

NorthWestern[®] Energy

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March 10, 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 February 28, 2011 (copy enclosed Date February 25, 2011) regarding Oak Tree Energy's Notification of Dispute with NWE and a request for certain NWE Energy Supply information, and provides the following initial response:

1. NorthWestern does not have a need for capacity to meet current or forecasted demand through the end of 2012. NorthWestern has submitted filings with the Midcontinent Area Power Pool (MAPP) and Western Area Power Administration (WAPA) satisfying NorthWestern's capacity obligations through the end of 2012.
2. 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 above our avoided cost, particularly at times when not needed or when less expensive resources are available, would have a significant adverse impact on South Dakota electric rates and ultimately NorthWestern's South Dakota ratepayers. In addition, 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.
3. Pursuant to 18 C.F.R. 292.304 (2), 'Nothing in this subpart requires any electric utility to pay more than the avoided costs for purchases'. NorthWestern's South Dakota electric system is different than and not integrated with our electric system in Montana. They exist under different regulatory and balancing authorities and have different electric resource portfolios and therefore costs. 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>.
4. 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 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 cost effective renewable resources to our portfolio that would maintain or reduce the costs to our customers. Thank you for your inquiry.

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

