

DONEY | CROWLEY | BLOOMQUIST | PAYNE | UDA P.C.

ATTORNEYS AT LAW

Ted J. Doney (1942-1994)  
Frank C. Crowley, MS  
John E. Bloomquist  
R. Allan Payne, RGp, MS  
Michael J. Uda, MS

Offices in Helena and Dillon, Montana

Suzanne F. Bessette, MP  
James E. Brown, LL.M.  
Marc G. Buyske, LL.M.  
Patti L. Rowland  
Abigail J. St. Lawrence  
James L. Shuler

February 25, 2011

Bleau LaFave  
Director SD Supply and Development  
NorthWestern Energy  
3010 W 69<sup>th</sup> Street  
Sioux Falls, SD 57108  
[bleau.lafave@northwestern.com](mailto:bleau.lafave@northwestern.com)

**RE: *Oak Tree Energy, LLC - QF Negotiation with NorthWestern Energy***

Dear Mr. LaFave:

Thank you for your reply of February 2, 2011. As we understand it, NorthWestern Energy ("NWE") has no interest in further negotiating with Oak Tree Energy, LLC ("Oak Tree") regarding Oak Tree's offer to sell 19.5 MWs of energy and capacity to NWE at NWE's existing 69 kV substation at Clark Junction, South Dakota. As you know, Oak Tree is offering to sell the power to NWE at \$0.05440 per KWH or (\$54.40 per MWH) for 20 years with an annual escalator of 2.5 percent with all renewable energy credits or other environmental attributes transferred to NWE as part of this transaction.

Accordingly, this letter serves as notice to NWE of the establishment of a legally enforceable obligation (the "LEO") for the delivery of energy and capacity by Oak Tree to NWE, pursuant to which Oak Tree will deliver all of its electric energy (other than station service) and capacity for sale to and purchase by NWE in accordance with the terms of the attached PPA signed by Leonard "Bill" Makens, Oak Tree's President and Chief Executive Officer.

Pursuant to 18 C.F.R. §292.304(d), Oak Tree hereby exercises its option to provide energy and capacity pursuant to an LEO over a specified term commencing with the initial delivery of energy (including test energy) to NWE from the Project, with an expected commercial operation date of May 15, 2012 and ending 20 years later (the "specified term".)

Oak Tree has performed an independent analysis, created by Black and Veatch, which includes a 20-year avoided cost forecast for NWE in South Dakota (attached hereto as Exhibit "1"). In this Exhibit, Black and Veatch performed two separate studies, one based on spot market prices over a 20-year term, commencing in 2012 and ending in 2031, and one based on the expected cost to NWE of having to build, own, and operate its own wind project over the same time frame. As

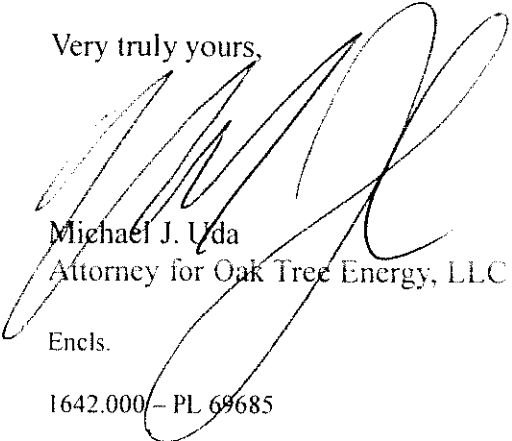
you can see from Exhibit "1," the forecast for NWE's avoided cost based on spot market purchases over the 20-year term is levelized at \$78.92/MWH for what is essentially "brown power" (i.e., without consideration of environmental attributes). In other words, the spot market forecast presumes the environmental attributes, including any renewable energy credits ("RECs") would stay with Oak Tree.

The "build option" analysis prepared by Black and Veatch shows that, based on costs used by NWE in recent regulatory proceedings in Montana, NWE's avoided cost were it to build its own wind facility (assuming a 44.8% capacity factor for the project) come to a levelized rate of \$70.81/MWH with NWE owning the environmental attributes, including the RECs.

In comparison, Oak Tree's proposal results in NWE receiving a 19.5 MW of generation at a levelized rate of \$65.12/MWH with all renewable energy attributes, including RECs being transferred to NWE. Oak Tree believes this provides NWE with a significant cost savings over its actual avoided costs, and provides substantial benefits including a hedge against a run up in natural gas prices and the imposition of potential Green House Gas ("GHG") federal legislation that may affect NWE's South Dakota ratepayers in the not too distant future.

Oak Tree formally requests a response to this letter by March 1, 2011 on whether NWE intends to accept Oak Tree's offer or whether NWE intends to negotiate with Oak Tree to produce a mutually satisfactory arrangement for both parties. If NWE does not wish to either accept the offer or negotiate further, please so indicate. If this is the case, please be advised that, regrettably, Oak Tree will have no choice but to submit this dispute to the South Dakota Public Utilities Commission. Thank you for your attention to this matter.

Very truly yours,



Michael J. Uda  
Attorney for Oak Tree Energy, LLC

Encls.

1642.000 - PL 69685

# EXHIBIT "1"

Yr	Yr	Brown Value Avoided Cost Based on BV EMP \$/MWh	Green Value Avoided Cost NWE Ownership Cost \$/MWh	Oak Tree Offer PPA \$/MWh	
	1	2012	\$33.97	\$70.81	\$54.50
	2	2013	\$39.06	\$70.81	\$55.86
	3	2014	\$45.95	\$70.81	\$57.26
	4	2015	\$51.53	\$70.81	\$58.69
	5	2016	\$70.66	\$70.81	\$60.16
	6	2017	\$75.89	\$70.81	\$61.66
	7	2018	\$81.12	\$70.81	\$63.20
	8	2019	\$85.42	\$70.81	\$64.78
	9	2020	\$87.44	\$70.81	\$66.40
	10	2021	\$91.81	\$70.81	\$68.06
	11	2022	\$96.10	\$70.81	\$69.76
	12	2023	\$100.97	\$70.81	\$71.51
	13	2024	\$105.32	\$70.81	\$73.30
	14	2025	\$110.96	\$70.81	\$75.13
	15	2026	\$117.22	\$70.81	\$77.01
	16	2027	\$123.84	\$70.81	\$78.93
	17	2028	\$130.85	\$70.81	\$80.91
	18	2029	\$137.75	\$70.81	\$82.93
	19	2030	\$144.87	\$70.81	\$85.00
	20	2031	\$153.32	\$70.81	\$87.13
	Levelized		\$78.92	\$70.81	\$65.12
			Oak Tree keeps RECs	NorthWestern gets RECs	NorthWestern gets RECs

Stauffer Format...WREZ costs...44.8% CF						
		TPVR	LFCR	Total	\$/MWh @	
				\$/kw/yr	CF	
WREZ Installed Cost:	Cost/kw	\$ 2,340	1.190	0.09237	257.00	65.49
WREZ O&M Estimate	Cost/kw/yr	\$ 60		1.290292	77.42	19.73
				<u>Total Fixed \$/KW/yr</u>	<u>334.42</u>	<u>85.21</u>
		\$ -				
				<u>Total \$/MWh</u>	<u>-</u>	<u>85.21</u>
				<u>Less PTC 10 yr..30 yr levelized</u>	<u>-</u>	<u>14.4</u>
				<u>Total net of PTC \$/MWh</u>	<u>-</u>	<u>70.81</u>

## Power Purchase Agreement

**THIS AGREEMENT (“Agreement”)** made effective \_\_\_\_\_, 2011, is between **Oak Tree Energy, LLC (“Seller”)**, and **NorthWestern Corporation d/b/a NorthWestern Energy (“NorthWestern”)**, a corporation organized and existing under the laws of the State of Delaware. Seller and NorthWestern are sometimes referred to in this Agreement collectively as “Parties” and individually as “Party.”

### RECITALS:

- Whereas: Seller proposes to operate a wind turbine facility rated at 19,500 kilowatts of electric generation capacity power generating facility that is a Qualifying Facility under Title 18 Code of Federal Regulations (C.F.R.) Section 292.201 *et seq.* located West of the Fifth Principal Meridian, Clark County, South Dakota:
- Whereas: Seller wishes to sell electric energy from the Facility to NorthWestern at the negotiated rate stated herein for an operation period of 20 years.
- Whereas: NorthWestern will purchase energy from the QF at the negotiated rate for the operation period of 20 years, as provided in the former whereas clause.
- Therefore, In consideration of the premises and of the mutual covenants and agreements herein contained, as well as other good and valuable consideration the sufficiency of which is expressly acknowledged and accepted, the Parties hereto undertake and agree as follows:

### Article 1      Definitions

As used in this Agreement and the Appendices attached hereto, the following terms, whether in the singular or in the plural, shall have the following meanings:

- 1.1 Billing Period: The period of time from one meter reading to the next.
- 1.2 Capacity: The maximum amount of electric power provided by a Facility, measured by billing meters at the Point of Interconnection on the primary side of the transformer, and based on the minimum one (1) hour demand interval occurring during the period under consideration.
- 1.3 Commercial Operation Date: Begins at 12:01 a.m. on the day following the day all equipment and interconnection on NorthWestern’s side of the Point of Interconnection have reached a degree of completion and reliability, such that in NorthWestern’s judgment, Facility is capable of operating continuously and simultaneously to produce and receive power.
- 1.4 Effective Date: May 15, 2012.