

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

July 22, 2010

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:

At the outset, Oak Tree Energy, LLC ("Oak Tree") wishes to thank you for your response of July 19, 2010 to my letter of July 2, 2010. Oak Tree has, as you suggested, examined NWE's 10-year plan filings, as well as its submittal to the Midcontinent Area Power Pool ("MAPP"). However, several questions remain which would help Oak Tree in determining the proper market in which to sell its generation:

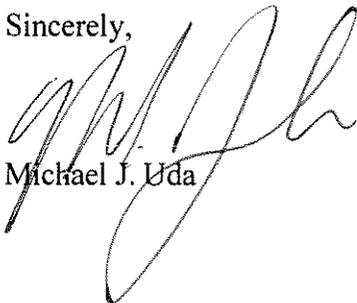
1. In Oak Tree's letter of July 2, 2010, to NWE, Oak Tree included a spreadsheet of data regarding load-generation balance and resources derived from NWE's 2010 Ten Year Biennial Plan, submitted to the South Dakota Public Utility Commission ("SDPUC") as of June 17, 2010. That spreadsheet indicated that NWE had 207 MW of resources as of 2010. In the letter of July 2, 2010, Oak Tree asked NWE whether the spreadsheet was missing resources in order to better understand NWE's SD resource adequacy capacity as of 2010. In the May MAPP filing, NWE reported it had a resource adequacy of 311 MWs. However, the MAPP submittal does not include a listing of the resources that constitute the 311 MWs, nor is there a listing of the origin and source of the MWs listed therein. In order to complete its analysis, Oak Tree requests that NWE provide a listing of the resources and MWs associated therewith, which constitute the 311 MWs listed in the MAPP filing, including an explanation of any differences between the MAPP filing and the spreadsheet listing of resources and associated MWs Oak Tree provided in its July 2 letter – a listing that Oak Tree developed based on NWE's June 17, 2010 10-year plan filing with the SDPUC.
2. NWE states in the July 19, 2010 letter to Oak Tree that NWE's goal is to meet the South Dakota Renewable Energy Objective ("REO") and also states that NWE is

“balancing” the “cost effectiveness” of any further renewable resources against other electricity supply alternatives. Ostensibly, as part of NWE’s “balancing” efforts, NWE states that it is willing to pay roughly \$20/MWh for new wind, which appears to be NWE’s short-term avoided cost. NWE’s filing with MAPP, as well as NWE’s June 17, 2010 10-year plan filing with the SDPUC, does not indicate any planned addition of renewable resources. Is it the case that NWE does not plan on adding any new renewable resources over the next 10 years unless those resources are acquired at the \$20/MWh rate, meaning that NWE would forego all other opportunities to acquire new resources that exceed NWE’s short-term avoided cost? Is this the reason that NWE’s 10-year filing with the SDPUC and NWE’s filing with MAPP does not include the acquisition of new wind resources?

3. NWE mentions in the July 19, 2010 letter that NWE’s updated REO annual report was filed with the SDPUC on June 30, 2010, and that a copy of the REO report was included with the July 19, 2010 letter. It does not appear that the letter included the REO annual report and cover letter. Would you please provide Oak Tree with the letter and the REO annual report?
4. In Volume III of NWE’s 2009 Default Supply Plan (submitted in July of 2010), NWE includes a number of reports from NWE’s Technical Advisory Committee (“TAC”). Among the reports is one from September 2008 which indicates that NWE was planning to acquire 25 MW of new wind generation in South Dakota, as well as two 45 MW peaking units. Has NWE acquired the 25 MW of new wind generation since 2008? If so, can NWE identify the power purchase agreement, location, and the generating entity, if any? If not, why did NWE discontinue its efforts to acquire the 25 MW of new wind generation? Has NWE acquired the two 45 MW peaking units? If so, can NWE identify the two 45 MW peaking units, their location, and the generating entities? If not, why did NWE discontinue its efforts to acquire the two 45 MW peaking units?

Oak Tree finds itself under something of a time constraint in resolving the issue of potential markets for its generation. Please respond to these questions by Friday, July 30, 2010, so Oak Tree can reach resolution regarding where to sell its output. We apologize for the short time frame and do not wish to visit any hardship on NWE. However, Oak Tree needs answers as soon as possible. Oak Tree again wishes to thank NWE for its cooperation in assisting Oak Tree to better understand the potential market for Oak Tree’s planned generation. If you have any questions or concerns, please do not hesitate to contact me. I would be happy to speak with you.

Sincerely,



Michael J. Uda

July 22, 2010

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cc: Oak Tree Energy, LLC  
John Hines – Chief Supply Officer  
Sara Dannen – Corporate Counsel  
Pam Bonrud – Director Government and Regulatory Affairs  
Dennis Wagner – General Manager SD Production Generation

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