



September 1, 2016

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

Dear Ms. Van Gerpen:

With this letter, NorthWestern Corporation, doing business as NorthWestern Energy (“NorthWestern”), is filing with the South Dakota Public Utilities Commission (the “Commission”) a refund plan regarding its recovery of Manufactured Gas Plant (“MGP”) site remediation costs. NorthWestern respectfully requests Commission approval of the proposed refund plan including the applicable rates per class as described below.

The proposed effective date for the refund plan is November 1, 2016.

1. Brief description of the refund plan:

The purpose of this filing is to provide a mechanism for NorthWestern to credit customers related to MGP remediation allowed in docket NG11-003. The actual costs for the years 2011 – 2015 were significantly less than what was anticipated at the time of approval of docket NG11-003, resulting in a refund to customers. This refund will be administered via bill credits, which will be applicable from November 1, 2016 – October 31, 2017.

2. Reasons for the proposed refund plan:

As part of the approval of NG11-003, remediation costs for the on-going Aberdeen MGP project were included in base rates with a requirement to separately track the expenses and recoveries related to this on-going project and provide an annual update to the Commission. The current recovered balance is over \$4,500,000 which will be refunded over the period noted above.

Exhibit 5-8-1 to docket NG11-003 (11/14/11 documents) included the projected costs for 2011 – 2015 on page three. At that time, a total of \$11,500,000 was projected to be spent for Aberdeen MGP remediation. Within the settlement of the rate case, the allowed recovery expense amount was \$1,739,886 per year or \$8,699,430 for the comparable period. As shown in Exhibit A of this current docket, the actual expenditures have been \$4,808,458 through July of 2016.



In addition to the lower actual expenses, NorthWestern's recovery was higher than anticipated due to increased annual sales. The recovery rates were based on \$1,739,886 of annual revenue. Rates per class were developed using test year volumes from 2010, as adjusted in NG11-003. Volumes have increased in each of the classes due to normal growth. Additionally, the option B (or large customer) volumes have increased substantially due to the addition of at least one large customer since the rate case test year. As shown on Exhibit A of this filing, total recoveries for December 2011 – July 2016 totaled \$9,978,610. This is an average of \$2,138,273 per year.

On January 28, 2016 NorthWestern provided to the Commission its annual update, which is part of the public record filed under Docket NG11-003. That update included a memo from Arcadis dated January 19, 2016. It details the current status and the estimated costs for this project. The memo also describes the changes in remediation procedures, compared to what was anticipated in 2011. This update projects annual costs of \$1.1 to \$1.8 million for 2016 – 2019 and \$800,000 for 2020. More recent estimates for 2016 and 2017 were obtained from Arcadis in August, 2016, with 2016 costs estimated at \$662,724 and 2017 at \$956,000. With the change in remediation procedures resulting in lower anticipated expenditures NorthWestern believes it prudent to refund part of the recoveries over the next year.

Exhibit B of this filing shows the projected expenditures, recoveries, refund amounts and interest by month through October 31, 2017. The exhibit uses budgeted volumes for August 2016 – October 2017. Under this refund plan, the projected recovered balance as of October 31, 2017 will be reduced to \$419,537.

Exhibit C shows the derivation of rates to be used for the refund of the excess recovery. When including the recoveries projected for 2017, the refund amount requested for this plan is \$5,500,000. The refund amount of \$5,500,000 is allocated among classes, based on the original allocation of \$1,739,887 from NG11-003. The refund by class is divided by the volumes from that class to calculate the refund per therm rate. The proposed refund rates per class are as follows:

Rate 81 Residential	\$0.1233
Rate 82 Small Commercial	\$0.0560
Large Commercial Option A	\$0.0315
Large Commercial Option B	\$0.0071

NorthWestern is proposing a term of one year for the refund, ending October 31, 2017. The final refund amount will depend on actual volumes for November 1, 2016 – October 31, 2017. A true-up for the refund plan is not requested as the balance will continue to be tracked as described in Docket NG11-003. At the end of the refund period, NorthWestern will evaluate whether to allow the refund plan to cease or to file for an extended or new plan. Factors contributing to the decision will include volumes sold over the next 12 months, the likelihood of an upcoming rate



case, actual and future estimated cleanup costs and other relevant factors at that time.

3. Number of customers whose cost of service will be affected and annual changes in cost of service to such customers.

This change will affect approximately 45,400 customers in South Dakota. An average residential customer using 64 therms per month will see a monthly decrease of \$7.89 per month or \$94.68 for the twelve month refund period.

Beginning November 1, 2016 the following message will be printed on customer bills: “The SD Public Utilities Commission recently approved a refund plan for NorthWestern Energy natural gas customers for activities related to the Aberdeen Manufactured Gas Plant environmental remediation project. For a residential customer using an average of 64 therms, a refund of \$7.89 per month will be applied to your account. The monthly refund amount will vary based on actual usage. The refund is effective November 1, 2016 – October 31, 2017.”

Sincerely,

Jeff J. Decker

Regulatory Specialist

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