NorthWestern Energy
Electric and Natural Gas Utility
Statement N

NorthWestern Corporation, doing business as Northwestern Energy, provides electricity and natural gas to approximately 656,000 customers in Montana, South Dakota and Nebraska. We have generated and distributed electricity in South Dakota and distributed natural gas in South Dakota and Nebraska since 1923 and have distributed electricity and natural gas in Montana since 2002.

REGULATED ELECTRIC OPERATIONS

Our Montana regulated electric utility business consists of an extensive electric transmission and distribution network. Our service territory covers approximately 107,600 square miles, representing approximately 73% of Montana's land area, and includes a population of approximately 786,000 according to the 2000 census. We deliver electricity to approximately 332,500 customers in 187 communities and their surrounding rural areas, 15 rural electric cooperatives and in Wyoming to the Yellowstone National Park. In 2008, by category, residential, commercial and industrial, and other sales accounted for approximately 36%, 52%, and 12% of our Montana regulated electric utility revenue, respectively. We also transmit electricity for nonregulated entities owning generation facilities, other utilities and power marketers serving the Montana electricity market. The total control area peak demand was approximately 1,805 MWs, the average daily load was approximately 1,219 MWs, and more than 10.7 million MWHs were supplied during the year ended December 31, 2008.

Our Montana electric transmission system consists of approximately 7,000 miles of transmission lines, ranging from 50 to 500 kV, 272 circuit segments and approximately 125,000 transmission poles with associated transformation and terminal facilities, and extends throughout the western two-thirds of Montana from Colstrip in the east to Thompson Falls in the west. Our 500 kV transmission system, which is jointly owned, 230 kV and 161 kV facilities form the key assets of our Montana transmission system. Lower voltage systems, which range from 50 kV to 115 kV, provide for local area service needs. The system has interconnections with five major nonaffiliated transmission systems located in the WECC area, as well as one interconnection to a nonaffiliated system that connects with the MAPP region. With these interconnections, we transmit power to and from diverse interstate transmission systems, including those operated by Avista Corporation; Idaho Power Company; PacifiCorp; the Bonneville Power Administration; and WAPA.

Our Montana electric distribution system consists of approximately 21,200 miles of overhead and underground distribution lines and 336 transmission and distribution substations.

Electric Supply

Through the end of 2008, we purchased substantially all of our Montana capacity and energy requirements for electric supply from third parties. Our annual electric supply load requirements average approximately 730 MWs. We currently have under contract approximately 82% of the energy requirements necessary to meet our projected load requirements through June 30, 2009, with approximately 83% at fixed prices. For the period July 1, 2009 through June 30, 2010, we have under contract approximately 82% of our projected load requirements, with approximately 96 percent at fixed prices. This includes approximately 111 MWs from Colstrip Unit 4. Remaining customer load requirements are met with market purchases. Specifically, we have a seven-year power purchase agreement with PPL Montana for 325 MWs of on-peak supply and 175 MWs of off-peak supply through June 2010 and decreasing volumes thereafter through June 2014. We also purchase power under several QF contracts entered into under the Public Utility Regulatory Policies Act of 1978, which provide a total of 105 MWs of capacity. We have several other long and medium-term power purchase agreements including contracts for 135 MWs of wind generation and 5 MWs of seasonal base-load hydro supply. In December 2007, we filed a biennial Electric Default Supply Resource Procurement Plan with the MPSC which will guide future resource acquisition activities.

Renewable portfolio standards enacted in Montana require that a certain portion of our electric supply be obtained from renewable sources, including wind, biomass, solar and small hydroelectric. The requirements are currently 5%, increasing to 10% by 2010 and 15% by 2015. Approximately 8% of our electric supply requirements

for 2009 are from renewable resources. The amounts in excess of the requirements can be carried forward to future periods. In addition to the general renewable requirements, beginning in 2010, under a separate Community Renewable Energy Project provision, we are required to purchase output from community projects that total approximately 45 MWs in nameplate capacity.

Our electric supply purchases are being recovered through an electricity cost tracking process pursuant to which rates are adjusted on a monthly basis for electricity loads and electricity costs for the upcoming 12-month period. On an annual basis, rates are adjusted to include any differences in the previous tracking year's actual to estimated information, for recovery in the subsequent tracking year. The MPSC reviews the prudency of our electric supply procurement activities as part of the annual electric tracking filing.

REGULATED NATURAL GAS OPERATIONS

We distribute natural gas to approximately 179,200 customers in 105 Montana communities. We also serve several smaller distribution companies that provide service to approximately 31,500 customers. Our natural gas distribution system consists of approximately 4,000 miles of underground distribution pipelines. We transmit natural gas in Montana from production receipt points and storage facilities to distribution points and other nonaffiliated transmission systems. We transported natural gas volumes of approximately 41 Bcf, and our peak capacity was approximately 335,000 dekatherms per day during the year ended December 31, 2008.

Our natural gas transmission system consists of more than 2,000 miles of pipeline, which vary in diameter from two inches to 20 inches, and serve more than 130 city gate stations. We have connections in Montana with five major, nonaffiliated transmission systems: Williston Basin Interstate Pipeline, NOVA Gas Transmission Ltd., Colorado Interstate Gas, Encana and Havre Pipeline. Seven compressor sites provide more than 42,000 horsepower, capable of moving more than 325,000 dekatherms per day. In addition, we own and operate a pipeline border crossing through our wholly owned subsidiary, Canadian-Montana Pipe Line Corporation.

We own and operate three working natural gas storage fields in Montana with aggregate working gas capacity of approximately 16.2 Bcf and maximum aggregate daily deliverability of approximately 195,000 dekatherms.

We have nonexclusive municipal franchises to transport and distribute natural gas in the Montana communities we serve. The terms of the franchises vary by community, but most are for 30 to 50 years. During the next five years, 20 of our municipal franchises, which account for approximately 81,000 customers, are scheduled to expire. Our policy is to seek renewal of a franchise in the last year of its term.

Natural Gas Supply

We supply natural gas to customers that have not chosen other suppliers. Our natural gas supply requirements are fulfilled through third-party fixed-term purchase contracts and short-term market purchases. Our portfolio approach to natural gas supply enables us to maintain a diversified supply of natural gas sufficient to meet our supply requirements. We benefit from direct access to suppliers in the major natural gas producing regions in the United States, primarily the Rockies (Colorado), Mid-Continent, Panhandle (Texas/Oklahoma), Montana, and Alberta, Canada. These suppliers also provide us with market insight, which assists us in making procurement decisions. Our Montana natural gas supply requirements for the year ended December 31, 2008, were approximately 21 Bcf. We have contracted with several major producers and marketers with varying contract durations to provide the anticipated supply to meet ongoing requirements.

Natural gas is used primarily for residential and commercial heating. As a result, the demand for natural gas depends upon weather conditions. Natural gas is a commodity that is subject to market price fluctuations. Our gas supply purchases are also recovered through a gas cost tracking process, which provides for the adjustment of rates on a monthly basis to reflect changes in gas prices. On an annual basis rates are adjusted to include any differences in the previous tracking year's actual to estimated information, for recovery in the subsequent tracking year. The MPSC reviews the prudency of our gas procurement activities as part of this annual gas tracking filing.

We filed a Biennial Natural Gas Procurement Plan in December 2008. This Gas Plan provides the MPSC the blueprint we will follow in procuring natural gas supply to meet our gas supply needs and reliability requirements and the implementation of hedging strategies to reduce price volatility.