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Mark Hewett
President and CEO

May 31, 2017

VIA ELECTRONIC MAIL

Kristie Fiegen, Chairperson
South Dakota Public Utilities Commission
Capitol Building, 1st Floor
500 East Capitol Avenue
Pierre, SD 57501-5070

RE: Farm Tap Customers
Docket NG16-014, *In the Matter of the Commission Staff's Petition for
Declaratory Ruling Regarding Farm Tap Customers*

Chairperson Fiegen:

As you know, NorthWestern Corporation d/b/a NorthWestern Energy (NorthWestern) is abandoning utility service to approximately 200 farm tap customers, effective December 31, 2017. Over a year ago, Northern Natural Gas (Northern) raised the issue of continuity of farm tap service to the attention of the South Dakota Public Utilities Commission (Commission). Northern has been participating in discussions with NorthWestern and the staff of the Commission regarding options to continue service, but the discussions have reached a stalemate, largely because of Commission staff's unjustified demands for Northern to subsidize utility service downstream of Northern's facilities.

The Commission has permitted the abandonment of utility service and is aware that ongoing efforts have not produced a solution. Allowing abandonment of service to farm tap customers, who have always been served by a utility under the Commission's jurisdiction, is fundamentally unfair, and I cannot fathom how abandonment can be in the public interest. Utility service is regulated for many reasons, not the least of which is that customers depend on a state commission to protect the continuity, reliability and safety of the service they receive.

Even more concerning is the fact that the Commission staff and NorthWestern have raised warning flags regarding the integrity of the farm tap distribution systems, and these warnings have gone unheeded. I believe it is imperative for the Commission to address the safety and integrity of customer-owned farm tap distribution systems. In other states operating under the

same facts – Iowa, Minnesota and Nebraska – full replacement of farm tap distribution lines is being pursued. However, in South Dakota, the Commission seems to have disregarded the safety concerns that have been raised. The utilities in the states noted above have taken measures to safeguard the uninterrupted continuation of service to their farm tap customers by advancing programs for replacement of lines and appropriate cost recovery for the utility. In contrast, the Commission seems to view service to farm tap customers as uneconomic, focusing on the potential impact of needed capital investment to resolve system integrity concerns. At a minimum, it seems the Commission and NorthWestern should consider a proposal that would have all reasonable costs of farm tap service borne by farm tap customers, yet to date, no proposal has been made for offering continued utility service at rates that support the related costs.

Northern Proposal

Without action by Northern, approximately 200 farm tap customers in South Dakota will lose service January 1, 2018. Therefore, Northern is prepared to propose a structure that will provide for continued interstate gas service to farm tap customers; however, Northern must point out that implementing the necessary details may prove challenging for some customers.

The contemplated structure has certain essential requirements. First and foremost, Northern will not provide service downstream of its facilities. Northern is authorized to provide federally regulated interstate transportation service, and our obligation, authority and expertise end at the outlet of Northern's facilities. Furthermore, we will not deliver to facilities that are not safe. Northern is cognizant of the concerns raised in South Dakota and other states regarding the integrity of customer-owned farm tap distribution systems, and we will not provide service unless these concerns are mitigated to a meaningful degree.

Northern's proposal is as follows:

1. Northern will offer to enter into natural gas transportation agreements with each farm tap customer for interstate natural gas transportation on Northern's facilities.
2. The farm tap customer may obtain natural gas from a supplier of its choosing; however, if a supplier does not provide natural gas to the customer, under existing procedures in Northern's tariff, Northern will recover its costs for imbalance gas.
3. A farm tap customer will be responsible for obtaining a qualified service provider for odorization and emergency response (i.e., call out services for when gas odor is detected, when excavation is expected to occur in proximity to the customer-owned line, when a customer-owned line is damaged or when an appliance relight is necessary); and Northern will require certification regarding ongoing service.
4. A farm tap customer must produce a certification demonstrating that the customer-owned facilities have been inspected and are of sound integrity.

The certifications required above are the most critical components of continued service. Northern cannot close its eyes to the concerns that have been raised regarding farm tap distribution facilities; therefore, we will strictly apply the requirements described above. If a farm tap customer does not comply with these requirements, Northern will, in the interest of public safety, be forced to close the valve to the customer. The precise details and timing will require further consideration, but Northern stresses the importance of the safeguards outlined above.

While the above structure exceeds any interpretation of Northern's obligations under its easements, it is problematic for customers. The burden will be on the customer to find a qualified provider for the certification of facilities and for odorization and emergency response, services that have been provided by a utility to date. The lack of utility involvement places a significant burden on customers in order to maintain service.

Clearly, the best model for customers and for public safety is to provide traditional utility service, as every other utility serving farm taps in its respective state is pursuing. Though Northern is willing to provide continued access to natural gas as described above, Northern respectfully requests that the Commission, through its staff, help craft a solution that provides the same level of service and degree of safety and reliability that all other utility customers enjoy.

Conclusion

Northern remains committed to honoring the easements it has with farm tap landowners. The structure we propose provides interstate natural gas service to customers, but is dramatically inferior to the utility service currently provided by NorthWestern and sought to be continued by utilities in the other states in which we serve farm tap customers. Service would be maintained, but would come with significant burdens on farm tap customers: to select a natural gas service provider, to obtain emergency response service, and to obtain the necessary certifications described above. Further, because service to the farm taps will no longer be provided by a utility regulated by the Commission, the safety risks posed by customer-owned natural gas distribution facilities are unlikely to be fully addressed.

Northern reiterates that farm tap customers deserve the involvement of their Commissioners to ensure the safe, reliable service that is afforded by a regulated public utility owning, operating and maintaining facilities that serve end-use customers. Time is of the essence given the efforts required to implement Northern's proposal, or an alternative solution, by December 31, 2017.

While Northern has developed a workable structure to continue to provide 200 rural South Dakota families with natural gas service, I ask that you help craft a permanent solution whereby a regulated utility continues to provide these families with the service they deserve. If

no further progress on an alternative solution is made by June 9, 2017, Northern will proceed to communicate the plans above to customers and implement our proposal.

Thank you for your attention to this important matter.

Sincerely,



Mark Hewett
President and CEO
Northern Natural Gas Company

cc: Commissioner Gary Hanson
Commissioner Chris Nelson
Patricia Van Gerpen, Executive Director, SDPUC
Docket NG16-014 Service List