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January 16, 2013

Mr. Jon Thurber
SD Public Utilities Commission
500 East Capitol Avenue
Pierre, SD 57501

Re: Docket NG11-03
Manufactured Gas Plant (MGP) remediation update pursuant to paragraph 3E of Settlement Stipulation

Dear Mr. Thurber:

NorthWestern is providing you with an electronic file (MGP NG11-03 tracker.xls) which tracks clean-up costs and recoveries related to the Aberdeen MGP site during 2012. As you will see, NorthWestern incurred $695,483.82 of clean up costs and recovered $1,732,693.63 from customers during 2012. This resulted in a reduction of our under collected position, which is $1,348,087.85 as of December 31, 2012. We track our MGP remediation costs and amounts recovered from customers, and apply a 7.79% carrying charge to the under or over collected position at the end of each month. As stated in paragraph 3E of the Settlement Stipulation of Docket NG11-03, NorthWestern will provide this report to you each calendar year before January 31.

The following three paragraphs also provide an update of the actual work completed during the reporting period as compared to the optimal schedule provided in 'Exhibit 5-8-1 Arcadis memo 5-16-1 1.pdf' (also provided electronically with this letter) in response to data request 5-8.

In 2012, NorthWestern conducted gauging and a comprehensive pump testing program of the Stage 1 (on-site) collection galleries that were installed in 2011 for purposes of recovering coal tar from the subsurface. Results of the pump testing suggest that an automated pumping and treatment system may not be warranted, so that a manual recovery program may suffice. Therefore, design and construction of a contemplated wastewater treatment and storage system has not been performed and may not be necessary, at least for the Stage 1 collection galleries. Additionally, operational maintenance on the existing wastewater treatment system for the City of Aberdeen's Water Booster Station has been conducted along with perimeter groundwater monitoring. No third party compensation has occurred as of this time, although NorthWestern has purchased a vacant residential lot north of the site to preclude future development of the lot and facilitate subsurface remediation in this area. We spent approximately $695,000 during 2012 as noted above. Of the remaining $605,000 from our original 2012 estimate of $1.3

million, we anticipate $515,000 will be incurred in 2013 and $90,000 will not be necessary based on the scope changes discussed above.

While the performance of the Stage 1 collection program appears to be favorable, NorthWestern's consultant is revisiting the feasibility of deploying this approach for remediation of third party properties. A feasibility analysis and engineering design are currently being performed in order to support an optimal coal tar collection program on third party properties starting in the summer or fall of 2013. The approach used for Stages 2 and 3 (third party properties) may consist of additional collection galleries, horizontal wells, or a modified version of these technologies. The $6,500,000 in projected expenditures for 2013 (as presented in the exhibit memorandum dated May 16, 2011) is based on assuming that access agreements to any and all third party properties can be secured within the 2013 construction season, and that collection galleries are adopted as the most suitable remedial approach.

If an alternate remedial approach is adopted for the off-site properties, it may be done in one of two ways. A "pilot-scale" approach, where the remedial program is gradually deployed over multiple construction seasons to ensure effectiveness, would have the effect of pushing off some remaining capital costs into 2014 and 2015. A "full-scale" approach, where the remediation would occur during one season on all contemplated third-party properties, would maintain most of the capital expenditures in 2013 (assuming access agreements can be negotiated and secured to meet this schedule).

It is important to note that while certain efficiencies have been identified and summarized above, there is still significant work to complete and estimates may need to be revised upward in the future. NorthWestern will continue working cooperatively with the South Dakota Department of Environment and Natural Resources in order to proceed with a site management strategy that meets regulatory expectations and is conducted in a technically efficient manner.

Please feel free to contact me at (605) 978-2806 if you have any questions.

Sincerely,

Kendall Kliewer
Vice President and Controller