



September 18, 2006

Ms. Patricia Van Gerpen, Executive Director  
S. D. Public Utilities Commission  
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Pierre, SD 57501

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Huron, SD 57350-1500  
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**RECEIVED**

SEP 19 2006

**SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION**

Re: NorthWestern Corporation Proposed Change to Natural Gas Tariff  
PUC Docket NG06-\_\_\_

Dear Ms. Van Gerpen:

With this letter, NorthWestern Corporation ("NorthWestern" or the "Company"), doing business as NorthWestern Energy, is filing with the Commission a proposed change to its natural gas tariff. Pursuant to ARSD 20:10:13:39, the Company states:

(1) The documents submitted with this filing include:

- The proposed revised tariff schedule, Section 3, Sheet 6.11 2nd Revised, Sheet 6.12 Original and Sheet 6.13 Original

(2) The proposed effective date for the new tariff is November 1, 2006.

(3) The names and addresses of those to whom copies of the rate schedule have been mailed:

Cornerstone Energy  
11011 Q Street, Suite 106 A  
Omaha, NE 68137

NorthWestern Services Corporation  
125 S Dakota Ave  
Sioux Falls, SD 57104

(4) Brief description of the proposed changes in rates:

NorthWestern proposes to require third-party marketers to receive approval of credit worthiness from NorthWestern's credit department prior to commencing service. This will be based on the standards filed in the attached tariff.

(5) Reasons for the proposed changes:

Currently NorthWestern does not perform creditworthiness checks on its gas transportation marketers. Conversely new NorthWestern retail customers are required to provide credit information in order to receive service. With gas prices being at all-time highs,

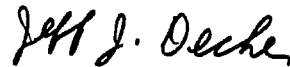
NorthWestern needs to monitor the creditworthiness of its transportation marketers to help reduce the likelihood of payment defaults as monthly imbalance and balancing bills to third-party marketers, has exceeded \$500,000 in recent months.

In Iowa for example, the Commission regulates third-party marketers and requires an annual credit filing and other miscellaneous documents. In lieu of state regulation, NorthWestern is making this filing to help reduce the risk of payment default by third-party marketers.

- (6) Number of customers whose cost of service will be affected and annual changes in cost of service to such customers.

NorthWestern had three third-party marketers on its system in the last year. Any new marketers transporting on the NorthWestern system will be subject to the attached filing. Existing marketers will be required to submit the credit information and seek approval as provided in the tariff. This currently includes NorthWestern Services Corporation and Cornerstone Energy Services.

Sincerely yours,



Jeff Decker  
Rates Analyst

SOUTH DAKOTA GAS RATE SCHEDULE

NORTHWESTERN ENERGY  
HURON  
SOUTH DAKOTA

Section No. 3  
Sheet No. 6.11  
Canceling 2nd Revised 1<sup>st</sup> Revised Sheet No. 6.11

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**CLASS OF SERVICE: Gas Transportation Tariffs** **Rate No. 87**

(f) NorthWestern's Marketer/Gas Transportation Customer  
\_Creditworthiness Standards

1.1 Credit Evaluation:

This Policy has been developed to determine the ability of Marketers and/or Gas Transportation Customers ("Marketer/Customer") in meeting its obligations related to services under NorthWestern Corporation, D.B.A. NorthWestern Energy's ("NorthWestern") South Dakota Natural Gas Transportation Tariff and to mitigate NorthWestern's financial exposure against any potential risk of non-payment. These standards will be documented and available for all existing and prospective Marketer/Customers. A credit evaluation may occur at any time, not less than annually, and at NorthWestern's discretion. The following information will be required by each Marketer/Customer to enable NorthWestern to conduct its credit review:

- a. Last 2 years of Audited Financial Statements;
- b. Most recent annual report;
- c. Most recent quarterly report;
- d. Upon request by NorthWestern, any other reasonable commercial information that would assist in determining the Marketer/Customer's creditworthiness.

NorthWestern reserves the right to modify these standards at any time.

1.2 Creditworthiness:

The Credit Manager, using NorthWestern's Credit Policy and a credit-scoring model, will determine the amount of open credit that NorthWestern will grant to any given Marketer/Customer. The following components are used in calculating the Marketer/Customer's overall credit score:

- a. Traditional Information (payment history, years in business, rank within industry by asset size, number of years a customer, management expertise etc.).
- b. Proprietary Information (including Moody's Expected Default Frequency (EDF)).
- c. Financial Information.

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Effective Date: November 1, 2006

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Issued By: Regulatory Specialist

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HURON  
SOUTH DAKOTA

Section No. 3  
Original Sheet No. 6.12  
Canceling Sheet No. 6.12

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**CLASS OF SERVICE: Gas Transportation Tariffs** **Rate No. 87**

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A score is calculated for each of the components above. The score from each component is then taken times a weighted percent to arrive at an overall score. The overall score is used to determine the amount of open credit.

If the overall credit score is not sufficient under NorthWestern's Credit Policy, the Marketer/Customer will be notified in writing of the amount of security that will be required.

If the above information in section 1.1 is not made available to NorthWestern, the Marketer/Customer will be required to post security with NorthWestern.

1.3 Acceptable Forms of Security:

- a. Cash Deposit.
- b. Irrevocable Letter of Credit (issuing bank must be investment grade).
  - (1) Costs associated with the Letter of Credit will be the obligation of the Marketer/Customer.
  - (2) Form of Letter of Credit will need to be approved by NorthWestern.
- c. Guarantee.
  - (1) The guarantor must go through the same credit review process as the Marketer/Customer.
  - (2) Guarantors must be legally affiliated with the counterparty or able to show an acknowledged beneficial interest in the counterparty.
- d. The Marketer/Customer may receive service if it prepays for such service an amount equal to the cost of performing the maximum level of service requested for a four (4) month period.

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**CLASS OF SERVICE: Gas Transportation Tariffs**

**Rate No. 87**

1.4 Suspension and/or Termination of Gas Transportation Service:

NorthWestern may suspend transportation service if:

- a. The Marketer/Customer is required to post security for transportation services in accordance with section 1.3, fails to provide such security, and such failure to post security is not corrected within five (5) business days following NorthWestern's notification to the Marketer/Customer of the need to cure such failure. Upon the occurrence of such a default, NorthWestern may initiate a proceeding to terminate service; or
- b. The Marketer/Customer fails, for any reason other than a billing dispute, to make payment to NorthWestern on or before the due date, and such failure of payment is not corrected within thirty (30) calendar days after NorthWestern's notification to the Marketer/Customer of the need to cure such failure. Upon the occurrence of such a default, NorthWestern may initiate a proceeding to terminate service.
- c. In the event of a billing dispute between NorthWestern and the Marketer/Customer, NorthWestern will continue to provide service under the Service Agreement as long as the Marketer/Customer: (1) continues to make all payments not in dispute, and (2) pays into an independent escrow account the portion of the invoice in dispute, pending resolution of such dispute. If the Marketer/Customer fails to meet these two requirements for the continuation of service, then NorthWestern may initiate a proceeding to terminate service.
- d. In the event a termination occurs with a Marketer/Customer, it is the sole responsibility for the end user of the Marketer/Customer to select and secure the services of an approved Marketer/Customer. Northwestern has no responsibility to a third party end user in the event that a particular marketer/customer is terminated pursuant to this policy

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