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March 9, 2007

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

Re: NorthWestern Corporation Proposed Request for Deferral
PUC Docket NG07-___

Dear Ms. Van Gerpen:

With this letter, NorthWestern Corporation (“NorthWestern” or the “Company”), doing business as NorthWestern Energy, is filing with the Commission a Request for Deferral of Certain Gas Costs currently being charged through the Purchased Gas Adjustment. The reason for the proposed change is the fact the Nekota Assets have been merged into the Utility. As the pipelines are now in rate base, Nekota is no longer able to bill the Utility for the costs of the pipeline. Although the costs are a normal course of business, NorthWestern is not able to collect the costs through the Purchased Gas Adjustment (PGA) as they are no longer third-party costs. Due to the timing of this change in relation to the next rate case, NorthWestern requests to set up a deferral account to later recover the costs from customers.

The costs have previously been allowed to be collected in the PGA. In the case of the Aberdeen Pipeline, the PGA rates were established as part of the 1999 rate case filing, and have since been included in the PGA. The Brookings Pipeline costs have been charged through the PGA since November 2003.

The costs for which NorthWestern is requesting a deferral are for the Demand Costs in the PGA for the pipelines formerly owned by Nekota. The annual costs are shown on Exhibit A, page 1 of NorthWesterns February 2, 2007 PGA. The monthly costs derived from the February 2, 2007 filing that NorthWestern proposes to defer are shown in the confidential attached Exhibit A-1. The costs are proposed to be accrued with a carrying charge of 8.53%, per the allowed return in NorthWesterns most recent rate case determination.

As part of the next rate case, the costs related to the pipelines are proposed to be included in the utility cost of service and become a part of base rates. Until the completion of the next rate case, when the new rates go into effect, the costs are not able to be collected through either the PGA or through base rates. The request for deferral intends to provide a vehicle for the Company to collect costs, that would have been collected from customers in the normal course of business, namely the PGA.

NorthWestern removed the costs from its PGA beginning with the March 1 PGA filing. Pending Commission approval, the costs are proposed to accrue from March 1, 2007 until the rates go into effect from the next rate case. NorthWestern would then recover the accrued costs from customers, on a volumetric basis, over a number of months equal to the accrual period. As the accounting for March will be completed in early April, NorthWestern respectfully asks for approval of this deferral on less than 30 days notice.

Sincerely yours,

Jeff Decker
Rates Analyst