

**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)	ORDER FOR AND NOTICE OF HEARING 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. 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. NorthWestern proposes that the pipeline related costs associated with the provision of service to these four large customers be recovered through new distance sensitive capacity fees under Rate 87 which NorthWestern seeks approval of in this filing and further requests that when approved, the Commission specifically state that these rates are cost-based rates. NorthWestern also requests 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 the pipeline costs at the time of the next general rate case, which are not proposed to be assigned to the four large customers but to NorthWestern's overall system.

As part of this purchase, NorthWestern agrees to maintain and operate approximately 200 farm taps located along NNG's transmission pipeline in eastern South Dakota until December 31, 2017. NorthWestern seeks 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. NorthWestern requests that the Commission act on this filing on or before March 15, 2011.

A hearing shall be held on Tuesday, March 8, 2011, commencing at the later of 3:00 p.m. or immediately following the conclusion of the Commission's regular meeting on such date, in Room 414, State Capitol, 500 East Capitol Building, Pierre, South Dakota. Although it is anticipated that no sworn testimony will be taken at this hearing, in the event that sworn testimony is taken, all persons testifying will be subject to cross-examination.

The issues at the hearing are: (i) whether the Commission shall approve NorthWestern's purchase of the Milbank Line pursuant to SDCL 49-34A-35 and 49-34A-36; (ii) whether NorthWestern's cost of acquisition of the Milbank Line will be prudently incurred pursuant to SDCL 49-34A-19(3); (iii) whether NorthWestern's acquisition of the Milbank Line will provide benefits to its customers pursuant to SDCL 49-34A-19(4); (iv) if the Commission so finds, whether the Commission shall approve the full acquisition cost of the Milbank Line for inclusion in rate base on an acquisition cost basis at the time of the next general rate case pursuant to SDCL 49-34A-19; (v) whether the Commission shall approve NorthWestern's establishment of a deferral or regulatory asset, for recovery in its next general rate case, to account for and accrue that portion of the costs of the Milbank Line which are not proposed to be assigned to the four large customers but to NorthWestern's overall system; (vi) whether the Commission shall approve NorthWestern's proposed revisions to its Rate 87 tariff sheet Section No. 3, 1st Revised Sheet No. 6.9 designed to recover through new distance sensitive capacity fees the pipeline related costs associated with the provision of service to the four large

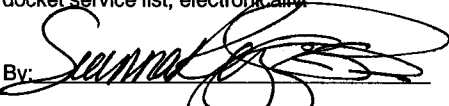
customers served by the Milbank Line; (vii) whether the Commission shall specifically find and state in its order that these Rate 87 rates are cost-based rates; (viii) whether the Commission shall approve NorthWestern's assumption of the obligation to maintain and operate approximately 200 farm taps located along NNG's transmission pipeline in eastern South Dakota until December 31, 2017, and 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, including payment terms, disconnect/reconnect fees, service rules, etc.; (ix) whether the Commission shall grant MERC permission to withdraw its NNG farm tap tariffs on file with the Commission; (x) whether the Commission shall determine any other issues as may be presented by filings prior to hearing or at the hearing or take such other action as the Commission shall deem necessary based upon the facts and arguments on the record.

The hearing shall be an adversary proceeding conducted pursuant to SDCL Chapter 1-26. All parties have the right to be present and to be represented by an attorney. These rights and other due process rights shall be forfeited if not exercised at the hearing. If a party or its representative fails to appear at the time and place set for the hearing, the final decision will be based solely on the testimony, evidence and argument provided, if any, during the hearing and on the filings in the record made by the parties to the proceeding at such time or a final decision may be issued by default pursuant to SDCL 1-26-20. After the hearing the Commission will consider all evidence and testimony that was presented at the hearing. The Commission will then enter Findings of Fact, Conclusions of Law, and a Final Decision regarding this matter. As a result of this hearing, the Commission shall determine the issues as set forth in the preceding paragraph. The Commission's Final Decision may be appealed by the parties to the state Circuit Court and the state Supreme Court as provided by law. It is therefore

ORDERED, that the hearing shall be held on Tuesday, March 8, 2011, at the later of 3:00 p.m. or immediately following the conclusion of the Commission's regular meeting on such date, in Room 414, State Capitol, 500 East Capitol Building, Pierre, South Dakota.

Pursuant to the Americans with Disabilities Act, this hearing is being held in a physically accessible location. Please contact the Public Utilities Commission at 1-800-332-1782 at least 48 hours prior to the hearing if you have special needs so arrangements can be made to accommodate you.

Dated at Pierre, South Dakota, this 25th day of February, 2011.

CERTIFICATE OF SERVICE
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.
By: 
Date: <u>2.25.11</u>
(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:



STEVE KOLBECK, Chairman



GARY HANSON, Commissioner



CHRIS NELSON, Commissioner