

# ENERGY

## CONNECTIONS



NOVEMBER 2012 | SOUTH DAKOTA

### Understanding Rates

Two kinds of costs – the cost of the energy and the cost of delivering and serving customers – are associated with NorthWestern Energy’s rate structure. Below is a very general description of how these two kinds of costs make up a total bill.

	Cost of Energy (Electric Fuel Purchase Power)	Cost of Delivery and Service (Energy Charge)
	<b>27% of the bill</b>	<b>73% of the bill</b>
Electric (based on 1,000 kWh/month)	This portion covers the cost of the electricity itself that the company must generate or pay to acquire. These costs include the price of the fuel used to generate the electricity and the cost of power purchased from others.	This portion covers the cost of generating (excluding fuel) and delivering the electricity to a home or business. This cost includes the maintenance and upgrade of the vast electric distribution system that crisscrosses every community either overhead or underground. This cost ensures the system is safe and reliable and when a power outage occurs, the cost ensures a highly skilled technician is available around the clock to restore power as quickly as possible.
	<b>61% of the bill</b>	<b>39% of the bill</b>
Natural Gas (based on 150 therms/month)	This portion covers the cost of the natural gas itself that the company must purchase on the wholesale market. Imbedded in this price are the costs of exploration, storage and transportation of the fuel to the outskirts of a community where it will be used. It also responds to the swings of the wholesale market.	This portion covers the cost of delivering natural gas to a home or business. It includes the maintenance and upgrade of the extensive buried natural gas distribution pipelines. It ensures the system is safe and reliable and that when someone calls about a natural gas situation, a highly skilled technician is available to respond within minutes.

\*Percentages are calculated as of October 2012.

The price we pay for the energy we deliver is exactly what we charge you and is a major driver in the rates we charge. However, the price of the energy can make swings up and down and we have little control over these market fluctuations. What we do have is a dedicated and experienced team of employees working continually to keep our costs as stable as possible by monitoring current and future energy cost trends and implementing a variety of efficient purchasing plans.

### How Are Rates Set?

NorthWestern Energy is a regulated utility. That term – regulated utility – is important because it means the public utility commission in South Dakota sets our rates.

Some may think that we can raise rates whenever we want. Actually, the opposite is true. As a regulated utility, our rates can change only with state regulatory approval. Here’s how it works. When our costs change, we file a request with the state regulatory commission to adjust rates. They:

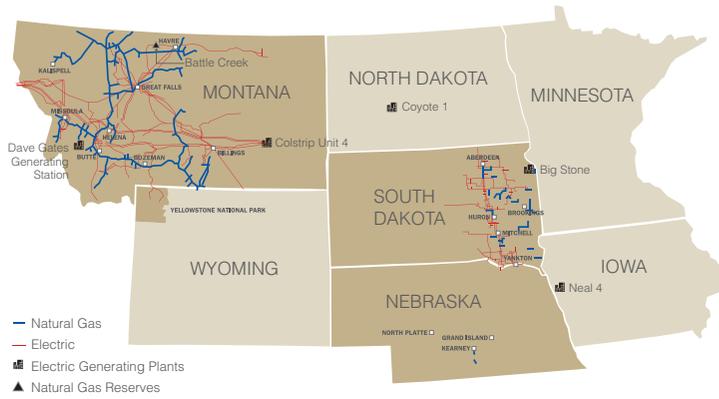
- scrutinize our costs
- review hundreds of pages of information
- take public testimony

Based on their investigation, the commission then sets rates they believe best serves the public interest – rates that are reasonable and fair for customers, while allowing NorthWestern the opportunity to be a viable, healthy business and earn a fair return for long-term shareholders. Shareholders provide the capital necessary to fund public utility projects, which is in the best interest of our customers. That’s important so we can continue delivering safe, reliable energy to you.



# Where Does My Energy Come From

Every time you flip a light switch on or turn the dial on your thermostat up, we know you're counting on us. It takes a lot of pipes, wires and people to deliver the electricity and natural gas you rely on, 24 hours a day, every day.



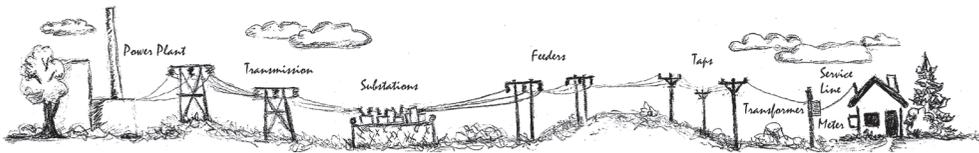
NorthWestern Energy delivers natural gas to

44,100 customers in 61 communities in South Dakota. We purchase natural gas on your behalf and contract with pipeline companies to transport the natural gas to NorthWestern's local distribution system where we deliver it to customers for their use.

Electricity for our South Dakota customers is generated power generating plants owned in partnership by NorthWestern Energy. This electricity is distributed by high-voltage transmission lines to our local distribution system and then onto your home or business.

*How does this all work?* The power plants generate electricity that is distributed to substations via transmission lines. The transmission lines are the

high voltage power lines that connect the power plants to substations. The substations convert the voltage of electricity so that it can be distributed to power lines called feeders. A feeder takes the electricity from the substation and distributes it through a system of power lines called taps. Tap lines typically serve 40 to 400 customers in a more concentrated area. Transformers convert electrical power from high voltage to the lower voltages used in your home. A single transformer typically serves four to 12 customers through service lines. The service line (also called loop) is the wire between the pole or transformer and the home or building. This line may be overhead or underground wire.



## Perceptions and Facts

**PERCEPTION:** *Energy prices for NorthWestern Energy customers are above the national average.*

**Fact:** Your residential electric rates are among the lowest in the nation for investor-owned utilities. For July 2012, the national average\* for a residential customer using 1,000 kilowatt hours of electricity a month was \$128.29 or 12.83 cents per kilowatt-hour. The average bill for a NorthWestern residential electric customer in South Dakota was \$98.64 a month or 9.86 cents. (\*Source: Electric Edison Institute)

**PERCEPTION:** *NorthWestern Energy can change its energy prices anytime it wants.*

**Fact:** NorthWestern Energy is a regulated utility, which means any change in customer prices – increase or decrease – must be reviewed and approved by the state utility commission before the change can be made. Changing customer rates involves an extensive process that includes many people, hundreds of pages of information and can take several months.

**PERCEPTION:** *NorthWestern wants customers to use more energy because it benefits the company.*

**Fact:** For years, NorthWestern has been working with the Public Utilities Commission to try and launch an energy-savings program for customers. You probably are wondering why we would help customers use less of our product. Simply put, it costs less to help customers reduce their energy use than it costs to build new power plants or purchase additional energy on the wholesale market. Our website provides customers with no-cost and low-cost tips that can be implemented around a home or business to help lower energy bills.

**PERCEPTION:** *NorthWestern Energy is a monopoly, so it can do anything it wants.*

**Fact:** NorthWestern Energy is a regulated monopoly. The state Public Utilities Commission set rates it believes best serve the public interest – while allowing NorthWestern the opportunity to be a viable, healthy business and earn a fair return for shareholders so we can continue delivering safe, reliable energy. Almost all utilities in the U.S., whether an investor-owned utility like NorthWestern, or a public utility, are a monopoly.

# How Do We Control Costs?



We work hard to manage costs to keep rates as low as possible. We're always looking for ways to reduce costs and improve efficiency and productivity.

One example of this is operating our fleet as efficiently as possible by using the right mix of vehicles at the right place and the right time. We are also investing in hybrid vehicles. Our new hybrid bucket trucks are 35 – 50 percent more fuel efficient than older ones.

Over time, this can help us reduce the costs of maintaining and purchasing new vehicles.

## Contact...

### MONTANA

Customer Contact Center (888) 467-2669  
7 a.m. - 6 p.m. M-F  
Emergency 24/7 Service  
Call Before You Dig 811  
Energy Efficiency (800) 823-5995

### NEBRASKA

Customer Contact Center (800) 245-6977  
7 a.m. - 6 p.m. M-F  
Emergency 24/7 Service  
Call Before You Dig 811

### SOUTH DAKOTA

Customer Contact Center (800) 245-6977  
7 a.m. - 6 p.m. M-F  
Emergency 24/7 Service  
Call Before You Dig 811

### PAYMENT

Automated Phone  
Payment Option: (800) 218-4959  
(via checking, savings, or money market account)  
SpeedPay Automated  
Phone Payment Option: (877) 361-4927  
(via credit card account)

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