

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE APPLICATION) OF NORTHWESTERN CORPORATION) DBA NORTHWESTERN ENERGY FOR ITS) PURCHASE OF THE MILBANK NNG) PIPELINE)	FINAL DECISION AND ORDER NG11-001
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On January 18, 2011, the Commission received an application from NorthWestern Corporation dba NorthWestern Energy (NorthWestern) requesting the Commission to approve, pursuant to SDCL Sections 49-34A-35 and 49-34A-36, its purchase of Northern Natural Gas's (NNG) Milbank pipeline (Milbank Line) and associated tariff revisions. NorthWestern requests that the Commission act on this filing on or before March 15, 2011. The Milbank Line is a 55-mile pipeline originating at a Northern Border Pipeline tap near Brandt, South Dakota, and extending to the valve at the South Dakota state line in Big Stone City, South Dakota. The Milbank Line serves retail customers in the Milbank area as well as Saputo Cheese, Valley Queen Cheese, Minnesota Energy Resources Corporation (MERC) and POET.

In its original filing, NorthWestern proposed that the pipeline related costs associated with the provision of service to the four large customers be recovered through new distance sensitive capacity fees under Rate 87 for which NorthWestern requested approval. NorthWestern further requested that in its order, the Commission specifically state that these rates are cost-based rates. NorthWestern also requested Commission approval of full recovery of the purchase price of the pipeline in rate base at the time of the next general rate case pursuant to SDCL 49-34A-19 and establishment of a deferral or regulatory asset to recover, at the time of the next general rate case, a return on that portion of pipeline costs which are not proposed to be assigned to the four large customers but to NorthWestern's overall system, from the time of purchase. On January 24, 2011, NorthWestern filed a revised proposed revision to its Rate 87 tariff to add a capacity surcharge for contract volume exceedances. On March 3, 2011, after discussions with Commission Staff (Staff) NorthWestern filed a request to withdraw its proposed revisions to its Rate 87 tariff and, in lieu thereof, filed revisions to its tariff Section No. 4, 5th Revised Sheet No. 2, Contracts with Deviations, which included rate specifications for the mileage adjusted Milbank Line Contract Demand, Firm Transport Only Credit, charge for transport volumes in excess of contract demand, and contract with deviation listings for MERC – SD/MN Border, POET - Big Stone City, Saputo Cheese - Big Stone City, and Valley Queen Cheese – Milbank. On March 3, 2011, NorthWestern also filed Natural Gas Firm Transport Agreements with Valley Queen Cheese, MERC, and POET as Milbank Line contracts with deviations. On March 4, 2011, NorthWestern filed a Natural Gas Firm Transport Agreement with Saputo Cheese as a Milbank Line contract with deviations.

Also as part of this proposed purchase, NorthWestern states that it will agree to maintain and operate approximately 200 farm taps located along NNG's transmission pipeline in eastern South Dakota (NNG Farm Taps) until December 31, 2017. NorthWestern requests approval to adopt MERC's existing rates to provide such service. NorthWestern proposes to bill these customers for gas supply utilizing its own Purchased Gas Adjustment Clause rates and proposes to follow its own existing tariffs for general terms and conditions including payment terms, disconnect/reconnect fees, service rules, etc. On March 4, 2011, MERC filed a request pursuant to ARSD 20:10:13:38 for approval to withdraw its tariff governing service to and maintenance of the NNG Farm Taps.

On January 20, 2011, the Commission electronically transmitted notice of the filing and the intervention deadline of February 4, 2011, to interested individuals and entities. No parties sought intervention. The Commission finds that it has jurisdiction over this matter pursuant to SDCL Chapter 49-34A, specifically 49-34A-4, 49-34A-6, 49-34A-8, 49-34A-10, and 49-34A-19, and ARSD Chapter 20:10:13.

On February 25, 2011, the Commission issued its Order for and Notice of Hearing setting this matter for hearing on March 8, 2011, at the later of 3:00 p.m. or immediately following the conclusion of the Commission's regular meeting. The hearing was held as scheduled, commencing at approximately 3:50 p.m. NorthWestern and Staff appeared. An audio recording of the entirety of the hearing is available at the following link: <http://media.sd.gov:81/puc/PUC03082011hearing.mp3>. After hearing from NorthWestern and Staff concerning all of the issues noticed for hearing, the Commission took the following actions:

Regarding Issue (i) – The Commission voted unanimously to find that NorthWestern's proposed purchase of NNG's Milbank Line is not subject to approval pursuant to SDCL 49-34A-35 because the purchase is not a purchase of an operating unit or system in this state of another public utility because NNG is not a public utility as defined in SDCL 49-34A-1(12) and because the transaction is exempt from approval under 49-34A-35 because the purchase price is less than \$10 Million.

Regarding Issues (ii), (iii) and (iv) - The Commission voted unanimously to find that NorthWestern's cost of acquisition of the Milbank Line will be prudently incurred pursuant to SDCL 49-34A-19(3) and will provide benefits to its customers pursuant to SDCL 49-34A-19(4) and to approve in principle the acquisition of the Milbank Line for inclusion in rate base on an acquisition cost basis to be determined at the time of the next general rate case.

Regarding Issue (v) - The Commission voted unanimously to approve NorthWestern's establishment of a deferral or regulatory asset to account for and accrue a return on that portion of the costs of the Milbank Line which are not assigned to large customers under Natural Gas Firm Transport Agreement contract with deviation rates but to NorthWestern's overall system, but not to make a decision at this time on the amount and treatment of this deferral or regulatory asset in NorthWestern's next general rate case, but leave that for decision at the time of the next rate case.

Regarding Issues (vi) and (vii) - The Commission voted unanimously to grant NorthWestern's request to withdraw the proposed revisions to its Rate 87 tariff sheet Section No. 3, 1st Revised Sheet No. 6.9 and instead to approve, on a cost-based basis: (i) NorthWestern's proposed changes to its Contracts with Deviations in Section No. 4, 5th Revised Sheet No. 2, subject to the requirement that the Milbank Line rates and terms on such schedule, including for mileage adjusted Milbank Line Contract Demand, Firm Transport Only Credit, and charge for transport volumes in excess of contract demand, be available to additional similar large customers upon application to and approval by the Commission; and (ii) NorthWestern's contracts with deviations with MERC, Valley Queen Cheese, POET and Saputo Cheese.

Regarding Issue (viii) - The Commission voted unanimously to approve NorthWestern's assumption of the obligation to maintain and operate approximately 200 farm taps located along NNG's transmission pipeline in eastern South Dakota until December 31, 2017, and to approve NorthWestern's proposed tariff sheet Section No. 3, 2nd Revised Sheet No. 1.1 adopting MERC's existing rates to provide such service, but utilizing NorthWestern's own Purchased Gas Adjustment Clause rates and general terms and conditions.

Regarding Issue (ix) - The Commission voted unanimously to grant MERC permission to withdraw its NNG farm tap tariffs on file with the Commission at such time as the transaction between NorthWestern and NNG is consummated and NorthWestern has assumed the farm tap obligations, and that MERC's tariffs shall remain in effect until such time

Based on the above actions, the revised NorthWestern tariff sheets approved by the Commission are as follows:

South Dakota Gas Rate Schedule

Section No. 1	
31st Revised Sheet No. 1	Canceling 30th Revised Sheet No. 1
Section No. 3	
2nd Revised Sheet No. 1.1	Canceling 1st Revised Sheet No. 1.1
Section No. 4	
5th Revised Sheet No. 2	Canceling 4th Revised Sheet No. 2

It is therefore

ORDERED, that NorthWestern's proposed purchase of NNG's Milbank Line is found not to be subject to approval pursuant to SDCL 49-34A-35 because the purchase is not a purchase of an operating unit or system in this state of another public utility because NNG is not a public utility as defined in SDCL 49-34A-1(12) and because the transaction is exempt from approval under 49-34A-35 because the purchase price is less than \$10 Million;

ORDERED that based on its findings that NorthWestern's cost of acquisition of the Milbank Line will be prudently incurred pursuant to SDCL 49-34A-19(3) and will provide benefits to its customers pursuant to SDCL 49-34A-19(4), the acquisition of the Milbank Line is approved in principle for inclusion in rate base on an acquisition cost basis to be determined at the time of the next general rate case;

ORDERED that NorthWestern's establishment of a deferral or regulatory asset to account for and accrue that portion of the costs of the Milbank Line which are not assigned to large customers under Natural Gas Firm Transport Agreement contract with deviation rates but to NorthWestern's overall system, is approved, but a decision is not made at this time on the amount and treatment of this deferral or regulatory asset in NorthWestern's next general rate case, but is left for decision at the time of the next rate case;

ORDERED that NorthWestern's request to withdraw the proposed revisions to its Rate 87 tariff sheet Section No. 3, 1st Revised Sheet No. 6.9 is granted and instead the Commission approves, on a cost-based basis: (i) NorthWestern's proposed changes to its Contracts with Deviations in Section No. 4, 5th Revised Sheet No. 2, subject to the requirement that the Milbank Line rates and terms on such schedule, including for mileage adjusted Milbank Line Contract Demand, Firm Transport Only Credit, and charge for transport volumes in excess of contract demand, be available to additional similar customers upon application to and approval by the Commission; and (ii) NorthWestern's contracts with deviations with MERC, Valley Queen Cheese, POET and Saputo Cheese;

ORDERED that NorthWestern's assumption of the obligation to maintain and operate approximately 200 farm taps located along NNG's transmission pipeline in eastern South

Dakota until December 31, 2017, is approved, and NorthWestern's proposed tariff sheet Section No. 3, 2nd Revised Sheet No. 1.1 adopting MERC's existing rates to provide such service, but utilizing NorthWestern's own Purchased Gas Adjustment Clause rates and general terms and conditions is also approved; and it is further

ORDERED that MERC's request for permission to withdraw its NNG farm tap tariffs on file with the Commission is granted, effective as of such time as the transaction between NorthWestern and NNG is consummated and NorthWestern has assumed the farm tap obligations, and that MERC's tariffs shall remain in effect until such time

Dated at Pierre, South Dakota, this 11 day of March, 2011.

<p align="center">CERTIFICATE OF SERVICE</p> <p>The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, electronically.</p> <p>By: <u>Tina Douglas</u></p> <p>Date: <u>3-11-11</u></p> <p align="center">(OFFICIAL SEAL)</p>
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BY ORDER OF THE COMMISSION:

Steve Kolbeck
STEVE KOLBECK, Chairman

Gary Hanson
GARY HANSON, Commissioner

Chris Nelson
CHRIS NELSON, Commissioner