energy CONNECTIONS

August 2009

NorthWestern Energy
Delivering a Bright Future

in this issue...

Status of H.R. 2454

- ✔ Introduced: May 15, 2009
- ✔ Referred to Committee: View Committee Assignments at www.govtrack.us
- ✔ Reported to Committee: May 21, 2009
- ✔ Amendments: View Amendments at www.govtrack.us
- ✔ Passed House: June 26, 2009
- ✔ Introduced in Senate: July 6, 2009
- Referred to Committees
- Reported out of Committees
- Amendments
- Senate Vote
- Signed by President

Dear NorthWestern Energy Customers,

We at NorthWestern Energy want you to be aware that the U.S. Congress currently is working on an extensive piece of legislation intended to address significant concerns about climate change. We believe the legislation also has the potential to increase energy bills in our region significantly. On June 26, the U.S. House of Representatives passed the American Clean Energy and Security Act of 2009 (ACES), which is intended to reduce greenhouse gas emissions. In September, the Senate will consider the 1,400-page bill as well as other energy bills. Meanwhile, we are conducting extensive analysis to determine how the bill might affect our communities, our customers and our company.

The ACES Act, also called the Waxman-Markey Bill (H.R. 2454) named for its sponsors Representatives Henry Waxman (D-CA) and Ed Markey (D-MA), is complex and lengthy. It proposes – among many other things – to reduce greenhouse gas emissions over the next 40 years; to implement a cap and trade system to cap emissions of greenhouse gases and create a market to trade allowances to emit greenhouse gases; to implement a renewable resource standard that would require an increasing percentage of utility renewable energy resources and energy efficiency programs; and to promote carbon capture and sequestration development.

At NorthWestern Energy, we take our responsibilities to the environment and our customers very seriously.

- We currently obtain over 8 percent of our electricity in Montana from renewables, and are bringing on line our first wind plant in South Dakota, which will bring our South Dakota supply to 5 percent wind.
- We are expanding our energy efficiency program in Montana and will be ramping up energy efficiency programs in South Dakota and Nebraska.
- Our transmission plans are designed to allow wind development that will help reduce the entire region's dependence on fossil fuels.
- We participate in regional efforts to promote efficiency, and to pilot "smart grid."

In any climate change legislation, we suggest several provisions that we believe will help protect our customers as much as possible from significant increases in their cost of electricity and natural gas beyond what would otherwise be appropriate, while encouraging environmentally-appropriate energy production and development. We believe that no company should be enriched by receiving a disproportionate share of "allowances" to offset carbon dioxide, and that any benefits from a "cap and trade" system (as described in this newsletter) should go to customers.

This bill insert includes a summary of our detailed analysis and our positions on the Waxman-Markey Bill. We also will publish additional information reflecting the multiple perspectives on this complicated and important subject on our Web site, www.northwesternenergy.com. Please take some time to read this information. In addition, we encourage you to do your own research so you can make informed and balanced assessments concerning utility service, customer impacts, and environmental consequences.

Reliable utility service, reasonably-priced energy, and a clean environment need not be in conflict. By working together constructively, and based on good analysis, we can address all three. It is this same spirit of teamwork that will also allow us to continue providing the high degree of reliable energy services and customer care that is NorthWestern Energy.

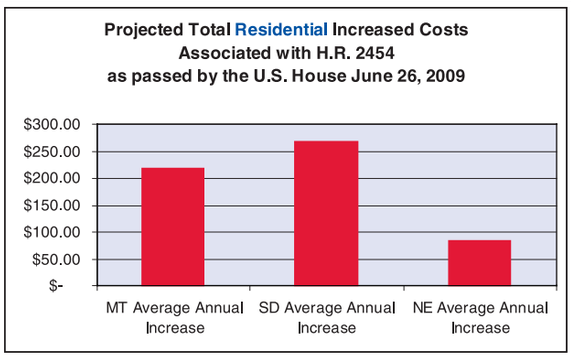
Sincerely,

Robert C Rowe

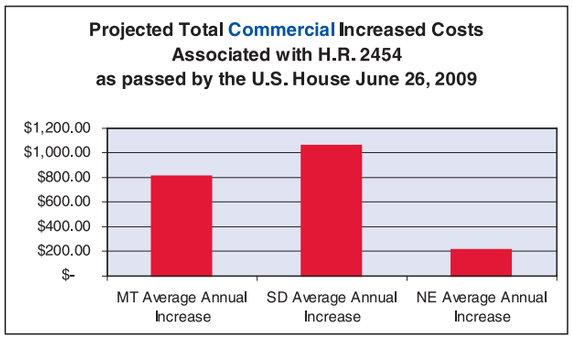
Bob Rowe
President and CEO

Cost of H.R. 2454 for Customers

Under the bill as it is today, NorthWestern Energy would receive approximately 40 percent less allowances than greenhouse gas emissions for its Montana, South Dakota and Nebraska customers. Having less allowances means NorthWestern would have to purchase allowances in a market that will have many participants, similar to a commodity market, and the price will be set by those traders. The cost of these purchases would flow to customers, causing significant increases in the price of natural gas or electricity beyond what would otherwise be required. ■



* Based on average electric and gas rates for NorthWestern Energy residential customers. Projected increases are based on 2012-2030 increases in CO_2 costs of $28/ton, Energy Efficiency Impacts, and Renewable Energy Impacts as proposed in the bill.
**Nebraska is gas-only.



* Based on average electric and gas rates for NorthWestern Energy commercial customers. Projected increases are based on 2012-2030 increases in CO_2 costs of $28/ton, Energy Efficiency Impacts, and Renewable Energy Impacts as proposed in the bill.
**Nebraska is gas-only.

Glossary of Terms

At over 1,400 pages, this bill is complex and full of technical terms and acronyms. Below are definitions for some of the commonly used terms:

Cap and trade system: Cap and trade is a regulatory scheme established by a governmental agency or international body used to control greenhouse gas emissions by setting a cap, providing a certain number of allowances to emit greenhouse gas emissions, and allowing trading of those allowances. A central authority (usually a government or international body) sets a limit or cap on the amount of a pollutant that can be emitted. Companies or other groups are issued emission permits and are required to hold an equivalent number of allowances (or credits) which represent the right to emit a specific amount. The total amount of allowances and credits cannot exceed the cap, limiting total emissions to that level. Companies that need to increase their emission allowance must buy credits from those who pollute less. The transfer of allowances is referred to as a trade.

Renewable biomass: Biomass is a renewable energy resource. It is derived from biological material that is a living, or recently living organisms, such as trees and plants. Biomass is commonly harvested plant matter used to generate electricity or produce heat. For example, forest residues (such as dead trees, branches and tree stumps), yard clippings and wood chips may be used as biofuel. It excludes organic material such as fossil fuel which has been transformed by geological processes into substances such as coal or petroleum. Using dead or diseased trees as a biofuel may be one significant way to help address the potential near-term environmental crisis associated with the "red trees" killed by pine beetle infestations.

Greenhouse gases: Greenhouse gases are gases in an atmosphere that absorb and emit radiation. Greenhouse gases naturally blanket the Earth. Common greenhouse gases in the Earth's atmosphere include water vapor, carbon dioxide, methane, nitrous oxide and ozone. Greenhouse gases are believed to greatly affect the temperature of the Earth and lead to climate change. Carbon dioxide, a byproduct of humans exhaling along with burning coal, oil and natural gas, accounts for a majority of the greenhouse gases measured in the atmosphere. Burning fossil fuels has significantly accelerated the amount of greenhouse gases in the atmosphere.

Renewable electricity standard: Under the energy bills being considered by Congress, qualifying renewable energy resources would be wind, solar, geothermal, specific types of biomass, marine and hydrokinetic energy, biogas and biofuels derived exclusively from eligible biomass, landfill gas, wastewater-treatment gas, coal-mine methane, hydropower projects built after 1992, and some waste-to-energy projects.

NorthWestern's Position on the Waxman-Markey Bill

NorthWestern is working to recommend changes that it believes would be consistent with the Bill's environmental commitment yet would help mitigate customer impacts and do more to facilitate development of supply and transmission infrastructure that will be essential for conversion to a more environmentally friendly resource base. The recommended changes also would eliminate the potential for any company or sector of society to receive a windfall at the expense of consumers. Any benefit from cap-and-trade allowances should go to the customers.

NorthWestern Energy is concerned about the following provisions in the bill:

- The allowance allocation formula under the greenhouse gas cap and trade system.
- The time period for phasing out the allowances.
- The lack of workable approaches to developing the transmission infrastructure necessary to support renewable resource development.
- A deficient renewable biomass definition that does not allow harvesting of beetle-killed trees from federal lands.

A more detailed description of NorthWestern Energy's recommended changes to the above provisions is available on our Web site. ■

Additional Resources

NorthWestern Energy is working to provide information to its customers. It is using its historical information to perform detailed – and factual – analyses of how the Waxman-Markey bill will affect our residential, commercial and industrial customers. Finally, we are sharing this information with stakeholders in the legislative process.

We encourage you to conduct your own research. Ask questions and seek answers so you can form your own opinion. Visit www.northwesternenergy.com for a list of links to additional resources and contact information for area Senators. To view the bill in its entirety, visit www.energycommerce.house.gov. ■

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