



January 3, 2017

Re: Informational Responses to Northern Natural Gas Easement Holders

Dear

Recently, there has been some confusion and misinformation about NorthWestern Energy's decision to not renew a contract with Northern Natural Gas (NNG) to provide natural gas service to approximately 200 easement holders along NNG's gas transmission pipeline in eastern South Dakota. We do not understand why NNG is making these statements, and we encourage you to review the easement against your land to understand your rights and all of NNG's obligations under that easement. We hope this letter will help you understand the history of these easements and NorthWestern Energy's recent limited role in serving NNG's easement holders.

Back in the 1950s, NNG obtained an easement from various landowners, including the owner of your land, to bury NNG's natural gas transmission line across their land. When you review your easement, you will see that NNG, in exchange for the right to bury its pipeline across your land, promised to (1) provide a farm tap to you, and (2) furnish natural gas for use on your land, either directly by "grantee" (NNG) or by a "vendee of grantee" (a subcontractor of NNG).

Until 1985, NNG directly fulfilled both of those promises to the easement holders. NNG provided the farm tap. NNG also furnished natural gas to the easement holders' property through a division of NNG called Peoples Natural Gas Company. In 1985, NNG sold Peoples and then began subcontracting with a vendee to fulfill the obligation to furnish natural gas to the easement holders. Initially, NNG subcontracted with Peoples in 1987 to furnish natural gas through 2017. Eventually, several other parties unrelated to NorthWestern Energy served in the subcontractor role under NNG's 1987 subcontract. In 2011, the South Dakota portion of the 1987 subcontract was assigned to NorthWestern Energy, with NNG's consent. Throughout this period, NNG's 1987 subcontract always has contained the 2017 expiration date agreed to by NNG.

While NorthWestern Energy's subcontract with NNG expires in 2017, the promises NNG made to landowners in the easements do not expire. NorthWestern Energy cannot answer why NNG has been unwilling to arrange a replacement subcontractor to continue providing natural gas

services in South Dakota as required by the easement agreements or why NNG is not helping you to arrange alternate services, like it has helped some of its farm tap customers in Iowa.

The services that NorthWestern Energy provides on behalf of NNG pursuant to our agreement with NNG include: filling odorizing containers once a year, reading your meter(s) once a year, billing you for your natural gas usage on a monthly basis (all easement holders are responsible for reading their own meters each month and submitting that information to NorthWestern Energy for billing), purchasing natural gas to meet your usage needs, and responding to emergency service calls.

NorthWestern Energy began its role as NNG's subcontractor for these services in 2011. NorthWestern Energy has no relationship with any of NNG's previous subcontractors, despite a misleading letter from NNG that implies otherwise. When NorthWestern Energy and NNG entered into this subcontract in 2011, both parties had full knowledge of the 2017 expiration date. NorthWestern Energy notified NNG over two years ago of NorthWestern Energy's willingness to negotiate a new agreement, only to be ignored repeatedly by NNG. With the expiration of NorthWestern Energy's current subcontract with NNG approaching and NNG's refusal to discuss a new subcontract, NorthWestern Energy recently prepared a notice that its service obligation under the subcontract was concluding and provided that notice to you, other NNG easement holders, NNG and the South Dakota Public Utilities Commission (SD PUC). NorthWestern Energy remains open to working with NNG and the SD PUC to find an equitable solution for all involved, including the possibility of negotiating a new agreement with NNG to serve as NNG's subcontractor under the easements after 2017.

However, the expiration of our agreement with NNG does not alter the continuing rights you and the other NNG easement holders have under your easement agreements with NNG. The expiration of our subcontract simply means that NorthWestern Energy no longer will be NNG's subcontracted provider after the end of 2017.

The only way in which your natural gas services will be turned off on December 31, 2017 is if NNG turns your farm tap valve to the off position. NorthWestern Energy does not own the pipeline that crosses your land. NorthWestern Energy does not own any of the infrastructure used in providing natural gas services to your property. NNG is the only entity that can decide to turn off your natural gas service when its subcontract with NorthWestern Energy expires. Your rights under your easement do not change. Nothing prevents you and the other easement holders from receiving those services in the future from NNG or any other company NNG may choose to subcontract with in the future.

At NNG's urging, several NNG easement holders have asked us and the SD PUC questions about the current situation. We're sharing those questions and our answers with every NNG easement holder to set the record straight.

Q: *If access to the natural gas remains without servicing the farm tap, are the costs of currently serving the farm tap in NorthWestern Energy rates.*

A: No. The costs of currently serving farm taps off this NNG pipeline are not, nor have they ever been, in NorthWestern Energy's SD PUC regulated rates. NorthWestern Energy does not own any of the infrastructure or facilities that serve your land. NorthWestern Energy has been acting as a subcontractor of NNG since 2011, and the rates in place for these services were assumed from NNG's previous subcontractor, Minnesota Energy Resources Corp. (MERC).

Q: *If access to the natural gas remains without servicing the farm tap, who would I call to investigate possible leaks and who would respond to emergencies?*

A: For the remainder of the subcontract term through December 31, 2017, you will continue to call NorthWestern Energy to investigate possible leaks and to respond to emergencies. After the subcontract expires, you will need to contact whoever assumes this responsibility – either NNG or a subcontractor NNG hires to provide this service.

Q: *Why will some farm taps continue to receive service and this one will not? Why are some exempt from this ruling?*

A: NNG's mention of a completely different and unrelated situation has no bearing on the contractual arrangement between NNG and NorthWestern Energy. NNG is attempting to muddy the waters of this discussion by referencing other farm tap customers that are unrelated to NorthWestern Energy's subcontract with NNG. NorthWestern Energy strongly encourages you to review your easement agreement with NNG and contact an attorney for legal guidance related to your rights and NNG's obligations under the easements.

Q: *Why would the SD PUC allow any discontinuance of utility service?*

A: NorthWestern Energy is acting as a subcontractor in this situation and has notified NNG of its decision to let NNG's 1987 agreement that NorthWestern entered into in 2011 to expire by its terms. NNG has obligations under the easements to you and the other easement holders. It is unclear whether the SD PUC has any jurisdiction since NorthWestern Energy is acting as a subcontractor pursuant to an agreement with NNG. Also, it is unclear what jurisdiction the SD PUC has, if any, over NNG or the terms of NNG's easement agreements.

Your access to natural gas services are governed by the terms of the easement between you and NNG. NNG has known since 2011 that the subcontract for the services NorthWestern Energy is providing to NNG would expire in 2017 and that it would need to find another suitable entity to continue providing services on its behalf to the easement holders. NorthWestern Energy cannot answer why NNG has been unwilling to secure a replacement subcontractor to continue providing natural gas services to you beyond 2017 or why NNG is not helping you to arrange alternate services, like it has helped some of its farm tap customers in Iowa.

NorthWestern Energy views this situation as similar to someone hiring a general contractor to build a home. The general contractor is in charge of hiring electricians, framers, roofers, cement contractors, plumbers, landscapers and other trades to make sure the home is built to the homeowner's specifications. If there is an issue with the home, the homeowner notifies the general contractor, and the general contractor is responsible for resolving whatever the issue might be. The homeowner is not responsible for dealing with the subcontractor. That is the general contractor's responsibility.

In this situation, NNG is the general contractor, and NNG has obligations under the easements. NorthWestern Energy is the subcontractor NNG has hired to provide natural gas services on its behalf, but only through December 31, 2017. Like a general contractor is paid by the homeowner for constructing the home, NNG has been paid by landowners by receiving permission to put NNG's pipeline in the ground. Now NNG must continue to fulfill its obligations under the easements, while it continues to receive the benefit of having its pipeline on your land.

Again, we encourage you to review and understand your legal rights and obligations under your easement.

Sincerely,



Timothy P. Olson

Senior Corporate Counsel & Corporate Secretary