



January 30, 2017

Ms. Patricia Van Gerpen
SD Public Utilities Commission
500 E. Capitol Ave.
Pierre, SD 57501

RE: GE16-005 - In the Matter of the Filing by NorthWestern Corporation dba NorthWestern Energy for Approval of 2017 South Dakota Demand Side Management Plan

Dear Ms. Van Gerpen,

With this communication, NorthWestern Corporation, dba NorthWestern Energy ("NorthWestern"), is notifying the South Dakota Public Utilities Commission ("SD PUC") of its intent to discontinue its demand side management program ("DSM") and requests SD PUC approval to close the above referenced matter once final costs have been recovered following the final reporting of results and expenses.

After careful review of the two year pilot program results, NorthWestern has come to the difficult conclusion that it is unable to continue offering the program while meeting the desired results for energy savings and achieve cost effectiveness levels expected by the SD PUC. NorthWestern appreciates the time and effort expended by staff in working with the company to review the results from the two year pilot program to see how it may be adjusted to allow the demand side management effort to continue. While customer and trade ally response to the energy efficiency offerings has been growing, NorthWestern has determined that the activities are not going to allow for sustainable, cost effective programs at this time. Among the factors that contribute to this decision is that NorthWestern's cost effectiveness tests value energy and not capacity. NorthWestern does not currently have a method to monetize the capacity value of energy efficiency. Additionally, NorthWestern does not have the internal resources to support the rebate offerings without a third party implementer and that model is not well-suited to starting and stopping programs within a calendar year, or based upon the value of individual measures. These conditions could change in the future, but at this juncture, discontinuing offerings is the reasonable approach.

As discussed with Commission staff, NorthWestern plans to file final results of the two year pilot in March and will request true-up of rates at that time once the final costs have been compiled. NorthWestern wishes to leave the Energy Efficiency Rate tariff sheets in place so that if NorthWestern is able to offer a DSM program again in the future, the applicable tariff rate structure is in place. NorthWestern will remain in contact with staff as it reviews potential approaches to offering DSM in the future.

Thank you,

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