

NorthWestern[™] Energy

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August 27, 2008

Ms. Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol
Pierre, SD 57501-5070

Re: Gas Transportation Tariff Change - Fuel Retention Percentage

Dear Ms. Van Gerpen:

Enclosed is 13th Revised Sheet No. 6.2 of Section No. 5 of NorthWestern's filed Natural Gas Tariff. This filing is made to comply with the fuel retention provisions of Paragraph 7 of the Gas Transportation Tariff General Terms and Conditions. Those provisions call for the retention percentage for the Company's South Dakota distribution system to be adjusted annually, to be effective October 1, based on the actual percentage incurred by the Company for the prior 12 month period ending July 31.

The new fuel retention percentage proposed to be effective October 1, 2008 is 1.89%. This is an increase of 1.59% from the currently effective retention percentage of 0.30%. The retention percentages effective October 1, 2005 and 2006 were 0.60% and 1.44%, respectively. Exhibit A, attached, shows the computation of the actual percentage incurred by the Company for the twelve month period ending July 31, 2008.

In the approval of the 2007 fuel retention percent, the Commission requested NorthWestern include an exhibit of fuel retention percents for other Natural Gas Utilities in its 2008 filing. NorthWestern is currently researching fuel retention percentages of other Natural Gas Utilities and will file an exhibit stating such within the next two weeks.

NorthWestern asks that the proposed retention percentage be approved to be effective October 1, 2008.

Sincerely,



Jeff J. Decker
enclosure

SOUTH DAKOTA GAS RATE SCHEDULE

NORTHWESTERN ENERGY
HURON
SOUTH DAKOTA

Section No. 5
Sheet No. 6.2
Canceling 13th Revised
Sheet No. 6.2
12th Revised

CLASS OF SERVICE: Gas Transportation Tariffs
RATE DESIGNATION: General Terms and Conditions

(Con't)

6. Liability:

- (a) General - Gas shall be and shall remain the property of the Customer while being transported and delivered by the Company. The Company shall not be liable to the Customer for any loss arising from or out of Gas Transportation Service while in the Company's system or for any other cause, except for gross or willful negligence of the Company's own employees. The Company reserves the right to commingle gas of the Customer with other gas supplies including propane and liquefied natural gas.
- (b) Insurance - The Customer shall be responsible for determining the extent of and maintaining all insurance it deems necessary to protect its property interest in such gas before, during, and after receipt by the Company.

7. Retention: A Customer or Group Customer, if applicable, shall have the option to choose one of the following methods to apply retention:

Option One (Indexed Based): The value of retention shall be determined by multiplying i) the monthly average price plus applicable interstate pipeline transportation charges as reported in the BTU's Daily Gas Wire Index for each pipeline (NNG: MidContinent Pooling Point) times ii) the Retention percentage times iii) the Deliveries. This value shall be billed monthly. This billing shall represent compensation for Lost and Unaccounted for Gas. The Retention percentage for the Company's South Dakota distribution system is 1.89% and will be adjusted annually, to be effective October 1, based on the actual percentage incurred by the Company for the prior 12 month period ending July 31. Retention amounts collected under this option will be credited to expense in PGA true-up filings. If the Customer, or Group Customer, does not select one of the options presented in this retention section, retention shall be calculated as stated in this paragraph.

Option Two (Inkind): The Customer, or Group Customer, if applicable, upon written request, may deliver retention quantities inkind. The request shall include the Customer's account number and the meter number of which inkind retention is being requested and shall be delivered to the Company's representative. Upon the Company's acknowledgment of the receipt of the request, the Customer shall be allowed to deliver retention volumes inkind. The Customer shall have the option to have the quantity of transportation gas received from the transporting pipeline reduced, upon delivery to the Customer, by a fixed percentage of 1.89% (to be adjusted as set forth above), which shall represent compensation for Company-Used Gas and Lost and Unaccounted For Gas. Where fuel reimbursement is inkind, the standard fuel calculation mechanism, as this is related to the nominating process, should be $(1 - (\text{fuel \%}/100))$ multiplied by receipt quantity = delivery quantity.

Date Filed: August 27, 2008

Effective Date: October 1, 2008

Jeffrey Decker
Issued By: Regulatory Specialist

NORTHWESTERN PUBLIC SERVICE

Gas Balancing Statement
 Twelve Months Ended July 31, 2008

Exhibit A

| Description | South Dakota MMBtu | | | | | |
|---------------------------|---------------------------|----------------------------|--------------------------|---------------------------|---------------------------|----------------------------|
| | 9 Mos. Ended 9/30/2007 | 3 Mos. Ended 12/31/2007 | Year Ended 12/31/2007 | 7 Mos. Ended 7/31/2008 | 7 Mos. Ended 7/31/2007 | 12 Mos. Ended 7/31/2008 |
| Gas Sources | | | | | | |
| Purchases | 3,328,117 | 1,862,479 | 5,190,596 | 3,505,662 | 3,095,559 | 5,600,699 |
| Rate 86 Purchases | 254,513 | 57,702 | 312,215 | 304,671 | 243,648 | 373,238 |
| Transportation Receipts | 2,938,113 | 739,507 | 3,677,620 | 2,923,723 | 2,450,396 | 4,150,947 |
| Propane Peaking | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Sources | 6,520,743 | 2,659,688 | 9,180,431 | 6,734,056 | 5,789,603 | 10,124,884 |
| Gas Uses | | | | | | |
| Sales | 3,953,031 | 1,304,796 | 5,257,827 | 4,287,618 | 3,751,244 | 5,794,201 |
| Transportation Deliveries | 2,895,804 | 737,288 | 3,633,092 | 2,914,952 | 2,415,110 | 4,132,934 |
| Company Use | 41,544 | 1,061 | 42,605 | 5,261 | 41,505 | 6,361 |
| Total Uses | 6,890,379 | 2,043,145 | 8,933,524 | 7,207,831 | 6,207,859 | 9,933,496 |
| Lost & Unaccounted For | (369,636) | 616,543 | 246,907 | (473,775) | (418,256) | 191,388 |
| L&U Retention Percentage | 1.44% | 0.30% | | 0.30% | 1.44% | 1.89% |

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