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August 24, 2012

Ms. Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol
Pierre, SD 57501-5070

Re: Gas Transportation Tariff Change - Fuel Retention Percentage

Dear Ms. Van Gerpen:

Enclosed is 16th Revised Sheet No. 6.2 of Section No. 5 of NorthWestern's filed Natural Gas Tariff. This filing is made to comply with the fuel retention provisions of Paragraph 7 of the Gas Transportation Tariff General Terms and Conditions. Those provisions call for the retention percentage for the Company's South Dakota distribution system to be adjusted annually, to be effective October 1, and based on the actual percentage incurred by the Company for the prior 12 month period ending July 31.

The new fuel retention percentage proposed to be effective October 1, 2012 is 1.77%. This is a decrease of 0.20% from the currently effective retention percentage of 1.97. The retention percentages effective October 1, 2009 and 2010 were 2.05% and 2.23%, respectively. Exhibit A, attached, shows the computation of the actual percentage incurred by the Company for the twelve month period ending July 31, 2012.

This filing also contains an updated fuel rate for large volume customers with daily average therm use of greater than 30,000. The customers that fit this criterion are primarily direct connect customers whose gas systems are not subject to the normal losses of a distribution system. There is currently one customer that would utilize this rate. As additional contracts with deviations expire, those customers will be billed based on this fuel rate as opposed to the normal distribution fuel rate. The proposed rate is 0.43% compared to last year's rate of 0.52%.

The proposed retention percentage is requested to be approved with an effective date of October 1, 2012.

Sincerely,

Jeff J. Decker
enclosure