

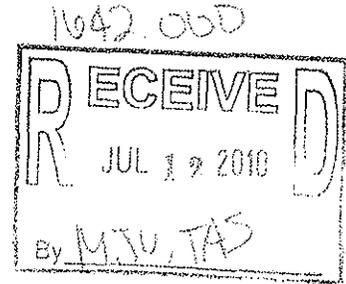


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July 6, 2010

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