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January 20, 2012

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

Dear Ms. VanGerpen:

Attached is Section 5, sheet 1a in both redline and black-line form. This sheet was slightly revised from the original filing, based on conversation with staff. In addition, this letter further explains the reason NorthWestern submitted a revision to its gas tariff, as filed in NG11-008 on sheet 1a.

This revision will change the point of measurement for a natural gas service. We previously used the customer's property line as the starting point to measure the length of service, however this change will allow us to measure starting at the gas main. This change will protect existing customers from having to pay for a customer who may demand gas service even though he may be located a long distance from the gas main.

Under the current tariff, a customer may argue that the Company (and/or existing rate base customers) are responsible for the cost of running the new gas line from the existing gas main to the customer's property line. In a case where the new customer is one half mile from the existing gas main, this would be a very uneconomical project as the cost to run the line would be approximately \$25,000. Assuming the customer uses 1,000 therms annually, this would result in margin of only \$341 per year. When the annual O&M and property taxes are factored in, there would be a loss to serve this customer. Existing customers would subsidize this customer's service. With this tariff change, it will be made clear that the point of measurement is from the existing gas main and not from the customer's property line. This will insure the cost causer is responsible for the cost of the project. The cost causer can then choose if they want to pay for the project or decline the project.

We have also reviewed the impact on new customers with an average length of service. In 2011, there were 25 residential customers who had gas services over 150 feet in length, which allows the Company to calculate an additional Contribution in Aid of Construction (CIAC). Had these proposed changes been in place during 2011, it would have added approximately \$65 to the cost of each service. This amounts to \$1,625 of annual project costs that would have been collected from cost causers, instead of being added to rate base.

In summary, the proposed tariff change will move the starting point of the service to the point it taps the gas main, rather than the customer's property line. This should ensure the cost causer pays for the new service. If you have any further questions, please call me at (605) 353-8315.

Sincerely,

Jeff Decker, Regulatory Specialist