

NorthWestern[™] Energy

Delivering a Bright Future

TIME TO DE-LAWYER "QF WIND" NEGOTIATIONS

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Wind has an important and growing role on the NorthWestern Energy system. Over eight percent of the electricity provided by NorthWestern Energy to its customers currently comes from wind, with that amount expected to increase over time.¹ Another eleven percent of its electricity comes from non-wind Qualifying Facilities ("QFs").² Montana wind will most likely also play an important part in meeting the needs of the entire western United States for cost-effective renewable energy, as part of the effort to address climate issues and develop clean, domestic energy sources.

Cost-effective QF wind projects also may play a role in meeting the demand of NorthWestern's supply customers. The current litigious climate has been detrimental to the overarching goal of bringing cost-effective QF wind projects onto the system. It is time to *de-lawyer* the relationship between NorthWestern, small wind developers, and regulators. Accordingly, NorthWestern Energy is prepared to commit to and fund (at a reasonable level) a structured collaborative process to address key issues. The elements of such a process would include:

1. A *neutral facilitator* likely with experience addressing technical and commercial matters in a regulatory context. The facilitator will help develop "rules of the road," including clarifying participants' interests and their authority to negotiate and reach agreements. NorthWestern expects

¹ NorthWestern Energy's proposed Mill Creek Generating Station will provide necessary stability on the NorthWestern system, including over time, enabling the integration of intermittent resources such as wind.

² "Qualifying facilities" were first created by the 1978 federal Public Utility Regulatory Policies Act (PURPA) and Montana's "mini-PURPA." They are a legally separate group of electricity producers, which are either small-scale producers of commercial power or secondary producers which generate electricity for sale as a byproduct of other activities. When such an entity meets the Federal Energy Regulatory Commission's requirements for ownership, size and efficiency, utilities are required to purchase energy from them based on an "avoided cost" rate.

that the facilitator will be selected by consensus of the stakeholders and be acceptable to all parties.

2. *Lawyers out of the room.* While lawyers can be helpful designing a process, experience suggests success is most likely when the affected parties and subject matter experts (including Commission and Consumer Counsel staff) are the direct participants.
3. *Key issues addressed.* A candidate list of issues for such an effort would include:
 - a. Cost of firming wind, including required regulation services and back-up resources.
 - b. Cost and terms of interconnecting small wind projects to the NorthWestern system, including any required network system upgrades.
 - c. Preparation of a standard contract.
 - d. Appropriate contract price.
4. *Relevant technical analysis.* NorthWestern is prepared to fund a study addressing key issues affecting the costs associated with wind, relevant to a contract price, including but not limited to, integration and interconnection costs for QF projects.
5. *Creating Opportunity.* NorthWestern believes that a structured collaborative process will provide mutually-beneficial opportunities to both NorthWestern and developers in a way that has not been feasible in the current litigious environment. NorthWestern is willing to work with developers to provide, to the extent reasonably practicable, certain enhanced operational tools or incentives to encourage the development of viable, cost-effective projects that contribute to the overall quality or the management of NorthWestern's energy supply portfolio. For example, NorthWestern may be able to provide (or share an equitable portion of the cost of improving) metering on small projects in order to provide detailed data or adjust interconnection costs to encourage renewable

development in less-constrained areas of the NorthWestern transmission system. NorthWestern is willing to work with stakeholders to find innovative solutions to the existing issues, provided that there are both a balance of interests and benefits to all parties.

6. *Engagement:* NorthWestern proposes to work with all stakeholders in a dynamic process that will include: (1) a good faith effort by all parties to reach resolution; (2) the commitment of the parties to accept an active role in the decision making process; and, (3) working together to obtain regulatory approvals necessary to implement a resolution. Additionally, NorthWestern realizes that not all developers have had the resources to participate in the discussion related to key issues. NorthWestern would like to work with those stakeholders to ensure their interests are considered.

7. *Action:* Responsible parties have an interest in reaching timely resolution of key issues. To that end, NorthWestern suggests that any structured process have firm milestones to facilitate a final resolution of the outstanding issues over the next four to six months. The following is a proposed fixed schedule of in person and/or conference calls to move the process forward.

PROPOSED SCHEDULE

ACTIVITY	DATE/TIME
• Organizational/Scheduling Conference Call	• <i>E.g.</i> April 2009
• Two (2) In Person Meetings each Month	• Dates/Time to be determined
• Weekly Conference Call	• As Determined
• Ad-hoc Meetings or Conference Calls	• As Determined
• Regulatory Approvals	• As Determined
• Ultimate Resolution	• October 2009
• Implementation	• November 2009

NorthWestern Energy is prepared to work through this set of issues in good faith, rigorously, efficiently, and in a timely manner. NorthWestern hopes that potential counterparties will be prepared to do the same. It is in the interest of responsible parties to implement a structured collaborative process. Parties and the Montana Public Service Commission have expended substantial resources in litigating and adjudicating the key issues related to wind development. Yet there is little to show for the resources expended.³ Certain developers have not been able to bring projects onto the system, and NorthWestern has sunk deeper into the quicksand of regulatory uncertainty and cost. In NorthWestern's view, no party can continue to afford to expend significant resources based on the diminishing returns realized to-date. It is time to focus on the common interests between NorthWestern and developers to arrive, where possible at mutually acceptable resolution of key issues. The current litigious environment is expensive. It serves little purpose but to increase the distance between the parties and further defer ultimate resolution of the issues.

In the immediate future, NorthWestern Energy is prepared to host a working meeting to discuss the development of an acceptable process. All interested parties and stakeholders will be invited to attend.

³ In contrast, wind development has occurred in Montana (both for inclusion in the NorthWestern supply portfolio and otherwise) on the basis of more commercially-driven initiatives.