



December 16, 2016

Ms. Patricia Van Gerpen
South Dakota Public Utilities Commission
State Capitol Building
Pierre, SD

Dear Ms. Van Gerpen:

With this letter, NorthWestern Corporation, doing business as NorthWestern Energy (“NorthWestern”), is filing with the South Dakota Public Utilities Commission (the “Commission”) revisions to its Natural Gas Tariff. NorthWestern respectfully requests Commission approval of these proposed revisions.

Pursuant to ARSD 20:10:13:36 and ARSD 20:10:13:39 NorthWestern states:

1. The documents submitted with this filing include:
 - The proposed revised tariff schedule, Section 4, 23rd Revised Sheet No. 1, Summary List of Contracts with Deviations, that includes a reference to the Natural Gas Transportation Service Agreement (the “Agreement”) between NorthWestern and Prairie Ethanol, LLC (“Customer”) and the information required by ARSD 20:10:13:09
 - A copy of the executed proposed Agreement, for which confidential treatment has been requested, pursuant to ARSD 20:10:01:41 (see [Exhibit A](#) to this letter)
 - Confidential work papers showing the calculation of the rate to serve this customer (see [Exhibit B](#) to this letter)
2. The proposed effective date for the tariff revisions is January 3, 2017. NorthWestern requests the Commission approve this contract with deviation on less than thirty days’ notice.
3. The names and addresses of those to whom this filing has been emailed:

Prairie Ethanol, LLC
40509 247th Street
Mitchell, SD 57301
Attn: Becky Pitz

4. Brief description of the tariff changes:

Prairie Ethanol is the first large ethanol customer on NorthWestern’s natural gas system to reach the expiration date of its initial contract. The original



contract included recovery of pipeline costs over a ten year period. Upon completion of the contract period in December 2016, the pipeline cost has been recovered and the value of the pipeline asset on NorthWestern's books is zero.

A zero rate base customer on a direct connect pipeline creates a challenge for calculating a rate to serve the customer. There are no assets to depreciate nor to calculate a return for the company. NorthWestern and Staff have communicated frequently over the past 10 years, working together to find a supportable method to calculate the rate given this scenario. Both parties agree that the FERC method of calculating a Management Fee provides an appropriate mechanism for charging the customer. In the FERC Cost-of Service Rates Manual, the Management Fee section states the following: "When a pipeline is fully depreciated and the pipeline continues to provide service, the Commission has permitted rates which provide for the recovery of operating expenses, taxes and a reasonable management fee that is equivalent to no more than 10% of the pipeline's average pre-tax return during the years prior to when the pipeline became fully depreciated". For the Prairie Ethanol pipeline, this method would be calculated as shown below:

Original Cost X 50% X NorthWestern's Rate of Return (grossed up for taxes) X 10%

NorthWestern is requesting a rate to serve the customer which will include this management fee component as the return for serving the customer. The rate also includes Operation and Maintenance and Administrative costs, which are calculated using a system-wide average per foot rate multiplied by the length of this pipeline. An allocation of common and general plant assets and related expenses are also charged to this customer. The Ad Valorem rate for the large 87B customers will be included in the rate as well. The recovery of costs using system-wide averages provides a benefit to existing rate base customers by providing cost recovery from this customer, based on overall system costs. Details of the calculation are shown in confidential [Exhibit B](#) of this filing.

The deviations from tariff requested in this filing include:

- The rate on which the customer is served.
- The customer will be exempt from fuel retention charges since this is a direct connect pipeline and uses the upstream transmission line meter for billing.
- Termination conditions as set forth in the Agreement.



Except for the deviations described above, this Customer will be served under rate 87 tariff rates and all other conditions of the general terms and conditions will apply.

An additional clean-up included in this filing is the removal of item 4, SD Wheat growers from the list of contracts with deviation. Their contract with deviation has expired. The numbering of subsequent listings is altered and corrected due to the removal of this customer from the list.

5. Reasons for the proposed tariff changes:

NorthWestern desires to provide this Customer with continuing natural gas service after the original 10 year agreement has expired. This new rate will allow NorthWestern to maintain this customer, which will benefit not only Prairie Ethanol, but also NorthWestern and its natural gas customers, through recovery of admin and general costs and common costs from this customer.

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

Prairie Ethanol, LLC will be the only customer affected by this filing.

Sincerely,

Jeff J. Decker

Regulatory Specialist

jeff.decker@northwestern.com

○ 605-353-8315



EXHIBIT A
REQUEST FOR CONFIDENTIAL TREATMENT

COMES NOW, NorthWestern Corporation, doing business as NorthWestern Energy ("NorthWestern" or the "Company"), and pursuant to ARSD 20:10:01:41, requests confidential treatment as follows:

- 1) The documents for which confidential treatment is requested are the Natural Gas Transportation Service Agreement between NorthWestern and Prairie Ethanol, LLC (the "Customer"), dated December 14, 2016 (the "Agreement"), and Exhibit B;
- 2) The Company requests that such confidential treatment be afforded the Agreement and Exhibit B indefinitely, or, at a minimum, until the conclusion of the term of the Agreement;
- 3) The name, address and phone number of the persons to be contacted regarding the confidentiality request are:

Jeff Decker	Pamela Bonrud
Specialist Regulatory	Director Government and Regulatory Affairs
NorthWestern Energy	NorthWestern Energy
600 Market St. West	3010 W. 69 th Street
Huron, SD 57350	Sioux Falls, SD 57108
(605) 353-8315	(605) 978-2900

- 4) The grounds for confidentiality are that the Agreement and Exhibits provide proprietary information concerning both the Company and the Customer, including the pricing of natural gas service. Sharing this information to third parties may provide competitive advantages to the competitors of NorthWestern or the Customer.
- 5) As a factual basis in support of this request, please see the response to item 4) above.