

NorthWesternTM Energy

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January 18, 2011

Ms. Patricia Van Gerpen, Executive Director
S. D. Public Utilities Commission
500 East Capitol Avenue
Pierre, SD 57501

Re: NorthWestern Corporation - Proposed Milbank Northern Natural Gas (NNG) Pipeline
Purchase Filing
PUC Docket NG11-___

Dear Ms. Van Gerpen:

With this letter, NorthWestern Corporation ("NorthWestern" or the "Company"), doing business as NorthWestern Energy, requests that the Commission approve, pursuant to SDCL Sections 49-34A-35 and 49-34A-36, its purchase of the Milbank NNG Pipeline. Pursuant to ARSD 20:10:13:39, the Company states:

1) The documents submitted with this filing include:

- An original and one copy of the Application for Tariff Change and Report in Support of Tariff Filing of NorthWestern (the "Report"), pursuant to ARSD 20:10:13:26;
- According to ARSD 20:10:13:34, the proposed revised tariff schedule, Section 1, Sheet 1. 31st Revised, Section 3, Sheet 1.1. 2nd Revised, Section 3, Sheet 6.9, 1st Revised
- The Adoption Notice, stating NorthWestern adopts MERC's Rates
- Exhibit A requesting confidential treatment.
- Confidential Exhibit B describing the transaction and cost recovery.

2) The proposed effective date for approval of the transaction and associated tariffs is April 1, 2011. However, to facilitate the Federal Energy Regulatory Commission's ("FERC's") limited review of this transaction and associated tariffs, NorthWestern respectfully requests that the Commission act on this matter on or before March 15, 2011.

- 3) The names and addresses of those to whom copies of the proposed rate schedule have been mailed:

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|---|--|--|--|
| Saputo Cheese Manager of Operations PO Box 8 BigStone City, SD 57216 | Valley Queen Brian Sandvig 200 E. Railway Ave Milbank, SD 57252 | POET BIOREFINING Blaine Gomer 48416 144 th Street Big Stone City, SD 57216 | MERC David Kult P.O. Box 659795 San Antonio, TX 78265 |
|---|--|--|--|

- 4) Brief description of the proposed changes in rates:

NorthWestern has negotiated with and has agreed to purchase the Milbank Pipeline from NNG, pending SD PUC and FERC approval. The agreed upon purchase price and rate base values as of 03/31/2011 are stated in the attached testimony on page 2. NorthWestern seeks approval of full recovery of the purchase price in rate base, less that portion applicable to the four large customers as described in the enclosed testimony.

The NNG line is a 55 mile pipeline originating with a tap near Brandt, SD. This pipeline serves retail customers in the Milbank area as well as Saputo Cheese, Valley Queen Cheese, MERC and POET. The pipeline-related costs associated with the provision of service to these four customers are to be recovered through a new capacity fee under Rate 87, which NorthWestern seeks approval of in this filing. The proposed rate is \$1.08 per therm of firm transport, except for MERC whose proposed rate is \$0.80 per therm. This rate is further adjusted for each customer using a calculated distance factor. As demonstrated in the attached testimony, this rate is based on the costs of the service to be provided. NorthWestern specifically requests that the Commission, in approving this amendment to Rate 87, states that this rate, as amended, is a cost-based rate.

As part of this purchase, NorthWestern agrees to maintain and operate approximately 200 farm taps, located throughout eastern South Dakota, through December 31, 2017. NorthWestern is not purchasing the farm taps, but will maintain, bill and provide gas for the customers. According to ARSD 20:10:13:29, NorthWestern seeks approval to adopt MERC's existing rates to provide said service.

Both NorthWestern and MERC utilize a pass through method to recover purchased gas costs (a"PGC"). Upon approval of this transaction, the customers will be billed under NorthWestern's PGC prices. NorthWestern's current residential PGC rate is \$0.59841 per therm, compared to the MERC rate of \$0.61103.

For all general terms and conditions including payment terms, disconnect/reconnect fees, service rules etc., NorthWestern proposes to use its existing general terms and conditions.

As a result of this transaction, NorthWestern's existing customers, in aggregate, will see an immediate reduction in their annual PGC costs of approximately \$400,644 related to reduced NNG capacity costs. This reduction is due to the purchase of this pipeline. However, the costs related to the pipeline will not be allowed in base rates until the next rate case. As part

of the filing, according to 49-34A-19, see attached Exhibit B for information concerning revenue, costs and other factors relevant to this purchase. NorthWestern requests approval of the full purchase price. NorthWestern seeks deferral of the PGC costs as a regulatory asset pending recovery in its next rate case.

(5) Reasons for the proposed changes:

NorthWestern's purchase of the NNG Pipeline enables NorthWestern to provide enhanced gas service to several existing customers and gas service to one new customer (MERC). Such large customers will receive enhanced gas service with no or little increase in cost. Further, the acquisition of this Milbank line enhances NorthWestern's ability to serve growth in its retail markets in the future.

(6) Number of customers whose cost of service will be affected and annual changes in cost of service to such customers.

The MERC Farm taps serve approximately 200 customers. NorthWestern is adopting MERC's rates so there is no change to the cost of delivery service to the MERC customers. The four large customers listed above will be billed under Rate 87, with an additional proposed Firm Transport charge of \$0.80 per therm for MERC and \$1.08 per therm of firm capacity for the other Milbank lateral large customers, to compensate for the additional costs associated with the acquisition of the new Milbank line. This approach will enable NorthWestern to offer a firm service option under this rate schedule. In addition, all NorthWestern PGC customers will see a reduction in their PGC costs with a proposed offsetting increase in NorthWestern's delivery rates, at the time of the next rate case.

In summary, with this filing, NorthWestern requests the following four Commission approvals:

1. Approval of the transaction and full recovery of the purchase price pursuant to 49-34A-19.
2. Approval of the Rate 87 Milbank lateral firm transport capacity charge as a cost-based rate.
3. Adoption of the MERC tariffs.
4. Deferral of offset PGC costs, until such time as new NorthWestern retail delivery rates take effect, in a future rate case.

Sincerely yours,

Jeff Decker
Rates Analyst