The purpose of this memorandum is to report on the organization, activities, and recommendations of the NorthWestern Energy (NWE) Technical Advisory Committee (Committee) to date. I conclude with my observations as Committee Facilitator about the benefits provided by the Committee and challenges that should be addressed to improve the Committee’s ability to provide future benefits.

1. Committee Organization
At its first meeting on September 5, 2002, Pat Corcoran, NWE Vice President for Regulatory Affairs and Support Services, explained that NWE formed the Advisory Committee in response to a default supply order issued by the Montana Public Service Commission (PSC). The order directed NWE to “...openly communicate with stakeholders...” and “(t)o the greatest extent possible, (use) transparent resource planning, management, and procurement processes...” NWE therefore invited representatives of those stakeholders that regularly participate in PSC rate cases to serve on the Committee to work with NWE in carrying out its default supplier role.

1.1 Members
1.1.1 Initial members of the Committee included:
   - John Bushnell, Economist, Northwest Power and Conservation Council
   - Paul Cartwright, Senior Energy Analyst, Montana Department of Environmental Quality
   - Pat Corcoran, NorthWestern Energy
   - Ann Gravatt, Senior Policy Associate, Renewables Northwest Project (RNP)
   - Patrick Judge, Energy Policy Director, Montana Environmental Information Center
   - Dennis Lopach, Chief Administration Officer, NorthWestern Energy
   - Jim Morton, Executive Director, District XI Human Resource Council
   - Larry Nordell, Economist, Montana Consumer Counsel
   - Thomas M. Power, Professor and Chairman, Economics Department, University of Montana
   - Deborah Smith, Attorney, Natural Resource Defense Council and RNP
   - Joe Schwartzenberger, Manager of Regulatory Support Services, NorthWestern Energy
   - Mark Thompson, Executive Director - Energy Supply, NorthWestern Energy
   - Will Rosquist, Rate Analyst, Montana Public Service Commission (PSC)

In October, 2003, attorney Chuck Magraw replaced Deborah Smith as a member representing Natural Resource Defense Council and RNP.
1.1.2 Three major stakeholder groups that regularly participated in resource acquisition and rate regulatory processes of NWE’s predecessor, Montana Power Company (MPC), have not been represented on the Committee: the large industrial customers, resource suppliers including qualifying facility resource developers, and business/commercial customers. MPC’s large industrial customers exercised choice and are not customers of NWE, and, therefore, NWE did not invite a representative of the large customer group to participate on the Committee. Because it does not own electricity resources and must acquire them in the competitive market, NWE also opted not to include representatives of electricity suppliers on the Committee. NWE has expressed interest in including representatives of business/commercial customers, but neither it nor the Committee have identified such representatives willing to serve on the Committee. The Committee agreed with these decisions and confirmed the appropriateness of its membership when it adopted ground rules.

1.2 Ground Rules
At its initial meeting on September 5, 2002, the Committee agreed to ground rules to guide its activities. The Committee agreed that its purpose, “...is to provide advice to NorthWestern Energy about the acquisition of an electricity supply for its default customers.” The ground rules also provide that, “The Committee will strive to provide advice to NWE by consensus, that is all members should be able to live with the advice. When consensus is not possible, the nature of the disagreement should be noted.” The complete text of the Committee ground rules is contained in Appendix 1 below.

1.3 Subgroups
Some of the work conducted by the Committee has occurred in three subgroups, the Renewable Resources Subgroup, the Demand-Side Resources Subgroup, and the Modeling Subgroup. The subgroups generally delved into more technical detail in each of the three areas than the full Committee.

2. Committee Activities
To date, including its initial meeting on September 5, 2002, the Committee has met twelve times. Summaries of the twelve meetings are included below as Appendix 2. Committee subgroups have met both face-to-face and more frequently via conference calls. A partial listing of Committee and its subgroup activities follows.

2.1 Renewable Subgroup Activities
2.1.1 Reviewed and commented subgroup work plan.
2.1.2 Discussed how to model wind on NWE system.

2.2 DSM Subgroup Activities
2.2.1 Reviewed subgroup work plan
2.2.2 Reviewed and commented on an issue paper addressing the definition of cost effectiveness.
2.2.3 Recommended that NWE issue a sole source contract to Xenergy because of its experience with MPC’s conservation programs and data bases.
2.2.4 Reviewed the RFP scope of work for the static DSM analysis, i.e., the application of efficiency measures to the NWE service territory building stock and equipment using Montana costs and weather.
2.2.5 Reviewed contractor work products.
2.3 Modeling Subgroup Activities

2.3.1 Developed a scope of work for and advised NWE about the selection of a contractor to advise the Committee concerning NWE’s energy supply model and the decisions that flow from it.

2.3.2 Reviewed and commented on the draft report from the contractor concerning its compliance with the scope of work.

2.3.3 Reviewed and commented on a resource portfolio modeling matrix, along with notes describing the basic modeling parameters, the results of which will support development of NWE’s default supply resource plan.

2.4 Full Committee Activities

2.4.1 Heard a briefing on an RFP used by NWE to determine the market price of dispatchable, combustion turbine resources.

2.4.2 Reviewed and commented on NWE’s “White Book” on Default Supply Analysis and Portfolio Acquisition.

2.4.3 Discussed policy questions such as alternative institutional arrangements for the default supply role, “pre-approval” of the default supply contracts, continuing supplier choice as a function of customer size, and repeal of Montana’s mini-PURPA statute.

2.4.4 Heard a presentation on the evaluation of the responses to the wind RFP.

2.4.5 Reviewed NWE’s policy on avian issues and its evaluation of wind proposal avian impacts.

2.4.6 Discussed a proposed NWE 205 FERC filing regarding the Montana First Megawatts Project.

2.4.7 Heard a NWE presentation about a possible acquisition of electricity from Colstrip Units 3 & 4 for the default supply.

2.4.8 Heard regular briefings by NWE on the status of its electricity and natural gas default supply.

2.4.9 Received copies of NWE’s electricity and natural gas procurement strategy and market view reports to the PSC.

2.4.10 Briefed the PSC on March 20, 2003 and June 19, 2003 to the PSC on the Committee activities.

2.4.11 Participated in a web-guided explanation and attended a workshop in Portland, Oregon on the PCI planning model used by NWE for its portfolio analyses. (All members were invited to participate but not all chose or were able to do so.)

2.4.12 Reviewed the elements of the NWE default supply plan.

2.4.13 Heard a NWE presentation of and discussed NWE’s default supply electricity forecast.

2.4.14 Heard a NWE presentation of and discussed NWE’s approach to evaluating and managing risk in the default supply electricity portfolio.

2.4.15 Was briefed on and discussed non-modeling issues that NWE’s proposes to address in its default supply plan.

2.4.16 Heard briefings on the effect of NWE’s financial condition on its ability to acquire default supply resources.

2.4.17 Heard a NWE presentation of and discussed NWE’s work plan for developing its default supply plan.

2.4.18 Heard a briefing on the implications of NWE’s bankruptcy filing.

3. Committee Agreements and Advice

At various times to date, the Committee has reached agreements and provided advice which it subsequently offered to NWE. A compilation of the agreements and advice taken from the meeting
summaries in Appendix 2 follows:

3.1 At its March 20, 2003 meeting, following a discussion of NWE’s proposed application to the Federal Energy Regulatory Commission (FERC), the individual Committee members agreed that they would recommend that their agency/organization not oppose NorthWestern Corporation’s 205 application to the FERC. The Committee also agreed that NWE should not abandon the MFM power purchase contract, and that Northwestern Corporation should not abandon the MFM project. Finally, the Committee took no position about ultimate rate treatment for the MFM power purchase contract, and agreed that the PSC’s ability to review the contract for rate treatment must be protected. This advice was first presented orally to the PSC on March 20 and then formalized in a letter to Pat Corcoran dated March 24, 2003.

3.2 At its June 2, 2003 meeting, the Committee agreed that its basic function is to provide advice to NWE regarding the development and implementation of its default electricity and possibly its gas supply plans. The Committee agreed that it does not intend to offer advice regarding the selection of specific suppliers, such as bidders in the wind request-for-proposals (RFP), nor will it offer an opinion on the price, terms and conditions of specific contracts. Instead, the Committee will seek to understand NWE’s default supply electricity plan and possibly the gas supply plan and how the plans were developed and how they are to be implemented. Committee members will offer concerns about the plan, its development, and implementation. They will attempt to provide the same advice on these topics to NWE as they would to the principals of the organizations they serve. This advice will not bind the represented organizations in rate or other regulatory proceedings.

3.3 At its June 19, 2003 meeting, the Committee agreed that given NWE’s current financial and default supply resource and load situation, NWE should take the following steps:

**Step 1** - NWE should file an explanation of its short-term opportunity purchases strategy as soon as possible with the PSC. This strategy should address NWE’s opportunity analysis and should include: an identification of what opportunities exist and how they will be utilized, a discussion of where the potential risks are and how they will be addressed; an explanation of what criteria NWE uses to make its decisions, and an explanation of what portion of the portfolio should consistently be served by the short-term market. Given the expiration of the Duke 111 megawatt contract and the return of 30 to 40 megawatts of former choice loads to the default supply, NWE needs to explain any additional decision criteria used to determine how to address these needs. The decision criteria should address two circumstances: (1) NWE obtains power from the Basin Creek, Montana First Megawatts (MFM), and winning RFP wind projects; and (2) power is not available from these projects.

**Step 2** - NWE should develop a preliminary default supply plan which tests a broad range of different resources using the default supply load profiles. The alternatives should include the PURPA, Tiber, Thompson River, and demand-side resources and the PPL Montana contracts. In developing the preliminary plan, NWE should test reliance on four resource strategies: (1) gas-fired dispatchable and wind resources, (2) coal resources, (3) contract(s) for long-term resources, and (4) opportunity purchases to determine how to fill load shapes with generic resources.

**Step 3** - NWE should develop and implement an all-source request for resources against which the results from step 2 can be tested.

3.4 At its July 9, 2003 meeting, the Committee agreed that longer term forecasts will require more sophistication than the annual tracker forecast. In particular, NWE should include econometric techniques and price elasticity in its longer term forecasts. The Committee also recommended that NWE benchmark its forecasting activities with those of other northwest utilities and the
Northwest Power Planning Council. The longer term forecast should be developed in the
course of the resource planning and risk analysis for 10 to 20 years out.

3.5 At its July 9, 2003 meeting, the Committee decided to focus its deliberations on the default
electricity supply and to address gas topics to the extent they effect the default electricity
supply.

3.6 At its August 22, 2003 meeting, the Committee advised NWE not to file a generic plan with
the PSC in favor of first completing the additional studies that would allow it to better define
its resource plan. It further advised NWE that rather than filing the generic plan, the
Committee facilitator should report to the PSC on the ongoing planning activities and
milestones.

3.7 At its July 23, 2003 and August 22, 2003 meetings, the Committee advised NWE to analyze
how a portfolio with substantial gas and wind would perform relative to coal-fired resources
and market purchases in a high cost gas environment.

3.8 At its October 7, 2003 meeting, the Committee agreed to send a letter to the PSC requesting
that it make a decision on the default resource supply plan and the resource contract pre-
approvals by June 2004 so long as the Consumer Counsel and the PSC would have the time
and resources needed to carry out the requested decision processes and that NWE would begin
providing information needed by both agencies as soon as possible.

3.9 Also at its October 7, 2003 meeting, the Committee affirmed the agreement it tentatively
reached at its June 2, 2003 meeting regarding the analysis of wind avian impacts. Specifically,
the Committee agreed that NWE should take the following steps:

- Use the Potential Impacts Index (PII), which was developed by personnel from NWE, the
  US Fish and Wildlife Service (USFWS), the Montana Department of Fish, and Wildlife and
  Parks, and Montana State University, to screen the short list of wind proposals and apply a
  pass fail test to each, i.e. NWE should decide that if it was building the proposed project,
  proceeding would be prudent based on the PII result.
- Ensure that the power purchase agreement contains provisions that would make avian
  related evaluations and potential issues the project developer’s responsibility and that
  the developer has a plan and financial resources to address the provisions;
- Request that the developer communicate to the USFWS and undertake the studies
  recommended by the USFWS and supply such studies to NWE;
- Request a mitigation plan from the developer in the event of avian issues;
- Request that the developer/operator notify NWE in a timely fashion if an avian issue exists
  in which the USFWS is involved; and
- Impose a penalty if the project drops below a mechanical availability guarantee because of
  an avian curtailment or other reasons.

The Committee reiterated that the first NWE wind acquisition should not be controversial and
that no wind site would be better than a bad site.

4. Facilitator Observations
The following are my observations as the Steering Committee facilitator about the benefits provided
by the Committee and challenges that should be addressed to improve the Committee’s ability to
provide future benefits. These observations have not been reviewed or discussed by the Committee.

4.1 Committee Benefits
The Committee has afforded benefits related to the direction of the PSC to NWE quoted in
paragraph 1 above, “...(O)penly communicate with stakeholders...” and “(t)o the greatest extent
possible, (use) transparent resource planning, management, and procurement processes...”

4.2 Challenges to Future Benefits
While NWE has and continues to make productive use of the Committee to meet the PSC directive quoted above, challenges in three areas remain to achieving potential Committee benefits: eliminating the language barrier, adequate staffing levels, and NWE acceptance and comfort in its default supplier role.

4.2.1 Eliminating the Language Barrier - Because of the changes in recent years deregulating whole sale power production and opening the transmission system to competitive power transactions, power marketing plays a much more important role than in the days of vertically integrated utilities that produced, transmitted, and distributed power to its customers. In NWE and other utilities, power marketers have eclipsed power planners. As is often the case in professional communities, power marketers have developed their own jargon to ease intra-community communication. Unfortunately, many NWE stakeholders including Committee members as well as some NWE personnel are not conversant with this jargon. NWE oral and written communication too often includes this jargon which obscures rather than facilitates
understanding. NWE should either devote the time and materials necessary to teach the Committee and other stakeholders the market jargon or make the effort to use language that non-marketers understand. In my judgement, NWE would be best served by the latter.

4.2.2 Adequate Staffing Levels - NWE does not have adequate staffing to implement its default supply role and make optimum use of the Committee. Again, in my judgement, NWE needs additional legal, resource planning and acquisition staff.

4.2.3 Default Supply Role - Particularly at the beginning of its work with the Committee, NWE saw its default supply role as that of an unpaid aggregator. NWE was supposed to go to the market and arrange for an electricity supply for its default supply customers. Because this role is uncompensated, NWE did not understand that it should be assigned substantial risk in carrying it out. At the Committee’s initial meeting, Pat Corcoran explained that because NWE must acquire resources via the market, it may not have the same luxury of time as the historic regulated environment. The lack of the time luxury affected how NWE chose to involve the Committee in its default supply role. In several instances, including the MFM contract and FERC 205 application and acquisition of power from Colstrip Unit 3 & 4, NWE sought the Committee’s reaction to its proposals within short time periods rather than involve it in the development of the proposals themselves. Several months passed before NWE involved the Committee in the development of a work plan leading to a default supply resource plan. PSC regulatory decisions and its financial difficulties finally convinced NWE of the efficacy of an approach allowing for more deliberation with the Committee. The decision to hire a contractor to assist the Committee’s review of NWE modeling activity was an important turning point. NWE should continue to develop and implement a work plan for the Committee that addresses key aspects of its default supply role, including resource planning and acquisition and the existing rate making and other regulatory issues that act as a disincentive to NWE in carrying out its default supply role.
I. Purpose
The purpose of the NorthWestern Advisory Committee (Committee) is to provide advice to NorthWestern Energy about the acquisition of an electricity supply for its default customers.

II. Members
A. Members of the Committee were invited to participate by NorthWestern.
B. Members agree to the Committee’s purpose and the ground rules.
C. Membership on the Committee does not constrain or compromise actions in other forums.
D. Members include:

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<tr>
<th>Name</th>
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<td>Frank Buckley</td>
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<td>John Bushnell</td>
<td>Northwest Power Planning Council</td>
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<td>Deb Smith</td>
<td>Natural Resource Defense Council and the Renewables</td>
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<td>Will Rosquist</td>
<td>Montana Public Service Commission (MPSC)</td>
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III. Decision Rule
The Committee will strive to provide advice to NWE by consensus, that is all members should be able to live with the advice. When consensus is not possible, the nature of the disagreement should be noted.

IV. Committee Process
A. Committee meetings shall be open to the public.
B. The facilitator shall draft an agenda and circulate it to the Committee e-mail or mailing list no less than 5 days prior to the meeting.
C. The facilitator shall draft and circulate it to the Committee e-mail or mailing list minutes of Committee meetings.
D. The facilitator shall conduct Committee meetings so that all members have an opportunity to speak to all agenda topics.

V. Committee Member Responsibilities
A. Each member agrees to either attend all Committee meetings or to send comments concerning meeting agenda topics to the facilitator for circulation to the Committee.
B. Each member agrees to explore all issues fully and candidly before reaching conclusions.
C. Each member agrees to search for creative opportunities to address all the interests and concerns of all members.
D. Each member is committed to seeking agreement while maintaining his or her values and
interests.
E. Each member agrees to listen carefully and respectfully to other members and to avoid interrupting other members.
F. Each member agrees to offer suggestions with respect and care.
G. Each member agrees to share relevant information regarding the issues under consideration.
H. Each member agrees to communicate with each other directly and candidly, rather than through the news media on this issue.
I. Each member agrees to challenge ideas, not people.
J. Each member agrees to respect the decision of any member to withdraw at any time for any reason.
K. Each member agrees to explain to the other members the reason for withdrawal from the process.

VI. News Media Contacts
A. Each member may speak to the media regarding his or her own views, but no member may speak on behalf of or characterize the views of other members to the media or in other forums.
B. Only the Committee facilitator may speak to the media or prepare press releases on behalf of the Committee.