

STATEMENT D, ACCUMULATED  
DEPRECIATION, DEPLETION AND  
AMORTIZATION

NORTHWESTERN ENERGY - MONTANA OPERATIONS  
NATURAL GAS UTILITY

<u>Functional Classification</u>	<u>Depreciation Reserve 13 Month Average @ 12/31/08</u>	<u>Claimed Adjustments</u>	<u>Test Period Depreciation Reserve</u>
Intangible Plant	435,415.00	0.00	435,415.00
Storage Plant	19,133,895.30	0.00	19,133,895.30
Transmission Plant	77,480,796.94	0.00	77,480,796.94
Distribution Plant	88,019,120.43	0.00	88,019,120.43
General Plant	8,697,961.64	0.00	8,697,961.64
Total Above	<u>193,767,189.31</u> ✓	<u>0.00</u>	<u>193,767,189.31</u>
Common Allocation	14,493,061.75	0.00	14,493,061.75
Total Depr. Reserve	<u>208,260,251.06</u>	<u>0.00</u>	<u>208,260,251.06</u>

Claimed Adjustments:

- 1.
2. Total Adjustments 0.00

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DEPRECIATION, DEPLETION AND  
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NORTHWESTERN ENERGY - MONTANA OPERATIONS  
MONTANA GAS DEPARTMENT

<u>Functional Classification</u>	<u>Depreciation Reserve 13 Month Average @ 12/31/08</u>	<u>Claimed Adjustments</u>	<u>Test Period Depreciation Reserve</u>
Intangible Plant	413,454.77	0.00	413,454.77
Storage Plant	19,133,895.30	0.00	19,133,895.30
Transmission Plant	77,293,526.56	0.00	77,293,526.56
Distribution Plant	88,019,120.43	0.00	88,019,120.43
General Plant	8,618,869.64	0.00	8,618,869.64
Total Above	<u>193,478,866.70 ✓</u>	<u>0.00</u>	<u>193,478,866.70</u>
Common Allocation	14,493,061.75 /	0.00	14,493,061.75
Total Mt. Gas Depr. Reserve	<u>207,971,928.45</u>	<u>0.00</u>	<u>207,971,928.45</u>

Claimed Adjustments:

- 1.
2. Total Adjustments 0.00

STATEMENT D, ACCUMULATED  
 DEPRECIATION, DEPLETION AND  
 AMORTIZATION

NORTHWESTERN ENERGY - MONTANA OPERATIONS  
 CANADIAN MONTANA PIPELINE COMPANY

<u>Functional Classification</u>	<u>Depreciation Reserve 13 Month Average @ 12/31/08</u>	<u>Claimed Adjustments</u>	<u>Test Period Depreciation Reserve</u>
Intangible Plant	21,960.23	0.00	21,960.23
Storage Plant	0.00	0.00	0.00
Transmission Plant	187,270.38	0.00	187,270.38
Distribution Plant	0.00	0.00	0.00
General Plant	79,092.00	0.00	79,092.00
Total Above	<u>288,322.61</u>	<u>0.00</u>	<u>288,322.61</u>
Common Allocation	0.00	0.00	0.00
Total CMP Depr. Reserve in U.S. FUNDS	<u>288,322.61</u>	<u>0.00</u>	<u>288,322.61</u>
Claimed Adjustments:			
1.		0.00	
2. Total Adjustments		<u>0.00</u>	

STATEMENT D  
 Working Papers on Recorded Changes to Accumulated Depreciation

NORTHWESTERN ENERGY - MONTANA NATURAL GAS UTILITY  
 2008 ACCUMULATED DEPRECIATION DATA

Functional Classification	Reserve Balance 12/31/07	Current Year Accrual	Other Misc. Credits	Highway Credits	Transfers Net	Retirements	Removals	Salvage	Other	Reserve Balance 12/31/08	2008 13 Month	
											Average	✓
Intangible Plant	416,665.11	94,517.16	0.00	0.00	0.00	370,909.97	0.00	0.00	0.00	140,272.30		
Storage Plant	18,854,382.21	576,210.49	0.00	0.00	-2,120.94	80,792.76	0.00	0.00	0.00	19,347,679.00		
Transmission Plant	75,701,733.73	3,705,288.97	0.00	0.00	-31,920.77	170,331.02	60,847.94	0.00	0.00	79,143,922.97		
Distribution Plant	84,981,212.23	5,436,398.60	232,180.99	688,151.12	26,334.91	600,163.87	275,347.80	270.72	353,081.00	90,842,117.90		
General Plant	<u>8,727,201.86</u>	<u>774,780.81</u>	<u>0.00</u>	<u>0.00</u>	<u>7,706.80</u>	<u>498,302.89</u>	<u>0.00</u>	<u>44,579.86</u>	<u>-353,081.00</u>	<u>8,702,885.44</u>		
Total Gas Utility	188,681,195.14	10,587,196.03	232,180.99	688,151.12	0.00	1,720,500.51	336,195.74	44,850.58	0.00	198,176,877.61 ✓	193,767,189.30 ✓	

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 Working Papers on Recorded Changes to Accumulated Depreciation

NORTHWESTERN ENERGY - MONTANA GAS UTILITY  
 2008 ACCUMULATED DEPRECIATION DATA

Functional Classification	Reserve Balance	Current Year	Other Misc.	Highway	Transfers	Retirements	Removals	Salvage	Other	Reserve Balance	2008 13 Month
	12/31/07	Accrual	Credits	Credits	Net					12/31/08	Average
Intangible Plant	394,704.88	94,517.16	0.00	0.00	0.00	370,909.97	0.00	0.00		118,312.07	
Storage Plant	18,854,382.21	576,210.49	0.00	0.00	-2,120.94	80,792.76	0.00	0.00		19,347,879.00	
Transmission Plant	75,514,607.67	3,705,015.98	0.00	0.00	-31,920.77	170,331.02	60,847.94	0.00	0.00	78,956,523.92	
Distribution Plant	84,981,212.23	5,436,398.60	232,180.99	688,151.12	26,334.91	600,163.87	275,347.80	270.72	353,081.00	90,842,117.90	
General Plant	<u>8,653,005.42</u>	<u>765,309.46</u>	<u>0.00</u>	<u>0.00</u>	<u>7,706.80</u>	<u>498,302.89</u>	<u>0.00</u>	<u>44,579.86</u>	<u>-353,081.00</u>	<u>8,619,217.65</u>	
Total Montana Gas	188,397,912.41	10,577,451.69	232,180.99	688,151.12	0.00	1,720,500.51	336,195.74	44,850.58	0.00	197,883,850.54	193,478,866.69

STATEMENT D  
 Working Papers on Recorded Changes to Accumulated Depreciation

NORTHWESTERN ENERGY - CANADIAN MONTAN PIPELINE  
 2008 ACCUMULATED DEPRECIATION DATA

Functional Classification	Reserve Balance	Current Year	Other Misc.	Highway	Transfers	Retirements	Removals	Salvage	Other	Reserve Balance	2008 13 Month
	12/31/07	Accrual	Credits	Credits	Net					12/31/08	Average
Intangible Plant	21,960.23	0.00	0.00	0.00	0.00	0.00	0.00	0.00		21,960.23	
Storage Plant	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00	
Transmission Plant	187,126.06	272.99	0.00	0.00	0.00	0.00	0.00	0.00		187,399.05	
Distribution Plant	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00	
General Plant	<u>74,196.44</u>	<u>9,471.35</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>83,667.79</u>	
Total CMP in U.S. Funds	283,282.73	9,744.34	0.00	0.00	0.00	0.00	0.00	0.00	0.00	293,027.07	288,322.61

STATEMENT D  
 Working Papers on Recorded Changes to Accumulated Depreciation

NORTHWESTERN ENERGY - MONTANA COMMON UTILITY  
 2008 ACCUMULATED DEPRECIATION DATA

Functional Classification	Reserve Balance 12/31/07	Current Year Accrual	Other Misc. Credits	Highway Credits	Transfers Net	Retirements	Removals	Salvage	Other	Reserve Balance 12/31/08	2008 13 Month Average
C303 Intangible Plant	18,087,381.80	3,736,055.99	0.00	0.00	0.00	1,830,508.95	0.00	0.00	0.00	19,992,927.84	
C389 Land & Land Rights	-159,193.11	0.00	0.00	0.00	1,321.89	0.00	0.00	0.00	0.00	-157,871.22	
C390 Structures & Improve	6,802,164.53	709,064.17	0.00	0.00	-1,257.83	174,079.87	21,011.59	0.00	2,618,624.00	9,933,503.41	
C391 Office Equipment	6,212,881.80	808,034.27	0.00	0.00	0.00	353,210.35	0.00	800.00	-2,877,183.00	3,791,322.72	
C397 Communication Equip	7,846,878.94	1,057,868.12	0.00	0.00	0.00	62,315.65	0.00	0.00	801,863.00	9,644,294.41	
C398 Misc. Equipment	<u>863,592.84</u>	<u>57,997.08</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>40,537.99</u>	<u>0.00</u>	<u>0.00</u>	<u>-543,304.00</u>	<u>337,747.93</u>	
Total Common Utility	39,653,706.80	6,389,019.63	0.00	0.00	64.06	2,460,653.81	21,011.59	800.00	0.00	43,541,925.09 ✓	42,626,652.20 ✓

Allocated to:

Electric Utility

Natural Gas Utility

28,655,657.97 ✓

14,886,267.12 ✓

28,133,590.45 ✓

14,493,061.75 ✓

NORTHWESTERN ENERGY - MONTANA COMMON UTILITY

<u>Line</u>	<u>13 Month Average Plant @ 12/31/08</u>	<u>Electric</u>	<u>Natural Gas</u>
1	89,651,326.64	59,994,667.79	29,656,658.85

	<u>13 Month Average Reserve @ 12/31/08</u>	<u>Electric</u>	<u>Natural Gas</u>
2	42,626,652.20	28,133,590.45	14,493,061.75

	<u>2008 Book Accrual</u>	<u>Electric</u>	<u>Natural Gas</u>
3 Depreciation	2,735,610.69	1,832,859.19	902,751.50
4 Amortization	3,736,055.99	2,503,157.54	1,232,898.45
5 Total	<u>6,471,666.68</u>	<u>4,336,016.73</u>	<u>2,135,649.95</u>

	<u>Test Period Book Accrual</u>	<u>Electric</u>	<u>Natural Gas</u>
6 Depreciation	2,735,610.69	1,832,859.19	902,751.50
7 Amortization	3,736,055.99	2,503,157.54	1,232,898.45
8 Total	<u>6,471,666.68</u>	<u>4,336,016.73</u>	<u>2,135,649.95</u>

**NORTHWESTERN ENERGY - MONTANA GAS UTILITY**

No policy change has been made effective since the period covered by the last annual report on FERC Form No. 1 as filed with the FERC or the annual report as filed with the Montana Public Service Commission (MPSC).

During 2005, NorthWestern Energy engaged Foster Associates, Inc. to conduct a Depreciation Rate Study for all Utility Property through December 31, 2004. The results of that Depreciation Study have been included in the calculation of the 2008 book depreciation expense.

The actual mechanics of computation are as follows:

Gas and Common

Canadian-Montana Pipeline Company

Straight line method is used. All accounts are depreciated by application of a depreciation rate to the original cost of the property.

It should be noted that the depreciation rate used above reflects consideration of expected average service life and net salvage costs.

**NORTHWESTERN ENERGY - MONTANA OPERATIONS**  
**DEPRECIATION POLICY**

The depreciation policy of the NorthWestern Energy Company is as stated in our annual report on 10K, "Notes to Consolidated Financial Statements, Note No.3 - Significant Accounting Policies." This note is included in other published documents of the Company.

The note is reproduced below:

**Property, Plant and Equipment**

Property, plant and equipment are stated at original cost, including contracted services, direct labor and material, allowance for funds used during construction (AFUDC), and indirect charges for engineering, supervision and similar overhead items. All expenditures for maintenance and repairs of utility property, plant and equipment are charged to the appropriate maintenance expense accounts. A betterment or replacement of a unit of property is accounted for as an addition and retirement of utility plant. At the time of such a retirement, the accumulated provision for depreciation is charged with the original cost of the property retired and also for the net cost of removal. Also included in plant and equipment are assets under capital lease, which are stated at the present value of minimum lease payments.

AFUDC represents the cost of financing construction projects with borrowed funds and equity funds. While cash is not realized currently from such allowance, it is realized under the ratemaking process over the service life of the related property through increased revenues resulting from a higher rate base and higher depreciation expense. The component of AFUDC attributable to borrowed funds is included as a reduction to interest expense, while the equity component is included in other income. We determine the rate used to compute AFUDC in accordance with a formula established by the FERC. This rate averaged 8.9%, 8.7%, and 8.8%, for Montana for 2008, 2007, and 2006 respectively, and 8.8%, 8.7%, and 8.9% for South Dakota for 2008, 2007, and 2006 respectively. Interest capitalized totaled \$0.9 million for the year ended December 31, 2008, \$0.8 million for the year ended December 31, 2007 and \$1.0 million for the year ended December 31, 2006 for Montana and South Dakota combined.

We capitalize preliminary survey and investigation costs related to the determination of the feasibility of transmission or generation utility projects in other noncurrent assets. Upon commencement of construction, these costs are transferred to construction work in process, and upon completion, these costs will be transferred to utility plant in service. These costs totaled approximately \$6.7 million and \$1.8 million as of December 31, 2008 and 2007, respectively. Capitalized costs are charged to operating expense if the development of the project is no longer feasible.

We may require contributions in aid of construction from customers when we extend service. Amounts used from these contributions to fund capital additions were \$6.9 million for the year ended December 31, 2008 and \$14.6 million for the year ended December 31, 2007.

We record provisions for depreciation at amounts substantially equivalent to calculations made on a straight-line method by applying various rates based on useful lives of the various classes of properties (ranging from three to 40 years) determined from engineering studies. As a percentage of the depreciable utility plant at the beginning of the year, our provision for depreciation of utility plant was approximately 3.3%, 3.5%, and 3.4% for 2008, 2007, and 2006, respectively.

Depreciation rates include a provision for our share of the estimated costs to decommission three coal-fired generating plants at the end of the useful life of each plant. The annual provision for such costs is included in depreciation expense, while the accumulated provisions are included in noncurrent regulatory liabilities.

**NORTHWESTERN ENERGY - MONTANA OPERATIONS**  
**ALLOCATION METHOD**

The same allocation method has been followed in this application that was included in and was accepted by the Montana Public Service Commission in the electric rate application, Docket No. 83.9.67, Order No. 5051c.

**NORTHWESTERN ENERGY - MONTANA OPERATIONS**

The only overall plant allocation made is the apportionment of common utility plant to the Electric and Gas Departments.

For the test period, allocations of Common Utility Plant at December 31, 2008 were made to the Electric and Gas Departments based on the percentages for 2008.

The methods, procedures and significant data used are included in the following sheets which portray the percentage allocations for the Test Period.

**MEMORANDUM**

TO: File  
FROM: John Peters  
December 10, 2007  
RE: 2008 MONTANA ADMINISTRATIVE AND GENERAL ALLOCATION STUDY

The October 2007 period allocation study was completed December 10, 2007. The same criteria for both the General Office and Divisions was used as in prior studies. The results are:

**General Office Electric & Gas Allocation Study (October 2007)**

Factors used were:

1. Rate-Based Plant Balances (October 2007)
2. Customers (October 2007)
3. Operations Labor (12ME October 2007)

The results are:

Electric - 69%  
Gas - 31%  
Propane - 0%

**Division Allocation Study (May 2007)**

Factors used were:

1. Customers (by Division October 2007)
2. Distribution O&M (12ME October 2007)
3. Distribution Plant (by Division October 2007)

The results are:

	Electric	Gas
Billings Division.....	92%	8%
Bozeman Division.....	72%	28%
Butte Division.....	68%	32%
Great Falls Division.....	88%	12%
Havre District.....	75%	25%
Helena Division.....	71%	29%
Missoula Division.....	66%	34%
Kalispell District.....	0%	100%

**Common T&D (Segments) Allocation Study (October 2007)**

Factors used were:

1. O&M Labor (12ME October 2007)

The results are:

	Common Electric	Common Gas	Common Electric & Gas	Common Propane
Electric Transmission.....	24%		17%	
Electric Distribution.....	76%		52%	
<b>Subtotal-Electric.....</b>	<b>100%</b>	<b>0%</b>	<b>69%</b>	<b>0%</b>
Natural Gas Storage.....		3%	1%	
Natural Gas Transmission.....		37%	11%	
Natural Gas Distribution.....		60%	19%	
<b>Subtotal-Natural Gas.....</b>	<b>0%</b>	<b>100%</b>	<b>31%</b>	<b>0%</b>
Regulated Propane.....				100%
Unregulated Propane.....				0%
<b>Subtotal-Propane.....</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>