NorthWestern Energy

DOCKET NO. D2011.6.53

Before The Public Service Commission
Of the State of Montana

In The Matter of NorthWestern Energy's
Petition for A Waiver from Full Compliance with
The Community Renewable Energy Project Purchase
Obligation

June 30, 2011

NorthWestern Energy

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June 30, 2011

Ms. Kate Whitney
Administrator – Regulatory Division
Montana Public Service Commission
1701 Prospect Avenue
PO Box 202601
Helena, MT 59620-2601

RE: **Docket No. D2011.6.53 - Petition for a Waiver from Full Compliance with the Community Renewable Energy Project Purchase Obligation**

Dear Ms. Whitney:

Enclosed please find the original and ten copies of NorthWestern Energy's ("NorthWestern") Petition regarding a waiver of the Community Renewable Energy Project Purchase Obligation. This Petition requests a temporary waiver from full compliance with § 69-3-2004(b)-(c), MCA.

NorthWestern has undertaken all reasonable steps to procure renewable energy credits ("RECs") and electricity output from community renewable energy projects ("CREPs") but will be unable to achieve full compliance by January 1, 2012. NorthWestern is requesting the Montana Public Service Commission ("Commission") waive full compliance with the obligation to purchase RECs and electricity output from CREPs and waive any potential penalties for failure to achieve full compliance. NorthWestern is not requesting any waiver from compliance with the overall Renewable Portfolio Standard.

Along with this Letter and the Petition, this filing includes the Testimony and Exhibits of David E. Fine and Steven E. Lewis.

In addition to serving the Commission with the original and ten (10) copies of this Petition and supporting documentation, three copies are being transmitted to the Montana Consumer Counsel. NorthWestern will also make a copy of the filing available for public inspection at its offices at 40 E. Broadway, Butte, Montana.

The NorthWestern employee responsible for answering questions concerning this filing, or for inquiries to the appropriate members of Utility Staff is:

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NorthWestern asks the names of Pat Corcoran, Joe Schwartzenberger, Tracy Killoy, David Fine, and Al Brogan appear on all service lists in this proceeding.

Respectfully Submitted

Joe Schwartzenberger
Director, Regulatory Affairs

Enclsoures

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

In the Matter of the Petition of **NorthWestern Energy** for a Waiver from Full Compliance with the Community Renewable Energy Project Purchase Obligation of the Renewable Portfolio Standard	)	REGULATORY DIVISION DOCKET NO. D2011.6.53

PETITION FOR A WAIVER FROM FULL COMPLIANCE WITH THE COMMUNITY RENEWABLE ENERGY PROJECT PURCHASE OBLIGATION

Pursuant to § 69-3-2004(11), MCA, and the Montana Public Service Commission's ("Commission") implementing regulation, ARM 38.5.8301, NorthWestern Corporation d/b/a NorthWestern Energy ("NorthWestern" or "NWE") submits this petition for a Commission Order temporarily waiving full compliance with the obligation to purchase the renewable energy credits ("RECs") and electricity output from community renewable energy projects ("CREP") imposed by § 69-3-2004(3)(b)-(c), MCA ("Petition"). As described in this Petition and as supported by the testimony submitted with this Petition, (1) NorthWestern has undertaken all reasonable steps to procure RECs and electricity output from CREPs, (2) full compliance with § 69-3-2004(3)(b)-(c),

MCA, ("CREP Purchase Obligation") cannot be achieved because sufficient CREPs do not exist.

I. Legal Background

A. Statutory History

In 2005 the Legislature enacted the Montana Renewable Power Production and Rural Economic Development Act ("Act"). As originally codified, § 69-8-1004(3)(b), MCA (2005), required public utilities to purchase the RECs and electricity output from CREPs that totaled at least 50 MW of nameplate capacity starting with the compliance year beginning January 1, 2010. Section 69-8-1004(3)(c), MCA (2005), required public utilities to allocate the 50 MW requirement proportionately to each utility's retail sales of electrical energy in 2009. Section 69-8-1003(3), MCA (2005), defined CREP as "an eligible renewable resource that is interconnected on the utility side of the meter in which local owners have a controlling interest and that is less than or equal to 5 megawatts in total calculated nameplate capacity."

In 2007 the Legislature directed the code commissioner to renumber Title 69, chapter 8, part 10, as an integral part of Title 69, chapter 3. Section 1, Ch. 220, L. 2007. Section 69-8-1003, MCA (2005) became § 69-3-2003, MCA (2007); § 69-8-1004, MCA (2005) became § 69-3-2004, MCA (2007).

Utilities discovered that obtaining RECs and electricity output from CREPs as defined in § 69-3-2003(3), MCA (2007), would be both difficult and expensive for ratepayers. In 2009 the Legislature attempted to alleviate the problems associated with the CREP Purchase Obligation in three separate bills. House Bill 207 changed the definition of CREP to "an eligible renewable resource that is interconnected on the utility

side of the meter in which local owners have a controlling interest and that is less than or equal to 25 megawatts in total calculated nameplate capacity." Section 1, Ch. 30, L. 2009. House Bill 208 changed the initial compliance date for the CREP Purchase Obligation by amending § 69-3-2004(b) to "Beginning January 1, 2012, as part of their compliance with subsection (3)(a), public utilities shall purchase both the renewable energy credits and the electricity output from community renewable projects that total at least 50 megawatts in nameplate capacity." Section 1, Ch. 31, L. 2009. Finally, House Bill 343 added public utilities as a possible owner of a CREP and expanded the definition of eligible renewable resource to include new hydroelectric projects installed at an existing reservoir or on an existing irrigation system with a nameplate capacity of 15 megawatts or less. Section 1, Ch. 232, L. 2009.

B. Requirements for Waiver

Both statute and administrative regulation provide for waivers from full compliance with the Act. Section 69-3-2004(11), MCA, provides:

> "A public utility or competitive electricity supplier may petition the commission for a short-term waiver from full compliance with the standards in subsections (2) through (4) and the penalties levied under subsection (10). The petition must demonstrate that the: (a) public utility or competitive electricity supplier has undertaken all reasonable steps to procure renewable energy credits under long-term contract, but full compliance cannot be achieved either because renewable energy credits cannot be procured or for other legitimate reasons that are outside the control of the public utility or competitive electricity supplier; or (b)integration of additional eligible renewable resources into the electrical grid will clearly and demonstrably jeopardize the reliability of the electrical system and that the public utility or competitive electricity supplier has undertaken all reasonable steps to mitigate the reliability concerns.

ARM 38.5.8301(4) states:

> A public utility may petition the commission for a waiver from full compliance with the renewable portfolio standards. The petition must include documentation and evidence showing that the public utility has undertaken all reasonable steps to

procure renewable energy credits sufficient to comply with the applicable portfolio standards and could not achieve full compliance due to one or more of the following:

(a) the unavailability of sufficient renewable energy credits;
(b) a determination that integrating additional eligible renewable resources into the electrical grid would jeopardize the reliability of the electrical system despite reasonable efforts to mitigate reliability concerns;
(c) full compliance would cause the public utility to exceed the cost caps in 69-3-2007, MCA; and
(d) other documented reasons beyond the public utility's control.

As of October 1, 2009, the effective date of all of the 2009 legislative changes, NorthWestern had a CREP Purchase Obligation beginning January 1, 2012 to procure RECs and electricity output from eligible renewable resources with individual nameplate capacities of 25 MW or less, a combined nameplate capacity of approximately 44 MW, and in which local owners had a controlling interest or were owned by NorthWestern. While meeting the overall RPS requirement and despite taking every reasonable step, NorthWestern is unable to fully comply with its CREP Purchase Obligation.

II. NorthWestern's Efforts to Comply with its CREP Purchase Obligation

NorthWestern began its efforts to comply with the 2010 CREP Purchase Obligation in 2008 when it issued a Request for Proposals ("RFP") seeking CREPs as described in the testimonies of David E. Fine and Steven E. Lewis submitted with this Petition. Of the six responses to the RFP, four were clearly not economical, one was unable to obtain financing, and one, Turnbull Hydro, did not qualify under § 69-3-2003(3), MCA (2007). After the Legislature amended the statute in 2009, Turnbull Hydro appeared to qualify as a CREP. In November 2009, NorthWestern sought a declaratory ruling from the Commission certifying Turnbull Hydro as a CREP. The Commission issued a Declaratory Ruling certifying Turnbull Hydro as a CREP on

January 21, 2010. NorthWestern has entered into a long-term power purchase agreement ("PPA") with Turnbull Hydro and the project is nearing full commercial operation.

Faced with a new definition of CREP and a 2012 compliance date, NorthWestern intensified its efforts to meet its CREP Purchase Obligation by issuing a Request For Information ("RFI") in 2009. In the RFI NorthWestern specifically solicited proposals from CREPs and from developers for projects that would be CREPs if the utility acquired them. Unfortunately, as the responses to the RFI were evaluated, circumstances beyond its control forced NorthWestern to choose between complying with the CREP Purchase Obligation or the overall renewable portfolio standard (RPS). The RFI resulted in an Asset Purchase Agreement for the Spion Kop Wind Project which, if approved by the Commission and built as proposed, will contribute to NorthWestern's ability to comply with the overall RPS.

In addition to the efforts in the 2008 RFP and the 2009 RFI, NorthWestern has negotiated contracts with potential qualifying facilities ("QFs") and is evaluating whether any such QFs will qualify as a CREP.

NorthWestern cannot state with certainty its actual shortfall from full compliance with the CREP Purchase Obligation. NorthWestern has acquired the RECs and electricity output of Turnbull Hydro, about 13 MW, which will be fully operational before January 1, 2012. If 25 MW or less of Spion Kop achieves commercial operation by December 31, 2012, then Spion Kop will contribute to NorthWestern's CREP Purchase Obligation. However, Spion Kop would not contribute by January 1, 2012. Finally, NorthWestern believes that at least one of the QFs with which it recently entered into a

PPA will qualify as a CREP. The PPA between NorthWestern and this QF includes a guaranteed commercial operation date of October 31, 2011. This QF, with a planned nameplate capacity of 9.6 MW, is under construction, and NorthWestern expects it to be producing commercially before January 1, 2012. Therefore, NorthWestern expects that on January 1, 2012 it will be purchasing RECs and the electricity output from CREPs with a total nameplate capacity of approximately 23 MW and that on January 1, 2013 it will be purchasing RECs and the electricity output from CREPs with a nameplate capacity of between 23 MW and 47 MW. NorthWestern is continuing to work with potential QFs, some of which may also be CREPs. Other than the potential QFs, NorthWestern cannot prudently acquire more CREP resources until the uncertainties associated with its current contracts have been resolved.

III. Specific Relief Requested

By this Petition NorthWestern requests that the Commission issue an order:

(1) waiving full compliance with § 69-3-2004(3)(b)-(c), MCA for the calendar years of 2012, 2013, and 2014; and

(2) waiving any penalties that may be imposed pursuant to § 69-3-2004(10), MCA, for failure to achieve full compliance with § 69-3-2004(3)(b)-(c) in calendar years 2012, 2013, and 2014.

IV. Approval of this Petition is Consistent with § 69-3-2004(11), MCA and ARM 38.5.8301(4).

Section 69-3-2004(11), MCA, and ARM 38.5.8301(4), quoted above, establish the criteria for the granting of a waiver of full compliance with the CREP Purchase Obligation. The testimonies of David E. Fine and Steven E. Lewis establish (1) that NorthWestern has undertaken all reasonable steps to comply with the CREP Purchase

Obligation, (2) that sufficient CREPs do not exist to enable NorthWestern to achieve full compliance with the CREP Purchase Obligation, and (3) the cost of any of the proposed CREPs, other than those acquired by NorthWestern, would have exceeded the cost caps in § 69-3-2007, MCA.

Specifically, NorthWestern has (1) completed Procurement Plans with provisions for the acquisition of RECs and electricity output of CREPs, (2) issued broad solicitations seeking RECs and electricity output from CREPs, (3) reviewed QF resources to determine their eligibility as CREPs, (4) maintained regular contact with in-state developers regarding the status of their projects, (5) acquired the RECs and electricity output of economical CREPs available to it, and (6) entered into contracts that may enable it to achieve full compliance with the CREP Purchase Obligation by January 1, 2013. NorthWestern's efforts do not suffer from the same infirmities that the Commission has found in rejecting petitions for waiver of full compliance filed by competitive electricity suppliers.

The Commission found that ignorance of an RPS requirement, failure to seek timely certification of a cogeneration facility as an eligible renewable resource, and complete failure to take any steps to comply with the RPS did not justify a waiver. *In the Matter of Renewable Portfolio Standard Compliance Filings for Compliance Year 2008*, Docket No. N2009.10.137, Order No. 7053, ¶¶ 14 – 15 (December 17, 2009). Similarly, the Commission found that waiting until after the end of a compliance year to attempt to acquire RECs was a failure to take all reasonable steps to comply. *In the Matter of Renewable Portfolio Standard Compliance Filings for Compliance Year 2009*, Docket No. N2010.1.4, Order No. 7102a, ¶ 15 (October 15, 2010).

Unlike the competitive electricity suppliers whose petitions for waivers were denied, NorthWestern took steps to comply years in advance of the deadline for compliance with the CREP Purchase Obligation. NorthWestern knew of and acknowledged its obligation, attempted to acquire RECs and electricity output of sufficient CREPs, acquired the RECs and electricity output from CREPs that it could, and has entered into contracts that may lead to full compliance. Because there are no existing CREPs other than Turnbull Hydro and possibly the QF under construction believed to be a CREP, the acquisition from CREPs requires a long lead time allowing for the construction of new resources. As stated in David E. Fine's testimony, NorthWestern must rely on private sector developers to construct CREPs.

V. Conclusion

NorthWestern has undertaken all reasonable steps to comply with the CREP Purchase Obligation. Due to circumstances beyond its control, NorthWestern is unable to fully comply with the CREP Purchase Obligation because sufficient CREPs do not exist and purchasing from proposed CREPs other than those with whom NorthWestern has entered contracts were not economical. NorthWestern requests that the Commission issue an order approving this Petition and granting the specific relief requested herein.

RESPECTFULLY SUBMITTED this 30th day of June 2011.

NORTHWESTERN ENERGY

By: 

Al Brogan
NorthWestern Energy
Attorney for NorthWestern Energy

Department of Public Service Regulation
Montana Public Service Commission
Docket No. D2011.6.53
Petition for CREP Waiver
NorthWestern Energy

TESTIMONY OF DAVID E. FINE
ON BEHALF OF NORTHWESTERN ENERGY

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Witness Information

Q. Please state your name and business address.

A. My name is David E. Fine and my business address is 40 East Broadway Street, Butte, Montana, 59701.

Q. By whom are you employed and in what capacity?

A. I am employed by NorthWestern Energy ("NWE" or "NorthWestern") as the Director of Energy Supply Planning. My areas of responsibility include a variety of energy supply and planning functions including the preparation of the electric resource procurement plan and associated analysis, load and resource analysis, load forecasting, and other supply portfolio planning and management functions performed by planning staff.

Q. Please summarize your educational and employment experiences.

A. I earned a B.A. in geology from the University of Montana and have worked in the energy industry since 1979.

My employment with NWE began in 1982 with an unregulated subsidiary of the Montana Power Company. I have worked in energy exploration and development, mining, energy resource evaluations, economic evaluations, business development, and technical evaluations associated with energy production and power generation. Since 2003 I have worked in the Energy Supply area of NorthWestern where I have been responsible for short- and long-term load forecasting, resource modeling, and the analysis of supply resources. Since 2008 I have served as Director of Energy Supply Planning for NorthWestern and worked on energy supply matters including contracting, supply resource evaluations, renewable solicitations, regulatory matters, and supply area initiatives and projects related to both renewable and traditional electric generation.

As an employee of NWE I have previously provided information and testimony on energy related matters before the Montana Public Service Commission ("Commission").

Purpose of Testimony

Q. What is the purpose of your testimony in this filing?

A. My testimony will demonstrate and document NorthWestern's deliberate efforts to obtain electric energy and associated renewable energy credits ("RECs") from eligible Community Renewable Energy Project ("CREP") sources starting in 2008 and continuing through Spring 2011. I will describe how NorthWestern's activities to obtain CREP resources began well in advance of the initial CREP compliance date of January 1, 2010 and how those activities changed after the Legislature changed the definition of CREP and delayed the compliance date to January 1, 2012. In conclusion, I will show that despite NorthWestern's best efforts to meet CREP compliance, conditions and circumstances beyond its control will not allow the minimum CREP requirements to be achieved by NWE on January 1, 2012.

Planning and Regulatory Framework

Q. Briefly describe NorthWestern's regulatory obligation in terms of CREP compliance.

A. NorthWestern, as a Montana public utility, is charged with a CREP obligation by the Montana Renewable Power Production and Rural Economic Development

Act as amended by the 2009 Legislature. NorthWestern is responsible under current Montana law to purchase both the renewable energy credits as well as the electricity output from CREP eligible projects totaling approximately 44 MW of installed capacity[1] beginning January 1, 2012. This determination is based on a proportionate allocation of the statewide target of 50 MW between Montana Dakota Utilities ("MDU") and NorthWestern. The 2010 retail sales for MDU (711,510 MWh) and NorthWestern (5,752,008 MWh) were used to compute this allocation. The statewide annual CREP obligation of 50 MW continues until January 1, 2015 when it increases to 75 MW of nameplate capacity.

Q. Has NorthWestern taken steps to identify and secure the output and or ownership of CREPs to meet its obligations?

A. Yes. NorthWestern has actively pursued CREPs through competitive solicitations issued in 2008 and 2009. In addition, NWE has received a limited number of unsolicited inquiries from renewable project developers whose projects may have been CREPs if constructed and if they had elected to sell energy and associated renewable energy credits to NorthWestern.

It is important to recognize that NWE is not organized or staffed as a renewable project developer. Prospecting for and development of commercial scale renewable projects requires expertise that NorthWestern does not possess. As such, NWE relies upon private sector developers to identify, evaluate, and develop renewable projects in Montana that can be considered by NorthWestern

[1] The capacity purchased is based on the nameplate capacity of the units.

for inclusion in the supply portfolio. Examples of projects developed for NorthWestern by third party development companies are the Judith Gap Wind Project, Turnbull Hydro Project ("Turnbull Hydro"), Spion Kop Wind Project ("Spion Kop"), and all of the Qualifying Facility ("QF") projects ("QF projects"). NorthWestern therefore uses competitive solicitations to identify prospective projects.

Q. Please describe the competitive solicitations and why these processes were employed?

A. The Commission's electric supply guidelines identify competitive solicitations as part of an acceptable approach to follow when seeking to add resources to the electric supply portfolio. Specifically, § 69-8-419(2)(d) MCA directs public utilities to "use open, fair, and competitive procurement processes whenever possible". The competitive solicitation process provides NorthWestern the opportunity to evaluate and compare energy project submissions that have been crafted and submitted to meet the specific requirements defined in the solicitation. NorthWestern and its advisors, with an available pool of potential projects, can make informed decisions concerning the potential selection of the most cost-effective and viable projects to meet the needs and objectives of the electric supply portfolio.

Lands Energy Consulting ("Lands") has administered many of NorthWestern's competitive solicitations; including the 2008 CREP Request For Proposal ("RFP") and the 2009 renewable Request For Information ("RFI"). Lands has ensured

that the competitive solicitations, respondent information, and process integrity were treated and maintained in an unbiased manner. Lands was employed extensively throughout evaluation, screening, project selection, and contracting processes used by NWE to identify renewable energy opportunities in both the RFP and RFI.

NWE and Lands conducted a CREP RFP in 2008 and a renewable RFI in 2009. For a full description of the solicitations, submittals, and results, see the testimony of Steven Lewis. The 2008 CREP RFP produced a limited set of responses. At the time, CREPs were limited to 5 MW of nameplate capacity; which may have contributed to the small number of responses. In the 2009 RFI a more robust set of responses were submitted for renewable energy projects in various stages of development located in Montana.

NorthWestern employed both internal and external resources at different stages of evaluation during the solicitation processes. External resources included Lands (Seattle, WA) and DNV Renewables (USA) Inc.) ("DNV"). DNV, a nationally recognized renewable resource consulting firm, brought extensive wind resource, technology, and energy production/project experience to the evaluation team.

Competitive Solicitation Results

Q. What statutory changes occurred following the 2008 CREP competitive solicitation?

A. As initially defined in 2005, CREP resources were limited to renewable projects with an installed capacity of 5 MW or less and for which local owners have controlling interest. Initially, local ownership excluded utility ownership. Statutory changes in 2009 significantly altered the requirements for CREPs. The maximum installed capacity of a single project was increased from 5 MW to 25 MW. This meant that projects could be sized and developed to achieve economies of scale not previously allowed. Ownership restrictions were also expanded to include utility ownership, which meant NWE could own projects and qualify them as CREPs. A larger CREP eligible project size could also mean fewer contracts for NWE to negotiate and administer. With these changes, NorthWestern anticipated greater interest, more competitive pricing and improved opportunity to succeed in its future solicitations for CREP resources.

Q. What were the results of the 2008 CREP RFP?

A. The 2008 CREP RFP ultimately resulted in a long-term purchase power agreement between NorthWestern and Turnbull Hydro LLC. Turnbull Hydro is a two generator, 13 MW facility that is expected to be in full commercial operation by the end of July 2011. In November 2009, NWE petitioned the Commission to certify Turnbull Hydro as a CREP prior to project construction. The Commission issued a declaratory ruling in January 2010 that Turnbull is a CREP as defined by § 69-3-2003(4), MCA (2009), ARM 38.5.8301(2) so long as it is built and owned as described in the petition. Thus, once in production, the capacity, energy output and associated renewable energy credits from Turnbull Hydro will

contribute to meeting NorthWestern's CREP and RPS needs for the 20-year contract term.

Q. What did NorthWestern seek to achieve with the 2009 RFI?

A. The 2009 RFI was a carefully crafted solicitation to identify renewable resource projects to place under contract or for possible purchase and ownership by NorthWestern. The RFI format was chosen in order to minimize the burden placed on developers and to encourage greater participation in the solicitation. At the same time, the expectations and goals of NorthWestern, including the option to purchase and own renewable projects sized at 25 MW or less, were clearly communicated to potential respondents. NorthWestern was planning for and actively seeking the control of renewable projects that would meet or exceed NWE's CREP and RPS needs. All of the project submittals were for yet-to-be constructed facilities; none were immediately available.

Q. What were the results of the 2009 RFI?

A. As described in the testimony of Steven Lewis, the response to the 2009 RFI provided a pool of renewable projects for Lands and NWE to evaluate and compare to determine if any should be moved to a higher level of interest. Through a series of screenings and evaluation by Lands and NWE, a group of four finalists representing multiple Montana wind projects was selected for additional detailed review and evaluation. All of the finalists were invited to NWE's offices in Butte, MT to make in-person presentations. The four finalists provided NWE and Lands with high quality, well organized presentations of their

projects and were prepared, if selected, to move to the next stage of the process including the execution of letters of intent (March 2010); the precursor to a definitive development and purchase agreement. Shortly after the developer presentations, NWE and Lands selected two developers, Invenergy Wind Development LLC ("Invenergy") and Sagebrush Energy ("Sagebrush"), and moved forward with each of them to more in-depth analysis and evaluation of their respective projects. At this point NWE believed it was in the position to progress to definitive agreements on two projects representing approximately 50 MW of installed wind capacity that could be constructed and placed into commercial operation prior to the January 1, 2012 CREP compliance date and therefore allow NWE to comply with CREP requirements.

Q. What transpired with the projects proposed by Invenergy and Sagebrush Energy?

A. In both cases, conditions changed concerning the projects as they were being moved forward in the evaluation/development process. In NorthWestern and its advisors' judgment, issues came to light that were not previously apparent or did not previously exist that brought into serious question the ability of the projects to meet NWE's objectives. NorthWestern ultimately decided to discontinue its negotiations with these two parties because of these issues.

Q. What actions did NorthWestern take because of the change of plan regarding Invenergy and Sagebrush?

A. When the Sagebrush projects were dropped from consideration, NorthWestern re-engaged discussions with one of the other finalists, Compass Wind Projects, LLC ("Compass"). These discussions attempted to move the process forward in a similar manner for Compass' Spion Kop project. Although it had not been selected as one of the final two developers, Compass had continued with project development work for multiple project sites and kept a level of flexibility in its planning activities that allowed it to resume work with NWE. Compass remained in contact with NorthWestern even after it had been notified that other projects had been selected ahead of Spion Kop. Following the re-engagement, additional work was performed on the Spion Kop project, and subsequently Compass and NWE entered into an asset purchase agreement for the 40 MW Spion Kop project to be constructed in Judith Basin County and owned by NorthWestern through a build and transfer arrangement.

Following the dismissal of Sagebrush, and after the re-engagement of Compass, Invenergy's Big Otter Wind Project was dropped from consideration (February 2011). The timing of the Invenergy project being dropped was one of the reasons other RFI respondents were not re-engaged in the process in a similar fashion to Compass.

Q. Why did NWE choose a 40 megawatt project rather than a 25 megawatt project that might have been CREP eligible?

A. Following the re-engagement of Compass, NWE was in the position of moving forward with a project that it understood to have a low likelihood of meeting the January 1, 2012 CREP compliance date because of a projected commercial

operation date in the fourth quarter of 2012. Prior to executing the asset purchase agreement, NWE and Compass conducted negotiations in which NorthWestern sought to minimize the purchase price of the Spion Kop project. At the same time, Compass wanted to develop a project that could achieve an optimal size from the developer's perspective that would allow it to offer to NWE the most attractive pricing and terms. Ultimately the 40 MW project size was determined to be the size that best met the objectives of both parties. Additionally, both Compass and NWE were keenly aware of the need to bring forward the best possible project pricing to be included in a filing before the Commission to create the best opportunity for approval and subsequent rate basing on behalf of Montana retail electric customers. CREP needs are not the only focus of NWE with regard to renewable energy. NorthWestern must also plan for meeting the RPS including near-term RPS needs. Increasing the size of Spion Kop reduced the risk of not meeting the RPS requirement, which also factored into the decision to size the Spion Kop project at 40 MW.

During the Compass negotiations NWE was also working with QF developers seeking long term contracts with NWE. These projects were thought to be possible CREP eligible resources and it appeared that at least some might be CREPs. NWE understood that it could be entering into 50 MW of renewable contracts with wind QFs and that these projects might achieve commercial operation in 2011-2012. However, NWE had no assurances with regard to the QF contracting activities or the associated CREP qualification.

In recognition of the circumstances described above and considering NWE's annual RPS obligations from 2012 through 2014 NorthWestern elected to size the Spion Kop project at 40 MW. Other factors, including the deadline for incorporating Federal production tax credits and bonus depreciation, also figured prominently in determining the construction schedule and, therefore, making the project size election. The 40 megawatt project size results in a benefit to retail electric customers because of the competitive pricing associated with the Spion Kop project if approved by the Commission.

Justification for CREP Waiver

Q. Has Northwestern undertaken all reasonable steps to meet CREP requirements?

A. Yes it has. In addition to expending substantial internal and external resources in pursuit of CREPs, NWE began planning for the acquisition of CREP resources well in advance of the January 1, 2012 compliance date. In 2009 NWE contracted for approximately 30% (13 MW) of its estimated 2012 – 2014 CREP obligations in the form of the Turnbull Hydro power purchase agreement.

In 2010, NWE believed it had identified and was on a path to secure sufficient CREP-eligible resources to meet its needs through the end of 2014. If not for circumstances beyond its control, NWE would have secured and moved forward with projects that could have been developed and reached commercial operation prior to January 1, 2012.

Q. Is NorthWestern aware of other renewable projects that would allow it meet CREP requirements starting on January 1, 2012?

A. No.

Q. Does NorthWestern know when it will meet its future CREP obligation?

A. Although NWE has worked diligently to secure agreements that it believed would fulfill its CREP needs, it does not know when its CREP obligations will be met. There are several reasons why NWE cannot provide a definitive answer to this question. NWE has recently executed three QF contracts, representing 28 MW of wind generating capacity with commercial operation dates in the 2011/2012 timeframe. One project, Gordon Butte, is currently under construction and includes a guaranteed commercial operation date of October 31, 2011. Gordon Butte represents 9.6 MW of capacity and NWE believes that it will be CREP eligible. It is currently unknown how much of the remaining QF contracted capacity, if any, will qualify as CREP. NWE will not know the CREP status of these projects until later in 2011 or possibly 2012. Furthermore, there are additional QF projects that are actively seeking contracts with NorthWestern. NWE does not know whether these projects will result in QF contracts, and if so, their associated CREP status.

According to the development plan for Spion Kop, NorthWestern does not expect the project to qualify as a CREP. However, until such time as Compass transfers the Spion Kop assets to NWE, NorthWestern cannot rule out the possibility of a project size that could qualify as a CREP should the construction schedule

deviate from plan. Regardless of the actual project that is delivered to NorthWestern, it will not allow NorthWestern to meet the January 1, 2012 CREP compliance date.

NWE's Plans for the Future

Q. What are NorthWestern's intentions for future CREP compliance?

A. Every two years NWE files its electric resource procurement plan ("Plan") with the Commission in which it evaluates and describes the 20-year planning horizon. The Plan recognizes, among a number of other supplier requirements, the need to acquire both qualified renewable resources and CREP eligible resources. The 2011 Plan is being developed and is scheduled for filing with the Commission in December 2011. In the 2011 Plan NWE will discuss a continued effort to meet CREP obligations including resources that are, or are expected to be, included in the electric portfolio. At the time the 2011 Plan is filed, NWE will be able to report more definitively about status relative to its CREP obligation, the eligibility of resources that it has under contract and any amount of installed CREP capacity that still needs to be secured.

Introduction of Other Witness

Q. Please introduce the other witness in this filing.

A. In addition to my testimony, this filing includes the testimony of:

- Steven Lewis, principal with Lands. Mr. Lewis' testimony:

- Presents an explanation of the 2008 and 2009 competitive processes administered by Lands on behalf of NorthWestern to identify and pursue CREPs;
- Describes how the competitive processes were conducted;
- Presents the results of the competitive solicitations, the number and type of responses, and information on project costs;
- Presents the results of screening work to identify projects for further evaluation and consideration.

Q. Does this complete your testimony?

A. Yes.

Department of Public Service Regulation
Montana Public Service Commission
Docket No. 2011.6.53
Petition for CREP Waiver
NorthWestern Energy

TESTIMONY OF STEVEN E. LEWIS

ON BEHALF OF NORTHWESTERN ENERGY

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Exhibits

Steve Lewis Resume	**Exhibit__(SEL-01)**
2008 CREP RFP	**Exhibit__(SEL-02)**
2009 RFI	**Exhibit__(SEL-03)**

Witness Information

Q. Please state your name and business address.

A. My name is Steven E. Lewis. I am a principal and employee of Lands Energy Consulting ("Lands Energy"). My business address is 2719 California Avenue SW Suite 5 Seattle, WA 98116.

Q. Briefly describe your education and business experience.

A. I hold a Bachelor's of Science degree in Physics with a minor in Math from Gonzaga University in Spokane WA. I graduated in 1989. Since receiving my degree, I have held positions with both Puget Sound Energy and Seattle City Light, where I was responsible for managing utility power supplies in a reliable and economic manner. I have been with Lands Energy as a principal since 2001. During my time with Lands Energy Consulting, I have advised a variety of utilities, power producers and energy trading companies on their activities in the Western energy markets and have conducted competitive solicitations in the energy markets for other utilities and energy companies. I have worked since 2001 on projects on behalf of NorthWestern Energy ("NorthWestern"). My resume is attached as Exhibit ___ (SEL-01).

Q. Have you previously testified before the Montana Public Service Commission ("MPSC")?

A. Yes, I testified on the advanced preapproval filing of the Judith Gap PPA, and most recently submitted testimony in the Spion Kop Wind Project approval filing.

Purpose of Testimony

Q What is the purpose of your testimony?

A. My testimony summarizes the activities of NorthWestern to procure community renewable energy projects ("CREPs") with particular emphasis on the 2008 CREP Request for Proposals ("CREP RFP") and the 2009 Request for Information ("RFI"). I also offer my observations and opinion regarding the reasonableness of these activities.

Q. Please summarize your testimony.

A. My testimony supports a conclusion that NorthWestern took all reasonable actions to procure CREPs yet it is unlikely it will be unable to meet its CREP obligation starting on January 1, 2012. This conclusion is supported by reviewing activities which have been organized into these sections of my testimony:

- Work Supporting CREP Procurement
- 2008 CREP RFP
- 2009 RFI
- Conclusion

Work Supporting CREP Procurement

Q. What is your relationship with NorthWestern?

A. Lands Energy has provided consulting services to NorthWestern since 2001, primarily related to resource portfolio analysis and resource procurement processes. We have worked on numerous procurement processes for NorthWestern, including the 2004 RFP that resulted in the power purchase agreement ("PPA") for output from the Judith Gap wind farm, the 2008 CREP RFP that resulted in a PPA for the output of the Turnbull hydroelectric project ("Turnbull Hydro"), and the 2009 RFI that resulted in an Asset Purchase Agreement for the Spion Kop Wind Project. In all these cases, Lands Energy prepared materials, facilitated the processes, and performed the initial screening of the proposals. Lands Energy has also worked with NorthWestern on their last three Resource Procurement Plans. In these processes, we have helped define resources for consideration, developed portfolios for analysis, supported the analysis, provided market price forecasts, and helped to draft the plans. Lands Energy has also supported the procurement activities of NorthWestern in South Dakota by issuing and administering renewable RFPs there as well.

Q. Are you familiar with the various activities of NorthWestern and with the CREP requirements established in the State of Montana?

A. Yes, over the course of working with NorthWestern on these various activities, I have become quite familiar with their general power supply acquisition efforts

and challenges, including the effort to acquire renewable resources to meet the Montana Renewable Portfolio Standard ("RPS") as well as the effort to acquire CREPs in accordance with Montana statute.

Q. Are you familiar with the statutory requirements for CREP resource procurement in the state of Montana?

A. Yes. I am familiar with §§ 69-3-2003 and 69-3-2004, MCA, which define and set standards for the procurement of renewable energy as well as the requirement for procurement of output from CREPs, including the limitations on types of eligible resources, the size limitations and the limitations on ownership for CREPs.

Q. Has Lands Energy supported other regional utilities with similar activities?

A. Yes. Over the years we have supported a wide variety of resource management and resource procurement activities for a number of northwest utilities, including Seattle City Light, Snohomish PUD, Klickitat PUD, the Northwest Requirements Utilities , and PacifiCorp to name a few.

Q. Did you work on these accounts?

A. Yes, I have provided support to all of these accounts.

Q. Based on your experience in the electric utility business, what reasonable steps should have been taken by a utility such as NorthWestern to acquire

renewable and CREP-qualified resources to meet their statutory requirements?

A. I would expect a utility such as NorthWestern, when faced with the CREP requirement to have taken steps that adhere to the resource procurement guidelines set for NorthWestern by the State of Montana, one of which identifies competitive processes as part of a preferred approach to procurement of resources. In considering this context, NorthWestern should have undertaken the following activities:

- Complete Procurement Plans with provisions for the acquisition of renewable output in general and including CREP-qualified resources,
- Consistent with the Procurement Plan, issue broad solicitations seeking CREP-qualified resources,
- Review Qualifying Facility ("QF") resources to determine their eligibility for CREP status,
- Maintain regular contact with in-state developers regarding the status of their projects to the extent such contact does not compromise ongoing discussions related to a resource procurement process.

Q. Did NorthWestern do these things?

A. Yes.

Q. Please elaborate in more detail.

A. NorthWestern has done the following:

- In its 2007 and 2009 Resource Procurement Plans NorthWestern cited the need for renewable resources and identified the challenges related to procurement of CREPs[1].
- They conducted the 2008 CREP RFP seeking CREPs.
- They conducted the 2009 RFI, which included a specific call for CREPs.
- They have put in place a PPA for the output of the CREP-certified Turnbull Hydro, a 13 MW small hydro project consisting of two separate generators. Turnbull Hydro was found by the MPSC to be a CREP and is nearing full commercial operation.
- They have completed the 2009 RFI, which identified certain potential CREPs, but resulted in the contract for purchase of the Spion Kop Wind Project, which is not expected to be a CREP.

Q. Do you believe that NorthWestern took all reasonable steps to procure CREPs in accordance with Montana statute?

A. Yes. It is my opinion that NorthWestern has taken all reasonable steps to procure CREPs within the context of managing their overall power supply portfolio, meeting the primary obligation for the RPS, and managing a reliable and low-cost supply portfolio.

[1] The 2009 RPP can be accessed on the internet at http://www.northwesternenergy.com/display.aspx?Page=Default_Supply_Electric

2008 CREP RFP

Q. Please describe in general the 2008 CREP RFP.

A. The 2008 CREP RFP was issued exclusively for CREPs. At that time, the requirement was that the project had to be in-state, less than 5 MW, and with controlling interest owned by local owners. The specific details of the requirement are contained in the RFP, which is included as Exhibit ___ (SEL-02). The RFP was issued broadly and bidder's conferences were held prior to the submission deadline in order to promote better responses. Six project proposals were submitted and two finalists – Ciboria Wind and Turnbull Hydro were forwarded to NorthWestern for further due diligence and potential contracting.

Q. Six proposals seems like a small number. Were you concerned about the apparent light response?

A. The submission of six proposals was lower than in other NorthWestern solicitations, but given the fairly strict limits imposed by CREP at the time, the showing is not totally surprising. Given the efforts to promote responses ahead of time, we were comfortable with the overall response and determined that both Ciboria and Turnbull were competitive offers.

Q. What about the other proposals?

A. Three of them were clearly not cost competitive, with pricing in excess of $110/MWh[2] and the other one was for a 0.5 MW wind project to be installed at a school. This latter proposal did not respond to requests for follow up information.

Q. Were there pricing criteria NorthWestern applied to their decision process regarding the CREPs?

A. Yes. NorthWestern wished to pay no more than a $5 to $10/MWh premium when compared to alternative resources and wished to benchmark the costs against the then-current QF rates. This meant that only the Turnbull and Ciboria proposals were priced at a level to be viable considerations.

Q. At 13 MW, why was Turnbull an eligible CREP?

A. The Turnbull project in its final form did not meet the original definition of a CREP due to its size. In 2009, however, the statute was changed such that CREPs now include projects up to 25 MW and the definition of eligible renewable resources was changed to include hydro projects of up to 15 MW.

Q. What was the result of the 2008 CREP RFP?

A. After the definition of CREP was amended in 2009 and the MPSC issued a declaratory ruling that Turnbull Hydro would be a CREP, NorthWestern contracted for the output. The project name plate capacity is approximately 13 MW.

[2] 20-year levelized pricing.

Q. What happened with the Ciboria Wind project?

A. When NorthWestern initiated the detailed due diligence phase, it requested that Ciboria Wind sign a term sheet summarizing the contract terms and conditions NorthWestern intended to include in a PPA. This term sheet included details on pricing, which Ciboria Wind shared with their lender for input. The lender backed out of the project at that point citing a need for increased revenue from the project. NorthWestern removed Ciboria Wind from further consideration at that time.

Q. Could Ciboria Wind have attempted to generate additional revenue?

A. Yes, it could have increased the PPA price offered. NorthWestern decided not to accept any revised price from Ciboria Wind at that time as it was preparing for the 2009 RFI, which factored in the changes to the CREP definition. Ciboria Wind was invited to submit a revised proposal to NorthWestern as part of the 2009 RFI process. Based on the changes to the definition of CREP, we anticipated a broader response and wanted to review any revised Ciboria offer within the context of a broader and possibly more competitive field.

Q. Do you consider the signing of the Turnbull Hydro PPA to be a successful outcome of the 2008 CREP RFP?

A. Yes, the signing of the Turnbull contract successfully concluded this process.

2009 RFI

Q. Please summarize the 2009 RFI

A. Lands Energy prepared and distributed the NorthWestern RFI on August 17, 2009 attached as Exhibit__(SEL-03). The RFI specifically sought 25-75 MW of renewable resource capacity and included a request for CREPs. The RFI also indicated a preference for purchasing equity ownership in projects stating, "NorthWestern Energy prefers to own the projects through outright purchase of the project, but proposals for both equity purchases and long-term Power Purchase Agreements ("PPAs") will be considered."[3]

Q. Was the standard for CREPs the same as it was in 2008?

A. No. As I explained earlier and as discussed in the testimony of David Fine, the definition of CREPs had been amended. Of note, the definition had been changed to allow projects up to 25 MW nameplate capacity and to allow for utility ownership of the project. These revised criteria were included on page 3 of the RFI document.

Q. Do you think these changes had a material effect on the process?

A. Yes. The increase from 5 MW to 25 MW allowed for a much broader participation from developers proposing CREPs and helped spur the higher number of proposals submitted in the process as is explained later.

[3] On Page 2 of the RFI.

Q. Was the RFI broadly distributed?

A. Yes. Lands Energy and NorthWestern both posted the RFI to their respective websites, and Lands Energy sent the RFI document to 60 different renewable energy companies by electronic-mail. NorthWestern also prepared and distributed a press release to the media. This resulted in broad dissemination in both local Montana media as well as electric industry publications that are distributed nationally.

Q. Were you pleased with the response to the RFI?

A. Yes, there was considerable interest in the RFP by project developers. In total, we received 40 responses, with many including both PPA and equity purchase options for their projects. The responses were predominantly proposals for wind projects, although there were two solar proposals, two biomass proposals, one small hydro-electric project proposal and three responses lacking clear definition of resource type. Of the 40 proposals, 19 identified themselves as CREPs. Of these 19 CREP proposals, 14 were wind proposals, 2 were biomass, 2 were solar and 1 was a small hydro.

Q. What were the prices for the CREPs?

A. The CREPs had the following PPA price offerings[4]:

- Wind: $65/MWh to $112/MWh
- Solar: $187/MWh
- Biomass: $142/MWh

[4] All prices listed in levelized 20-year prices.

Q. Were any of the finalists considered CREPs?

A. Yes. Invenergy Wind Development LLC, Sagebrush Energy and Compass Wind Projects, LLC all submitted proposals that would be CREPs if owned by the utility. They all also had the capability to build their proposed projects to a level in excess of the 25 MW, which would not comport with the definition for CREPs.

Q. Was the intent to sign them as CREPs?

A. NorthWestern managed the process intending to pursue and ultimately sign with two projects, both of which could have fit within the 25 MW limit set for CREPs. When combined with the Turnbull Hydro nameplate capacity for an aggregate total in excess 50 MW, NorthWestern would have met CREP requirements through 2014 and covered some of the additional CREP requirements beginning in 2015.

Q. Are you aware that NorthWestern engaged in the other activities you cite as being prudent to procure CREPs, namely the evaluation of potential QF status for CREPs eligibility and maintaining contact with regional renewables developers?

A. While Lands Energy did not conduct these activities on behalf of NorthWestern, I was aware that NorthWestern was doing these things through regular contact with their staff and our work in related areas of their utility activity.

Conclusion

Q. What is your opinion regarding NorthWestern's efforts to meet the requirement to procure CREPs?

A. It is my opinion that NorthWestern acted in a prudent and thoughtful manner to add CREPs to its portfolio as required by the statute. NorthWestern took all reasonable actions to procure CREPs and despite these efforts, and despite its best intent, the effort will not result in the necessary amount of CREPs to meet the requirement on January 1, 2012.

Q. Does that conclude your testimony?

A. Yes, it does.

STEVEN E. LEWIS

SLewis@landsenergy.com ♦ 206-726-3695

SUMMARY OF QUALIFICATIONS

19 years of professional experience in the energy industry. Expertise in all areas of power management and utility operations, including energy trading, risk management, power resource planning and acquisition, power plant development and acquisition, transmission contracting and issues, hydro operations, control area operations, state and federal electricity rates and regulation.

PROFESSIONAL EXPERIENCE

LANDS ENERGY CONSULTING

Seattle, Washington 2001-Present

Principal Consultant

Part owner and president of Lands Energy Consulting. A partial list of clients includes: NorthWestern Energy, The BPA Slice Customers (18 northwest public utilities), Snohomish PUD, Seattle City Light, the Confederated Tribes of the Colvilles, PNGC, The City of Victorville, California, Astrum Utilities, the lawfirm of Forsberg & Umlauf PS. Key projects Mr. Lewis has lead include:

- Facilitate numerous structured resource solicitations including recent RFPs for NorthWestern Energy. These resulted in completed purchase contracts for the 135 MW Judith Gap Wind Project in Montana and the 25 MW Titan I Wind Project in South Dakota. Judith Gap was selected from a robust response to an open solicitation and was approved by the Montana PSC following detailed filings and testimony offered by Mr. Lewis.
- Facilitate numerous structured resource solicitations including recent RFPs for NorthWestern Energy. These resulted in completed purchase contracts for the 135 MW Judith Gap Wind Project in Montana and the 25 MW Titan I Wind Project in South Dakota. Judith Gap was selected from a robust response to an open solicitation and was approved by the Montana PSC following detailed filings and testimony offered by Mr. Lewis.
- Guide the development of risk management strategies and trading/scheduling practices for northwest hydroelectric based utilities, including Snohomish PUD and Seattle City Light. Snohomish PUD owns and operates the Jackson project, which is primarily a water supply project with power generation as a secondary output. They also purchase the largest amount of Slice contract power from BPA, which provides Snohomish with the flexibility and decision-making responsibility associated with a 5% share of BPA's generating capability. Seattle City Light is 90% hydroelectric based on 2006 actual energy production.
- Mr. Lewis has also supported BPA's Slice contract customers in the development of scheduling practices and optimization strategies for their contracted scheduling flexibility. The Slice contract customers are 11 Northwest public utilities who purchase over 22% of BPA's generating capability on a percentage of system capability basis, which includes rights to both short-term (within-day, within-month) as well as long-term (month-to-month) scheduling flexibility.
- Facilitate multi-million dollar one- and two-year sales of hydroelectric output of the Wells dam in central Washington for one of the project participants. The sales have gone to numerous purchasers and have included minute-to-minute dispatch

flexibility. Sales have been facilitated through competitive processes and have required close coordination with the project operator, and the potential purchasers.

- Lands Energy has also supported clients in the development of operating, marketing and scheduling strategies for renewable energy, including non-dispatchable resources such as wind project output.

SEATTLE CITY LIGHT 1999-2001
Seattle, Washington
Power Marketer

Directed all within-month marketing in conformance with the overall utility resource hedging strategy. Ensured a short-term operation of Seattle's generating assets optimizing their economic value within operating, regulatory, and reliability constraints. Included in Seattle's portfolio is over 2,000 mw of hydro-electric generating assets, multiple long-term contracts for power purchases/sales, 1,312 mw of long term firm transmission rights on the BPA main grid, and 160 mw of capacity ownership on the NW/SW AC Intertie. The hydroelectric assets include a number of large storage and run-of-river projects (Boundary, Ross, Diablo, and Gorge) as well as two smaller storage projects with first purpose water supply uses (Cedar River and Tolt River Projects).

Lead the negotiation for purchase of a 10-year power purchase contract from the Klamath Falls cogeneration project, including the execution of the first gas derivative hedge by Seattle City Light in order to mitigate the gas price exposure contained in the electricity purchase contract.

PUGET SOUND ENERGY 1990 - 1999
Seattle, Washington
Senior Electricity Trader (Title upon departure)

Puget's designated operations liaison with Duke Energy during the Puget/Duke operating and trading alliance. Coordinated trading and marketing activity between Duke's trading floor in Salt Lake City and Puget's trading floor in Bellevue. Worked with Duke's origination staff in the marketing of non-standard product offerings within the Northwest. Reviewed the modeling of Puget's resource assets within trading books at Duke, and evaluated the performance of the hedging activities within those books.

Prior to the alliance with Duke, developed Puget's forward electricity trading operation. Initiated Puget's trading through the brokered over-the-counter electricity markets for western points of receipt. Helped establish and develop fundamental analysis techniques to support trading efforts. Trading goals for Puget included both hedge trading around their existing asset base and speculative trading within a well-defined value-at-risk mechanism.

Developed and maintained operational models for the optimization of Puget's hydroelectric generating projects. This included both spreadsheet tools and coding of computer programs to meet refill, flood control, and reliability uses of the projects while maximizing the financial value. Projects included the Upper and Lower Baker projects, the White River project, Snoqualmie Falls, as well as over 1,000 MW of

participant rights in the five non-federal Mid-Columbia projects (Wells, Rocky Reach, Rock Island, Wanapum, and Priest Rapids).

Maintained and ran a stand-alone copy of the Northwest Power Pool's hydroelectric regulation model. The primary purpose of this model was to support coordination of the northwest hydroelectric system as called for under the Pacific Northwest Coordination Agreement. Puget's independent model runs were made to support short-term operational strategies as well as to provide input to the long-term production costing models uses for ratemaking purposes.

BONNEVILLE POWER ADMINISTRATION SUMMER 1988
Portland, Oregon
Engineering Intern

Designed and programmed various aspects of the Accelerated California Market Estimator ("ACME") computer model, which simulates an economic dispatch of the Southwest electric generating resources in order to forecast the Southwest electric market through identification of the marginal resources. ACME was a subroutine of the SAM model, which was run for various purposes, including value justification of the construction of the Third AC Intertie to California.

EDUCATION

GONZAGA UNIVERSITY, Spokane, Washington
Bachelor of Science, Physics with a Mathematics Minor
Magna Cum Laude

NORTHWESTERN ENERGY

REQUEST FOR PROPOSALS

COMMUNITY BASED RENEWABLE GENERATION

Request Issued June 23, 2008

Proposals Due August 15, 2008

Lands Energy Consulting
2366 Eastlake Avenue East
Suite 322
Seattle, WA 98102

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1. INTRODUCTION

NorthWestern Corporation dba NorthWestern Energy is an investor-owned utility serving customers within the States of Montana, Nebraska and South Dakota. NorthWestern Energy (Utility) has an obligation to serve retail loads for their franchise region of the State of Montana and operates a utility comprising generation, transmission and distribution divisions.

The Montana Renewable Power Production and Rural Economic Development, Montana Code Annotated (MCA) 69-3-20, provides for graduated renewable resource procurement standards for public utilities in Montana. MCA 69-3-2002 also directs public utilities to consider rural economic development as part of their renewable resource procurement effort. The Utility is soliciting proposals for small capacity renewable resources from community renewable energy projects in Montana meeting the criteria of MCA 69-3-2003. Ultimately, the Utility is charged with procuring resource of this type with a combined total installed capacity of 45 MW. Eligible renewable resource and Renewable energy credits will be purchased under Power Purchase Agreement(s) ("PPAs"). Resources selected must be capable of achieving commercial operation in 2010.

MCA 69-3-2003 includes the following explanation of qualifying Community renewable energy projects: Eligible renewable resource means a facility either located within Montana or delivering electricity from another state into Montana that commences commercial operation after January 1, 2005, and that produces electricity from one or more of the following sources:

a. wind;
b. solar;
c. geothermal;
d. water power, in the case of a hydroelectric project that does not require a new appropriation, diversion, or impoundment of water and that has a nameplate rating of 10 megawatts or less;
e. landfill or farm-based methane gas;
f. gas produced during the treatment of wastewater;
g. low-emission, nontoxic biomass based on dedicated energy crops, animal wastes, or solid organic fuels from wood, forest, or field residues, except that the term does not include wood pieces that have been treated with chemical preservatives such as creosote, pentachlorophenol, or copper-chroma-arsenic;
h. hydrogen derived from any of the sources in this subsection (7) for use in fuel cells;
i. and the renewable energy fraction from the sources identified in subsections (7)(a) through (7)(h) of electricity production from a multiple-fuel process with fossil fuels.

MCA 69-3-2003(3) defines Community renewable energy project as an eligible renewable resource that is interconnected on the utility side of the meter in which local owners have a controlling interest and that is less than or equal to 5 megawatts in total calculated nameplate capacity. MCA 69-3-2003(8) defines Local owners as:

a. Montana residents or entities composed of Montana residents;
b. Montana small businesses;
c. Montana nonprofit organizations;
d. Montana-based tribal councils;
e. Montana political subdivisions or local governments;
f. Montana-based cooperatives other than cooperative utilities; or
g. any combination of the individuals or entities listed in subsections (8)(a) through (8)(f).

Total calculated nameplate capacity means the calculation of total nameplate capacity of the community renewable energy project and other eligible renewable resources that are:

(a) located within 5 miles of the project;
(b) constructed within the same 12-month period; and
(c) under common ownership.

The Utility will evaluate the bids/proposals and the respective cost to integrate such energy supply into the portfolio in comparison with other supply alternatives along with any other criteria it deems appropriate.

The Utility reserves the rights to terminate, withdraw, alter, or amend this RFP at anytime without notice and to reject any and all bids or proposals.

The Utility has contracted with Lands Energy Consulting (LEC) to administer the RFP and serve as the point of contact with bidders. LEC will receive proposals and develop the initial short list of proposals with the identity of bidders "blinded" to the utility. **Any inquiries or correspondence regarding this RFP should be directed to LEC, not the Utility staff.** LEC contact information is provided in Section 6.3 of this RFP. Once the initial short list is completed LEC will forward the identities of short listed bidders to the Utility.

2. COMMERCIAL TERMS

2.1 Power Purchase Agreement

The Utility will enter into a PPA with the successful bidder(s) to purchase all the electrical output and all Environmental Attributes with exclusive right to output from proposed projects. PPAs will be of no less than a 10-year term as specified in MCA 69-3-20.

2.2 Environmental Attributes

"Environmental Attributes" means any and all credits, benefits, emissions reductions, offsets, and allowances, howsoever entitled, resulting from the avoidance of the emission of any gas, chemical, or other substance attributable from the renewable energy project(s) selected, constructed and operated in response to this RFP). Without limiting the generality of the foregoing, Environmental Attributes include but are not limited to: (1) any avoided emissions of pollutants to the air, soil or water such as sulfur oxides (SOx), nitrogen oxides (NOx), carbon monoxide (CO) and other pollutants; (2) any avoided emissions of carbon dioxide (CO_2), methane (CH_4) and any other greenhouse gases (GHGs); (3) any avoided emissions of metals, including mercury (Hg); (4) any avoided emissions of particulates; and (5) any Green Tag or Renewable Energy Certificate ("REC") reporting rights to these avoided emissions. Green Tag or REC reporting rights are the sole and unilateral rights of the Utility to report or otherwise advertise the ownership of the environmental benefits accruing as the result of the energy output originating from a particular environmentally preferred resource to any third party. Green Tags are accumulated on an equivalent energy basis and one Green Tag or REC typically represents the Environmental Attributes associated with one (1) MWh of energy from renewable energy projects. As further defined in MCA 69-3-2003(10) a Renewable energy credit means a tradable certificate of proof of 1 megawatt hour of electricity generated by an eligible renewable resource that is tracked and verified by the commission and includes all of the environmental attributes associated with that 1 megawatt-hour unit of electricity production.
All Environmental Attributes associated with output from projects purchased as a result of this RFP will be the property of the Utility as specified in the resulting PPA(s).

2.3 Term

The Utility requests terms of no less than ten (10) years. Shorter terms may be proposed and will be considered by the Utility, but there will need to be demonstrable benefits to the Utility resulting from a term of less than 10-years.

2.4 Power Purchase and Project Size

The Utility intends to purchase all of the output of successful proposals made as part of this process. Because of the size of the projects required, the Utility does not anticipate purchasing shares of output for any projects.

Proposed renewable resources need to be less than or equal to 5 MW of total installed capacity. Bidders should familiarize themselves with the requirements for community renewable energy projects in MCA 69-3-2003, which are referenced in the first Article within this RFP. It is anticipated that the Utility will determine the appropriate quantity of renewable energy to purchase based on the economic impact on the Utility and the specific bids received through this RFP process, as well as the applicable provisions of Montana code.

2.5 Performance Assurances

The Utility will evaluate bidders' ability to complete the development and construction of the resource under the terms of the PPA, including the developing entity's likelihood of achieving commercial operation, obtain lending, appropriate transmission/interconnection arrangements, and weather financial uncertainty themselves. The Utility will also assess bidders' ability to meet obligations throughout the term of the PPA. The Utility may as part of the negotiation of the PPA require performance assurances such as letters of credit or other assurances to insure that the bidders' fulfill commitments under the PPA. The inclusion of credit assurances, such as letters of credit, shall be looked upon favorably by the utility.

3. PROPOSAL OUTLINE

Proposals should include the information listed in this Section 3 and should be organized using the template provided in Appendix A. Failure to follow this outline or the submittal of incomplete proposals will need to be remedied and may result in disqualification. Additional information may be appended in additional sections at the end of the outline. This outline is provided to improve the ease with which proposals can be reviewed upon receipt. The level of detail represents the amount of information the Utility generally seeks from commercial counterparties regarding proposed power supplies or project developments. It is understood that some who wish to propose projects in this RFP may not have information at this level of detail. Should a bidder need assistance with the completion of the proposal outline, or of if a bidder does not have all the requested information but would like to submit a proposal, they should contact Lands Energy Consulting to discuss their situation.

3.1 Cover Letter with Signature and Certifications

The proposal should include a cover letter, which must contain the signature of a duly authorized officer, elected official or empowered agent of the community entity submitting the proposal indicating that the proposal is valid, and the duration that the proposal is valid.. The cover letter should also include and address the following issues:

1. The respondent's proposal is genuine;

2. The proposal is not made in the interest of, or on behalf of, any undisclosed person, firm, or corporation;
3. The proposal is not submitted in conformity with an agreement of any group, association, or organization other than that which can satisfy MCA 69-3-2003 (2).
4. The respondent has not directly or indirectly induced or solicited any other respondent to submit a false or sham proposal.
5. The respondent has not solicited or induced any other person, firm, or corporation to refrain from proposing.
6. The respondent has not sought by collusion to obtain for himself/herself any advantage over any other respondent, and
7. That the resulting contracts and obligations shall not be sold or reassigned without the prior written permission of the Utility.
8. That the proposal is valid ninety (90) days from the receipt date.

3.2 Executive Summary

Provide a brief summary of the project, including any and all key elements that are appropriate as part of this RFP. Project summaries should be high-level summaries appropriate for use in executive briefing sessions and limited to no more than two pages. The project summary shall include but not be limited to such facts as to the status of siting and lease arrangements, permits, interconnection agreements, environmental studies, equipment and project design overview, status of construction agreements, expected date of commercial operation and an overview of your company and project financing plans or capability.

3.3 Project Team

3.3.1 Experience and Qualifications

The proposal should contain the following minimum information indicating why the project team is qualified to bid on the RFP:

1. The organization and key, top level, personnel responsible for implementing the project. Identify the project manager, his/her tenure, experience and scope of responsibility.
2. An organization chart for the above mentioned team members.
3. Existing projects developed, constructed and/or operated by the bidder. The Utility would like to review, if possible, projects that have gone through the complete development, construction and operational cycle. Of particular interest is relevant experience in Montana.
4. The personnel and/or organizations responsible for the following areas (can be included in the above organization chart) and associated experience:
    - Project prime mover (e.g. wind, water, biomass, etc.) resource assessment and energy projections
    - Project financing
    - Project design, engineering and construction specifications
    - Interconnection and substation design
    - Project environmental assessments
    - Permits and related approvals
    - Project construction and commissioning
    - Project operations and maintenance

5. Contacts and references (name, title, address, telephone, e-mail and fax numbers) knowledgeable about the previous renewable project experience of either the key participants or organization in the project.
6. Financial statements for the organizations participating in project execution.
7. Detail experience financing renewable projects.

If project team members have not been identified for all these areas, the bidder should describe in detail how they intend to supplement their project team should they be selected as a result of the RFP. The experience of the project team will be part of the RFP screening criteria.

3.3.2 Conflict of Interest Disclosure

All proposals shall disclose any and all existing or prior relationships between the project team and the Utility and/or its employees whether these relationships are believed to present a conflict of interest or not.

3.3.3 Organizational Structure

For all legal entities represented on the project team, please provide the organizational structure of the entities, whether governmental agencies, corporate, not-for-profit entities or likewise. Any business entities listed as part of Project Team should list any corporate affiliates, parents, and/or subsidiaries.

3.4 Detailed Project Description

The proposal should include a detailed description of the project including the project's features and the development work completed to date. Include the following information:

- Project location, which shall include distance and direction to the nearest city, and legal land description including Township, Range, Section, and Quarter section. Provide a map showing the location of key facilities.
- Location and brief description of any other project the bidder has developed, is developing, or plans to develop within 5 miles of the proposed project.
- Project size in megawatts.
- A description of the site including typical flora and fauna, proximity to inhabited structures, proximity to areas that may be sensitive from an environmental, cultural, commercial, security or other perspective.
- The description, size, number and manufacturer of generating equipment that will be used. Provide a summary of the commercial operating experience of the equipment chosen. If a final equipment selection has not been made, list the candidates under consideration and the status of the decision. Provide the following information that is appropriate for the technology proposed:
    - All Technical specifications
    - Design life
    - Level of certification achieved
    - Summary of warranty provided
    - Status of procurement and timing expected in order to obtain
    - For wind projects:
        - Tower type and proposed hub height
        - IEC design wind class (I or II)

  - Power Curve at sea level and average project site air density in 0.5 m/s increments (excel spreadsheet and in written proposal)
  - Examples (if any) of the turbine operating in weather conditions similar to those expected for the proposed site.

- Explanation of decision to choose specific equipment, given the specific site conditions.
- The description, size, and manufacturer of all power electronics to be used.

3.5 Energy Projections

Bidders should provide all data collected to support forecasted estimates of energy that will be produced by proposed resources. The data should be submitted as a Microsoft Excel file on a CD-ROM. The hourly data should be in a single column for each year included arranged in chronological order. An example of this format is included in Appendix C. The proposal should clearly identify the geographic location where the data was collected and the geographic relationship to the project site.

3.5.1 Energy Calculation and Data

Bidders should provide the analysis used to estimate the annual energy output of the project. This analysis should include at a minimum:

- Determination of availability and strength of the prime mover for individual units in the project.
- Calculation of gross energy production using the prime mover frequency distribution collected at the site and turbine power curve.
- Calculation of energy losses. All sources of losses considered should be listed and individually quantified, with a basis for the quantification provided.
- Calculation of net energy output.

Bidders should submit the resulting expected net energy production and include at a minimum:

- Hourly energy calculations that correspond to the hourly data submitted in Section 3.4.2. The hourly energy data should be submitted in the same Excel file as the prime mover data and in the format as indicated by example in Appendix C.
- The expected diurnal capacity factors by month throughout the year. Data should be submitted electronically in Microsoft Excel format, on a CD-ROM, in a format as indicated in Appendix D.

3.6 Financial

Bidders should provide a summary of the major project capital and operating expenses and documentation to support the reasonableness of the estimates. This should include a budget with a complete breakdown of projected capital costs.

Bidders should provide pro forma financial projections showing the project cash flow and financing. At a minimum the pro forma (provide in an Excel file with the bid) should include the following:

- Annual energy production and assumed revenue
- Annual operating expenses including turbine/engine and balance-of-plant operations and maintenance costs, land leases, property taxes, insurance and other expenses
- Transmission and Ancillary Services costs (if any)
- Debt service

- Debt Coverage Ratios
- Depreciation
- Taxes

3.7 Interconnection Point and Point of Delivery

Bidders are responsible for making all necessary arrangements to interconnect their project to the power system. This includes the submission of interconnection requests, paying any up front reservation and/or study charges, and the completion of an interconnection agreement. Bidders are responsible for all costs of interconnection.

For those that plan to interconnect to the NorthWestern Energy system, information regarding the initiation and management of the project interconnection can be found on the NorthWestern Energy OASIS site (www.oatioasis.com/NWMT/NWMTdocs/GenConnect.html). Please note that this RFP is issued by NorthWestern Energy's merchant energy department. Any additional communications regarding the interconnection process should be directed to NorthWestern Energy's transmission department and are subject to all procedures for interconnection in accordance with NorthWestern's Open Access Transmission Tariff (OATT).

For those Bidders that plan to interconnect to systems other than NorthWestern Energy, arrangements must be made with the local system operator to secure both the project's interconnection and transmission to NorthWestern Energy's system. It is also the obligation of the Bidder to secure any transmission capacity that is required on systems other than NorthWestern's transmission system. It should also be noted that there is limited transmission capacity on NorthWestern's system to accept deliveries from potential bidders. The risk of being able to take deliveries into NorthWestern's system will be borne by the Bidders.

For purposes of this RFP, the term "Interconnection Point" is based on the provisions of MCA 69-3-2003 (3), which prescribes the Interconnection Point to be the interconnection on the NorthWestern utility side of the meter, or a point on NorthWestern's system to where the bidder has or will secure the necessary transmission to deliver the project output. Unless otherwise specified by the bidder, it will be assumed that the Interconnection Point will be the Point of Delivery. Any and all cost to interconnect to the local utility's system (including ancillary services billed to the generator through the Generation Interconnection Agreement and not otherwise assumed by the Utility through the PPA), costs to deliver the project output to such point of interconnection on NorthWestern's system, and cost to meter the project output on a realtime basis and provide the Utility access to such meter readings through telemetering systems shall be borne by the bidder.

In terms of information that should be included in with the proposal, include a clear statement of the proposed Interconnection Point and a description of the current status of the interconnection and any related transmission processes. To the extent they are known, provide details on the structures/ facilities that will have to be built in order to deliver the project's power successfully, including:

- Interconnection requests,
- Copies of any System Impact Studies ("SIS"),
- Interconnection agreement(s),
- Interconnection structures,
- Metering equipment,
- Potential alternatives to interconnection arrangements, if any, and
- Specific contacts at the interconnecting utility that may be contacted by the review team.

3.8 Project Development Status and Schedule

The proposal should provide the following information concerning the status of project development activity.

3.8.1 Schedule

Provide, in a format such as a Gantt chart, the best schedule estimates available on the various project activities covering the period from the point prime mover resource measurements were initiated on site through the project's proposed commercial operation date. Include a schedule item for each significant project development and construction activity. Provide any additional time lines applicable to the project that help to show its status and plans.

Indicate what actions have been taken to ensure the schedule is met (such as placing orders for equipment with long lead times).

3.8.2 Site Control

Provide documentation of site control, access road, and transmission corridor easements needed to construct and operate the facility during the term of the power purchase agreement. An example of such documentation would be copies of lease or lease option agreements with landowners. The Utility recognizes that some information, such as compensation arrangements, may be confidential and redacted.

3.8.3 Environmental Review

Discuss known environmental issues relative to the development and operation of the project, including avian issues and baseline noise levels. If possible, provide a copy of an up-to-date listing of candidate, listed, and proposed endangered or threatened species habitats in proximity to the project.

Provide copies of any wildlife or other environmental studies that have been performed related to the project. Include methodologies for such studies and identify the person(s) or firm(s) who conducted and completed the work. If such studies are in progress, describe them and identify the person(s) or firm(s) doing the studies and methodologies to be employed.

All proposals must indicate what actions have been taken to develop support for the project from the public, local, state and federal government entities and Native American nations. Also discuss plans to engage community and environmental stakeholders to support the proposed project.

3.8.4 Permits

Identify the key permits (such as a conditional use permit or site certificate) required to build and operate the project. Discuss their current status, the schedule for obtaining key permits and approvals, and the approach to be used. Outline the process planned to involve local residents, and other affected parties in the planning/permit process.

If the project is located in an area that is ceded land or may have been historically used by a Native American tribe, describe any contacts that have been made with the tribe (include names and phone numbers) or plans to consult the tribe regarding the project.

3.8.5 Financing

Describe the status of the project financing, including the intended financiers, any custom or complex finance structures geared to take advantage of Production Tax Credits (PTCs) or other renewable incentives, the significant conditions precedent upon which the financing depends and the milestones that need to be achieved to secure both construction and term financing (as required) to support the project schedule. Detail in project financing will assist in the financial rating portion of this RFP.

3.8.6 Construction

Describe arrangements and commitments that have been made for the construction of the project. Arrangements with the turbine supplier should be described in detail. Describe the arrangements with the balance of plant vendors including the status of contracts, timeline and remedies for failure to complete the project by the contractual commercial operation date. Describe the experience of the vendors in completing the construction of renewable projects. If a vendor has not been selected, describe the status of negotiations and the steps anticipated leading to a final selection of a construction company.

3.8.7 Testing

Summarize the testing planned prior to acceptance of the equipment from the manufacturer and completion of the project. Possible tests include power, availability tests, SCADA acceptance, distribution system acceptance, etc. Provide detailed information of the initial years of operation and the requirements for the turbine manufacturer and construction vendor to demonstrate acceptable project performance.

3.8.8 Commercial Operation

The proposal should clearly describe the anticipated commercial operation data and ongoing operations and maintenance plan for the project, how spares availability will be assured and other operations, maintenance and logistics issues. Provide a detailed plan for operations and maintenance through the term of the transaction. Details should include a description of the operations and maintenance plan for the term of the turbine generator's manufacturer's warranty and the maintenance plan once these warranties have expired.

3.9 Price

3.9.1 Pricing

Proposals should clearly identify the price for the proposed sale of energy. If the price escalates during the term, the explicit price for each price term should be listed numerically. If the price is subject to change during the term, the price determinants and the numeric process for computing the price should be clearly identified. All prices should be submitted in nominal U.S. dollars per megawatt-hour. Both tables – for a 10-year proposal and a 20-year proposal – should be included. Unless otherwise stated, it is assumed that under a PPA structure the Utility will not have rights to any Production Tax Credits arising from the operation of the plant, but that the seller will receive this benefit through some other mechanism (either themselves or through a taxed development partner).

3.10 Proposed Credit Support

Provide a description of the credit support, if required as described in Section 2.4. This may be in the form of Parent Guarantees, Letters of Credit or other forms of security.

3.11 Environmental Attributes

All proposals must state that any and all Environmental Attributes associated with the project, or the portion purchased or contracted for by the Utility, will accrue to the sole ownership and beneficial use of the Utility. Successful respondents may be required to execute certifications of sale of renewable attributes to the Utility as part of the PPA.

The Utility also intends All Renewable Output will be submitted to the Western Region Electricity Generation Information System ("WREGIS") for certification, either by the Utility or the project owner as part of the certification. The Utility can submit the relevant operational data to WREGIS to facilitate their certification, but may require the project owner provide certain information, including the aforementioned executed seller's certification, and authorize the Utility to disclose such information to WREGIS as part of the terms of the PPA resulting from this process. Additional information can be obtained at www.wregis.org.

4. EVALUATION CRITERIA

The following evaluation criteria will be used to rank proposals received.

4.1 Price and Value of Energy

The price evaluation criteria will be based on the net cost to the Utility for the power output and environmental attributes of the project. The net cost will include such costs as those associated with transmission and ancillary services needed to make the proposed energy production usable to meet the Utility's load in the state of Montana.

4.2 Project Risk

Another evaluation criterion will be the risk that the Utility will not receive the project output or title to a project as outlined in the proposal. This risk will be assessed based on the following criteria:

1. Probability of meeting the expected commercial on-line date, including:
    a. Financing commitments
    b. Permit status and difficulty
    c. Experience of the project team
    d. Long lead equipment commitments
    e. Probability of financing – reasonableness of project budgets and pro formas
    f. Project schedule
2. Confidence in long-term energy projections
    a. Quality and quantity of on-site data
    b. Long-term reference data
    c. Data from similarly situated sites
    d. Experience of the parties making the energy projections
    e. Reliability of proposed turbines and other project equipment
    f. Operating experience of the project team

g. Reliability of the interconnection and transmission facilities and/or contracts used to effectuate delivery of the power output to NorthWestern Energy

4.3 Overall Environmental Impacts

The Utility shall review each proposal for the overall environmental impacts of the renewable facility. The builder and developer will be responsible for ensuring the project meets all environmental standards required in their permits, state law, and to ensure the output maintains the criteria for renewable power as specified under WREGIS. Notwithstanding, all environmental attributes and claims to the renewable output of the project shall accrue to the beneficial use of the Utility under the PPA.

4.4 Guarantees, Security and Credit Worthiness

This evaluation criterion will assess the credit worthiness including any guarantees and security offered to the Utility.

4.5 Non-Exclusive List

The evaluation criteria listed above may not be a complete list of the criteria that will be applied and will be modified as appropriate in the sole and exclusive discretion of the Utility. Modifications to these criteria will not be provided to the bidders.

5. ADDITIONAL PROVISIONS

5.1 Right to Accept or Reject Proposals, Multiple Awards

The Utility reserves the right to make multiple awards, reject any and all proposals and to waive any formality in proposals received, to accept or reject any or all of the items in the proposal, and award the contract in whole or in part if it is deemed in the Utility's best interest. Specifically, the Utility may select a proposal that is not the lowest cost if another proposal is deemed to have other attributes such as resource diversity that warrant a higher overall ranking. Thus the evaluation will contain qualitative and quantitative ratings.

5.2 Confidentiality

Respondents shall clearly identify portions of their proposals that they do not want revealed to third parties. The Utility will not accept proposals or other documents that are marked to indicate the entire document is the confidential or proprietary information of the sender or that restricted handling is required. Normal business practices will be observed in handling proposal materials. If the bidder considers the Cost Proposal or resource data to be confidential or proprietary, those portions of the proposal must be clearly marked "Confidential" on every page.

Except as required under law or for regulatory purposes, the Utility will maintain confidentiality of such information. The Utility may also provide copies of the proposals and any related materials to its consultants and contractors, although such consultants and contractors will be required by the Utility to maintain the confidentiality of such information. If the Utility is compelled to provide such confidential information, respondent shall be responsible for defending the confidential status of the information.

5.3 Ownership and Return of Proposals

All materials submitted in response to this RFP shall become the property of the Utility and shall not be returned to the bidder.

5.4 No Verbal Addendums

No verbal agreement or conversation made or had at any time with any officer, agent, or employee of the Utility, nor any oral representation by such party shall add to, detract from, affect or modify the terms of the RFP, unless specifically included in a written addendum issued by the Utility.

5.5 Proposal Costs

Each proposal prepared in response to this RFP will be prepared at the sole cost and expense of the bidder and with the express understanding that there will be no claims whatsoever for reimbursement from the Utility.

5.6 Taxes

Bidders selected to develop project(s) are obligated to pay all taxes, fees and assessments associated with the project(s), including but not limited to personal property taxes and impact fees.

6. SCHEDULE AND ADMINISTRATION

6.1 Schedule

ITEM	DEADLINE DATE	DEADLINE TIME
Release of RFP	June 23, 2008	N/A
Bidder's Conferences	July 16, 2008	10:00 am MST
Deadline for Receipt of Proposals	August 15, 2008	4:00 pm MST
Notification of selected proposal(s)	September 19, 2008	N/A
Final contract negotiations	September-November, 2008	N/A

6.2 Intent to Respond

The Utility, in order to facilitate organization, requests bidders provide Intent to Respond forms (Appendix B) indicating intent to respond. All Intent to Respond forms should be submitted to LEC by the date and time specified in Section 6.1. While a failure to submit the form will not result in disqualification, it is recommended to facilitate the process.

6.3 Proposal Submission

One original and three (3) copies of proposals are to be submitted LEC via hand delivery, U.S. Mail or courier service to the address listed below. Faxed and e-mailed proposals will not be accepted, although e-mail copies of proposals may be submitted in addition to the official proposal. Proposals should also include 4 CD-ROMs; each with a PDF formatted copy of the entire proposal and Microsoft Excel files containing energy projection data, the proposed price schedules and the budget and pro forma data. The Utility will not be obligated to consider information received outside the time intervals specified in Section 6.1. All RFP proposals should be addressed to the following:

Lands Energy Consulting
2366 Eastlake Avenue East
Suite 322
Seattle, WA 98102
(206) 726-3695
slewis@landsenergy.com

Proposals should be clearly marked: "NWE Request for Proposals – Community Owned Renewable Power"

6.4 Revisions to Proposals and Questions

6.4.1 Revisions to the RFP

If it becomes necessary to revise any part of this RFP, an addendum will be issued and provided to all parties that have submitted Intent to Respond form. Respondents should contact LEC if they find any inconsistencies or ambiguities to the RFP. Clarification provided to LEC by the Utility may become an addendum to the RFP.

6.4.2 Requests for Additional Information

Any requests for clarification or additional information regarding this RFP shall be submitted in writing via mail, fax or e-mail to/at the following by the deadline specified in Section 6.1 to:

Lands Energy Consulting
2366 Eastlake Avenue East
Suite 322
Seattle, WA 98102
(206) 726-3695
FAX: (206) 726-3696
slewis@landsenergy.com

All requests received prior to the stated deadline will be answered in writing, and copies of the questions and answers will be transmitted to all prospective respondents who have submitted Intent to Respond forms.

6.4.3 Withdrawal and Modification of Proposals

Bidders may withdraw their proposal and submit a revised proposal prior to the response deadline. After the response deadline, bidder-initiated changes may not be accepted. Bidders may withdraw their proposal from consideration at any time prior to the response deadline.

6.5 Bidder's Conferences

NorthWestern Energy and Lands Energy Consulting will host a bidder's conference in Butte, Montana on July 16 commencing at 10:00 am. The meeting will be held in NorthWestern Energy's corporate offices at 40 East Broadway; Butte, MT 59701. Additional clarifying information may be provided at the conference, and an opportunity will be provided for interested parties to pose questions to NorthWestern Energy. Attendance at the conference is recommended, but not required.

Appendix A

Proposal Outline

All proposals should be submitted and numbered according to the following outline. A detailed explanation of the content of these sections is provided in Section 3 above.

Cover Letter - Signatures and Certifications

1. Executive Summary
2. Project Team
   - 2.1. Experience and Qualifications
   - 2.2. Conflict of Interest Disclosure
3. Detailed Project Description
4. Energy Projections
   - 4.1. Prime Mover Data
   - 4.2. Energy Calculation and Data
5. Financial
6. Interconnection and Point of Delivery
7. Other Services
8. Project Development Status and Schedule
   - 8.1. Schedule
   - 8.2. Site Control
   - 8.3. Environmental Review
   - 8.4. Permits
   - 8.5. Financing
   - 8.6. Construction
   - 8.7. Testing
   - 8.8. Commercial Operation
9. Price
10. Proposed Credit Support
11. Environmental Attributes

Appendix B

NORTHWESTERN ENERGY

Request for Proposals
Community Renewable Resources

Intent to Respond Form

Company: _____

Address: _____

Contact Name _____

Contact Title: _____

Telephone Number _____

Facsimile Number _____

e-mail Address _____

The company named above intends submit a proposal in response to NorthWestern Energy's RFP for energy from Community Renewable resources.

Signature of authorized representative: _____

Name:_____

Title:_____

Date:_____

Submit to:

Lands Energy Consulting
2366 Eastlake Avenue East
Suite 322
Seattle, WA 98102
Phone: (206) 726-3695
Fax: (206) 726-3696
slewis@landsenergy.com

Appendix C

Electronic Hourly Generation Data

Date	Hour (MPT)	Raw Data	Forecasted Energy Production
Jan 1, 2000	0100	[Data]	[Data]
Jan 1, 2000	0200	[Data]	[Data]
Jan 1, 2000	0300	[Data]	[Data]
Jan 1, 2000	0400	[Data]	[Data]
Jan 1, 2000	0500	[Data]	[Data]
Jan 1, 2000	0600	[Data]	[Data]
Jan 1, 2000	0700	[Data]	[Data]
Jan 1, 2000	0800	[Data]	[Data]
Jan 1, 2000	0900	[Data]	[Data]
Jan 1, 2000	1000	[Data]	[Data]
Jan 1, 2000	1100	[Data]	[Data]
Jan 1, 2000	1200	[Data]	[Data]
Jan 1, 2000	1300	[Data]	[Data]
Jan 1, 2000	1400	[Data]	[Data]
Jan 1, 2000	1500	[Data]	[Data]
Jan 1, 2000	1600	[Data]	[Data]
Jan 1, 2000	1700	[Data]	[Data]
Jan 1, 2000	1800	[Data]	[Data]
Jan 1, 2000	1900	[Data]	[Data]
Jan 1, 2000	2000	[Data]	[Data]
Jan 1, 2000	2100	[Data]	[Data]
Jan 1, 2000	2200	[Data]	[Data]
Jan 1, 2000	2300	[Data]	[Data]
Jan 1, 2000	2400	[Data]	[Data]

Appendix D

Expected Monthly Diurnal Generation

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
0100												
0200												
0300												
0400												
0500												
0600												
0700												
0800												
0900												
1000												
1100												
1200												
1300												
1400												
1500												
1600												
1700												
1800												
1900												
2000												
2100												
2200												
2300												
2400												
Average												

NorthWestern™ Energy

REQUEST FOR INFORMATION

RENEWABLE RESOURCES AND COMMUNITY RENEWABLE ENERGY PROJECTS

Request Issued August 17, 2009

Informational Summaries Due September 30, 2009

Lands Energy Consulting
2719 California Avenue SW
Suite 5
Seattle, WA 98116

Table of Contents

1. INTRODUCTION

NorthWestern Energy seeks 25 to 75 MW of renewable project capability for its Montana energy resource portfolio. In order to achieve this goal, information is requested from developers, land owners, energy companies, Montana businesses and any other potential business partners that either already own/operate or could develop a renewable electric generating resource that could be used to serve the NorthWestern Energy's Montana Supply customers and meet its renewable portfolio standard (hereafter referred to as "Respondent" or "Respondents"). It is important that any project meet the standards for renewable electric power generation as those standards have been defined in Montana law, which is further defined below. NorthWestern also seeks information for Renewable Projects that additionally meet the Montana Definition of Community Renewable Energy Project, or "CREP". Please note that this request will accept responses from projects whether they meet the additional requirements as a CREP or not.

NorthWestern Energy prefers to own the projects through outright purchase of the project, but proposals for both equity purchases and long-term Power Purchase Agreements ("PPAs") will be considered.

This Request For Information, or "RFI", has been issued by NorthWestern Energy as a way to collect information on a variety of renewable generating projects in a relatively short time without imposing the fairly stringent preparation requirements related to a full blown Request For Proposals or "RFP". Based on the information procured through this RFI, NorthWestern Energy may choose to conclude the process in any of the following manners:

1. Enter directly into bilateral discussions for the purchase of the project from the proposer. Ownership transfer may occur before or after commercial operation as may be determined by the parties. NorthWestern may contemplate operations and maintenance agreements with 3rd parties for projects purchased outright.
2. Enter directly into bilateral discussions for the purchases of the project output under a long term purchase power agreement, allowing the proposer to retain ownership and operational responsibilities.
3. Issue a Request for Proposals as a method to further screen proposals.
4. Do nothing.
5. Any combination of 1-4 as determined by NorthWestern Energy.

It is anticipated that the RFI process will be completed more rapidly than an RFP process and allow NorthWestern to pursue renewable resources in a more efficient manner. The process is intended also to reduce the burden on Respondents. NorthWestern is only interested in projects that will deliver a bundled product comprised of energy and renewable energy attributes (ie renewable energy credits or RECs).

Renewable Projects

MCA 69-3-2003 includes the following explanation of qualifying renewable energy projects:
Eligible renewable resource means a facility either located within Montana or delivering electricity from another state into Montana that commences commercial operation after January 1, 2005, and that produces electricity from one or more of the following sources:

a. wind;

b. solar;
c. geothermal;
d. water power, in the case of a hydroelectric project that does not require a new appropriation, diversion, or impoundment of water and that has a nameplate rating of 15 megawatts or less;
e. landfill or farm-based methane gas;
f. gas produced during the treatment of wastewater;
g. low-emission, nontoxic biomass based on dedicated energy crops, animal wastes, or solid organic fuels from wood, forest, or field residues, except that the term does not include wood pieces that have been treated with chemical preservatives such as creosote, pentachlorophenol, or copper-chroma-arsenic;
h. hydrogen derived from any of the sources in this subsection (7) for use in fuel cells;
i. and the renewable energy fraction from the sources identified in subsections (7)(a) through (7)(h) of electricity production from a multiple-fuel process with fossil fuels.

NorthWestern has a 135 MW PPA in place with the Judith Gap Wind Project and seeks diversification within the renewable portfolio. Diversification may take the form of adding other types of renewable resources or adding wind resources from a different wind regime than Judith Gap.

Community Renewable Energy Projects - CREP

MCA 69-3-2003(3) as amended defines Community renewable energy project as an eligible renewable resource that is interconnected on the utility side of the meter in which local owners have a controlling interest and that is less than or equal to 25 megawatts in total calculated nameplate capacity. MCA 69-3-2003(8) defines Local owners as:

a. Montana residents or entities composed of Montana residents;
b. Montana small businesses;
c. Montana nonprofit organizations;
d. Montana-based tribal councils;
e. Montana political subdivisions or local governments;
f. Montana-based cooperatives other than cooperative utilities; or
g. any combination of the individuals or entities listed in subsections (8)(a) through (8)(f).

Total calculated nameplate capacity means the calculation of total nameplate capacity of the community renewable energy project and other eligible renewable resources that are:

(a) located within 5 miles of the project;
(b) constructed within the same 12-month period; and
(c) under common ownership.

Lands Energy Consulting

The Utility has contracted with Lands Energy Consulting (LEC) to administer the RFI and serve as the point of contact with Respondents. LEC will receive information and compose summaries for review by Utility staff. Unlike past RFPs conducted by the Utility, this will not be a "blinded" process and Utility staff will have access to the Respondents' information throughout the process. **Any inquiries or correspondence regarding this RFI should be directed to LEC**:

Tim Castille	Steve Lewis
castille@landsenergy.com	slewis@landsenergy.com
360-885-4567	206-726-3695

or

2. FORMAT FOR THIS RFI

In order to facilitate submission and review, the Utility will accept information packets via email using a preset streamlined format. On or before the day when responses are due, Respondents should email submissions consisting of a PDF document including an executive summary describing the resource as well as a description of the experience of the project team. The information sought in this summary is described in Section 2.1 below. In addition to the executive summary Respondents should return the Excel spreadsheet RFI Information Packet provided with this RFI including information requested for each resource type.

2.1 EXECUTIVE SUMMARY

In addition to filling out the Excel spreadsheet provided with this RFI, Respondents should provide a brief summary of the project, including any and all key elements that are appropriate for evaluating the merits of the project. Project summaries should be high-level summaries appropriate for use in executive briefing sessions and limited if possible to no more than two pages. The project summary shall include but not be limited to such facts as the status of siting and lease arrangements (land control), permits, transmission interconnection agreements, environmental studies, turbine/engine equipment and project design overview, status of construction agreements, expected date of commercial operation, project schedule and an overview of your company and project financing plans or capability. Wind resource and expected energy production information (if available) should be provided. Please also describe the proposed credit support available to support the Respondent's obligations under a future contract. If a PPA is proposed, describe the terms for exercising options to transfer ownership of the generating resource to the Utility. Include a description of your project team, its experience, qualifications and track record of developing and operating similar projects.

2.2 RFI INFORMATION PACKET

The Excel spreadsheet should be self-explanatory with an instructions tab, a cover sheet tab and tabs for information on each resource type sought in this RFI. If a Respondent has questions please direct them to Tim Castille or Steve Lewis. Contact information is provided in Section 1.

2.3 TERM

The Utility prefers to purchase and own Renewable Projects, but will consider PPAs available for no less than ten (10) years with twenty (20) years being preferable.

2.4 PROJECT SIZE

NorthWestern seeks up to 75 MW renewable generating capacity available to purchase or for contracting. Of this amount, up to 45 MW will need to comply with the NorthWestern's obligations to meet community renewable resource requirements meaning that individual resources will need to be 25 MW nameplate capacity or less.

2.5 RFI SCHEDULE

ITEM	DATE	TIME
Release of RFI	August 17, 2009	N/A
Deadline to submit responses	September 30, 2009	4:00 pm PPT
Completion of Review and notification to Respondents	October 30, 2009	

Electronically submitted responses should be sent to Tim Castille at castille@landsenergy.com and a copy sent to Steve Lewis at slewis@landsenergy.com. Responses may also be delivered to the address below. If hard copy responses are submitted, please provide four copies.

NorthWestern Energy RFI
c/o Lands Energy Consulting
2719 California Avenue SW
Suite 5
Seattle, WA 98116

3. ADDITIONAL PROVISIONS

3.1 RIGHT TO TAKE NO ACTION

The Utility reserves the right to enter into bilateral negotiations with Respondents, shortlist Respondents or take no action at its sole discretion.

3.2 CONFIDENTIALITY

Respondents shall clearly identify portions of their proposals that they do not want revealed to third parties. The Utility will not accept proposals or other documents that are marked to indicate the entire document is the confidential or proprietary information of the sender or that restricted handling is required. Normal business practices will be observed in handling proposal materials. If the respondent considers the Cost Proposal or resource data to be confidential or proprietary, those portions of the proposal must be clearly marked "Confidential" on every page.

Except as required under law or for regulatory purposes, the Utility will maintain confidentiality of such information. The Utility may also provide copies of the proposals and any related materials to its consultants and contractors, although such consultants and contractors will be required by the Utility to maintain the confidentiality of such information. If the Utility is compelled to provide such confidential information, respondent shall be responsible for defending the confidential status of the information.

3.3 REGULATORY APPROVALS

NorthWestern Energy may be required to submit any transaction resulting from this process to the Montana PSC for approval. Any transactions, therefore, may include provisions such that the transaction will not be completed until the regulatory approvals are received. Failure to receive approval would result in termination of the agreement. All respondents will be expected to assist NorthWestern Energy in the preparations of regulatory filings. Moreover, to the extent Respondent wishes to seek a protective order for information to be submitted to the MPSC, Respondent shall be responsible, at its sole cost and expense, for preparing and submitting any such protective order to the MPSC. Any such request for a protective order, regardless of whether such request for protective order is granted,

does not in any way limit NorthWestern's ability to submit information obtained through this RFI process to the MPSC as part of complying with any portion of an MPSC or other regulatory proceeding.

3.4 OWNERSHIP AND RETURN OF RESPONSES

All materials submitted as part of this RFI shall become the property of NorthWestern Energy and shall not be returned.

3.5 COST OF RESPONDING

Each response prepared in response to this RFI will be prepared at the sole cost and expense of the Respondent and with the express understanding that there will be no claims whatsoever for reimbursement from the Utility.