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May 19, 2011

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

RE: Docket No. D2010.5.50
Electric Supply Tracker
PSC Set 1 Update to PSC-021a

Dear Ms. Whitney

Enclosed for filing is one copy of NorthWestern Energy's updated response to PSC-021a. This updated response will be efiled at the PSC website. The hard copy will be mailed to the service list in this Docket this date.

Should you have questions please contact Joe Schwartzenberger at 406 497-3362.

Sincerely,

A handwritten signature in black ink that reads "Nedra Chase".

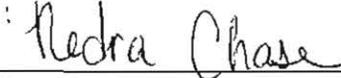
Nedra Chase
Administrative Assistant
Regulatory Affairs

NC/nc
CC: Service List

CERTIFICATE OF SERVICE

I hereby certify that a copy of NorthWestern Energy's ("NWE") Updated Response to PSC-021a in D2010.5.50 has been efiled with Montana Public Service Commission (PSC) and has been delivered to the PSC and Montana Consumer Counsel (MCC) on this date.

Date: May 19, 2011



Nedra Chase
Administrative Assistant
Regulatory Affairs

A. Service List D2010.5.50

Nedra Chase
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Butte MT 59701

Robert Nelson
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40 E Broadway
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1601 N. Kent Ste 1104
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NorthWestern Energy
Docket D2010.5.50
Electric Supply Deferred Cost Account Balance
and
Projected Electric Supply Cost

Montana Public Service Commission (PSC)
Set 1 (001-025)

Data Requests received August 4, 2010

PSC-021

Regarding: Resource needs, resource procurement
Witness: Fine

- a. Please provide a copy of NWE's most recent electricity supply hedging strategy.
- b. Please provide NWE's energy load and resource balance, on a monthly basis, for the upcoming two tracker periods ('10-'11 and '11-'12).
- c. Please provide NWE's peak demand load and resource balance, on a monthly basis, for the upcoming tracker period ('10-'11 and '11-'12).
- d. Please describe all RFPs or other competitive resource procurements planned and or tentatively planned in the next two tracking periods.
- e. Please list all competitive resource solicitations NWE has issued in the last 5 years and indicate whether entities in NWE's Qualifying Facility (QF) queue were invited to participate in those solicitations.

RESPONSE:

- a. NorthWestern believes certain information contained in the electricity supply hedging strategy is protectable and this information has been redacted in the attached public version. NorthWestern has filed a motion for protection of this information. Once an applicable protective order has been issued by the MPSC, NorthWestern will provide the non-public version of this report to the MPSC and intervenors that have provided a properly executed non-disclosure agreement.
- b. The forecasted load and resource balance for the 2010/2011 tracking period has been extracted from Exhibit__(FVB-3)_10-11 and supporting work papers included in folder PSC-001 on the CD attached to PSC-001 in the following table. The values for the 2011/2012 tracking period have not been compiled but are expected to be similar to the 2010/2011 period.

NorthWestern Energy
Docket D2010.5.50
Electric Supply Deferred Cost Account Balance
and
Projected Electric Supply Cost

Montana Public Service Commission (PSC)
Set 1 (001-025)

Data Requests received August 4, 2010

PSC-021 cont'd

<u>Month</u>	<u>Total Load</u>	<u>Total Resources</u>
Jul-10	572,625	526,907
Aug-10	547,258	491,286
Sep-10	480,290	389,986
Oct-10	500,952	419,837
Nov-10	523,468	473,268
Dec-10	590,439	581,002
Jan-11	597,272	478,692
Feb-11	520,635	433,037
Mar-11	531,473	473,231
Apr-11	479,880	374,281
May-11	485,364	411,271
Jun-11	503,197	447,383
	6,332,854	5,500,182

- c. The forecasted peak load and resources for the 2010/2011 tracking period has been extracted from Exhibit__(FVB-3)_10-11 and supporting work papers included in folder PSC-001 on the CD attached to PSC-001 in the following table. The values for the 2011/2012 tracking period have not been compiled but are expected to be similar to the 2010/2011 period.

<u>Month</u>	<u>Peak Load</u>	<u>Resource Cap.</u>
Jul-10	1,125	967
Aug-10	1,007	942
Sep-10	949	875
Oct-10	893	877
Nov-10	1,023	897
Dec-10	1,135	901
Jan-11	1,179	719
Feb-11	1,004	713
Mar-11	1,038	705
Apr-11	850	590
May-11	850	629
Jun-11	976	688

NorthWestern Energy
Docket D2010.5.50
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PSC-021 cont'd

- d. NorthWestern intends to issue an RFP for electric supply in the Fall of 2010.
- e. NorthWestern's Montana Energy Supply conducted an energy auction in November 2006, issued requests for proposals in October 2008 and May 2009, and issued a renewable RFP in August 2008 with another renewable Request for Information (RFI) in August, 2009. Any entity capable of providing the products being solicited was eligible to participate and no one, including QF facilities, was discouraged from participation in these opportunities.

UPDATED RESPONSE: (September 28, 2010)

- a. The attached protected portions of Appendix 1 Energy Supply Hedging Strategy filed under NorthWestern Energy's Electric Procurement Plan Docket N2010.6.57 are being provided under Protective Order No. 7093b, to the Montana Public Service Commission (MPSC) and the Montana Consumer Counsel (MCC).

UPDATED RESPONSE: (May 19, 2011)

- a. During testimony given at the tracker hearing on January 19, 2010, NorthWestern disclosed certain information that had previously been granted protection in this docket and provided under Protective Order No. 7093b. This information as described in NWE's Motion for Protective Order and included in Order 7093b, is information that "details specific percentages of forecasted electric supply that will be purchased by NorthWestern and the timelines on which the purchases are to occur".

Although Docket D2010.5.50 is closed and Final Order 7093c has been issued, NWE is updating this data request response to document that the information described above is no longer considered protected information subject to Protective Order 7093b.

Attached are both the original and a revised Unprotected Version of Appendix 1 Energy Supply Hedging Strategy, which is part of NWE's Electric Procurement Plan filed under Docket No. N2010.6.57. The revised Unprotected Version shows clearly which information was previously redacted and is now made public.

Appendices

Appendix 1 Energy Supply Hedging Strategy

Revised Unprotected Version

The electric supply hedging strategy discussed in this Appendix is intended to accomplish a number of things including: dampening the effects of market price volatility; increasing price stability for ratepayers; and improving the probability of cost recovery for NorthWestern. These goals can be achieved by limiting exposure to short-term market volatility and by obtaining longer-term fixed price supply contracts. The 2009 Plan as a whole sets the stage for implementing actions for longer-term stability. This Appendix provides a structured approach with specific measures and timelines that sets forth a guided, disciplined approach to energy supply procurement over a rolling two year [previously redacted] period. Adhering to this procurement strategy will eliminate adverse situations that can arise when a material volume of energy supply resources is about to expire and no alternative has been identified or implemented. While this systematic approach seeks to mitigate supply price volatility, it cannot protect customers from electric market price trends. The information regarding procurement strategies discussed below is provided for planning purposes and is based on current market conditions. Accordingly, it is subject to change. If NorthWestern does deviate from these procurement strategies it will document the reasons.

This procurement strategy, in its theoretical form, will assemble a portfolio of energy supply resources and purchases that are reflective of market conditions over time, not market conditions at one specific point in time. In doing so, price volatility will be reduced which will in turn provide more stable supply prices for customers. This portfolio approach to resource procurement will result in a set of resources that may not contain either the lowest or highest possible cost, but rather a blended value derived from market conditions over a wide time spectrum.

Throughout this Appendix when discussing “hedging”, “fixed price hedges”, “locking in”, or other similar terms, we are referring to the price of the supply and not necessarily the actual electrons. This strategy will provide the needed flexibility to take advantage of favorable buying opportunities to “lock-in” or financially hedge material amounts of supply when market conditions dictate.

Prior to now NorthWestern has utilized physical “fixed for float” transactions as its primary hedging tool to lock-in or hedge prices. In the 2007 Electric Procurement Plan (Docket N2007.11.138) and the 2008/2009 Electric Tracker filing (Docket D2009.5.62) NorthWestern sought approval to use financial swaps. Financial swaps and physical “fixed for float” transactions are virtually identical, and they always result in similar outcomes, but NorthWestern wanted to open a dialogue as a means of educating stakeholders on how hedge transactions are executed, knowing well that the two products were the same. While NorthWestern considered this a formality (financial swaps have been approved for NorthWestern natural gas operations for a number of years), the discussions did not take place in the aforementioned dockets and NorthWestern has not utilized financial swaps for electric hedging purposes. Since that time many large market participants have exited the physical markets and are concentrating solely on financial transactions, the result being a much less liquid market for physical hedge transactions, especially those involving electronic trading platforms such as Intercontinental Exchange (ICE). So as to not limit purchases to illiquid, less-transparent markets, NorthWestern will allow participants to offer financial swaps as well as physical products for any long-term purchases made via formalized RFP’s. If the RFP results demonstrate a preference or advantage of using financial swaps they will then be utilized for long-term purchases as well as for transactions of 18 months or less.

Hedging Plan Going Forward from 2010

The goal of NorthWestern’s hedging strategy is to dampen electricity price volatility in an effective, systematic, and efficient manner. NorthWestern currently acquires the

majority of its physical electricity through rate-based assets and long and medium term market purchase contracts, with the remaining volumes purchased in the day-ahead and hourly markets. The hedging strategy NorthWestern proposes for this plan involves three main areas:

- 1) Entering into systematic and defined market purchases based on portfolio metrics and timelines while taking into consideration resource and asset development activities;
- 2) Entering into physical exchanges and intra-day physical swaps that provide physical energy at times when it is most needed; and
- 3) Setting “hard target” price values that supplement other hedging techniques and allow for increased purchases of fixed price electricity.

Systematic and Defined Market Purchases

Fixed price market transactions will be utilized to fill gaps in the portfolio where long-term resources and contracts are not sufficient to provide adequate price protection. These systematic and defined purchases with firm timetables are intended to provide the necessary discipline and direction to avoid the volumetric exposure mentioned earlier. In addition, this structured approach to making market purchases will limit the amount of supply that is procured in the hourly or spot market, which is the most volatile market for procuring electricity. Finally, the parameters or operating ranges employed will provide the needed flexibility to take advantage of down turns in the market by allowing for the procurement of larger volumes of supply when the market is viewed as being favorable.

[redacted]

Below are the metrics and timelines that will be followed for entering into fixed price transactions:

- 1) Prior to the beginning of each calendar quarter, at least 50 % [previously redacted] of forecasted supply needs for each of the following eight [previously redacted]

quarters, excluding the second quarter (April – June) of each year, must be fixed price hedged. This will be calculated on an energy basis using normal weather. Unit-contingent resources will be forecasted at historical capacity factors after taking into consideration planned maintenance outages.

- 2) Prior to the beginning of each quarter other than the second quarter of each year, at least 75% [previously redacted] of the forecasted supply needs for that quarter must be fixed price hedged. This will be calculated on an energy basis using normal weather. Unit-contingent resources will be forecasted at historical capacity factors after taking into consideration planned maintenance outages. Should a unit-contingent resource become inoperable during a quarter, replacement energy may be purchased in the term or spot markets.
- 3) Prior to the beginning of each month, except for the months of April, May, and June of each year, at least 85% [previously redacted] of the forecasted supply needs for that month must be fixed price hedged. This will be calculated on an energy basis using normal weather.
- 4) Under normal conditions, it is NorthWestern's intent to not have an energy portfolio that is greater than 100% [previously redacted] of expected needs during the proposed hedging periods. Other than this ceiling, there is no upper limit on the amount of fixed price energy that may be procured for the 2 year, quarterly, or monthly [previously redacted] look-ahead periods.

Physical Exchanges and Shaped Swaps

Physical exchanges and shaped swaps are products that allow physical energy to be procured in the location needed to serve load when it is needed most. A physical energy exchange is merely trading power at Mid C or another trading hub for power on the NorthWestern transmission system. The value from a physical energy exchange is derived from avoiding the transmission costs to move power from one location to another. With most of our physical hedging activities

occurring at Mid C, physical exchanges provide a cost effective, efficient way to move physical energy to the NorthWestern system in order to serve load.

A shaped swap involves delivering a block of power at Mid C in return for receiving “shaped” energy on the NorthWestern transmission system in the hours and volumes when it is needed most. NorthWestern receives different volumes of energy in different hours; the volumes and hours are reflective of when the energy is needed most by NorthWestern to serve forecasted load. There is a value differential to NorthWestern that is derived from the shaped energy received and the straight block of energy delivered to the counter party. When structuring this type of deal the underlying value of the energy is not considered; only the value differential between the straight and shaped blocks of energy is monetarily exchanged. The advantage of this product is that it provides capacity when it is needed most and in doing so helps free up Basin Creek to be used for other applications.

Hard Targets

In addition to the systematic and defined market purchase strategy discussed above, a “hard target” mechanism will be utilized to trigger additional fixed price market purchases for forward delivery. These targets will be set at levels deemed to be “favorable” to customers. This reflects the fact that at some “low” price there may be no desire to have exposure to floating or index prices. NorthWestern proposes that hard targets be reviewed and updated as part of the biennial planning process to reflect changes in the market.

At any time during 2010 and 2011, if market purchases for forward delivery from that point in time through the end of 2014 reach the levels below, the following percentage of energy that is still subject to market prices should be fixed price hedged. It should be noted that only the volumes that are un-hedged will be considered, and NorthWestern will not enter into any hedges that in doing so will make total supply resources greater than expected load in any given on-peak or off-peak monthly period.

Hard Targets	
(2010/ 2014)	% of Supply
redacted	redacted

Appendices

Appendix 1 Energy Supply Hedging Strategy

Unprotected Version

The electric supply hedging strategy discussed in this Appendix is intended to accomplish a number of things including: dampening the effects of market price volatility; increasing price stability for ratepayers; and improving the probability of cost recovery for NorthWestern. These goals can be achieved by limiting exposure to short-term market volatility and by obtaining longer-term fixed price supply contracts. The 2009 Plan as a whole sets the stage for implementing actions for longer-term stability. This Appendix provides a structured approach with specific measures and timelines that sets forth a guided, disciplined approach to energy supply procurement over a rolling redacted period. Adhering to this procurement strategy will eliminate adverse situations that can arise when a material volume of energy supply resources is about to expire and no alternative has been identified or implemented. While this systematic approach seeks to mitigate supply price volatility, it cannot protect customers from electric market price trends. The information regarding procurement strategies discussed below is provided for planning purposes and is based on current market conditions. Accordingly, it is subject to change. If NorthWestern does deviate from these procurement strategies it will document the reasons.

This procurement strategy, in its theoretical form, will assemble a portfolio of energy supply resources and purchases that are reflective of market conditions over time, not market conditions at one specific point in time. In doing so, price volatility will be reduced which will in turn provide more stable supply prices for customers. This portfolio approach to resource procurement will result in a set of resources that may not contain either the lowest or highest possible cost, but rather a blended value derived from market conditions over a wide time spectrum.

Throughout this Appendix when discussing “hedging”, “fixed price hedges”, “locking in”, or other similar terms, we are referring to the price of the supply and not necessarily the actual electrons. This strategy will provide the needed flexibility to take advantage of favorable buying opportunities to “lock-in” or financially hedge material amounts of supply when market conditions dictate.

Prior to now NorthWestern has utilized physical “fixed for float” transactions as its primary hedging tool to lock-in or hedge prices. In the 2007 Electric Procurement Plan (Docket N2007.11.138) and the 2008/2009 Electric Tracker filing (Docket D2009.5.62) NorthWestern sought approval to use financial swaps. Financial swaps and physical “fixed for float” transactions are virtually identical, and they always result in similar outcomes, but NorthWestern wanted to open a dialogue as a means of educating stakeholders on how hedge transactions are executed, knowing well that the two products were the same. While NorthWestern considered this a formality (financial swaps have been approved for NorthWestern natural gas operations for a number of years), the discussions did not take place in the aforementioned dockets and NorthWestern has not utilized financial swaps for electric hedging purposes. Since that time many large market participants have exited the physical markets and are concentrating solely on financial transactions, the result being a much less liquid market for physical hedge transactions, especially those involving electronic trading platforms such as Intercontinental Exchange (ICE). So as to not limit purchases to illiquid, less-transparent markets, NorthWestern will allow participants to offer financial swaps as well as physical products for any long-term purchases made via formalized RFP’s. If the RFP results demonstrate a preference or advantage of using financial swaps they will then be utilized for long-term purchases as well as for transactions of 18 months or less.

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- 1) Entering into systematic and defined market purchases based on portfolio metrics and timelines while taking into consideration resource and asset development activities;
- 2) Entering into physical exchanges and intra-day physical swaps that provide physical energy at times when it is most needed; and
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Fixed price market transactions will be utilized to fill gaps in the portfolio where long-term resources and contracts are not sufficient to provide adequate price protection. These systematic and defined purchases with firm timetables are intended to provide the necessary discipline and direction to avoid the volumetric exposure mentioned earlier. In addition, this structured approach to making market purchases will limit the amount of supply that is procured in the hourly or spot market, which is the most volatile market for procuring electricity. Finally, the parameters or operating ranges employed will provide the needed flexibility to take advantage of down turns in the market by allowing for the procurement of larger volumes of supply when the market is viewed as being favorable.
redacted

Below are the metrics and timelines that will be followed for entering into fixed price transactions:

- 1) Prior to the beginning of each calendar quarter, at least redacted % of forecasted supply needs for each of the following redacted quarters, excluding the second

quarter (April – June) of each year, must be fixed price hedged. This will be calculated on an energy basis using normal weather. Unit-contingent resources will be forecasted at historical capacity factors after taking into consideration planned maintenance outages.

- 2) Prior to the beginning of each quarter other than the second quarter of each year, at least redacted % of the forecasted supply needs for that quarter must be fixed price hedged. This will be calculated on an energy basis using normal weather. Unit-contingent resources will be forecasted at historical capacity factors after taking into consideration planned maintenance outages. Should a unit-contingent resource become inoperable during a quarter, replacement energy may be purchased in the term or spot markets.
- 3) Prior to the beginning of each month, except for the months of April, May, and June of each year, at least redacted % of the forecasted supply needs for that month must be fixed price hedged. This will be calculated on an energy basis using normal weather.
- 4) Under normal conditions, it is NorthWestern's intent to not have an energy portfolio that is greater than redacted % of expected needs during the proposed hedging periods. Other than this ceiling, there is no upper limit on the amount of fixed price energy that may be procured for the redacted look-ahead periods.

Physical Exchanges and Shaped Swaps

Physical exchanges and shaped swaps are products that allow physical energy to be procured in the location needed to serve load when it is needed most. A physical energy exchange is merely trading power at Mid C or another trading hub for power on the NorthWestern transmission system. The value from a physical energy exchange is derived from avoiding the transmission costs to move power from one location to another. With most of our physical hedging activities

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Hard Targets

In addition to the systematic and defined market purchase strategy discussed above, a “hard target” mechanism will be utilized to trigger additional fixed price market purchases for forward delivery. These targets will be set at levels deemed to be “favorable” to customers. This reflects the fact that at some “low” price there may be no desire to have exposure to floating or index prices. NorthWestern proposes that hard targets be reviewed and updated as part of the biennial planning process to reflect changes in the market.

At any time during 2010 and 2011, if market purchases for forward delivery from that point in time through the end of 2014 reach the levels below, the following percentage of energy that is still subject to market prices should be fixed price hedged. It should be noted that only the volumes that are un-hedged will be considered, and NorthWestern will not enter into any hedges that in doing so will make total supply resources greater than expected load in any given on-peak or off-peak monthly period.

Hard Targets	
(2010/ 2014)	% of Supply
redacted	redacted