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April 27, 2010

Ms. Kate Whitney
Montana Public Service Commission
1701 Prospect Ave.
P. O. Box 202601
Helena, MT 59620-2601

RE: Docket D2009.5.63
NWE's Responses to PSC Set 1 001-005 Data Requests

Dear Ms. Whitney:

Enclosed please find one copy of NorthWestern Energy's Responses to PSC Set 1 001-005 Data Requests. The responses are being e-mailed, mailed to the service list in this docket and e-filed with the PSC.

Sincerely,

Connie Moran

Connie Moran
Administrative Assistant
Regulatory Affairs

NC/nc
Attachments
CC: Service List

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of NorthWestern Energy's Data Responses to PSC Set 1 (001-005) Data Requests in Docket No. D2009.5.63 will be e-filed with the PSC. It will also be e-mailed and served upon the following persons by, postage prepaid via first class mail, as follows:

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DATED this 27th day of April 2010.

Connie Moran

NorthWestern Energy
Docket D2009.5.63
Natural Gas Tracker

Montana Public Service Commission (PSC)
Set 1 (001-005)

Data Requests Served October 19, 2009

PSC-001
Regarding: Hedging Strategy
Witness: Kevin Markovich

In your prefiled testimony you list five main areas of NWE's hedging strategy:

1) Utilize storage for reliability and remove expected price volatility;
2) When applicable use storage to capture the difference between winter and summer priced natural gas and flow that value back as a reduction to rates;
3) Enter into transactions that convert index priced purchases to fixed or know values;
4) Set "hard target" prices to supplement other hedging techniques
5) Enter into fixed price purchases one, two, and three years forward to dampen volatility and protect against price spikes due to changes in market fundamentals.

Do you feel that these five areas are sufficient to supply your customers with reasonable and stable prices that reflect market conditions over time and dampen natural gas volatility?

RESPONSE:

Most definitely, NWE's natural gas hedging strategy takes advantage of physical resources, seasonal price differentials, risk-reducing procurement transactions, yearly price changes, and overall market opportunities to produce a blended price to consumers that is stable, transparent, and reflective of market conditions over time.

PSC-001 (cont'd)

This strategy reduces risk in that certain components offset or complement others. During periods of rising prices the 1, 2, and 3 year previous purchases help keep rates low. During periods of declining prices, the amount that is still subject to market prices allows the rates to move downward with the market. At all times the rate charged to consumers is more stable than if prices were either 0% or 100% exposed to the market.

The components that make up NWE's hedging strategy must be viewed collectively and not separately, as each has its own value depending on market price movements. To pick each component apart and attempt to value it on a stand alone basis is senseless: in a properly diversified portfolio the components that counteract each other are the exact way in which overall risk is reduced.

The Procurement Plan that NWE has been following for the past few years has worked exactly as planned. It has provided rates that are reasonable, stable and reflective of market conditions over time, and it should continue to be followed in its current form.

NorthWestern Energy
Docket D2009.5.63
Natural Gas Tracker

Montana Public Service Commission (PSC)
Set 1 (001-005)

Data Requests Served October 19, 2009

PSC-003

Regarding: Hard Target
Witness: John Smith

You state in your prefiled testimony that for the first time in April of 2009, NWE was able to trigger a hard target. (JMS-9, Line 22) Were any other hard targets met in 2009 and what does this mean to a typical residential customer's winter bill?

RESPONSE:

No other hard targets were triggered in 2009.

This hard target was achieved by fixing the price at $3.1577/Dkt that was paid on approximately 3.5 Bcf of natural gas purchased during the 2009 injection season. It is impossible to determine this transaction impact on a typical residential customer's winter bill because assumptions would have to be made as to the cost of the gas and the timing of when this gas otherwise would have been injected into storage. The result for all customers was fixed price protection at $3.1577 per Dkt on 3,500,000 Dkt, which represents 25% of NWE's annual non-hedged volume. By fixing the price on this volume, NWE's customer's were protected if prices increased during the injection season.

PSC-002

NWE Natural Gas Commidty Rates

@	Commodity Rate/Dkt
07/01/03	$4.9817
08/01/03	$4.8003
09/01/03	$4.6721
10/01/03	$4.5092
11/01/03	$4.6521
12/01/03	$4.3182
01/01/04	$4.5695
02/01/04	$4.9949
03/01/04	$4.9445
04/01/04	$5.1452
05/01/04	$5.5331
06/01/04	$5.9314
07/01/04	$5.9182
08/01/04	$5.6665
09/01/04	$5.7654
10/01/04	$5.3951
11/01/04	$6.3053
12/01/04	$6.1760
01/01/05	$6.0333
02/01/05	$5.7844
03/01/05	$5.9640
04/01/05	$6.7932
05/01/05	$6.9957
06/01/05	$6.5109
07/01/05	$6.5109
08/01/05	$6.5109
09/01/05	$7.9205
10/01/05	$8.9142
11/01/05	$9.7656
12/01/05	$8.6101
01/01/06	$10.2612
02/01/06	$8.5306
03/01/06	$7.5647
04/01/06	$7.2196
05/01/06	$7.5216
06/01/06	$7.5450
07/01/06	$7.5564
08/01/06	$6.7163
09/01/06	$6.6501
10/01/06	$6.6253
11/01/06	$6.2014
12/01/06	$6.5340
01/01/07	$6.4749
02/01/07	$6.1064
03/01/07	$6.7587
04/01/07	$5.9562
05/01/07	$6.9810
06/01/07	$6.1860
07/01/07	$7.9879
08/01/07	$7.0560
09/01/07	$7.1348
10/01/07	$6.9196
11/01/07	$6.9215
12/01/07	$7.0607
01/01/08	$6.8789
02/01/08	$7.4901
03/01/08	$8.2562
04/01/08	$8.4666
05/01/08	$9.1245
06/01/08	$11.6119
07/01/08	$10.6309
08/01/08	$10.7688
09/01/08	$8.7996
10/01/08	$8.0853
11/01/08	$7.5298
12/01/08	$7.4838
01/01/09	$6.8293
02/01/09	$6.8293
03/01/09	$6.6826
04/01/09	$5.5712
05/01/09	$5.5177
06/01/09	$5.1227
07/01/09	$5.7562
08/01/09	$5.1580
09/01/09	$5.2768
10/01/09	$5.0977
11/01/09	$5.5561
12/01/09	$5.3711
01/01/10	$5.2219
02/01/10	$5.5250
03/01/10	$5.2885
04/01/10	$4.9738
05/01/10	$3.7374

NorthWestern Energy
Docket D2009.5.63
Natural Gas Tracker

Montana Public Service Commission (PSC)
Set 1 (001-005)

Data Requests Served October 19, 2009

PSC-002

Regarding: Natural Gas Prices
Witness: John Smith

In prefiled testimony you state that natural gas in North America has fallen dramatically in the last ten months. (JMS 9, Line 1) Do you feel that NWE's Natural Gas Procurement Plan is sufficient to capture this reduction in prices for your customers or are additional hedges needed? Please explain beyond a yes or no answer.

RESPONSE:

On Line #1 of Page 9 of my testimony I was commenting on the decline in Natural Gas Prices.

As stated in Kevin Markovich's response to PSC-001, NWE's Natural Gas Procurement Plan acts as a portfolio approach for the acquisition of Natural Gas and the price related risks in the natural gas commodity marketplace. The 3-year fixed price hedges protect customers from price fly-ups during times of dramatically increasing prices, while the portion of the portfolio still priced at index allows NWE's rate to decline during dramatic price decreases. To illustrate this point, please see the attached spreadsheet which lists NWE's monthly natural gas commodity rate in $/Dkt from July 2003 through May 2010. Please note that the May 2010 rate is $3.7374/Dkt. This is the lowest $/Dkt commodity rate since NWE started to track the monthly commodity rate in July 2003. NWE's Natural Gas Procurement Plan has allowed the commodity rate to decline during these times of dramatic price decreases for natural gas.

PSC-004

Regarding: Long Term Fixed Price Implemented
Witness: John Smith

In your prefiled testimony you state that you now have the three-year hedge of long term fixed prices implemented. During the period of high natural gas prices you state that the 12-month value of hedges was at a positive $10.9 million. Currently, at low natural gas prices, the 12-month look forward with the three-year hedge results in a value of a negative $13.2 million. (JMS-9, lines 8-18) Given the swing in value between high and low periods of natural gas prices do you feel the NWE's Natural Gas Procurement Plan is working as you envisioned? Does the three-year fixed price hedge provide price stability to Montana consumers? If natural gas prices rise in the future, will the impact of the three-year layering in of fixed price contracts protect Montana consumers from those rising prices? Is the absolute price risk greater on the upside versus the downside in natural gas?

RESPONSE:

These answers will be segmented to respond to each question:

1. Yes, the Natural Gas Procurement Plan is working as NWE envisioned.

2. Yes, the 3-year fixed price hedges provide price stability to Montana consumers during times of rapidly increasing prices.

3. Yes, the 3-year fixed price hedges will protect Montana consumers from rising prices above the fixed price levels of the hedges.

4. Right now, with prices at very low levels, the price risk is greater on the upside for natural gas.

NorthWestern Energy
Docket D2009.5.63
Natural Gas Tracker

Montana Public Service Commission (PSC)
Set 1 (001-005)

Data Requests Served October 19, 2009

PSC-005

Regarding: Procurement Plan Changes
Witness: Kevin Markovich

In your prefiled testimony you state the NWE filed its initial Abbreviated Natural Gas Procurement Plan on March 15, 2006, and NWE filed its first Natural Gas Biennial Procurement Plan on December 14, 2006. (KJM-4, Lines 23 to 30) You go on to state that NWE monitors its procurement activities to ensure that results are consistent with the overall goals that have been established. You further state that should new opportunities arise or products be discovered that allow NWE to meet procurement goals in a more efficient and effective manner they will be discussed and analyzed with stakeholders such as the Commission and the Montana Consumer Counsel staff, and if they appear viable they will be incorporated in the next biennial Procurement Plan. (KJM-6, Lines 9 to 16) Has NWE discovered any improvements or efficiencies that it has incorporated or plans to incorporate into its Procurement Plan? Please explain.

RESPONSE:

Yes. While the fundamental structure of the hedging strategy has remained intact, the various components have been adjusted to provide for different desired outcomes. The original Procurement Plan called for 1, 2, and 3 year forward purchases totaling 9 Bcf (45% of yearly supply once they were fully implemented) but in the next Plan that volume was reduced to 6 Bcf (30% of total yearly supply) because the 9 Bcf did not allow for adequate flexibility in capturing summer/winter seasonal price spread differentials. In addition, the original Plan called for a structured level of summer hedges, PSC-005 (cont'd)

but the subsequent Plans have allowed for more flexibility in determining when and if summer hedges will be implemented.

Also, the Plan called for a final layer of 1, 2, and 3 year hedges to be implemented in December 2009 but at that time NWE believed the market was temporarily inflated and that forward prices would most likely come down in the near term. NWE did not execute the hedges in December 2009 as the Plan called for and instead waited until the end of January 2010 to do so. This delay in implementation provided substantial savings to ratepayers as the market did in fact turn downward and the hedges were put in place at lower price than what was available in 2009.

The Plan is structurally solid; the implementation of it is and always should be subject to refinement based on information known at the time.