

# NorthWestern Energy

*Bleau LaFave*  
Director, SD Planning and Development  
Office: 605-978-2897  
Fax: 605-978-2910  
[bleau.lafave@northwestern.com](mailto:bleau.lafave@northwestern.com)

3010 W 69<sup>th</sup> St  
Sioux Falls, SD 57108  
Telephone: (605) 978-2900  
Facsimile: (605) 978-2910  
[www.northwesternenergy.com](http://www.northwesternenergy.com)

February 2, 2011

Mike Uda  
Doney, Crowley, Bloomquist, Payne, Uda, P.C.  
PO Box 1185  
Helena, MT 59624-1185

RE: Oak Tree Energy LLC – QF Negotiation with NorthWestern Energy

Dear Mr. Uda:

NorthWestern Energy (NWE or NorthWestern) has reviewed your email dated January 25, 2011 (copy enclosed) regarding Oak Tree's offer to sell 19.5 MW of energy and capacity to NorthWestern Energy's existing 69 kV substation at Clark Junction, South Dakota, and provides the following initial response:

1. NorthWestern filed an update to its avoided cost tariffs on June 29, 2010 with the South Dakota Public Utilities Commission (PUC). You can review the filing and applicable public documents located on the PUC's website at: <http://www.puc.sd.gov/Dockets/Electric/2010/e110-008.aspx>. NorthWestern has enough baseload generation to meet current annual energy needs and is currently selling any excess generation into the wholesale open market. To purchase power at costs greater than our avoided cost and at times when not needed or when less expensive resources are available would have a significant impact on South Dakota electric rates and our avoided cost rate structure. Specifically, as allowed under CFR 292.304, a utility is allowed to reflect impacts to the utility if it must sell power from a QF to the wholesale market at a loss in its avoided cost rates.

2. NorthWestern does not have a need for capacity to meet current or forecasted demand through the end of 2012. In NorthWestern's submittal to the Midcontinent Area Power Pool (MAPP), NorthWestern identifies the capacity portfolio for 2008, 2009, 2010 and 2011. The link to MAPP is attached for your review and NorthWestern's information is on pages 259 to 270 of the public document under - reports/2009 MAPP Load and Capability Report. <http://www.mapp.org/DesktopDefault.aspx?Params=454b040717565c79401a0c0b7b615d4600000003cd>

3. NorthWestern's updated Renewable Energy Objective (REO) annual report was filed with the PUC on June 30, 2010. A copy of that filing is also enclosed. As noted in the cover letter accompanying the filing, NorthWestern remains committed to meeting the voluntary REO of 10% by 2015 (please see SDCL 49-34A-101), while balancing the "cost effectiveness" of any renewable resources to other electricity supply alternatives, and ultimately, the impact on our customers rates (please see SDCL 49-34A-104).

NorthWestern appreciates your interest in developing renewable energy in South Dakota. The filed avoided cost rate mentioned above is the allowable rate for Qualifying Facilities. NorthWestern would be interested in any discussions that would add renewable resources to our portfolio that are priced at or below the established avoided cost but also monetarily recognizing current status of the energy and capacity requirements of the portfolio. Your offer does not meet these criteria and NWE, via this response, rejects your offer.

Thank you.

Sincerely,



Bleau LaFave  
Director SD Supply and Development

Cc: Pam Bonrud – Director Government and Regulatory Affairs  
John Hines – Chief Supply Officer  
Sara Dannen – Corporate Counsel  
Dennis Wagner – General Manager SD Production and Generation

EXHIBIT

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