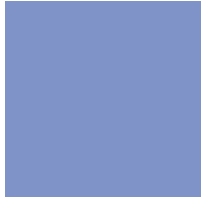


NWE presentation to
Energy and
Telecommunications
Interim Committee
January 24, 2008



NorthWestern[™]
Energy

Delivering a Bright Future

Where have we been?

- **Regulating Reserves – NWE is a unique balancing authority**
- **NWE contracts with 3rd party providers because NWE owns no regulating resources – and hasn't since the mid-80s**
 - » **Must be responsive to system control on a moment to moment basis**
 - ◆ **If supply > demand we send a signal to back down generation**
 - ◆ **If demand > supply we send a signal to pick up generation**
- **Historical need for 60 MW of regulating capacity**

Where have we been? Wind Integration

■ Traditional Needs

- » Historical Transmission Customer Resource (before wind integration)
- » Idaho Power contract – 60 MW

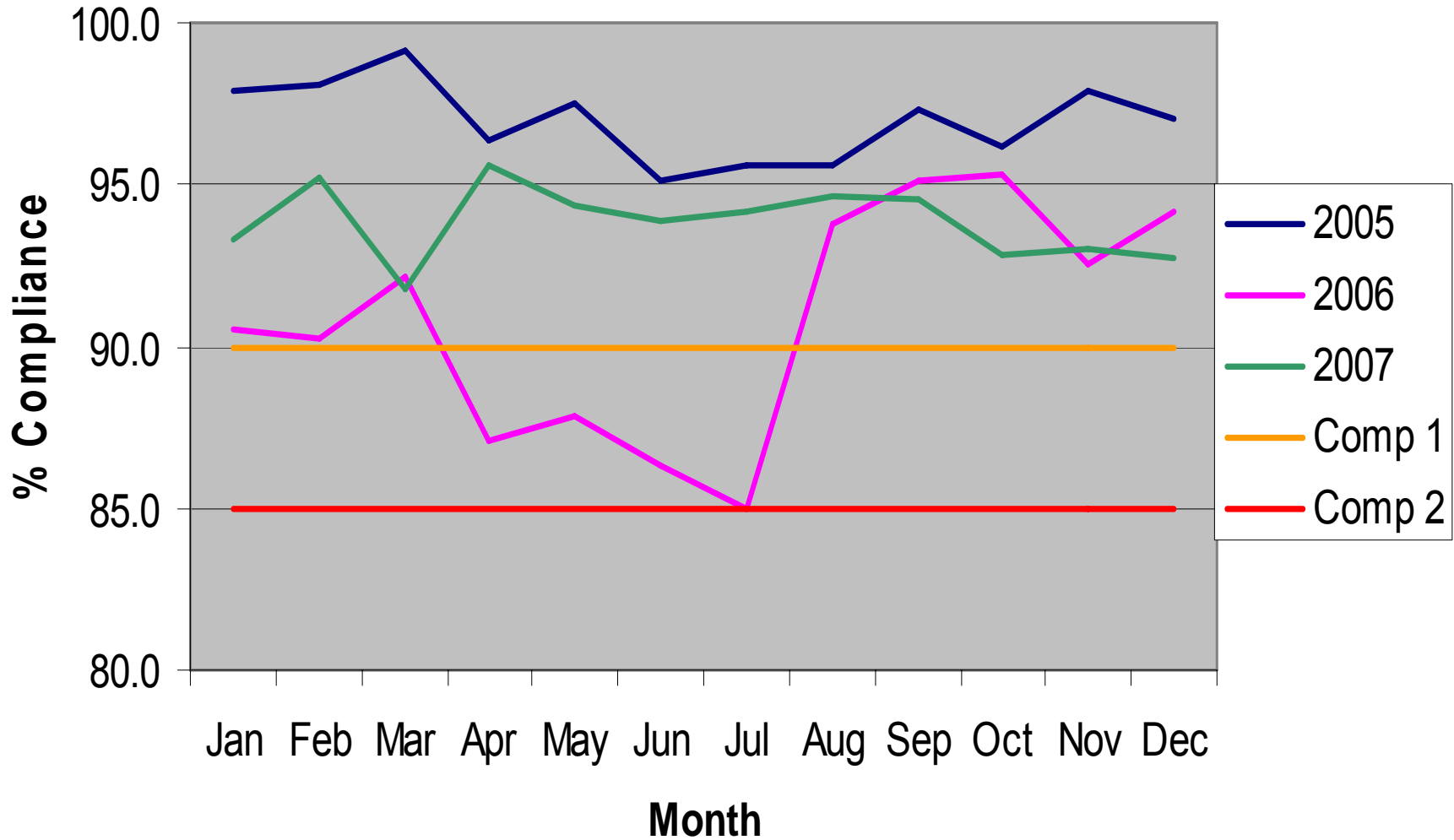
■ Wind Integration

- Requires much higher quantity of regulating reserves to integrate wind
 - » Purchased 25 MW of regulation for 135 MW of wind
 - » Compared to 60 MW of regulation for 1700 MW of load
- Regulating reserves to support the new wind generation
 - » 25 MW ~18% of default supply wind resource
- Costs are significantly increasing for this product....

Historic Need for Regulating Reserves

- **The measure of need is quite simple on NorthWestern's system**
- **Required by FERC/NERC to balance loads and Measures this balance over 10 minute periods of each month**
- **Prior to the startup and integration of Judith Gap, NorthWestern consistently met the standard**
 - » **Failed to meet standard in 4 months in 2006**
 - » **Failure to meet standards can lead to large civil penalties**

NWE CPS2 Performance



Request for Proposals

- **Getting more difficult to find Regulating Reserve products.**
- **Began RFP process in November 2006 for longer term needs beginning January 1, 2008. Existing Tx contracts expired December 31, 2007**
 - » **Very few proposals received 1/15/2007**
 - » **Transmission negotiated 2 agreements to replace Idaho Power**
 - » **Energy Supply extended arrangement with Avista for self provision of Regulating Reserves for Judith Gap Integration**

Description of Transmission Group Contracts

- **The new agreements replace what NWE had.**
- **Term of Agreements: One Year - January 1, 2008 – December 31, 2008**
- **Agreements filed and accepted by FERC late in 2007**
- **Costs increased by a factor of 4 for the products and there is no guarantee of continued availability**

Energy Supply Contract with Avista

- **Required for wind integration**
- **Term of Agreement: 13 Months – Dec 1, 2007
– Dec 31, 2008**
- **Agreement filed and accepted by FERC**

Next Steps - RFP for Service – beginning 1/1/2009

- On November 8, 2007, NWE issued a Request for Proposal for Regulating Reserve Service to begin January 1, 2009
- Very broadly distributed
- Currently evaluating responses
- Supply Evaluating Option of Equity Ownership of Regulation Resource
 - » Conclusions from recently completed RFP
 - ◆ Substantially higher prices
 - ◆ Product is becoming more scarce
 - ◆ Product available in shorter term time frames
 - » Hired consultant to perform critical evaluations. Tasks include:
 - ◆ Recommendations on technology, sites, plant economics and conceptual site plan
 - ◆ IF a decision to proceed makes sense, consultant will also fulfill other tasks