

Questions and Answers
On the American Clean Energy Security Act of 2009
(Waxman-Markey Bill H.R. 2454)
Prepared by NorthWestern Energy

Q: *What is the status of the Waxman-Markey Bill?*

1. Completed Steps
 - Introduced on May 15, 2009
 - Referred to Energy and Commerce Committee
 - Reported to House on May 21, 2009
 - Amended
 - Passed the House on June 26, 2009
 - Introduced in the Senate on July 6, 2009

2. Next Steps
 - The Senate may mark up the Waxman-Markey Bill or create a separate bill through referral to the six standing committees and their subcommittees that have jurisdiction over the climate change bill.
 - ▶ Environment and Public Works – Chair, Senator Boxer (D-CA)
 - ▶ Energy and Natural Resources – Chair, Senator Bingaman (D-NM)
 - ▶ Agriculture – Chair, Senator Harkin (D-IA)
 - ▶ Commerce – Chair, Senator Rockefeller (D-WVA)
 - ▶ Foreign Affairs – Chair, Senator Kerry (D-MA)
 - ▶ Finance – Chair, Senator Baucus (D-MT)
 - Committees will vote on or “report out” the bill with committee changes.
 - Senate will debate and amend the bill.
 - Senate will vote on the bill.
 - Conference Committee will reconcile any differences in the bill that passed the House and the one that passed the Senate.
 - House will vote.
 - Senate will vote.
 - President will consider the bill.

Q: *Where can I find a copy of the bill as passed by the House?*

You can find a copy of the bill by visiting the House of Representatives Committee on Energy and Commerce Web site:

http://energycommerce.house.gov/index.php?option=com_content&view=article&id=1633&catid=155&Itemid=55

Q: *What is NorthWestern Energy’s overall position on the Waxman-Markey Bill?*

NorthWestern Energy believes that there are many concepts in the Waxman-Markey Bill that are worthwhile. However, NorthWestern is asking Senators to consider changes that it believes would be consistent with the Waxman-Markey 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 make windfall profits at the expense of consumers.

NorthWestern also will evaluate other major pieces of climate and energy legislation. As the legislative process evolves, other proposals may arise that are more effective in attaining environmental goals while protecting customers.

Q: *What is NorthWestern Energy's position on climate change?*

At NorthWestern Energy, we take our environmental responsibilities seriously and work to reduce greenhouse gases through a mix of activities?

- We support development of renewable resources such as wind as a growing part of our overall approach to meeting electric generation needs. In Montana, we have a best-in-region 8 percent renewable electric supply. In South Dakota, we will be breaking ground in early August on our first wind project. When that project comes on line, 5 percent of our electricity in South Dakota will come from wind and other renewables.
- We encourage energy efficiency and conservation initiatives and are working with our regulators and other stakeholders to increase the programs we offer our customers. In Montana, we are working with stakeholders on policy initiatives to treat efficiency like other resources. In South Dakota, we are finalizing an aggressive efficiency plan that will make a wide range of cost-effective efficiency measures available to our South Dakota customers. That plan, to be filed with the Public Utility Commission, will then be modified for natural gas service in Nebraska.
- We use multiple means to ensure that our customers are aware of energy conservation. We provide not only training but also tools for them to conserve energy in their homes and businesses. We also support market transformation programs designed to promote the introduction of more efficient technologies in areas such as refrigeration, lighting, electric motors and many others.
- We are preparing a smart grid demonstration project to test new technologies that are believed by many to hold the potential for vastly more efficient utility delivery service including the introduction of customer demand response approaches.
- We are developing the transmission lines that will be essential to the development of renewable resources within our service territory.

Q: *In general, what provisions of the Waxman-Markey Bill are of particular concern to NorthWestern Energy?*

NorthWestern Energy is concerned about the following provisions in the Waxman-Markey Bill:

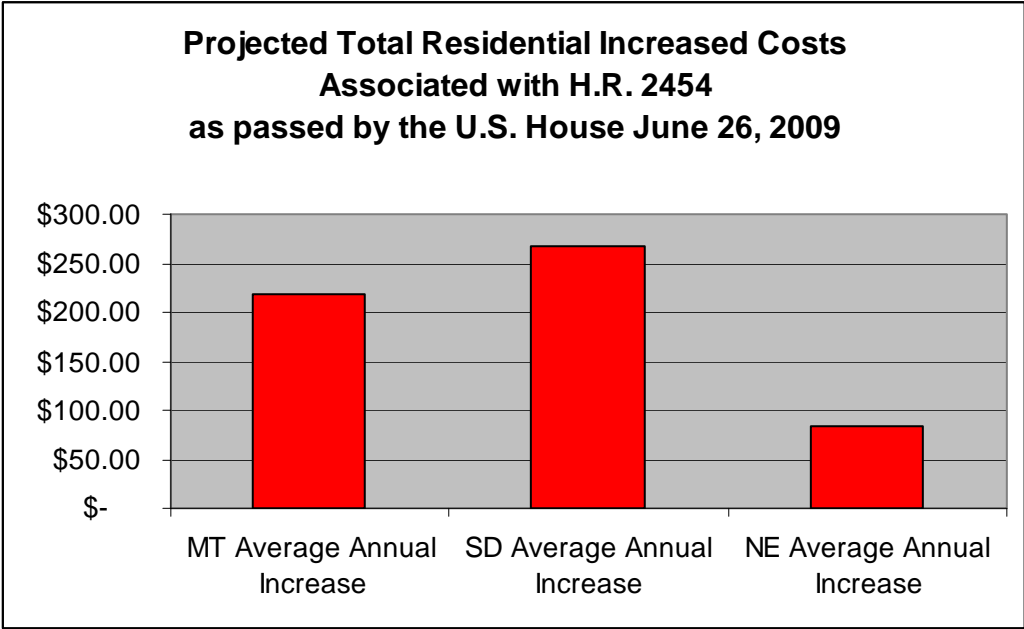
- The allowance allocation formula under the greenhouse gas cap-and-trade regime
- The time period of phasing out the allowances
- The lack of workable approaches to development of necessary transmission infrastructure to support renewable resource development
- A deficient renewable biomass definition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

(More details of NorthWestern Energy's recommended changes to the above provisions follow in subsequent questions.)

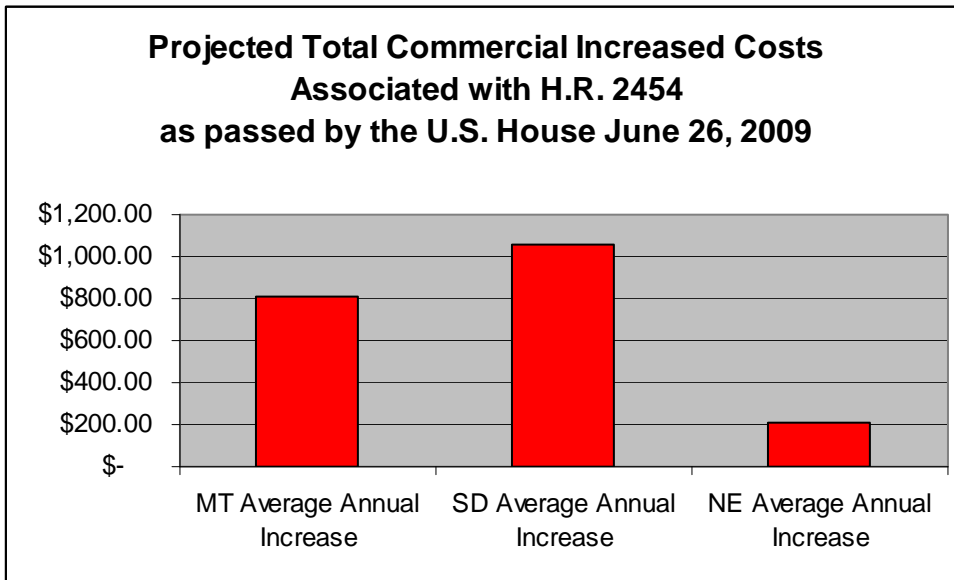
Q: What changes to the Waxman-Markey Bill does NorthWestern Energy support that would mitigate potential increases related to customer costs?

NorthWestern Energy believes climate change legislation should have a fair method for mitigating the costs to customers of any greenhouse gas cap-and-trade regime. The local utility or distribution company should not receive fewer allowances than its emissions of greenhouse gases. Under the Waxman-Markey 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. (See following charts.)

NorthWestern also believes the legislation should phase out the allowances over a period of time that does not cause sharply increased costs to customers. Under the Waxman-Markey Bill, allowances would phase out by 2030, but the cap for emissions would continue to ratchet down until 2050. By having allowances end in 2030, NorthWestern Energy will be required to purchase allowances to meet greenhouse emissions at a substantial cost to customers. The company would like to see the cap and allowances phased out over a similar timeline. In addition, NorthWestern wants allowances to benefit customers with the utility or other recipient serving as a conduit but not a beneficiary. This means that no entity should receive more allowances than it has emissions.



- Notes:
- These figures are based on average electric and gas rates for NorthWestern Energy residential customers. Projected increases are based on 2012-2030 increases in CO₂ costs of \$28/ton, Energy Efficiency Impacts and Renewable Energy Impacts as proposed in the Waxman-Markey Bill.
 - Nebraska is gas only.



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Q: *What changes to the Waxman-Markey Bill does NorthWestern Energy support related to transmission to support renewable resources?*

Development of renewable energy in the most cost-effective locations will require transmission capacity be made available to transport the renewable power to load centers. This new transmission capacity will require siting, cost allocation and planning provisions that encourage and support appropriate transmission development. This also will require creative methods to help build transmission lines at their most efficient voltage levels, to allow for future development of renewable resources. To the extent there is uncommitted capacity for development of a new line, NorthWestern Energy supports allowing a governmental entity like the Western Area Power Administration (WAPA) to purchase such capacity, hold it for a number of years and then sell it when the renewable resources are built and need transmission rights to move their energy to load. The bill does not address the uncommitted capacity concept and does not have siting, cost allocation or planning provisions that would support transmission development in the Western Interconnect.

NorthWestern generally finds current state siting practices to be fair and workable. The company supports stronger regional coordination, which will benefit all states and customers and is working actively to support the uncommitted capacity approach.

Q: What changes to the Waxman-Markey Bill does NorthWestern Energy support related to biomass renewable energy?

To promote renewable energy resources, NorthWestern Energy believes legislation should support the development of all technologies such as renewable biomass as an energy resource. The Waxman-Markey Bill discourages renewable biomass development by restricting the harvesting of beetle-killed trees from federal lands. The company supports the harvesting of beetle-killed trees from federal lands for use as a renewable biomass resource and to reduce the fuel for potentially devastating forest fires, which could have immediate environmental consequences.

Q: Has NorthWestern Energy completed its analysis?

NorthWestern Energy will continue to evaluate various proposals as the discussion of climate legislation progresses.

Q: What is NorthWestern Energy doing to advance its positions?

NorthWestern Energy is working to provide information to its customers, employees and retirees. It also is using its historical information about customer consumption, system loads and resources, and energy prices to perform detailed analysis of how the Waxman-Markey Bill will affect its residential, commercial and industrial customers. Finally, the company is sharing this information, concerns and suggestions with members of Congress and other stakeholders in this legislative process.

Q: Where can I get additional information?

The Internet provides a wealth of information presented by all sides of the Waxman-Markey Bill. For additional details on NorthWestern Energy’s position on this piece of legislation, contact Tom Knapp at Tom.Knapp@northwestern.com, Pat Corcoran at patrick.corcoran@northwestern.com or Pam Bonrud at pam.bonrud@northwestern.com.

Q: Is there anything I can do?

Conduct your own research, ask questions and seek answers, so you can form your own opinion. If you wish to contact your Senator, below is a list of names, addresses and telephone numbers. To send an e-mail, access the Web link below:
http://www.senate.gov/general/contact_information/senators_cfm.cfm

Montana	Nebraska	South Dakota
Max Baucus (D - MT) 511 Hart Senate Office Building Washington, Dc 20510 (202) 224-2651	Mike Johanns (R - NE) 404 Russell Senate Office Building Washington, DC 20510 (202) 224-4224	Tim Johnson (D - SD) 136 Hart Senate Office Building Washington, DC 20510 (202) 224-5842
Jon Tester (D – MT) 724 Hart Senate Office Building Washington, DC 20510 (202) 224-2644	Ben Nelson (D - NE) 720 Hart Senate Office Building Washington, DC 20510 (202) 224-6551	John Thune (R - SD) 493 Russell Senate Office Building Washington, DC 20510 (202) 224-2321



Glossary

Cap-and-Trade: 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 source. 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.

Smart Grid: An electric transmission and distribution system that integrates advanced technology functions into the nation's electric grid. As defined by the Department of Energy, a smart grid is an electricity delivery network modernized using latest digital/information technologies to meet key defining functions:

- Enabling active participation by consumers,
- Accommodating all generation and storage options;
- Enabling new products, services and markets;
- Optimizing assets and operating efficiently,
- Anticipating and responding to system disturbances in a self-healing manner;
- Operating resiliently against physical and cyber attack and natural disasters; and
- Providing the power quality for the range of needs in a digital economy.

Renewable Electricity Standard: A renewable electricity standard (RES) is a requirement that utilities in each state or nationally produce an increasing percentage of their electricity from renewable energy resources. Qualifying renewable energy resources are 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.

Uncommitted Capacity: To plan transmission lines, planners model a number of factors. One item is the amount of generation that could be developed near the line. The line is then sized to carry that expected generation. To build a transmission line, the utility must secure the necessary financing to pay for the costs of construction and get approval for a rate from the Federal Energy Regulatory Commission to generate the revenue required to pay the debt and provide a reasonable profit. Before the utility actually moves forward to build the line, it must make sure that there are sufficient transmission agreements from generators. If there are not, the utility has the options of building a smaller voltage line or not building a line. However, these two options do not allow for future generation to develop near the transmission line. To build a transmission line that will allow for future generation, the uncommitted capacity of the line must be purchased or the utility must receive revenue for it. Under NorthWestern's proposal, a governmental entity like Western Area Power Administration (WAPA) would purchase the uncommitted capacity for a set period of years, and as generation develops, sell the rights to the capacity. In this way the right-sized transmission line is built and renewable generation is allowed to develop in future years.

WAPA: The Western Area Power Administration that markets and delivers hydroelectric power and related services within a 15-state region of the central and western U.S. It is one of four power marketing administrations within the U.S. Department of Energy whose role is to market and transmit electricity from multi-use water projects to retail power distribution companies and public authorities. Its transmission system carries electricity from 57 power plants operated by the Bureau of Reclamation, U.S. Army Corps of Engineers and the International Boundary and Water Commission. Together, these plants have an installed capacity of 10,395 megawatts.