

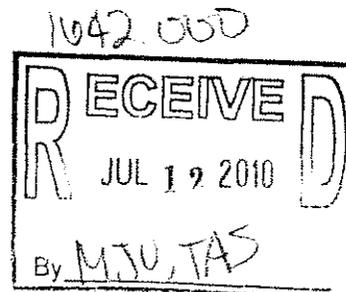


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July 6, 2010

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



RE: Oak Tree Energy's Small Generation Interconnection Application (SGIA)

Dear Mike:

NorthWestern Energy (NWE or NorthWestern) has reviewed your email dated June 25, 2010 (copy enclosed) regarding Oak Tree Energy's Notification of Dispute with NWE and a request for certain NWE Energy Supply information, and provides the following in response:

1. NorthWestern's biannual update of its ten (10) year supply plan was provided to you via email from Jeff Decker on June 18, 2010 (copy enclosed). For your convenience, here is a link to the PUC's website containing that filing: <http://www.puc.sd.gov/commission/10yearplan/nw2010.pdf>. The 10-year plan, as submitted, is filed in compliance with South Dakota rules and requirements.
2. 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>.
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 alternatives, and ultimately, the impact to our customers rates (please see SDCL 49-34A-104).
4. As we previously discussed, NorthWestern's South Dakota electric system is different than our electric system in Montana in that NorthWestern is a vertically integrated electric utility with its own electric generation in South Dakota. NorthWestern does not have the need for additional baseload generation at this time. We have enough baseload generation to meet current demand and are currently selling any excess generation into the open market. This results in 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.



5. Given that Oak Tree Energy's application is specifically a request for interconnection with NWE's system, NorthWestern is processing it as a network resource and not an energy resource.

6. As there are no other interconnection requests in the South Dakota Generation Interconnection queue at this time, there are currently no implications to another party's status in the queue. Therefore, NorthWestern will honor your request to delay further action on your pending application. However, if another customer makes application to NorthWestern Energy in the South Dakota area, we will be obligated to meet the required application review timelines which may affect your current status in the queue.

Thank you.

Sincerely,



Pamela A. Bonrud

Director – Government and Regulatory Affairs

Cc: Bleau LaFave – Director SD Planning and Development
John Hines – Chief Supply Officer
Sara Dannen – Corporate Counsel
Dennis Wagner – Manager SD Wholesale Operations
Autumn Mueller – Coordinator Generator Transmission

Audrey Blomquist

From: Mike Uda
Sent: Friday, June 25, 2010 3:43 PM
To: Richard Lauckhart (LauckhartR@bv.com)
Cc: Tiffany Sandine
Subject: FW: Oak Tree Energy's Notification of Dispute with NWE and Request for Information from NWE Energy Supply

From: Mike Uda
Sent: Friday, June 25, 2010 3:40 PM
To: Mueller, Autumn M; Bonrud, Pam
Cc: Bill Makens; Mike Makens; Michael Jay; Andrew Matney; 'LEONARD MAKENS'; 'cematney@gmail.com'
Subject: Oak Tree Energy's Notification of Dispute with NWE and Request for Information from NWE Energy Supply

Dear Autumn and Pam, I apologize in advance for the formality of this email. I am writing to you pursuant to Section 4.2 of the NWE SGIA, Oak Tree Energy hereby provides notice of a dispute that will require further delay of the interconnection process. As you know, Oak Tree originally requested a delay because NWE requested that Oak Tree put in a written notice that Oak Tree did not wish NWE to proceed to processing system impact study, which we understand are prompted by NWE's OATT timing requirements for completion of system impact studies. As I'm sure NorthWestern Energy ("NWE") recognizes, we are still in the position of attempting to obtain information regarding NWE's avoided costs which, we understand, will be updated as of July 1st at the South Dakota Public Utilities Commission ("PUC"). However, since we have not seen that filing yet, we are still in a position of attempting to collect information from which to make an informed decision about whether Oak Tree intends to sell to NWE in South Dakota as a QF or not. In addition, Oak Tree also believes that it is inconsistent with FERC policy to study Oak Tree as a network resource simply because it is a QF. While we are waiting for the new 2-year filing on July 1, we have reviewed the NWE 10 year plan submitted to the PUC as of July 2008 and although there is much useful information in it, we also believe that there is some critical missing information, namely the cost of the planned resources. Further, we note that those filings did not provide any indication of how or if NorthWestern plans to meet the RPS targets in South Dakota. Until we have that information, we do not believe it appropriate for NWE to require us to advise NWE on whether we will plan to sell our power to NWE or elsewhere. Until these matters are resolved, we believe our system impact study timelines should be put on hold.

South Dakota's law at present requires each utility subject to its jurisdiction to publish 10 year plans. Presumably, this will mean that NWE will publish its 2010 plan on July 1, 2010. In addition, it is our understanding that NWE will publish new avoided cost rates pursuant to new law SDCL 49-34A-108. Our understanding is further that South Dakota rule 20:10:21:05 further requires additional information, including the capital cost of NWE's resource additions, as well as any retirements of existing generation.

It would appear also that NWE has an obligation under 18 C.F.R. 292.302(b) to state in "blocks of not less and in blocks equivalent to not more than 10 percent of the system peak demand." Furthermore, these avoided costs must be stated on a "cents per kilowatt hour basis, during daily and seasonable peak and off-peak periods, by year, for the current calendar year and each of the next 5 years." Similarly, NWE has an obligation also to publish its "plan for the addition of capacity by amount and type, for purchases of firm energy and capacity, and for capacity retirements for each year during the succeeding 10 years." Finally, NWE also has an obligation to publish "The estimated capacity costs at completion of the planned capacity additions and planned capacity firm purchases, on the basis of dollars per kilowatt, and the associated energy costs of each unit, expressed in cents

per kilowatt hour. These costs shall be expressed in terms of individual generating units and of individual planned firm purchases.”

Without such information -- and perhaps all this information will be in NWE’s 10-year plan submitted to the PUC on July 1 -- it is difficult for Oak Tree to assess precisely what, if any, NWE’s resource needs will be over the next 10 years. Without that information, we are in the dark as to whether to sell the output from the Oak Tree project to NWE or wheel it to another utility that has a need for capacity.

We hereby respectfully request that NWE delay processing Oak Tree’s system impact study for the time being, that NWE send us whatever information it has with respect to its July 1, 2010 ten year plan (and any information that is required under 18 C.F.R. 292.302) as soon as is practicable so Oak Tree can make planning decisions. In the meantime, we respectfully request you preserve Oak Tree’s place in the NWE interconnection queue, subject to resolution of this dispute. Oak Tree also respectfully requests that NWE provide written confirmation that the delay associated with Oak Tree’s attempt to obtain the above information will not result in Oak Tree losing its present position in NWE’s interconnection queue.

I am not entirely sure that I am copying all the relevant personnel at NWE on this email. Please forward to whomever you think appropriate at NWE. I appreciate NWE’s cooperation thus far and wish to thank you for your attention to this matter

Michael J. Uda

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

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Audrey Blomquist

From: Mike Uda
Sent: Friday, July 02, 2010 10:01 AM
To: Tiffany Sandine
Subject: FW:
Attachments: NWE Tariff Rate 73 & 74.pdf; Avoided Costs Projection.xls

Please send it to Dennis Wagner, Jeffrey Decker, and cc Pam Bonrud. I will email same to them.

From: Bonrud, Pam [<mailto:Pam.Bonrud@northwestern.com>]
Sent: Friday, June 11, 2010 10:09 AM
To: Mike Uda
Subject: FW:

Sorry Mike!! I decided to add an extra letter to your e-mail address. Thanks, Pam

From: Bonrud, Pam
Sent: Friday, June 11, 2010 11:05 AM
To: Claud Matney; muda@donelylaw.com
Cc: Dannen, Sara; Wagner, Dennis; Decker, Jeffrey (Jeff); Cashell, Michael R; Mueller, Autumn M
Subject:

Claud and Mike:

Here is a pdf of our Rates 73 and 74 currently on file with the SD PUC. As I mentioned on the phone, we plan to file an update to these within the next week. Once the filing is made, we will be sure to send you a link to the SD PUC website containing the docket number and the filing information. Also attached is a spreadsheet that provides an overview of our avoided cost projections starting in 1998 through 2019 based on anticipated generation resource needs and using information we have currently available to us.

As agreed during our phone conversation, Cory Huber will supply you with information related to 12 CP data. Also, once we have the annual update report regarding our generation mix ready to file with the SD PUC, we will provide you a copy of that. Additionally, you will be sending a letter to Autumn Mueller stating your request to delay the timeline on your interconnection request with NorthWestern Energy for the Oak Tree Energy Project.

If you have additional questions, please do not hesitate to let me know and I will work with our team to get the appropriate responses to you.

Thank you,
Pam Bonrud

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