NorthWestern Energy

June 22, 2018

Via e-mail (rule-comments@sec.gov)

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549

Re: *File No. S7-05-18*
Transaction Fee Pilot for NMS Stocks, Securities Exchange Act Release No. 82873 (March 14) 2018, 83 FR 13008 (March 26, 2018)

Dear Mr. Fields:

NorthWestern Corporation ("*NorthWestern*") appreciates the opportunity to submit comments to the Securities and Exchange Commission (the "*Commission*") regarding the Commission's proposal (the "*Proposal*") to adopt a Transaction Fee Pilot under proposed Rule 610T of Regulation NMS (the "*Pilot*"). NorthWestern believes the Proposal, as currently designed, will create a market disadvantage for issuers that are part of the Pilot. Accordingly, NorthWestern opposes the Proposal in its current form and requests that NorthWestern not be included in the Pilot.

The SEC Should Reduce the Size and Duration of the Pilot.

The Pilot would divide publicly traded companies into three test groups of 1,000 members each and a control group of the approximately 5,200 companies remaining and then test different transaction fees over a two-year period. NorthWestern believes the Pilot proposes test groups that are too large and a trial period that is too long. As the Proposal summarized, Nasdaq's similar study involved substantially fewer stocks (14) for a much shorter duration (four months), and observed that "the impact on liquidity provision was evident quickly."[1]

The Proposal Will Result in Disparate Impacts on Issuers.

The Commission's mission "is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation."[2] The current design and extended duration of the Pilot run contrary to that mission.

[1] Proposal, pp. 15 and 25.
[2] *See* https://www.sec.gov/Article/whatwedo.html.

Pilot Issuers vs. Non-Pilot Issuers. Issuers who are placed in the test groups will face a disadvantage in the market for the duration of the Pilot because the test group protocols require reduced or eliminated access fees and rebates, while the control group stocks will maintain full access fees and rebates.

The reduced or eliminated fees and rebates will result in higher transaction costs for investors of test group stocks. Increased transaction costs for test group stocks will lead to wider bid-ask spreads than the control group. Accordingly, for the duration of the Pilot, test group issuers will be a less attractive investment than control group issuers.

These greater transaction costs and wider bid-ask spreads also will impact test group issuers that wish to conduct secondary offerings and share repurchase programs. According to the comments submitted by NYSE Group, Inc., on behalf of the New York Stock Exchange, LLC and other subsidiaries (collectively, the "*NYSE*"), the "relationship between spreads and cost of capital is well understood."[3] Secondary offerings of NYSE-listed companies in 2017 had an average discount to market price of 2.6% when the spread was under 20 basis points; that discount climbed to 4.9% when the spread was over 20 basis points.[4]

NorthWestern objects to the possibility that its forced participation in the Pilot could result in its stock being less attractive to investors in a market that is supposed to provide for fair treatment and facilitate capital formation.

Pilot Peers vs Non-Pilot Peers. The market disadvantage from the Pilot could be even more dramatic when comparing a Pilot stock with the stock of its non-Pilot peers.

NorthWestern is an investor-owned utility, an industry that has experienced considerable consolidation. Twenty years ago, there were nearly 100 investor-owned utilities. Today, there are approximately 40. As the utility industry has consolidated, the spread in industry market capitalization has widened, from approximately $1 billion to $15 billion twenty years ago, to approximately $1 billion to $75 billion today.

NorthWestern is a small utility, with a market capitalization of less than $3 billion. With each new utility merger or acquisition, NorthWestern has fewer peers in the utility industry and faces increased competition for capital in the industry. Investors seeking opportunities with small utilities have few companies from which to select. For the reasons outlined above (wider bid-ask spreads, increased transaction costs, etc.), including NorthWestern in the Pilot would put NorthWestern at a competitive disadvantage to raise capital in what is already a challenging utility industry environment.

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[3] *See* Comments submitted by NYSE on May 31, 2018, page 3, available at https://www.sec.gov/comments/s7-05-18/s70518-3755194-162578.pdf.
[4] *Id.*

A fair, orderly, and efficient market should not be upended by drawing straws, with the short straws joining an unusually large test group over an extended period of time. Test group issuers will be disproportionately impacted by the current design of the Pilot.

NorthWestern respectfully requests that the Commission exclude NorthWestern from the Pilot as currently designed and reconsider the Proposal and redesign the Pilot to limit the impact on the issuers and investors the Commission serves.

Respectfully submitted,

Timothy P. Olson
Senior Corporate Counsel & Corporate Secretary
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