

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE MONTANA PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER OF NORTHWESTERN) UTILITY DIVISION
ENERGY, Annual Application for Approval)
of Monthly Gas Cost Tracker True-Up, Projected) DOCKET NO. D2009.5.63
Gas Costs, and Gas Transportation Balance)

In the Matter of NorthWestern Energy's)
Application For: (1) Unreflected Gas Cost Account) DOCKET NO. D2010.5.49
Balance and Projected Gas Cost; and (2) Gas)
Transportation Adjustment Clause Balance)

**STIPULATION AND SETTLEMENT AGREEMENT OF NORTHWESTERN
ENERGY AND THE MONTANA CONSUMER COUNSEL**

NorthWestern Corporation d/b/a NorthWestern Energy ("NorthWestern" or "NWE"), Applicant in the above-captioned Dockets, and the Montana Consumer Counsel ("MCC") hereby submit to the Montana Public Service Commission ("Commission") this Stipulation and Settlement Agreement ("Stipulation") as a proposed resolution of all issues presented within these Dockets. NorthWestern and MCC, referred to herein individually as "Party" and collectively as the "Parties", desire to settle their disputes in these contested case proceedings as set-forth herein.

I. Background

In Docket No. N2008.12.138 NorthWestern filed with the Commission its Natural Gas Biennial Procurement Plan on December 12, 2008.

On February 2, 2009, NorthWestern and MCC filed a Joint Motion to vacate the hearing in Docket D2008.5.44 which was NWE's 2008 Annual Application for Approval of Monthly Gas Cost Tracker True-up, Projected Gas Costs, and Gas Transportation Balance. The agreement to vacate the Gas Tracking Case Hearing was based on the following agreements:

1. NWE would prepare exhibits updating the calculation of fixed price variance versus index price variance through December 2008 and

estimates for the period January through June 2009 to reflect actual data and these updated exhibits were to become part of the record in Docket D2008.5.44.

2. NWE and MCC would engage in meaningful discussions relating to the volumes of fixed price purchases for the biennial procurement plan to be implemented for 2010 through 2012.
3. The procedural schedule in Docket No. N2008.12.138 would be amended to allow the MCC the time it required to prepare comments that reflect its position and the outcome of the discussions between itself and NWE regarding fixed price purchases.
4. The procedural schedule in Docket No. N2008.12.138 would also be revised to include a hearing, not to be conducted as a contested case hearing pursuant to Mont. Code Ann §2-4-101 et seq., where NWE, the MCC, and other interested persons who have filed comments and the public may offer comments to the Commission, subject to any reasonable limitations imposed by the Commission.

On May 26, 2010, a public hearing was held in Docket N2008.12.138 at the Public Service Commission building in Helena, MT. Both NorthWestern and MCC offered comments after having filed written comments prior to the hearing. Major topics at that hearing were fixed price versus index pricing, as well as the possible use of Natural Gas Call Options as an alternative hedging tool for gas supply price volatility mitigation.

Since the procurement plan hearing, MCC and NorthWestern have continued to discuss the index versus fixed price issue, and the possible use of Natural Gas Call Options, as an alternative hedging tool for gas supply price volatility mitigation. The parties have reached a settlement that would assist the Commission in finalizing its comments in Docket No. N2008.12.138. This settlement and the Commission comments will be utilized by NWE in preparation of its 2010 Biennial Procurement Plan.

Both NorthWestern and the MCC also intend and request that Docket No. D2009.5.63 and Docket No. D2010.5.49 be settled and resolved as set forth below.

II. STIPULATION AND AGREEMENT

The Parties agree as follows:

1. NorthWestern will reduce its fixed price swap activity to a maximum of 2 million Dkt per year. For the time period covered by the 2010 natural gas biennial procurement plan, additional swaps will only be done for the heating season months of November to March. The transition will be handled in the following manner:
 - a. No additional swaps will be entered into for the 2010/2011 tracking period;
 - b. For the 2011/2012 tracking period, in order to reach a heating season swaps quantity of 2 million Dkt, additional November - March swaps will be necessary, unless otherwise limited, in the amount of 2,275 Dkt/day, which would equate to a total volume of 343,525 Dkt. 100% of the 2011/2012 swaps can be acquired any time prior to the 2011/2012 heating season;
 - c. For the 2012/2013 tracking period, in order to reach a heating season swaps quantity of 2 million Dkt, additional November - March swaps will be necessary, unless otherwise limited, in the amount of 7,765 Dkt/day, which would equate to a total volume of 1,172,515 Dkt. 100% of the 2012/2013 swaps can be acquired any time prior to the 2012/2013 heating season; and
 - e. For the 2013/2014 tracking period, 100% of the existing annual swaps will be expired prior to the heating season. Therefore, the entire 2 million Dkt will need to be acquired for that November - March time period. This will result, unless otherwise limited, to a total daily volume of fixed price swaps equal to 13,245 Dkt/day for the period November through March of each year.
2. NorthWestern will not enter into fixed price swaps when the fixed price is greater than \$7.00/Dkt. If fixed price swaps prices rise above \$7.00 per Dt, NWE's future November - March swaps may not reach the 2 million Dkt target quantity. The parties to this stipulation can agree to modify this price cap.
3. NorthWestern will document its analysis and decision making process associated with the timing and execution of the fixed price swaps. This documentation will include fundamental analysis of market conditions, trends, weather, and other relevant factors, but it must be noted that this analysis in no way assures that the transaction(s) being contemplated will result in overall lower costs to ratepayers. In addition, NWE agrees during the first year of its 2010 biennial natural gas procurement plan it will survey other U.S. local distribution companies to determine the extent of their hedging activity and the types of hedges that are utilized. NorthWestern will

use this information in the development and the presentation of the 2012 natural gas procurement plans.

4. To date, fixed price swaps, in addition to the use of storage, are the primary hedging tool that NorthWestern has included in its natural gas procurement plans and implemented on an annual basis. NWE and the MCC agree that when gas supply prices are relatively low, the mark-to-market risk of fixed price swaps is also relatively low, in comparison with periods when gas supply prices are relatively high. NWE and the MCC also agree that when gas supply prices are relatively high, mark-to-market risk increases, but the higher level of mark-to-market risk can be mitigated by the use of natural gas call options as an alternative to swaps as a hedge against gas supply price volatility.
5. NWE concurs, consistent with MCC representations in recent regulatory proceedings, that in an unexpected downward price moving natural gas market, a natural gas call options hedging strategy will tend to provide lower gas supply costs, compared to an equivalent quantity strategy using fixed price swaps. The parties also agree that in an unexpected upward price moving natural gas market, a natural gas call options hedging strategy will tend to provide higher gas supply costs compared to an equivalent quantity strategy using fixed price swaps.
6. A recent study prepared by and provided to NWE by a counter party indicates that natural gas call options would have cost less than fixed price swaps during the period of time covered by NWE's fixed price swaps transactions. Accordingly, the fixed price swaps entered into by NWE in accordance with its Natural Gas Procurement Plan have resulted in increased cost. This occurred because NWE's swaps were done at relatively high expected fixed price levels, with corresponding high levels of mark-to-market risk, and actual gas supply market prices declined to unexpected lower levels. NWE and MCC agree that during periods of high expected gas supply prices a natural gas call options strategy has less mark-to-market risk than a gas price swaps strategy.
7. When NorthWestern files its 2010 Biennial Natural Gas Procurement Plan it shall include a detailed plan for a two-year study on the use of natural gas call options versus fixed price swaps. This study will be intended to analyze all areas that the Commission would need to consider to make the decision whether or not NWE should include natural gas call options as an additional available hedging tool under the 2012 Biennial Natural Gas Procurement Plan.

8. NorthWestern has an ongoing real-time obligation to evaluate the natural gas procurement plan in light of fundamental changes in the natural gas marketplace, both locally and globally, and changes to external metrics that might impact the natural gas marketplace. NWE understands that it needs to remain vigilant and flexible in regard to execution and modification of the Plan.
9. The Parties agree that NorthWestern's Tracker Applications in Docket No. D2009.5.63 and Docket No. D2010.5.49 should be approved as filed with the Commission and as updated to reflect actual data for all twelve months in both dockets.
10. The Parties agree that this Stipulation shall become effective upon issuance of a final order by the Commission in both Docket No. D2009.5.63, and Docket No. D2010.5.49.
11. The Parties' entry into this Stipulation shall not be deemed to constitute acknowledgement by either Party of the validity of any particular regulatory theory or ratemaking principle. Furthermore, neither Party shall be deemed to be bound by any position asserted by any other Party, and no finding of fact or conclusion of law, other than those agreed to herein, shall be deemed to be implicit in this Stipulation.
12. The entry of an order by the Commission approving this Stipulation shall not be deemed to work as any estoppel upon either Party or to otherwise establish or create any limitation on or precedent of the Commission.
13. This Stipulation shall not become effective and binding upon the Parties and shall be of no force and effect unless and until accepted and approved by the Commission as to all of the terms and conditions contained herein. If the Commission fails to approve this Stipulation as agreed to herein by the Parties, either in whole or in part, or if the Commission adds or removes any terms or conditions not agreeable by the Parties, either Party shall, at its sole option, have the right to withdraw from this Stipulation with all of its rights reserved.
14. The Parties hereby acknowledge that this Stipulation is the result of a voluntary, negotiated settlement between the Parties pursuant to ARM § 38.2.3001, and agree that this Stipulation, inclusive of the compromises and settlements contained herein, is in the public interest.

15. This Stipulation may be executed in one or more counterparts and each counterpart shall have the same force and effect as an original document, fully executed by the Parties. Any signature page of this Stipulation may be detached from any counterpart of this Stipulation without impairing the legal effect of any signatures thereon, and may be attached to another counterpart of this Stipulation identical in form hereto but having attached to it one or more signatures page(s).

IN WITNESS WHEREOF, the Parties hereto have executed this Stipulation this 29 day of ~~September~~, 2010.
OCTOBER

Montana Consumer Counsel

By: _____
Robert Nelson
Montana Consumer Counsel

NorthWestern Corporation

By: 
David G. Gates
Vice President – Wholesale Operations

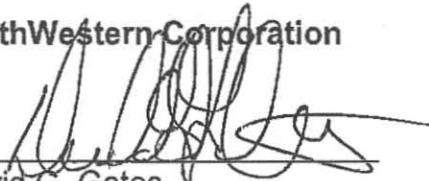
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of NorthWestern Energy's Stipulation and Settlement Agreement of NorthWestern Energy and The Montana Consumer Counsel in Docket No. D2010.5.49 and D2009.5.63 Natural Gas Tracker 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 2nd day of November 2010.

