	REVENUE INC./DEC. (I)	PERCENT INC./DEC. (J)
Large Commercial/Industrial Interruptible - Rate Code 85 (Option A) - Freeman											
16											
17											
18		ALL THERMS	Therms	154,867	154,867	0.0388	0.0587	6,009	9,091	3,082	
19											
20		CUSTOMER CHARGE	BILL	48	48	80.00	80.00	3,840	3,840	0	
21											
22		SUBTOTAL		154,867	154,867			9,849	12,931	3,082	
Large Commercial/Industrial Interruptible - Rate 85 (Option A) - Weather Normalization - Freeman											
23											
24											
25		ALL THERMS	Therms	17,599	17,599	0.0388	0.0587	683	1,033	350	
26											
27		CUSTOMER CHARGE	BILL	0	0	80.00	80.00	0	0	0	
28											
29		SUBTOTAL		17,599	17,599			683	1,033	350	
30		TOTAL		172,466	172,466			10,532	13,964	3,432	32.6%

**Northwestern Public Service
South Dakota - Gas
Large Commercial/Industrial Interruptible - Rate 85 (Option A and B)**

LINE NO.	CLASS OF SERVICE & RATE SCHEDULE CODE (A)	TYPE OF CHARGE (B)	PRESENT QUANTITIES (C)	PROPOSED QUANTITIES (D)	PRESENT RATES (E)	PROPOSED RATES (F)	PRESENT REVENUES (G)	PROPOSED REVENUES (H)	REVENUE INC./DEC. (I)	PERCENT INC./DEC. (J)
31	Large Commercial/Industrial Interruptible - Rate Code 85 (Option B)									
32										
33		ALL THERMS Therms	970,516	970,516	0.0204	0.0297	19,799	28,824	9,026	
34										
35		CUSTOMER CHARGE BILL	54	54	280.00	280.00	15,120	15,120	0	
36										
37		SUBTOTAL	970,516	970,516			34,919	43,944	9,026	
38	Rate 85 (Option B) - Weather Normalization									
39										
40		ALL THERMS Therms	55,394	55,394	0.0204	0.0297	1,130	1,645	515	
41										
42		CUSTOMER CHARGE BILL	0	0	280.00	280.00	0	0	0	
43										
44		SUBTOTAL	55,394	55,394			1,130	1,645	515	
45										
46		TOTAL	1,025,910	1,025,910			36,049	45,590	9,541	26.5%
47	Rate 85 - AMPI									
48										
49		ALL THERMS Therms	1,409,256	1,409,256	0.1194	0.1287	168,265	181,371	13,106	
50										
51		CUSTOMER CHARGE BILL	12	12	280.00	280.00	3,360	3,360	0	
52										
53		TOTAL	1,409,256	1,409,256			171,625	184,731	13,106	7.6%
54		GRAND TOTAL	4,403,020	4,403,020			359,706	421,514	61,807	17.2%

**Northwestern Energy
South Dakota - Gas
Large Commercial/Industrial Interruptible - Rate Code 86 (Option A and B)**

LINE NO.	CLASS OF SERVICE & RATE SCHEDULE CODE (A)	TYPE OF CHARGE	UNIT (B)	PRESENT QUANTITIES (C)	PROPOSED QUANTITIES (D)	PRESENT RATES (E)	PROPOSED RATES (F)	PRESENT REVENUES (G)	PROPOSED REVENUES (H)	REVENUE INC./DEC. (I)	PERCENT INC./DEC. (J)
Commercial and Interruptible - Rate Code 86 (Option A) - Contract Sales Service											
1											
2											
3		ALL THERMS	Therms	2,923,271	2,923,271	0.0388	0.0587	113,423	171,596	58,173	
4											
5		CUSTOMER CHARGE	BILL	922	922	130.00	130.00	119,860	119,860	0	
6											
7		SUBTOTAL		2,923,271	2,923,271			233,283	291,456	58,173	
Commercial and Interruptible - Weather Normalization - Rate Code 86 (Option A) - Contract Sales Service											
8											
9											
10		ALL THERMS	Therms	559,208	559,208	0.0388	0.0587	21,697	32,826	11,128	
11											
12		CUSTOMER CHARGE	BILL	0	0	130.00	130.00	0	0	0	
13											
14		SUBTOTAL		559,208	559,208			21,697	32,826	11,128	
15											
16		TOTAL		3,482,479	3,482,479			254,980	324,282	69,301	27.2%

**Northwestern Energy
South Dakota - Gas
Large Commercial/Industrial Interruptible - Rate Code 86 (Option A and B)**

LINE NO.	CLASS OF SERVICE & RATE SCHEDULE CODE (A)	TYPE OF CHARGE	UNIT (B)	PRESENT QUANTITIES (C)	PROPOSED QUANTITIES (D)	PRESENT RATES (E)	PROPOSED RATES (F)	PRESENT REVENUES (G)	PROPOSED REVENUES (H)	REVENUE INC./DEC. (I)	PERCENT INC./DEC. (J)
Commercial and Interruptible - Rate Code 86 (Option B) - Contract Sales Service											
17											
18											
19		ALL THERMS	Therms	219,785	219,785	0.0204	0.0297	4,484	6,528	2,044	
20											
21		CUSTOMER CHARGE	BILL	14	14	330.00	330.00	4,620	4,620	0	
22											
23			SUBTOTAL	219,785	219,785			9,104	11,148	2,044	
Commercial and Interruptible - Weather Normalization - Rate Code 86 (Option B) - Contract Sales Service											
24											
25											
26		ALL THERMS	Therms	54,539	54,539	0.0204	0.0297	1,113	1,620	507	
27											
28		CUSTOMER CHARGE	BILL	0	0	330.00	330.00	0	0	0	
29											
30			SUBTOTAL	54,539	54,539			1,113	1,620	507	
31											
32			TOTAL	274,324	274,324			10,216	12,767	2,551	25.0%
33			GRAND TOTAL	3,756,803	3,756,803			265,196	337,049	71,853	27.1%

**Northwestern Public Service
South Dakota - Gas
Transportation - Rate 87 (Option A and B)**

LINE NO.	CLASS OF SERVICE & RATE SCHEDULE CODE (A)	TYPE OF CHARGE	UNIT (B)	PRESENT QUANTITIES (C)	PROPOSED QUANTITIES (D)	PRESENT RATES (E)	PROPOSED RATES (F)	PRESENT REVENUES (G)	PROPOSED REVENUES (H)	REVENUE INC./DEC. (I)	PERCENT INC./DEC. (J)
1	South Dakota Transportation - Rate Code 87 (Option A)										
2											
3		ALL THERMS	Therms	2,471,684	2,471,684	0.0388	0.0587	95,901	145,088	49,187	
4											
5		CUSTOMER CHARGE	BILL	477	477	130.00	130.00	62,010	62,010	0	
6											
7		SUBTOTAL		2,471,684	2,471,684			157,911	207,098	49,187	
8	South Dakota Transportation - Weather Normalization - Rate Code 87 (Option A)										
9											
10		ALL THERMS	Therms	383,299	383,299	0.0388	0.0587	14,872	22,500	7,628	
11											
12		CUSTOMER CHARGE	BILL	0	0	130.00	130.00	0	0	0	
13											
14		SUBTOTAL		383,299	383,299			14,872	22,500	7,628	
15											
16		TOTAL		2,854,983	2,854,983			172,783	229,598	56,814	32.88%

**Northwestern Public Service
South Dakota - Gas
Transportation - Rate 87 (Option A and B)**

LINE NO.	CLASS OF SERVICE & RATE SCHEDULE CODE (A)	TYPE OF CHARGE	UNIT (B)	PRESENT QUANTITIES (C)	PROPOSED QUANTITIES (D)	PRESENT RATES (E)	PROPOSED RATES (F)	PRESENT REVENUES (G)	PROPOSED REVENUES (H)	REVENUE INC./DEC. (I)	PERCENT INC./DEC. (J)
17	South Dakota Transportation - Rate Code 87 (Option B)										
18											
19		ALL THERMS	Therms	23,540,064	23,540,064	0.0204	0.0297	480,217	699,140	218,923	
20											
21		CUSTOMER CHARGE	BILL	559	559	330.00	330.00	184,470	184,470	0	
22											
23		SUBTOTAL		23,540,064	23,540,064			664,687	883,610	218,923	
24	South Dakota Transportation - Weather Normalization - Rate Code 87 (Option B)										
25											
26		ALL THERMS	Therms	1,102,860	1,102,860	0.0204	0.0297	22,498	32,755	10,257	
27											
28		CUSTOMER CHARGE	BILL	0	0	330.00	330.00	0	0	0	
29											
30		SUBTOTAL		1,102,860	1,102,860			22,498	32,755	10,257	
31											
32		TOTAL		24,642,924	24,642,924			687,186	916,365	229,179	33.35%
33		GRAND TOTAL		27,497,908	27,497,908			859,969	1,145,962	285,993	33.26%

Northwestern Public Service
 South Dakota - Gas
 Contracts with Deviations

LINE NO.	CLASS OF SERVICE & RATE SCHEDULE CODE (A)	TYPE OF CHARGE	UNIT (B)	PROPOSED QUANTITIES (C)	PROPOSED RATES (D)	PROPOSED REVENUES (E)
1	Contracts with Deviations					
2	Prairie Ethanol				***CONFIDENTIAL***	
3		ALL THERMS	Therms			
4		CUSTOMER CHARGE	BILLS			
5		SUBTOTAL				
6	Great Plains Ethanol				***CONFIDENTIAL***	
7		ALL THERMS	Therms			
8		CUSTOMER CHARGE	BILLS			
8		SUBTOTAL				
9	James Valley Ethanol				***CONFIDENTIAL***	
10	FIRST 14,000,000	THERMS	Therms			
11	EXCESS THERMS	Therms				
12		CUSTOMER CHARGE	BILLS			
12		SUBTOTAL				
13	S.D. Soybean Plant				***CONFIDENTIAL***	
14		ALL THERMS	Therms			
15		CUSTOMER CHARGE	BILLS			
15		SUBTOTAL				
16	Sioux River Ethanol				***CONFIDENTIAL***	
17		ALL THERMS	Therms			
18		CUSTOMER CHARGE	BILLS			
18		SUBTOTAL				
19	Verasun Energy				***CONFIDENTIAL***	
20		ALL THERMS	Therms			
21		CUSTOMER CHARGE	BILLS			
21		SUBTOTAL				
19	Redfield Ethanol				***CONFIDENTIAL***	
20		ALL THERMS	Therms			
21		CUSTOMER CHARGE	BILLS			
21		SUBTOTAL				
22	SDSU				***CONFIDENTIAL***	
23		ALL THERMS	Therms			
24		CUSTOMER CHARGE	BILLS			
24		SUBTOTAL				
25	Dakota Ethanol				***CONFIDENTIAL***	
26		ALL THERMS	Therms			
27		CUSTOMER CHARGE	BILLS			
27		SUBTOTAL				
28	Northern Lights Ethanol				***CONFIDENTIAL***	
29		ALL THERMS	Therms			
30		CUSTOMER CHARGE	BILLS			
30		SUBTOTAL				
31		TOTAL		153,247,466		\$ 3,586,630

Northwestern Public Service
 South Dakota - Gas
 Rate Code 81, 82, and 84
 Rate Comparison

LINE NO.		PRESENT	PROPOSED
1	CUSTOMER CHARGE	\$6.00	\$7.00
2	FIRST 30 THERMS	\$0.20550	\$0.31300
3	EXCESS THERMS	\$0.12700	\$0.15000
4	PGA and OTHER ADJ.	\$0.94180	\$0.94180

Residential - Rate Code 81

0.967

	THERMS	PRESENT RATE	PROPOSED RATE	AMOUNT OF INCREASE/ (DECREASE)	% INCREASE/ (DECREASE)
	(A)	(B)	(C)	(D)	(E)
5	0	\$6.00	\$7.00	\$1.00	16.67%
6	10	17.47	19.55	2.08	11.88%
7	25	34.68	38.37	3.69	10.63%
8	50	61.80	66.48	4.69	7.58%
9	75	88.52	93.78	5.26	5.94%
10	80	93.86	99.23	5.38	5.73%
11	100	115.24	121.07	5.84	5.06%
12	125	141.96	148.37	6.41	4.52%
13	150	168.68	175.66	6.98	4.14%
14	175	195.40	202.96	7.56	3.87%
15	200	222.12	230.25	8.14	3.66%
16	225	248.84	257.55	8.71	3.50%
17	250	275.56	284.84	9.28	3.37%
18	300	329.00	339.43	10.44	3.17%
19	400	435.88	448.61	12.74	2.92%
20	500	542.76	557.79	15.04	2.77%

MONTH	AVERAGE THERMS	PRESENT RATE	PROPOSED RATE	AMOUNT OF INCREASE/ (DECREASE)	PERCENT INCREASE/ (DECREASE)
(F)	(G)	(H)	(I)	(J)	(K)
JAN	145	\$163.33	\$170.20	\$6.87	4.2%
FEB	145	\$163.33	\$170.20	\$6.87	4.2%
MAR	122	\$138.75	\$145.09	\$6.34	4.6%
APR	86	\$100.27	\$105.78	\$5.51	5.5%
MAY	38	\$48.97	\$53.38	\$4.41	9.0%
JUN	22	\$31.24	\$34.61	\$3.36	10.8%
JUL	12	\$19.77	\$22.06	\$2.29	11.6%
AUG	11	\$18.62	\$20.80	\$2.18	11.7%
SEP	13	\$20.91	\$23.31	\$2.40	11.5%
OCT	28	\$38.12	\$42.13	\$4.01	10.5%
NOV	60	\$72.48	\$77.40	\$4.92	6.8%
DEC	114	<u>\$130.20</u>	<u>\$136.36</u>	<u>\$6.16</u>	<u>4.7%</u>
TOTAL	796	\$946.00	\$1,001.32	\$55.32	5.8%

AVERAGE MONTHLY USE = 66 Therms

Northwestern Public Service
 South Dakota - Gas
 Rate Code 81, 82, and 84
 Rate Comparison

LINE NO.		PRESENT	PROPOSED
21	CUSTOMER CHARGE	\$7.00	\$9.00
22	FIRST 400 THERMS	\$0.13090	\$0.16840
23	NEXT 1,600 THERMS	\$0.08910	\$0.11000
24	EXCESS THERMS	\$0.05410	\$0.08650
25	PGA and OTHER ADJ.	\$0.94320	\$0.94320

SMALL COMMERCIAL - Rate Code 82

	THERMS	PRESENT RATE	PROPOSED RATE	AMOUNT OF INCREASE/ (DECREASE)	% INCREASE/ (DECREASE)
	(A)	(B)	(C)	(D)	(E)
26	0	7.00	9.00	\$2.00	28.57%
27	50	60.71	64.58	3.88	6.38%
28	100	114.41	120.16	5.75	5.03%
29	200	221.82	231.32	9.50	4.28%
30	350	382.94	398.06	15.13	3.95%
31	500	539.87	558.96	19.09	3.54%
32	750	797.95	822.26	24.32	3.05%
33	1000	1,056.02	1,085.56	29.54	2.80%
34	1500	1,572.17	1,612.16	39.99	2.54%
35	2000	2,088.32	2,138.76	50.44	2.42%
36	2500	2,586.97	2,653.61	66.64	2.58%
37	3,000	3,085.62	3,168.46	82.84	2.68%
38					

MONTH	AVERAGE THERMS	PRESENT RATE	PROPOSED RATE	AMOUNT OF INCREASE/ (DECREASE)	PERCENT INCREASE/ (DECREASE)
(F)	(G)	(H)	(I)	(J)	(K)
JAN	482	518.42	538.08	19.66	3.8%
FEB	467	503.46	522.63	19.17	3.8%
MAR	400	436.64	453.64	17.00	3.9%
APR	277	304.53	316.91	12.39	4.1%
MAY	112	127.30	133.50	6.20	4.9%
JUN	77	89.71	94.59	4.89	5.4%
JUL	49	59.63	63.47	3.84	6.4%
AUG	44	54.26	57.91	3.65	6.7%
SEP	54	65.00	69.03	4.03	6.2%
OCT	87	100.45	105.71	5.26	5.2%
NOV	185	205.71	214.65	8.94	4.3%
DEC	<u>362</u>	<u>395.82</u>	<u>411.40</u>	<u>15.58</u>	<u>3.9%</u>
TOTAL	2,596	\$2,860.92	\$2,981.51	\$120.59	4.2%

39

AVERAGE MONTHLY USE = 218 Therms

Northwestern Public Service
 South Dakota - Gas
 Rate Code 81, 82, and 84
 Rate Comparison

LINE NO.		PRESENT	PROPOSED
38	CUSTOMER CHARGE	\$80.00	\$80.00
39	ALL THERMS	\$0.03880	\$0.05870
40	PGA and OTHER ADJ.	\$1.65960	\$1.65960

LARGE COMMERCIAL/INDUSTRIAL FIRM - RATE CODE 84 (OPTION A)

	THERMS	PRESENT RATE	PROPOSED RATE	AMOUNT OF INCREASE/ (DECREASE)	% INCREASE/ (DECREASE)	MONTH	AVERAGE THERMS	PRESENT RATE	PROPOSED RATE	AMOUNT OF INCREASE/ (DECREASE)	PERCENT INCREASE/ (DECREASE)
41	0	80.00	80.00	\$0.00	0.00%	JAN	4,898	8,398.76	8,496.23	97.47	1.2%
42	250	504.60	509.58	4.98	0.99%	FEB	4,625	7,935.10	8,027.14	92.04	1.2%
43	500	929.20	939.15	9.95	1.07%	MAR	3,929	6,753.01	6,831.20	78.19	1.2%
44	750	1,353.80	1,368.73	14.93	1.10%	APR	2,788	4,815.14	4,870.62	55.48	1.2%
45	1,000	1,778.40	1,798.30	19.90	1.12%	MAY	1,302	2,291.32	2,317.23	25.91	1.1%
46	1,500	2,627.60	2,657.45	29.85	1.14%	JUN	885	1,583.08	1,600.70	17.61	1.1%
47	2,000	3,476.80	3,516.60	39.80	1.14%	JUL	632	1,153.39	1,165.97	12.58	1.1%
48	3,000	5,175.20	5,234.90	59.70	1.15%	AUG	563	1,036.20	1,047.40	11.20	1.1%
49	4,000	6,873.60	6,953.20	79.60	1.16%	SEP	688	1,248.50	1,262.19	13.69	1.1%
50	5,000	8,572.00	8,671.50	99.50	1.16%	OCT	1,179	2,082.41	2,105.88	23.46	1.1%
51	6,000	10,270.40	10,389.80	119.40	1.16%	NOV	2,152	3,734.96	3,777.78	42.82	1.1%
52	7,000	11,968.80	12,108.10	139.30	1.16%	DEC	4,016	6,900.77	6,980.69	79.92	1.2%
53	8,000	13,667.20	13,826.40	159.20	1.16%	TOTAL	27,657	\$47,932.65	\$48,483.02	\$550.37	1.1%

54

AVERAGE MONTHLY USE = 2,299 Therms