

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

**IN THE MATTER OF THE APPLICATION OF)
NORTHWESTERN CORPORATION DBA) SETTLEMENT STIPULATION
NORTHWESTERN ENERGY FOR AUTHORITY)
TO INCREASE ITS NATURAL GAS RATES) NG11-003**

I. SETTLEMENT STIPULATION

On May 20, 2011, NorthWestern Corporation dba NorthWestern Energy (NWE or Company), filed with the South Dakota Public Utilities Commission (Commission) an application for authority to increase rates for natural gas service in South Dakota. NWE filed direct testimony seeking an increase of \$4,123,000 or a 7.20% increase in rates for natural gas service to customers in its South Dakota retail service territory.

NWE and Staff (Parties) held several negotiating sessions before arriving at a jointly acceptable resolution of this matter. As a result of these sessions, the Parties have been able to resolve all of their differences in this proceeding and have reached agreement in the form of this Settlement Stipulation, which, if accepted and ordered by the Commission, will determine final rates for service for this proceeding.

II. PURPOSE

This Settlement Stipulation has been prepared and executed by the Parties for the sole purpose of resolving Docket No. NG11-003. The Parties acknowledge that they may have differing views that justify the end result, which they themselves deem to be just and reasonable, and in light of such differences, the Parties agree that the resolution of any single issue, whether express or implied by the Settlement Stipulation, should not be viewed as precedent setting. In consideration of the mutual promises contained herein, the Parties agree as follows:

1. Upon execution of this Settlement Stipulation, the Parties shall immediately file this document with the Commission, along with a joint motion requesting the Commission to issue an order approving this Settlement Stipulation in its entirety without further condition or modification.

2. This Settlement Stipulation includes all terms of settlement and is submitted with the condition that in the event that the Commission imposes any changes or conditions to this Settlement Stipulation which are unacceptable to any Party, this Settlement Stipulation shall be deemed withdrawn and shall not constitute any part of the record in this proceeding or any other proceeding nor be used for any other purpose.

3. This Settlement Stipulation shall become binding upon execution by the Parties, provided however, that if this Settlement Stipulation does not become effective in accordance with Paragraph 2 above, it shall be null, void, and privileged. This Settlement Stipulation is intended to relate only to the specific matters referred to herein; no Party waives any right or claim which it may otherwise have with respect to any matter not expressly provided for herein; and no Party shall be deemed to have approved, accepted, agreed or consented to any ratemaking principle, or any method of cost of service determination, or any method of cost allocation underlying the provisions of this Settlement Stipulation, or be advantaged or prejudiced or bound thereby in any other present or future proceeding before the Commission. Neither Party nor representative thereof shall directly or indirectly refer to this Settlement Stipulation or that part of any order of the Commission as precedent in any other present or future rate proceeding or any other proceeding before the Commission.

4. The Parties to this proceeding stipulate that all prefiled testimony, data responses, exhibits, and workpapers be made a part of the record of this proceeding. The Parties understand that if this matter had not been settled, Staff would have filed direct testimony, NWE would have filed rebuttal testimony, Staff would have responded to certain of the positions contained in NWE's rebuttal testimony, and an evidentiary hearing would have been conducted where the witnesses providing testimony would have been subject to examination.

5. It is understood that Staff enters into this Settlement Stipulation for the benefit of NWE's customers in South Dakota affected by this docket.

III. ELEMENTS OF THE SETTLEMENT STIPULATION

1. Revenue Requirement

A. The Parties agree that NWE's attached rate schedules are designed to produce an ongoing annual increase in base rate levels (excluding purchased gas cost adjustment, ad valorem tax adjustment, and sales taxes) of \$1,846,807 or approximately 3.30% annually for retail natural gas service in South Dakota from test year revenues.

2. Tariffs

A. The Parties agree the increase will be allocated to the affected rate classes with the resulting increases as shown on attached Exhibit A. Updated tariff pages setting forth the revised natural gas rates and tariffs provided by this Settlement Stipulation are attached as Exhibit B. The Parties agree that the rates agreed to by the Parties result in just and reasonable rates for all of NWE's South Dakota customers.

3. Aberdeen Manufactured Gas Plant (MGP) Clean-up Costs

A. The Parties agree that the settlement revenue requirement includes \$1,739,886 of Aberdeen MGP clean-up costs.

B. The Parties agree to credit ratepayers with the over-collection of costs from item 15 of the Settlement Stipulation in Docket NG07-013 through the prospective tracker account established in Section III.3.C. The Company will report the actual over-collection of costs under the rates established in Docket NG07-013 by February 1, 2012.

C. The Parties agree to track the recoveries of actual annual expenditures, net of (1) the annual rate allowance established in Section III.3.A., (2) over-collection of costs from Docket NG07-013 identified in Section III.3.B, and (3) any future insurance proceeds related to environmental remediation costs in South Dakota so that the Company neither over recovers nor under recovers these costs. The Parties agree that a carrying charge of 7.79% shall be applied to the monthly over-or-under-recoveries.

- D. The Parties agree that the revenue requirements established in Section III.3.A should be distributed among the rate classes in same portion as the overall revenue increase is distributed to each rate class.
- E. Beginning on January 31, 2013, and for every year thereafter, NWE will provide Staff with a report that tracks the clean-up costs and recoveries, and compares the actual work completed during the reporting period to the optimal schedule provided in "Exhibit 5-8-1 Arcadis memo 5-16-11.pdf" in response to data request 5-8. Staff reserves the right to review clean-up costs for prudence.

4. Economic Development Plan

- A. The Parties agree that the settlement revenue requirement includes the recovery of \$15,000 for economic development programs and labor expenses. Prior to March 31, 2012, the Company will file with the Commission information on the cost, design, and impact of its economic development programs, and thereafter the Commission may determine if some of the programs are not appropriate for purposes of 50% rate recovery. If the remaining programs cost less than \$30,000 in 2012 or in any subsequent year until revised by Commission Order, then for every dollar less, \$0.50 shall be refunded to customers through a credit to bills or other efficient method as the Commission determines to be appropriate.

5. Moratorium

- A. The Parties agree that NWE shall not file any rate application for an increase in base rates for natural gas service, for rates proposed to be in effect prior to December 1, 2013, provided this restriction would not prevent NWE from filing for a rate increase to take effect prior to December 1, 2013, if NWE's cost of service is expected to increase due to an "Extraordinary Event".
- B. As used in this Settlement Stipulation, "Extraordinary Event" is any one of the following occurrences:
 - i. Governmental Impositions - Changes in federal, state, or local governmental requirements or governmental charges including, but not limited to, environmental clean-up requirements imposed after

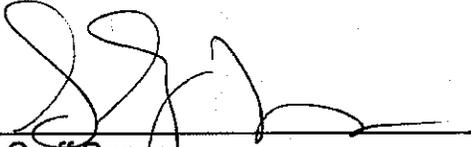
December 1, 2011, upon NWE that are projected to cause South Dakota's natural gas cost of service to increase by \$1,000,000 or greater. Increases in South Dakota's natural gas cost of service less than \$1,000,000 will be presumed not to be material for the purposes of this paragraph.

- ii. Inflation - The Consumer Price Index, All Urban, as compiled by the United States Department of Labor increases to a monthly rate for six consecutive months which if continuing for the following six months would result in a 10 percent or more annual inflation rate.
- iii. Loss of a Major Customer – NWE is expected to lose a major current customer, which is defined as a customer as of December 1, 2011, using over 1,000 dekatherms (dth) of natural gas per day, excluding recovery of a contract with deviation customer's line extension costs.

6. Implementation of Rates

- A. The Parties agree that the revised rate schedules shall be implemented for service rendered on and after December 1, 2011, with bills prorated so that usage prior to December 1, 2011, is billed at the previous rates, and usage on and after December 1, 2011, is billed at the new rates.

NorthWestern Energy

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DATED: 11/4/11

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DATED: 11/04/2011