STATE OF SOUTH DAKOTA
BEFORE THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

In the Matter the Matter of	**)**	
NorthWestern Energy Public Service Corporation's,	**)**	**Docket No. EL25-_____**
d/b/a NorthWestern Energy, Petition for	**)**	
Approval of Its Phase-In Rate Plan Rider	**)**	

PETITION FOR THE PHASE-IN PLAN RATE RIDER

I. INTRODUCTION

NorthWestern Energy Public Service d/b/a NorthWestern Energy ("NorthWestern") hereby petitions the South Dakota Public Utilities Commission ("Commission") for approval of its initial Phase-In Rate Plan ("PIRP") Rider under the Commission's authority granted in South Dakota Codified Laws §§ 49-34A-73 through 49-34A-78 and NorthWestern's Electric Tariff. In its Amended Order dated January 17, 2024, approving the Settlement Stipulation in Docket EL23-016, the Commission approved the submittal of a PIRP Rider by NorthWestern to recover costs related to a rebuild of generation capacity owned by NorthWestern, which rates shall be subject to annual Commission review through the PIRP Rider. The Commission's order placed the following conditions on NorthWestern for a PIRP Rider submittal:

1. A proposed PIRP Rider rate must be filed at least 90 days prior to the requested effective date.
2. The filing shall include, but not be limited to, detail regarding the proposed generation resources including justification of need, projected costs, and an updated tariff with relevant rates.

Through this Petition, NorthWestern submits the information requested by the Commission for NorthWestern to implement its PIRP Rider.

This is NorthWestern's initial filing for the PIRP Rider to recover actual and forecasted costs associated with the Aberdeen Generation Station ("AGS"). NorthWestern also seeks to recover actual and forecasted costs of its evaluation of Small Modular Nuclear Reactors ("SMR") technology to meet future generation and capacity needs.

In this filing, NorthWestern proposes to set the initial PIRP Rider to reflect the applicable Phase-In revenue requirements for the recovery period July 1, 2025 through June 30, 2026. The rate of return ("ROR") included in this filing is based on NorthWestern's capital structure and return on equity ("ROE") as approved by the Commission in Docket EL23-016. The filing includes actual investment costs, expenses, and revenues through February 28, 2025, for both the AGS and SMR projects. It also includes forecasted information related to the AGS project for March 1, 2025 through December 31, 2026. Contracted and actual expenses are included in the proposed PIRP Rider for the SMR project through the end of 2025. The proposed revenue to be collected for the July 1, 2025 through June 30, 2026 recovery period, is shown in Confidential Attachment A. Also, NorthWestern has included with this filing an updated tariff with the relevant rates as Attachment B.

NorthWestern requests permission to annually update the rate set forth in this PIRP Rider. NorthWestern asks the Commission to require NorthWestern's annual update to the PIRP Rider to be

filed by June 1 each year as long as the PIRP Rider remains in place to allow the proposed rates to be implemented by July 1 following the annual update filing.

Under this proposed PIRP Rider, a residential customer using 750 kilowatt-hours ("kWh") per month will be billed $2.27 per month. An average commercial customer will be billed $12.96 per month. An average large commercial customer will be billed $1,448.78 with the implementation of this proposed Rider rate.

II. GENERAL FILING INFORMATION

A. **Name, address, and telephone number of the utility making this filing**

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Phone: 605-978-2900

B. **Name, address, and telephone number of utility representatives to be contacted regarding this filing**

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C. **The date of filing and the date changes will take effect**

The date of this filing is April 1, 2025. NorthWestern proposes the effective date for the new rates proposed in this Petition to take effect for customer bills issued on and after July 1, 2025.

D. **Statutes controlling schedule for processing this filing**

NorthWestern files this request for Commission approval of a PIRP Rider under South Dakota Codified Laws §§ 49-34A-73 through 49-34A-78. South Dakota Administrative Rule ("ARSD") 20:10:13:15 requires a 30-day notice to the Commission of proposed changes to a utility's tariff schedule, after which time the changes go into effect unless suspended by the Commission. Because this tariff change for a PIRP Rider does not require a determination of NorthWestern's general revenue requirement, NorthWestern seeks an expedited and informal proceeding, including any variances that may be needed.

A notice of proposed changes will be posted in each South Dakota NorthWestern office location and on our company website (www.northwesternenrgy.com) at least 30 days before the new rate becomes effective in compliance with ARSD 20:10:13:17 and 20:10:13:18. Attachment C to this petition is a copy of the proposed customer notice as required by ARSD 20:10:13:19, that will be sent to each customer when the first bill is rendered after implementation of the approved PIRP Rider. Customer notice of this proceeding will be included with customer bills beginning on July 1, 2025, in compliance with SDCL § 49-34A-12.

III. Phase-In-Rate Cost Recovery

A. **Background**

The rate case Settlement Stipulation from NorthWestern's most recent electric rate review (Docket EL23-016)[1] established this proposed Infrastructure Rider as a means to recover specific costs related to future incremental generation capacity that is subject to Commission review. The filing is to be made 90 days prior to the effective date of rates. The filing shall include, but is not limited to, detail regarding the proposed generation resources, including justification of need, project costs, and an updated tariff with the relevant rates.

NorthWestern's need for additional generation capacity is clearly documented in our 2024 Integrated Resource Plan ("IRP").[2] Specifically, highlighted on pages 16-17 of our IRP,[1] forecasted capacity shows a shortfall during the years 2025 and 2029 forward in the winter months and every year starting in 2025 in the summer months. This is NorthWestern's first filing to establish a PIRP Rider for the recovery of costs associated with two generation projects – replacement generation at the AGS and the evaluation of SMR Generation to meet future generation capacity needs.

The use of a PIRP or infrastructure riders for the recovery of project costs not included in base rates is not a new concept in South Dakota. Xcel Energy, MidAmerican Energy, Otter Tail Power Company, Black Hills Energy, and Montana Dakota Utilities are using, or have used, rate riders in South Dakota. These rate riders being utilized by the various public utilities include cost recovery related to transmission, generation, environmental, and infrastructure projects as approved by the Commission. To date, NorthWestern has not used rate riders for project cost recovery outside of a rate case. This is our first request to use the PIRP Rider, or a rate rider, for specific project costs that are not in base rates.

The judicious use of rate riders is beneficial to customers as it helps to alleviate potential rate shock for customers due to timely recovery of costs over the duration of a project rather than

[1] NWE 2023 Rate Review Docket EL23-016 Link: https://puc.sd.gov/Dockets/Electric/2023/EL23-016.aspx
[2] NWE SD 2024 IRP Link: https://www.northwesternenergy.com/docs/default-source/default-document-library/about-us/regulatory/south-dakota-irp-2024--12-03-24.pdf

waiting until the project is completed and incorporating those costs with other increased costs included in base rates that are considered as part of a general electric rate review. Additionally, these type of riders help reduce regulatory lag experienced by public utilities who have incurred costs to serve customers but are not recovering those costs.

NorthWestern acknowledges that its request to use a PIRP Rider to recover costs associated with the evaluation of a potential new generation resource that may not be built, i.e., SMR, is a novel request. While novel to the concept of recovery in a PIRP Rider, the Commission has permitted recovery of costs incurred by utilities during the investigation of new generation resource even though the resource was never built. Specifically, the Commission previously authorized recovery of these types of costs in rate review dockets. In Otter Tail Power's ("OTP") 2010 rate review,[3] OTP requested and received approval for the recovery of costs it incurred in pursuit of the Big Stone II generation project - even though Big Stone II was never constructed. Montana Dakota Utilities ("MDU") also received approval from the Commission to recover its costs related to the Big Stone II project in Docket EL15-024.[4]

A number of factors can play into a utility's ultimate decision to proceed with building new generation. Many of these factors are outside the utility's control despite its best efforts to plan for all possible influences and outcomes. Factors that can alter a utility's decision regarding generation include changing governmental regulations and legislation regarding the environment, availability of fuel resources, tax treatment for utilities, financial pressures related to market conditions or inflation, changing customer demand for energy, changing capacity requirements governed by regional transmission organizations, public acceptance or rejection of generation resources, and uncertainty surrounding timely and adequate cost recovery. Allowing utilities to use an infrastructure rider, like requested here for SMR, provides them with certainty of needed cost recovery when they must study the applicability of a generation resource to meet its energy capacity needs.

Aberdeen Generation Station

Replacement of the Aberdeen 1 diesel oil-fueled generation unit (33 MW) was needed due to its age and cost of keeping it operational. It had low historical availability, a high heat rate, and was typically only operated for testing or in emergencies. Aberdeen 1 was last operated in 2022. Demolition of this unit began in July 2024 and was completed in early 2025. Replacement capacity is needed on a MW for MW basis with the removal of Aberdeen 1 to support voltage regulation for this area of our service territory. NorthWestern issued an RFP in January 2024 for on-site replacement generation and selected two new modular natural gas combustion turbines (14.5 MW each) to replace the Aberdeen 1 unit. These units will be interconnected to our 34.5 kV line in this area. The total anticipated cost for this project is $65.25 million.

All equipment associated with the Aberdeen 1 unit have been removed from the site. It is anticipated that delivery of the two new modular natural gas combustion turbines will occur in October 2025. However, there is a delay in the electric switch gear that is needed to operate the new natural gas turbines. Delivery of these components is not expected until April 2026. Until then, site work continues in preparing foundations for the arrival of the new

[3] OTP 2010 Rate Review Docket EL10-011 Link: https://puc.sd.gov/Dockets/Electric/2010/el10-011.aspx
[4] MDU 2015 Rate Review Docket EL15-024 link: https://puc.sd.gov/Dockets/Electric/2015/EL15-024.aspx

natural gas turbines, getting bids out for a new Reverse Osmosis water treatment system, and completing the local permitting process to meet construction timelines. Our anticipated date for completion of the project is August 2026.

Small Modular Nuclear Reactor Generation

NorthWestern is evaluating the opportunity to utilize SMR generation to meet future generation capacity needs for our South Dakota customers. As described in our 2024 South Dakota IRP,[5] a SMR is considered to be a nuclear reactor that is 300 MW or less in size. SMRs have the ability to provide safe, reliable, and carbon-free power for generations to come. Due to their smaller footprint and modular design, SMRs are more easily sited than larger power plants and are generally simpler to operate than large nuclear plants as they rely on passive safety systems, rather than operators, to keep the public safe.

The 2024 IRP contains an evaluation of alternative generation resources to replace base load coal generation units as those plants reach retirement age. The 2024 IRP identified natural gas and nuclear as cost-effective alternatives for replacing retiring baseload coal generation. Considering the cost of additional infrastructure needed to provide natural gas (and existing pipeline capacity constraints) to large natural gas generation units that will operate as baseload generation – SMR generation becomes an attractive option from a pricing perspective. Under the current scenario, the earliest timeframe in which NorthWestern expects to make a decision on whether it will proceed, or not, with building SMR generation is late 2027. The earliest SMR is modeled in our generation portfolio is 2032, as noted in our 2024 IRP, due to the length of time needed licensing, permitting, and construction.

NorthWestern is actively evaluating SMR generation technology and all of the other outside influences that will impact our decision to proceed. We have engaged a third-party consulting firm to assist us in the evaluation of the following areas: various SMR technologies; regulatory/permitting requirements at the local, state and federal levels; development of educational materials for internal and external communication efforts; grid services profiling; construction costs and project funding sources; and other areas not specifically identified but related. Internally, NorthWestern's efforts are focused on understanding the available SMR technologies and which technology is best suited to meet our growing South Dakota customer capacity needs, developing appropriate project timelines to include key "Go" or "No Go" decision points, customer and public communication strategies, land acquisition and permitting requirements, managing study costs, tracking developing regulations from the Nuclear Regulatory Commission, and exploring possible partners in construction of a SMR facility.

IV. Proposed PIRP Rate Design

NorthWestern proposes to implement a PIRP rate schedule for the recovery of investments and expenses associated with the construction of the AGS project and our on-going evaluation of SMR generation for future South Dakota energy capacity needs that are not included in base rates.

The PIRP Rider as proposed by NorthWestern includes all capital and expenses related to the AGS project for recovery of costs related for actual investment costs, expenses and revenues

[5] NWE SD 2024 IRP Link: https://www.northwesternenergy.com/docs/default-source/default-document-library/about-us/regulatory/south-dakota-irp-2024--12-03-24.pdf

through February 28, 2025, and forecasted project costs beginning March 1, 2025 through December 31, 2026.

In Docket EL23-002, the Commission issued an order on March 1, 2023, approving NorthWestern's request for deferred accounting treatment and the creation of a regulatory asset for the purpose of accumulating study costs related to our SMR investigation. A cap of $800,000 for the regulatory asset was agreed to by all parties. As of March 31, 2025, NorthWestern has incurred expenses totaling $460,635. An additional expense of $79,650 has been included in the PIRP Rider for recovery of committed contract work through the end of 2025 for a total of $540,285. This additional expense is for a contract commitment made for study work related to this project. NorthWestern seeks approval from the Commission to include any deferred costs included in the existing regulatory asset and any contracted expenses through the end of 2025 in this proposed PIRP Rider. NorthWestern also seeks Commission approval to place any additional costs related to the SMR study, that exceed the amount included in this proposed PIRP Rider, into the existing deferred regulatory asset approved by the Commission in Docket EL23-002. NorthWestern will seek Commission approval to recover these costs in its PIRP Rider through its annual true-up calculation. NorthWestern also proposes to amortize these study costs over a 5-year period to help minimize the impact to customer bills.

V. Rate Application and Impact

NorthWestern proposes that the PIRP Rider would be applicable to all retail electric service customer classes. The charge will be listed as a separate line item on customer bills – noted as "Infrastructure Rider". As indicated earlier, the initial annual revenue recovery for these projects to be collected through the PIRP Rider is for the 12-month period of July 1, 2025 through June 30, 2026 for the AGS project. For the SMR project, the initial revenue recovery to be collected includes costs recorded to its regulatory asset account as discussed previously, with an amortization of those costs over 5 years. The total proposed rates are listed below in Table 1:

Table 1: Proposed PIRP Rider rates by retail electric service customer class.

Rate / kWh	
Residential	$0.00302
Irrigation	$0.00292
Commercial	$0.00311
Commercial & Industrial	$0.00238
Municipal	$0.00319
Lighting	$0.00631
Controlled Off-Peak	$0.00265

The rates show in Table 1 are based on the assumption that they will be in effect on July 1, 2025. Attachment B to this filing includes the redline and proposed final versions of NorthWestern's rate tariff and index. If the effective date of implementation of the PIRP Rider is significantly later than July 1, 2025, NorthWestern respectfully requests the option to recalculate the rates proposed in this filing as reflected in Table 1 to recover all approved costs.

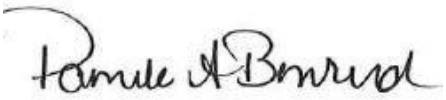
VI. Conclusion

For the foregoing reasons, NorthWestern respectfully requests Commission approval to implement the PIRP Rider, Section 3, Sheet 36, effective July 1, 2025.

Date: April 1, 2025

Respectfully submitted,

NorthWestern Energy Public Service Corporation,
dba NorthWestern Energy



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