

January 24, 2014

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

RE: Docket No. D2013.12.85  
PPLM Hydro Assets Purchase  
PSC Set 1 Data Requests (001-035)

Dear Ms. Whitney:

Enclosed for filing is a complete copy of NorthWestern Energy's response to PSC Set 1 Data Requests. As noted, certain of these responses were provided on January 17, 2014. For convenience, the January 17<sup>th</sup> responses are included here, but any associated attachments are not provided again.

A hard copy will be mailed to the most recent service list in this Docket this date. The Montana Public Service Commission and the Montana Consumer Counsel will be served by hand delivery this date. These data responses will also be e-filed on the PSC website and emailed to counsel of record.

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

Sincerely,



Nedra Chase  
Administrative Assistant  
Regulatory Affairs

NC/nc  
CC: Service List

**CERTIFICATE OF SERVICE**

I hereby certify that a complete copy of NorthWestern Energy's response to PSC Set 1 Data Requests in Docket D2013.12.85, the PPLM Hydro Assets Purchase, has been hand delivered to the Montana Public Service Commission and to the Montana Consumer Counsel this date. They will be e-filed on the PSC website and served on the most recent service list by mailing a copy thereof by first class mail, postage prepaid. These data responses will also be emailed to counsel of record. As noted, certain of these responses were provided on January 17, 2014. For convenience, the January 17<sup>th</sup> responses are included in this copy; any associated attachments are not.

Date: January 24, 2014



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Nedra Chase  
Administrative Assistant  
Regulatory Affairs

**Docket No D2013.12.85**  
**Hydro Assets Purchase**  
**Service List**

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**NorthWestern Energy**  
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**Public Service Commission (PSC)**  
**Set 1 (001-035)**

Data Requests served December 27, 2013

PSC-001      Regarding:    Confidential Information Memorandum  
                 Witness:        Rowe

Please provide the Seller's Confidential Information Memorandum referred to at TEM-7:13-14 and on JMS:7 and JMS:14. If NWE believes a new Protective Order is necessary for this material, please provide, simultaneously with a Motion for Protective Order by the response deadline, a redacted copy of the CIM that includes that information for which protection is not sought.

RESPONSE (January 17, 2014):

On January 10, 2013, NorthWestern filed two motions for protective order regarding certain information contained within the Seller's Confidential Information Memorandum (CIM). A redacted public version of this CIM was provided with both motions, and it is attached here as well.

NorthWestern will update this response by providing this information in the appropriate format after the Commission rules on the motions for protective order.

In the event that the Commission does not grant the protective orders sought by NorthWestern, NorthWestern objects to the question to the extent the request seeks information that is irrelevant, outside the reasonable scope of this proceeding, and not calculated to lead to the discovery of admissible evidence; to the extent that it seeks information or documents relating to entities other than NorthWestern; and to the extent that it requires public disclosure of information that is confidential or commercially sensitive to entities other than NorthWestern.

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PSC-002      Regarding:    Preliminary Value Indications  
                   Witness:        Bird

Please provide the “preliminary value indications from early 2009 right up until the time the assets came up for sale” that are referred to in 4:14-15.

RESPONSE (January 24, 2014):

In the period between March 2009 and February 2011, NorthWestern received value indications from four investment banks for asset values related to the Hydro Plants, as well as the coal plants of PPLM. The indicative values for Hydro Plants were generally derived from comparable recent acquisitions and ranged between \$1.136 billion on the high end and \$811 million on the low end.

See table below:

Investment Bank	Date	Valuation Method	(\$Billions)			
			Total PPLM (includes coal)		Total Hydro	
			High Estimate	Low Estimate	High Estimate	Low Estimate
# 1	3/31/2009	Comparable acquisitions	\$2.365	\$1.904	\$1.136	\$0.811
# 2	1/26/2011	Comparable acquisitions	\$1.877	\$1.189	n/a	n/a
# 3	2/4/2011	Comparable acquisitions	\$2.243		\$0.862 (All except Kerr) \$0.168 (Kerr) \$1.030 (Total Hydro)	
# 4	7/29/2011	Sum of the parts	\$1.873	\$1.551	\$1.020	\$0.868

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PSC-003      Regarding:    Prior Bid for PPLM Assets  
                  Witness:      Bird

- a.      Did NWE use substantially the same methods of valuation to calculate its bids for the PPLM assets described at 7:13-16 of your testimony? Please explain any difference.
- b.      Please provide any model, whether DCF or LT Rev Req or other, or other written analysis that NWE used to inform these bids.
- c.      Please explain further the environmental concerns associated with the PPLM coal assets, and describe the process and amount of negative value that NWE quantified to be associated with those concerns, isolating each concern as an individual liability to the extent that NWE did so.
- d.      Please explain further the sale lease-back provision associated with the PPLM coal assets, and describe the process and amount of negative value that NWE quantified to be associated with that provision.

RESPONSE (January 24, 2014):

- a.      Yes, substantially the same valuation methodology was utilized for both the January 7, 2013 and the July 1, 2013 bids.
- b.      NorthWestern objects to this data request to the extent that it seeks information or documents not relevant to the issues in this docket, which is beyond the permissible scope of discovery. The scope of discovery is limited to non-privileged matters that are relevant. M. R. Civ. P. 26(b)(1). The information sought must be reasonably calculated to the discovery of admissible evidence. *Id.* Initially, the party responding to discovery must make a good faith determination of relevance. If the party responding is not permitted to determine the relevance of material and is required to produce all material so that the requesting party can determine relevance, the limitation that irrelevant information or documents are not discoverable is violated. Neither bid was accepted and no transaction resulted from the January 7, 2013 bids. No transaction involving these bids is before the Commission.

In addition, NorthWestern does not have the complete final models with the final inputs on which its bids were based. As is customary when a Seller enters into a Confidentiality Agreement to bidders for the potential sale of its business, Paragraph 6 of PPL's Sept. 12, 2012 Confidentiality Agreement with NorthWestern Energy required NorthWestern, as a condition of having access to PPL's confidential information, to agree to return or destroy

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all confidential information it obtained from PPL at any time PPL so requests. That Confidentiality Agreement is provided as Attachment 1. The definition of "Confidential Information" includes NorthWestern's analyses utilizing PPLM's confidential data. When NorthWestern and PPL did not reach agreement for any of PPLM's assets, PPLM sent a letter to NorthWestern Energy on Feb. 11, 2013 (provided as Attachment 2) requesting that NorthWestern destroy or return to PPL all Confidential Information. Consequently, NorthWestern destroyed its final models with the final inputs for the January 2013 bids and cannot provide complete final models on which its bids were based.

When PPLM reengaged with NorthWestern in the Spring of 2013, NorthWestern's outside consultants were able to provide one of the final models – the LT Rev Req model. Without waiving said objection, the final LT Rev Req models for both the conforming and non-conforming bids from December 2012 are provided in the folder labeled "PSC-003" on the attached CD.

- c. NorthWestern objects to this data request to the extent that it seeks information or documents not relevant to the issues in this docket, which is beyond the permissible scope of discovery. The scope of discovery is limited to non-privileged matters that are relevant. M. R. Civ. P. 26(b)(1). The information sought must be reasonably calculated to the discovery of admissible evidence. *Id.* Initially, the party responding to discovery must make a good faith determination of relevance. If the party responding is not permitted to determine the relevance of material and is required to produce all material so that the requesting party can determine relevance, the limitation that irrelevant information or documents are not discoverable is violated. NorthWestern and PPLM did not enter into a transaction involving coal and NorthWestern's assessment of the environmental risks associated with coal is not an issue in the pending proceeding, which involves hydroelectric assets.

NorthWestern additionally objects on the basis that as it no longer has its complete final models with its inputs that would reflect NorthWestern's assessment of environmental costs. See the response to part b, above.

Without waiving these objections, NorthWestern's valuation of the non-hydro facilities was significantly lower than the costs of the hydro-only facilities because of anticipated but unknown future costs to comply with existing environmental regulations; potential major modifications of the Colstrip facility that might be required as a result of a potential lawsuit brought by Sierra Club and the Montana Environmental Information

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Center's Clean Air Act lawsuit against the operator (PPLM) and the owners of the Colstrip facility; potential future compliance costs incurred due to new environmental statutes and regulations, including laws limiting greenhouse gas emissions; and the unavoidable and potentially very significant environmental compliance costs associated with the sale-leaseback.

- d. NorthWestern objects to this data request to the extent that it seeks information or documents not relevant to the issues in this docket, which is beyond the permissible scope of discovery. The scope of discovery is limited to non-privileged matters that are relevant. M. R. Civ. P. 26(b)(1). The information sought must be reasonably calculated to the discovery of admissible evidence. *Id.* Initially, the party responding to discovery must make a good faith determination of relevance. If the party responding is not permitted to determine the relevance of material and is required to produce all material so that the requesting party can determine relevance, the limitation that irrelevant information or documents are not discoverable is violated. NorthWestern's decision to not pursue PPLM's coal assets, and all of the intricacies of the sale-leaseback, is not an issue in this proceeding. What is at issue is NorthWestern's decision to acquire PPLM's hydroelectric facilities. The Prefiled Direct Testimony of Brian B. Bird ("Bird Direct Testimony") mentioned the sale-leaseback as part of an overview of NorthWestern's efforts to acquire the PPLM hydroelectric facilities so that the Commission could see that NorthWestern's purchase of the PPLM hydroelectric facilities was the result of significant efforts spanning a significant period of time.

NorthWestern further objects to explaining the sale-leaseback on the basis that to fully describe the sale-leaseback is burdensome. The Colstrip sale-leaseback transaction was memorialized through numerous transaction agreements (the "Operative Documents") entered into among PPLM, two financial investors (subsidiaries of which acted as the "Owner Lessors" in the sale-leaseback), and other related parties (*e.g.*, the pass-through trustee and each Owner Lessor's parent entity). The Operative Documents included:

- A Participation Agreement, which described the overall transaction structure and contained various representations, warranties and covenants which imposed obligations and restrictions on PPLM in the conduct of its business. It also included a detailed appendix of definitions that were cross-referenced in the other Operative Documents;

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- The Facility Lease, which set out the initial lease term and extension options during which PPLM could operate the power plant. It also specified various rental obligations, maintenance and/or improvement obligations, default remedies and other terms, including PPLM's termination rights in respect of the lease;
- A Site Lease and Sublease Agreement ("Site Lease") related to the real property on which the Colstrip plant is sited. Under the sale-leaseback, fee ownership of the real estate remains with PPLM, with the applicable Owner Lessor taking a leasehold interest that is then subleased back to PPLM. The Site Lease set out initial terms and renewal options for this arrangement, as well as rental amounts and other customary provisions;
- An Indenture, Mortgage and Security Agreement between the indenture trustee and the applicable Owner Lessor, which evidenced and governed the issuance of the secured lessor notes and contained payment, distribution and default terms, as well as administrative provisions;
- An Assignment and Reassignment Agreement in respect of certain project agreements, as well as an Omnibus Voting Rights Agreement, which established a framework for PPLM to maintain certain rights in respect of the governance of Colstrip; and
- A Tax Indemnity Agreement, under which PPLM agreed to indemnify the applicable Owner Lessor and its affiliates upon certain breaches of its representations, or the occurrence of other events, to the extent such breach or other event triggered adverse tax consequences.

As can be seen by the number and nature of the Operative Documents, the sale-leaseback is extremely complicated and a full description of the transactional arrangement would require extensive legal analyses. To do so would be extremely burdensome, and it is not relevant as NorthWestern has not put before the Commission a transaction that attempts to comply with the Colstrip sale-leaseback's complexity. Moreover the sale-leaseback is no longer even in effect, as it was terminated in December 2013 by mutual agreement between PPLM and the other parties thereto.

Without waiving these objections, NorthWestern responds as follows: A "sale-leaseback" is a type of financing transaction where one party – the seller/lessee – sells an asset and leases it back pursuant to a long-term lease. In doing so, the seller/lessee continues to be

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able to use the asset, despite no longer owning it. The buyer/lessor investor usually makes a cash payment to the seller/lessee, which is financed (at least in part) with a recourse or nonrecourse loan.

The Colstrip sale-leaseback was memorialized through various transaction agreements entered into by PPLM, the Owner Lessors, and other related parties including those identified above.

The sale-leaseback included both affirmative covenants and negative covenants. Among the many affirmative covenants was the requirement to return the facility to the Owner Lessors after the 36-year initial term expired. At such time, PPLM's right to use the Colstrip facility would have ceased. But, upon the return of the facility (other than under certain circumstances), PPLM would have been required to ensure that:

- Colstrip was in at least as good condition as if it had been maintained, repaired and operated during the term in compliance with the Facility Lease, ordinary wear and tear excepted, and shall have no deferred maintenance;
- Colstrip had the capability and functional ability to generate electricity, on a continuous basis in normal commercial operating conditions, substantially at the ratings for which it was designed, taking into account all modifications (ordinary wear and tear excepted);
- Colstrip was in compliance with all requirements of manufacturers required for the maintenance of any material warranty then in effect; and
- no component of the plant was a temporary component.

In addition, in connection with such return, PPLM would have been required to provide a phase I environmental survey (and a phase II, if the phase I revealed facts that would reasonably necessitate a phase II) as to the environmental condition of Colstrip, its compliance with applicable environmental laws during the lease term, and the presence or absence of environmental conditions at the facility site. If the phase I/II indicated any non-compliance with applicable environmental laws, PPLM would have been required to provide a remediation plan designed to restore compliance as promptly as reasonably practical and without materially adversely affecting the continued operation of the plant. Moreover, PPLM would have been solely responsible for any liability arising from any

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delay in returning the plant to full compliance. In addition, there were also requirements associated with site decommissioning.

The sale-leaseback also included negative covenants. One negative covenant concerned assignments, and it provided that assignment of the key agreements required consent of the Owner Lessors except under certain circumstances. Another concerned mergers and consolidations, and they prohibited PPLM from entering into any merger or consolidation, or any sale, assignment, conveyance, lease, transfer or other disposal of, all or substantially all of its properties or assets unless certain requirements were met. Another restricted the conditions under which dividends could be paid. Another restricted the disposal of PPLM's assets.

These provisions, as well as others, presented major obstacles to executing a transaction with PPLM. First, many of the negative covenants in the sale-leaseback Operative Documents prevented NorthWestern from assuming direct ownership of the Mustang assets, either because they required a waiver from the Owner Lessors and PTC holders, which PPLM was unwilling to seek, or because the negative covenants were incompatible with NorthWestern's business.

Indirect ownership, however, had its own problems. Ownership of the assets through a subsidiary would have (i) required a waiver of the direct ownership requirement under NorthWestern's 2004 Stipulation and Settlement Agreement (the "Bankruptcy Stipulation") with the MSPC and the Montana Consumer Counsel, (ii) required additional approvals from the Federal Energy Regulatory Commission ("FERC"), and complicated other FERC approvals required to consummate the Mustang transaction, which increased the likelihood that FERC consents might not be timely obtained or that FERC would condition its consent on additional restructuring or mitigation, and (iii) made MPSC approval extremely complex and challenging.

In addition to these and other structural limitations, NorthWestern identified other considerations in the sale-leaseback arrangement which made it commercially unappealing. The most visible were the rent payment and credit support requirements, which represented significant short- and long-term costs. Others arose out of the operational and maintenance provisions in the Facility Lease and Site Lease. For example, the Facility Lease appeared to require PPLM to continue to operate and maintain the facility, in good condition, repair and working order and consistent with "Prudent Industry Practice," until at least 2036 (when the initial Facility Lease term expired), including performing modifications required due to changing environmental

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laws or new environmental regulations affecting the plant. Upon the expiration of the Facility Lease, PPLM would have been required to ensure the plant was capable of generating electricity consistent with its design parameters. These requirements would have applied without any consideration of economic impacts (*i.e.*, the costs and benefits of such actions to PPLM) and appeared to limit PPLM's ability to "mothball" or retire the Colstrip facility, for example, in the face of costly environmental capex triggered by new federal regulations. As such, PPLM could be forced to make uneconomic repairs and improvements to Colstrip and could be prevented from managing maintenance and capital investment cost-effectively.

In order to address the risks associated with the Colstrip Sale-Leaseback, NorthWestern proposed certain conditions in its "conforming" bid. In initial post-bid negotiations, the parties were unable to agree on terms for the transaction and the parties' negotiations terminated over these provisions.

In its "conforming" bid submitted January 7, 2013, NorthWestern proposed to purchase PPLM's leasehold interest in Colstrip, Corette, and the hydroelectric facilities for an aggregate purchase price of \$400 million. At that time, NorthWestern's non-conforming bid proposed a purchase of the hydroelectric facilities alone, without any coal-fired assets, for an aggregate purchase price of \$740 million. The \$340 million difference between these bids represents the negative value assigned by NorthWestern to the coal assets based on several factors: the sale-leaseback; significant environmental risks and costs associated with coal assets; and the fact that the thermal assets put us in a long position as we did not need all of the power from the thermal facilities and the regulatory and commercial issues that arose from having excess power.

CONFIDENTIAL

September 15, 2012

NorthWestern Corporation  
3010 W. 69<sup>th</sup> Street  
Sioux Falls, SD 57108

Attn:

RE: Confidentiality Agreement

Ladies and Gentlemen:

The undersigned, NorthWestern Corporation d/b/a NorthWestern Energy ("Buyer"), has expressed interest in exploring a transaction (a "Transaction") involving the possible acquisition of PPL Montana Holdings, LLC (together with its subsidiaries and certain related assets, the "Business") from one or more subsidiaries of PPL Corporation (together with its subsidiaries and affiliates, "PPL"), and in connection therewith may be provided with certain information relating to the Business. As a condition to any information being furnished to the Buyer and its Representatives (as defined below), the Buyer and PPL agree to be bound by the terms and conditions set forth in this letter agreement (this "Agreement"). The Buyer further agrees to inform each of its Representatives to whom any information subject to this Agreement is disclosed of the terms and conditions of this Agreement, and to direct each such Representative to fully observe and be bound by this Agreement to the same extent as if such Representative were a party hereto.

1. Confidential Information. As used in this Agreement, the term "Confidential Information" means all information relating to the Business (including without limitation, all such information concerning or relating to the Business's assets, liabilities, businesses, customers, or suppliers) or PPL furnished after the date hereof by or on behalf of PPL or its Representatives, or learned or obtained after the date hereof in any fashion by the Buyer in connection with visits, if any, in connection with the Transaction to facilities included in the Business (which information learned or obtained in connection with such visits shall be deemed disclosed by PPL), whether in oral, written or electronic form. "Confidential Information" shall include all information of the types described above, regardless of the manner or form in which it is furnished, learned or obtained, and includes, without limitation, all data, reports, interpretations, forecasts and records containing or otherwise reflecting any of such information, whether prepared by PPL, its Representatives or others, and any summaries, analyses or other documents created by the Buyer, PPL, any of its Representatives or others which refer to, relate to, discuss, constitute, or embody all or any portion of any of such information. Notwithstanding the foregoing, the term "Confidential Information" shall not include information that: (a) is or becomes generally available to the public other than as a result (directly or indirectly) of a disclosure or other action by the Buyer or its Representatives; (b) was (as demonstrable by written records of Buyer) in the Buyer's possession and obtained on a nonconfidential basis prior to the disclosure thereof by PPL or its Representatives; (c) becomes available to the Buyer on a nonconfidential basis from a person other than PPL or its Representatives who is not otherwise bound by any obligation of confidentiality with respect thereto; (d) has been independently developed by Buyer without the

use of the information provided by or on behalf of PPL in connection with the Transaction; or (e) is or becomes available, whether before or after the date hereof, to Buyer as part of the ordinary course of its business relationship with PPL.

2. Representatives. As used in this Agreement, the term "Representatives" means, as to any person, such person's affiliates and its and their directors, officers, managers, employees, agents, debt financing sources and advisors (including, without limitation, financial advisors, counsel, and accountants) and controlling persons. As used in this Agreement, the term "person" shall be broadly interpreted to include, without limitation, an individual, and any corporation, company, partnership, limited liability company, or other entity, organization, or association.

3. Restrictions on Use and Disclosure. Subject to Section 4 below, unless otherwise agreed to in writing by PPL, Buyer agrees for a period of three (3) years from and after the date hereof: (a) to keep all Confidential Information confidential and not to disclose or reveal any Confidential Information to any person other than Representatives of Buyer who are actively and directly participating in the evaluation of a Transaction on behalf of Buyer; (b) not to use Confidential Information for any purpose other than its evaluation of a possible Transaction; and (c) not to disclose to any person (other than those of its Representatives who are actively and directly participating in the evaluation of a Transaction on behalf of Buyer) any information relating to a possible Transaction, any proposed terms or conditions of a possible Transaction, or any other information or matters relating thereto, including, without limitation, the fact that discussions are taking place with respect thereto, the status thereof, or the fact that Confidential Information has been made available to the Buyer or its Representatives. The Buyer agrees to take all reasonable measures to restrain its Representatives from prohibited or unauthorized disclosure or use of any Confidential Information and, regardless of compliance by Buyer with the foregoing, shall be responsible and liable to PPL for any breach of the terms of this Agreement by the Buyer or any of its Representatives to the same extent as if such Representative were a party hereto.

4. Compelled Disclosure. In the event that the Buyer or any of its Representatives is legally compelled, pursuant to a subpoena, civil investigative demand, regulatory demand (including requests for information from regulators) or similar process or pursuant to applicable law, rule, regulation, stock exchange rule or disclosure requirement of the Securities and Exchange Commission (collectively, "Law"), to disclose any Confidential Information or any other information concerning the Business or a Transaction, the Buyer agrees that it shall provide PPL with prompt notice of such request or requirement, unless restricted by Law, together with the text of the proposed disclosure as far in advance of its disclosure as is reasonably practicable, and will in good faith consult with and consider the suggestions of PPL concerning the nature and scope of the information the Buyer proposes to disclose. The Buyer agrees to cooperate fully with and not to oppose any action by PPL to obtain a protective order or other appropriate remedy in order to limit such disclosure. In the event that no such protective order or other remedy is obtained, or in the event that PPL waives compliance with the terms of this Agreement, the Buyer may disclose only that part of the Confidential Information as it is advised by counsel is legally required to be disclosed, and shall use its reasonable best efforts to ensure that all Confidential Information that is so disclosed will be accorded confidential treatment. Notwithstanding the foregoing, prior notice to PPL shall not be required in the event that any Confidential Information is required to be disclosed during a routine review, meeting or inspection of any governmental authority applicable to the Buyer or any of its Representatives; provided that the Buyer or any

such Representative shall give notice to PPL as promptly as reasonably practicable after such disclosure, shall disclose only that part of the Confidential Information that Buyer reasonably believes is required to be disclosed under the circumstances, and shall use its reasonable best efforts to ensure that all Confidential Information that is so disclosed will be accorded confidential treatment.

5. Ownership. The Buyer acknowledges that the Confidential Information is and shall remain the sole and exclusive property of PPL. No right or license, by implication or otherwise, is granted by PPL as a result of this Agreement or as a result of any disclosure of Confidential Information.

6. Return or Destruction. If the Buyer determines that it does not wish to further pursue a Transaction, it will promptly advise PPL of that decision in writing. In such case, or at any other time if PPL so requests in writing, the Buyer shall, and shall cause its Representatives to: (a) promptly destroy or return to PPL all Confidential Information furnished by or on behalf of PPL; (b) promptly destroy all copies, summaries, extracts, memoranda, notes and other writings of, containing, or based upon any Confidential Information, regardless of who prepared such writings; and (c) promptly expunge all Confidential Information from all computers and other electronic or other storage devices. Neither Buyer nor any of its Representatives shall retain any copies or other reproductions in whole or in part of any such material except to the extent (y) required by Law or (z) such material exists in data form on Buyer's back-up media, provided that Buyer agrees not to, and does not, access such data for any purpose. An officer of the Buyer shall certify to PPL, in writing, that Buyer has completed compliance with this paragraph by Buyer and its Representatives within fifteen (15) days following the earlier of Buyer's notice to PPL that it does not wish to further pursue a Transaction, or PPL's request to Buyer to take the actions set forth in sections 6(a), (b), and (c). Compliance with this paragraph 6 shall not terminate or relieve Buyer or its Representatives from their obligations under this Agreement.

7. No Warranty. Buyer acknowledges that neither PPL nor any of its Representatives makes any express or implied representation or warranty as to the accuracy or completeness of any information provided to Buyer or its Representatives. Except as may be provided in the definitive written agreement with regard to any Transaction between PPL and Buyer, Buyer agrees that neither PPL nor any of PPL's Representatives shall have any liability to the Buyer or any of Buyer's Representatives relating to or arising from the use of any information by the Buyer or its Representatives or for any errors in or omissions from such information.

8. Procedures. The Buyer acknowledges that PPL may establish procedures and guidelines governing the process for the submission and evaluation of proposals with respect to a Transaction, and any other matters relating thereto (the "Procedures"). The Buyer acknowledges and agrees that (a) PPL and its Representatives are free to conduct the process leading up to a Transaction as PPL and its Representatives determine in their sole discretion (including, without limitation, by negotiating with any third party and entering into a preliminary or definitive agreement without prior notice to the Buyer or any other person); (b) PPL reserves the right, in its sole discretion, to change the Procedures at any time without prior notice to the Buyer or any other person, to reject any and all proposals made by the Buyer or any of its Representatives regarding a Transaction, and to terminate discussions and negotiations with the Buyer at any time and for any reason; and (c) neither PPL nor any of its Representatives nor any third party with whom PPL may enter into any agreement for the sale of the Business shall have any liability to

the Buyer or its Representatives arising out of or relating to such transaction. The Buyer hereby confirms that it is not acting as a broker for or Representative of any person and is considering the Transaction only for the Buyer's own account. Without the prior written consent of PPL, Buyer will not, directly or indirectly, enter into any agreement, arrangement or understanding with any person evaluating the Transaction for its own account regarding the joint submission of a proposal with respect to a Transaction.

9. Communications. Buyer acknowledges and agrees that (i) Buyer and its Representatives will not contact, directly or indirectly, any directors, officers, employees, customers, suppliers or affiliates of PPL, or any regulators or other third persons with whom PPL has a relationship, for any purpose relating to the Transaction without PPL's prior written consent and (ii) all (a) communications regarding a Transaction, (b) requests for additional information, (c) requests for facility tours or management meetings, and (d) discussions or questions regarding the Procedures will be submitted only to PPL's financial advisor, UBS Securities LLC.

10. Non-Solicitation. The Buyer agrees that, without PPL's prior written consent, it will not, and the employees of Buyer and its affiliates who are Representatives hereunder will not, for a period of two (2) years from the date hereof, directly or indirectly solicit for employment or employ (i) any employee of PPL who is based in Montana or primarily engaged in the Business, or (ii) any other employee of PPL with whom Buyer has had contact or who (or whose performance) became known to the Buyer in connection with the process contemplated by this Agreement; provided, however, that the Buyer shall not be prohibited from: (a) employing any such person who contacts the Buyer on his or her own initiative and without any direct or indirect solicitation by the Buyer; (b) conducting generalized solicitations for employees (which solicitations are not specifically targeted at PPL's employees) through the use of media advertisements, professional search firms or otherwise; or (c) if the Buyer and PPL consummate a Transaction, employing such persons connected with the Business in accordance with the terms of the definitive agreement with respect to such Transaction.

11. Securities Laws. The Buyer is aware, and will advise its Representatives who are informed of the matters that are the subject of this Agreement, of the restrictions imposed by the United States securities laws on the purchase or sale of securities by any person who has received material, non-public information from the issuer of such securities and on the communication of such information to any other person when it is reasonably foreseeable that such other person is likely to purchase or sell such securities in reliance upon such information.

12. No Implied Obligations. This Agreement binds the parties only with respect to the matters expressly set forth herein. PPL has no obligation to disclose any information to Buyer or its Representatives. Neither party is bound or committed to negotiate or consummate a Transaction unless and until a definitive agreement regarding such Transaction has been executed and delivered on behalf of both parties by their duly authorized officers, in which case the obligations of the parties to consummate such Transaction and to negotiate any matters in connection therewith shall be subject to, and governed solely by, the terms and conditions of such definitive agreement. For purposes hereof, the term "definitive agreement" does not include an executed letter of intent or any other preliminary written agreement, nor does it include any written or oral acceptance of an offer or bid on the Buyer's part.

13. Non-Exclusive Remedies. It is understood and agreed that the Confidential Information is special, unique and of extraordinary character, and that PPL may be irreparably harmed by a breach of this Agreement. In the event that the Buyer or its Representatives shall have knowledge of any breach of this agreement, Buyer shall promptly give notice thereof to PPL. Without prejudice to the rights and remedies otherwise available to PPL, the Buyer agrees that PPL shall be entitled to seek equitable relief by way of injunction or otherwise if the Buyer or any of its Representatives breaches or threatens to breach any of the provisions of this agreement. The Buyer further agrees to waive, and to use its reasonable best efforts to cause its Representatives to waive, any requirement for the securing or posting of any bond in connection with such relief. The Buyer also agrees to indemnify and hold PPL harmless from any damages, losses, costs or liabilities (including, without limitation, reasonable legal fees or other costs of enforcing this indemnity) arising out of or resulting from any unauthorized use or disclosure by the Buyer or its Representatives of any Confidential Information or other violation of the terms of this Agreement.

14. Restrictions on Agreements. The Buyer shall not enter into any agreement, arrangement or other understanding, whether written or oral, or discussions which might lead to such agreement, arrangement or understanding, with any potential debt financing source or sources which may reasonably be expected to limit, restrict, restrain, or otherwise impair in any manner, directly or indirectly, the ability of such debt financing source or sources to provide financing or other assistance to any other party in any transaction involving a potential purchase of the Business.

15. No Contest. In consideration of the collective benefit to all persons participating in the sale process of finality in the process and of PPL providing Buyer with access to the Confidential Information pursuant to this Agreement, the sufficiency of which consideration is hereby acknowledged, Buyer further agrees (i) not to object in any regulatory proceedings seeking authorization relating to any sale of the Business by PPL and (ii) not to seek from any regulatory agency or any court in any proceeding related to the sale of the Business by PPL any order, judgment or decree that Buyer's bid was the "highest" or "best" bid, that Buyer is or should be chosen as the successful bidder in the process, that PPL erred in its evaluation of the price, terms or conditions of Buyer's bid or any bid of any other person participating in the process as compared to the chosen successful bidder's bid (if there be one), or that PPL otherwise exercised its discretion in connection with this process in an inappropriate manner. Notwithstanding the foregoing, under no circumstances shall Buyer be restricted, in any capacity, from participating in any regulatory, court or other proceedings concerning any sale of the Business by PPL for the sole purpose of protecting, preserving or otherwise maintaining its contractual rights and obligations, duties to customers, and other interests related to the Business.

16. Assignment. The Buyer agrees that the rights and remedies of PPL under this Agreement shall inure to the benefit of, and shall be separately enforceable by, PPL, its affiliates, and its and their respective successors and assigns, including but not limited to any and each successor owner of any of the Confidential Information. The Buyer shall not assign this Agreement without the prior written consent of PPL except that, without such consent, Buyer shall cause its obligations under this Agreement to be assumed, either in writing or by operation of law, by any successor (by merger, sale of assets, or otherwise) to the business of Buyer or of any portion thereof to which any of the Confidential Information has been disclosed. No

assignment of this Agreement or of any rights or obligations hereunder shall relieve the Buyer of any of its obligations hereunder.

17. Governing Law; Jurisdiction and Venue. This Agreement shall be governed by and construed in accordance with the laws of the State of New York. PPL and the Buyer hereby irrevocably and unconditionally consent to submit to the nonexclusive jurisdiction of the courts of the Southern District of New York and of the United States of America located in the Southern District of New York with respect to any actions, suits or proceedings arising out of or relating to this agreement and the transactions contemplated hereby, and further agree that service of any process, summons, notice or document by U.S. registered mail to the respective addresses set forth on the first page of this agreement shall be effective service of process for any action, suit or proceeding brought against the parties in any such court. PPL and the Buyer hereby irrevocably and unconditionally waive any objection to the laying of venue of any action, suit or proceeding arising out of this agreement or the transactions contemplated hereby, in the courts of the Southern District of New York and of the United States of America located in the Southern District of New York, and hereby further irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT.

18. Miscellaneous. This Agreement contains the entire agreement between PPL and the Buyer concerning the subject matter hereof, and no modification of this Agreement or waiver of any terms hereof shall be binding upon PPL or the Buyer, unless approved in writing by both of the parties hereto. No failure or delay by either party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any right, power or privilege hereunder. If any provision of this Agreement shall, for any reason, be adjudged by any court of competent jurisdiction to be invalid or unenforceable, such judgment shall not affect, impair or invalidate the remainder of this Agreement but shall be confined in its operation to the provision of this Agreement directly involved in the controversy in which such judgment shall have been rendered. This Agreement may be executed in counterparts and by original or facsimile signatures, each of which shall be an original, but all of which together shall constitute one and the same agreement.

[Signatures on following page]

Please confirm your agreement with the foregoing by signing and returning to the undersigned the duplicate copy of this Agreement enclosed herewith.

PPL CORPORATION

By:  \_\_\_\_\_

Name: Paul A. Farr

Title: Executive Vice President and  
Chief Financial Officer

Accepted and Agreed  
as of the date set forth above:

NorthWestern Corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Please confirm your agreement with the foregoing by signing and returning to the undersigned the duplicate copy of this Agreement enclosed herewith.

PPL CORPORATION

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Accepted and Agreed  
as of the date set forth above:

NorthWestern Corporation

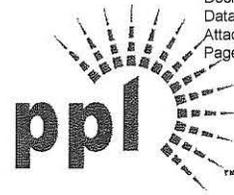
By:  \_\_\_\_\_

Name: Brian Bil

Title: VP - CFO

**Paul Farr**  
Executive Vice President  
and Chief Financial Officer  
Tel. 610.774.2426 Fax 610.774.7016  
E-mail: pfarr@pplweb.com

**PPL Corporation**  
Two North Ninth Street  
Allentown, PA 18101-1179  
Tel. 610.774.5151  
<http://www.pplweb.com>



**CONFIDENTIAL**

February 11, 2013

NorthWestern Corporation  
3010 W. 69<sup>th</sup> Street  
Sioux Falls, SD 57108

Attn: Brian Bird  
Vice President and Chief Financial Officer

Re: Confidentiality Agreement – Return or Destruction of Confidential  
Information

Ladies and Gentlemen:

Reference is made to that certain letter agreement dated September 15, 2012 (the "Confidentiality Agreement") between PPL Corporation ("PPL") and NorthWestern Corporation ("NorthWestern"). Any capitalized term used and not defined herein shall have the meaning given such term in the Confidentiality Agreement.

In accordance with Section 6 of the Confidentiality Agreement, PPL hereby requests that NorthWestern (i) destroy or return to PPL all Confidential Information as provided therein (and cause its Representatives to do the same), and (ii) certify compliance with such provision no later than 15 days following delivery of this letter.

Very truly yours,

A handwritten signature in black ink, appearing to read "Paul A. Farr". The signature is stylized with a large, sweeping initial "P" and a long, horizontal stroke extending to the right.

Paul A. Farr

**NorthWestern Energy**  
**Docket D2013.12.85**  
**PPLM Hydro Assets Purchase**

**Public Service Commission (PSC)**  
**Set 1 (001-035)**

**Data Requests served December 27, 2013**

PSC-004      Regarding:    PPL's Feb. 2013 Discontinuation of Negotiations  
                  Witness:      Bird

If it exists in writing, please provide the communication referenced at 9:11-13. If it is not a written communication, identify the persons involved in the communication, and provide as much detail as you recall about the communication.

RESPONSE (January 24, 2014):

Brian Bird, NorthWestern's Chief Financial Officer, received a call from Jeremy McGuire, our primary contact at PPL on Friday February 1, 2013 to tell us that PPL had decided to move forward without NorthWestern. Brian and Jeremy agreed that the sale-leaseback, and NorthWestern's lack of comfort surrounding it, was the primary unresolved issue.

**NorthWestern Energy**  
**Docket D2013.12.85**  
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**Public Service Commission (PSC)**  
**Set 1 (001-035)**

**Data Requests served December 27, 2013**

PSC-005      Regarding:    Coal Asset Sale  
                  Witness:      Bird

- a.      Provide a written copy of the “due diligence” referred to at 10:3.
- b.      Did NWE conduct a market valuation of the coal assets exclusively before making the determination not to bid in the process described at 9:15-10:7? Why or why not?
- c.      If NWE did conduct a market valuation of the type described in (b), please provide it.

RESPONSE (January 24, 2014):

- a.      NorthWestern objects to this data request because it is vague, ambiguous, imprecise, and subject to multiple interpretations. The testimony refers to a process, not documents. Further, NorthWestern objects to this data request to the extent that it may seek to compel the production of material protected by the attorney client privilege or the work product doctrine, including NorthWestern’s communications with its counsel or the work product, mental notes or impressions of NorthWestern’s counsel. NorthWestern has attached a privilege log detailing any documents withheld due to a claim of privilege. NorthWestern also incorporates by reference, the privilege log attached to the response to MCC-006. Without waiving said objection, NorthWestern responds as follows:

The “due diligence” that I refer to at 10:3 relates to our assessment of the current and anticipated future regulatory risks associated with the coal assets, including those specific risks discussed in my response to Data Request PSC-003. Our analysis was prepared by our environmental team, with assistance from CB&I and with confidential and privileged legal advice from outside counsel. Some, but certainly not all, of our due diligence was committed to writing, as reflected in the non-privileged documents provided to our Board of Directors. In response to this request, I recommend reviewing Agenda Item 8, Strategic Activity Update, in the materials provided to the Board for their December 12, 2012 meeting provided in NorthWestern’s response to MCC-006.

- b.      No. NorthWestern did not do a thermal-only evaluation for the thermal-only process initiated by PPL. Refer to my testimony 10:3-7 in regard to why we did not pursue the coal-fired assets.
- c.      See the response to part b, above.

Priv No.	Doc Type	Date	Description	From	To	CC	Bcc	Privilege Type
PRIV_400001	Memorandum	11/26/2012	Providing legal advice re: transaction structure	Grahame, Heather; Brasher, Lance	NorthWestern Board of Directors			Attorney / Client; Work Product
PRIV_400002	Memorandum	11/26/2012	Providing legal advice re: transaction structure	Grahame, Heather; Brasher, Lance	NorthWestern Board of Directors			Attorney / Client; Work Product
PRIV_400003	Memorandum	11/26/2012	Conveying legal advice provided by outside counsel re: MPSC proceedings	Corcoran, Pat	NorthWestern Board of Directors			Attorney / Client; Work Product
PRIV_400004	Memorandum	11/26/2012	Material prepared in anticipation of litigation re: FERC proceedings	Grahame, Heather; Naeve, Mike; Lyons, John	NorthWestern Board of Directors			Attorney / Client; Work Product
PRIV_400005	Memorandum	11/23/2012	Providing legal advice re: Environmental	Brown, B. Andrew; Stastny, Kristin	Grahame, Heather; Olson, Timothy			Attorney / Client; Work Product
PRIV_400006	Memorandum	11/20/2012	Providing legal advice re: Due Diligence	Brasher, Lance; Schultz, Ethan; Hochman, Michael	Grahame, Heather; Olson, Timothy			Attorney / Client; Work Product
PRIV_400007	PowerPoint Presentation	11/20/2012	Providing legal advice re: Due Diligence	Brasher, Lance	NorthWestern Board of Directors			Attorney / Client; Work Product
PRIV_400008	Memorandum	12/12/2012	Redacted content prepared in anticipation of litigation provided by outside counsel re: Due Diligence	Grahame, Heather; Bird, Brian; Brasher, Lance; Brown, B. Andrew	NorthWestern Board of Directors			Attorney / Client; Work Product
PRIV_400009	Memorandum	12/21/2012	Redacted content prepared in anticipation of litigation provided by outside counsel re: Regulatory	Rowe, Robert	NorthWestern Board of Directors			Attorney / Client; Work Product
PRIV_400010	Memorandum	12/31/2012	Providing legal advice re: Environmental	Brown, B. Andrew; Hammer, Bradley	Grahame, Heather; Olson, Timothy			Attorney / Client; Work Product
PRIV_400011	Memorandum	1/3/2013	Redacted content prepared in anticipation of litigation provided by outside counsel re: Environmental	Wiseman, Gary	Northwestern Board of Directors			Attorney / Client; Work Product
PRIV_400018	Memorandum	1/3/2013	Redacted content prepared in anticipation of litigation provided by outside counsel re: Environmental	Wiseman, Gary	NorthWestern Board of Directors			Attorney / Client; Work Product
PRIV_400019	Memorandum	1/3/2013	Redacted content prepared in anticipation of litigation provided by outside counsel re: Environmental	Wiseman, Gary	NorthWestern Board of Directors			Attorney / Client; Work Product

**NorthWestern Energy**  
**Docket D2013.12.85**  
**PPLM Hydro Assets Purchase**

**Public Service Commission (PSC)**  
**Set 1 (001-035)**

Data Requests served December 27, 2013

PSC-006      Regarding:    Differences Between Models  
                 Witness:        Bird

With respect to the statement on 15:3-4, what were the “other inputs” included in Finance’s 30-year Rev. Req. model that were not included in the DCF Model?

RESPONSE (January 24, 2014):

Other inputs into Finance’s 30-year Rev. Req. model (LT Rev Req Model) that were not included in the DCF Model (DCF Analysis Model) included:

- Revenue credits related to excess production reducing the overall revenue requirement;
- Assumed synergies related to duplicated activities of the Western Power Marketing group expenses;
- MCC/MPSC taxes calculated as .30% of the total revenue requirement (increased to .53% in Exhibit\_\_(TEM-2)); and
- Interest expense calculated as 4.5% of 52% of the average rate base during the period.

In addition, the following “other inputs” were also added as part of the post bid updates as included in Exhibit\_\_(TEM-2) but not included in the DCF Model:

- Wholesale Energy Transaction Tax of \$0.15 per MWh applied to each MWh of excess energy sold;
- Production Tax Credits related to certain qualifying production at Kerr, Ryan, Cochrane and Mystic Lake facilities.

**NorthWestern Energy**  
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**Public Service Commission (PSC)**  
**Set 1 (001-035)**

**Data Requests served December 27, 2013**

PSC-007      Regarding:    Cost of Capital  
                  Witness:        Bird

- a.      Explain how Exhibit BBB-5 supports the conclusion at 38:2-5 of your testimony that “the current ROE range for NorthWestern is 9.64% to 11.14% with a midpoint ROE of 10.39%,” in light of the fact that there seem to be both lower and higher results listed on the exhibit.
- b.      Please provide the underlying analysis conducted to derive BBB-5 and any electronic files or spreadsheets that were employed.

RESPONSE (January 24, 2014):

- a.      Dr. William Avera’s recommended cost of equity range of 9.5% to 11.0% was not based on a mathematical averaging of the results of his alternative methods, or on the absolute range of the individual cost of equity estimates. Rather, the 9.5% to 11.0% recommended cost of equity range was based on Dr. Avera’s assessment of the relative strengths and weaknesses inherent in each of the quantitative methods, and conservatively giving less emphasis to the upper and lower-most boundaries of the range of results.
- b.      See the Excel workbook containing the formulas and data underlying Dr. Avera’s results in the folder labeled “PSC-007” on the CD attached to PSC-003.

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**Public Service Commission (PSC)**  
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PSC-008      Regarding:    Economic Benefits  
                 Witness:        Bird

- a.      On p. 45 you testify that “First, the certainty of stable electricity prices will help attract businesses and jobs, benefitting Montana’s economy.” Please provide evidence that the expected “stable” increase to rates proposed by NorthWestern will attract new investment and job creation between now and the expected crossover point in 2024.
  
- b.      On p. 45 you testify that “Second, NorthWestern is the largest property taxpayer in the state and one of the largest employers; what is good for NorthWestern is good for Montana. Thus, NorthWestern works hard to enhance economic development, encourage employee volunteer efforts, provide resources to support community needs, and invest in the state.” Do you expect property taxes on the hydro assets to increase if NorthWestern acquires the assets from PPLM? Would you expect the local and statewide benefit from increased property taxes to offset the economic cost associated with increased electricity supply costs?
  
- c.      To the extent the testimony cited in (b) is a general statement regarding the probable effect of the Commission’s decision in this proceeding on NorthWestern’s expected investment in local community and statewide resources, please describe in more detail how the Commission’s approval or not of the application will likely affect NorthWestern’s commitment to the stated investments.

RESPONSE (January 24, 2014):

- a.      NorthWestern objects to this data request because it is argumentative and therefore interposed for an improper purpose. Brian B. Bird did not testify that “the expected ‘stable’ increase to rates proposed by NorthWestern will attract new investment and job creation between now and the expected crossover point.” Without waiving said objection, NorthWestern responds as follows:

Businesses desire certainty in their planning for investment in the future. The more we can do to reduce future energy price volatility, the more comfort businesses will have in forecasting the energy cost component of their overall costs, which provides more comfort to their overall investment decisions.

- b.      NorthWestern objects to the second question of this subpart of this data request because it misstates Brian B. Bird’s testimony and assumes an answer to the first question that is not true. Therefore, this data request is interposed for an improper purpose and is unreasonable. Without waiving said objection, NorthWestern responds as follows:

**NorthWestern Energy**  
**Docket D2013.12.85**  
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**Public Service Commission (PSC)**  
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**Data Requests served December 27, 2013**

PSC-008 cont'd

Obviously, the total amount of property taxes NorthWestern pays will increase with the purchase of the Hydros, but the total amount of property taxes related to the Hydros to be paid is expected to be about the same as what PPLM would have paid.

It is our expectation that the stability alone this asset purchase provides will more than offset the economic cost associated with the initial increased electricity supply costs and, in the long term, will provide less expensive alternatives for our customers.

- c. NorthWestern's employees believe strongly in community support. To that end, the company established a charitable giving plan in 2005 that is comprised of employee teams located in each of our major operating locations that review applications and allocate funds to federally designated non-profit/charitable organizations in their area. The plan is funded annually with shareholder dollars in an amount that approximates one-half of 1% of net income allocated to each area based on customer and/or employee count. In addition, we also fund college, university, and technical school scholarships to select institutions in Montana, South Dakota, and Nebraska that are designated for students that reside in our service area. We also contribute shareholder dollars to fund economic development and community engagement activities and projects that are important to our local areas but may not meet the criteria for a charitable donation. In practice, NorthWestern regularly contributes a total of approximately 2% of its net income to these important activities. With the earnings contribution provided by the addition of the hydro facilities, we expect to increase our charitable, economic, and community engagement/enrichment spending accordingly.

**NorthWestern Energy**  
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**Public Service Commission (PSC)**  
**Set 1 (001-035)**

Data Requests served December 27, 2013

PSC-009      Regarding:      Studies  
                 Witnesses:      Kliewer, part a / Bird, part b / Fine, part c

- a.      Please confirm that NWE has not conducted a depreciation study relative to the dams.
- b.      Please confirm that NWE has not conducted a cost of capital study using the earnings and projected growth of a proxy group of publicly traded companies to determine the suggested ROE of 10.0 percent.
- c.      Please confirm that Ascend conducted modeling of the Hydros only after NWE agreed to acquire them from PPLM.

RESPONSE (January 24, 2014):

- a.      We confirm that NorthWestern has not conducted a depreciation study relative to the dams.
- b.      NorthWestern retained the services of Fincap, Inc. (Dr. William Avera), who has served as an external ROE expert witness on prior filings, to determine a reasonable range for ROE's for this proposed transaction. See Exhibit\_\_ (BBB-5) accompanying the Bird Direct Testimony.
- c.      Confirmed.

**NorthWestern Energy**  
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**PPLM Hydro Assets Purchase**

**Public Service Commission (PSC)**  
**Set 1 (001-035)**

**Data Requests served December 27, 2013**

PSC-010      Regarding:    Revision to LT Rev Req Model  
                 Witness:       Meyer

- a.      Please confirm that the differences between the market curve (\$'s per MWh) in Row 36 of Exh. TEM-1 and Row 39 of Ex. TEM-2 are solely the result of the adjustments described at 18:5-16 of your testimony (i.e., the basis adjustment revision and the conversion from a simple average of a 12-month ATC to a more precise monthly on-peak and off-peak price weighted to the production forecast of the Hydros). If there are other differences, please explain them.
- b.      Is the market curve you used in Exh. TEM-2 the same as the forward market estimates represented on Exh. JMS-2?

RESPONSE (January 24, 2014):

- a.      Yes, the adjustments discussed on page TEM-18 lines 5-16 are the only differences resulting in the market curves shown in Exhibits\_\_(TEM-1) and (TEM-2).
- b.      Yes, the market curve included in Exhibit\_\_(JMS-2), specifically columns S-U labeled "NWE System Price", was the data utilized to calculate the market curve illustrated in Row 39 of Exhibit\_\_(TEM-2).

**NorthWestern Energy**  
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**Public Service Commission (PSC)**  
**Set 1 (001-035)**

**Data Requests served December 27, 2013**

PSC-011      Regarding:    Generator Production & Market Curve Forecasts  
                  Witnesses:    Stimatz

- a.      Provide the monthly production estimates of the Hydros on which Exh. TEM-2 relies.
- b.      Provide the primary-source documentation that supports the market price forecast for electricity and natural gas prices represented on Exh. JMS-2.

RESPONSE (January 24, 2014):

- a.      Please see the “Revenues” tab of the spreadsheet entitled “Exhibit\_\_(JMS-1) and (JMS-2).xls in the folder titled “Joseph Stimatz” on the Witnesses’ Electronic Supporting Data CD provided on December 23, 2013.
- b.      See Attachments 1 and 2. Please also note that NorthWestern is relying on the “fair use” exemption of federal copyright law to supply Attachment 2 for purposes of this docket only. No copies should be made, nor should the parties receiving this copyrighted information use it for any purposes other than for this docket. This document has not been e-filed on the Commission website.

**Table 1.1.9. Implicit Price Deflators for Gross Domestic Product**

[Index numbers, 2005=100] Seasonally adjusted

Bureau of Economic Analysis

Last Revised on: June 26, 2013 - Next Release Date July 31, 2013

Line		20-year average implicit price deflator				1993				1994			
		2.1%				2.27%				2.10%			
		# years 20				2.20%				2.18%			
		1992				1993				1994			
		I	II	III	IV	I	II	III	IV	I	II	III	IV
1	Gross domestic product	75.954	76.423	76.778	77.214	77.677	78.106	78.466	78.897	79.311	79.689	80.163	80.576
2	Personal consumption expenditures	76.218	76.745	77.248	77.722	78.097	78.541	78.817	79.243	79.556	79.98	80.632	81.018
3	Goods	92.513	92.905	93.38	93.609	93.78	93.862	93.755	94.255	94.153	94.48	95.349	95.472
4	Durable goods	119.744	120.07	120.167	120.351	120.285	120.915	121.501	122.303	122.587	123.322	124.195	124.412
5	Nondurable goods	79.487	79.882	80.458	80.693	80.936	80.833	80.498	80.874	80.642	80.814	81.65	81.736
6	Services	68.394	68.975	69.485	70.062	70.522	71.12	71.562	71.952	72.448	72.912	73.462	73.963
7	Gross private domestic investment	87.649	87.831	88.081	88.282	88.599	88.95	89.11	89.404	89.769	89.968	90.452	90.602
8	Fixed investment	86.934	86.971	87.106	87.332	87.815	88.085	88.297	88.426	88.916	89.193	89.536	89.737
9	Nonresidential	102.24	101.945	101.888	101.738	102.059	102.119	102.096	102.123	102.439	102.649	102.748	102.529
10	Structures	53.866	54.087	54.38	54.847	55.328	55.863	56.35	56.852	57.27	57.604	58.304	59.127
11	Equipment and software	127.524	126.8	126.436	125.764	125.898	125.557	125.122	124.769	124.972	125.065	124.702	123.748
12	Residential	58.658	59.2	59.619	60.402	61.093	61.664	62.225	62.504	63.235	63.605	64.295	65.141
13	Change in private inventories	---	---	---	---	---	---	---	---	---	---	---	---
14	Net exports of goods and services	---	---	---	---	---	---	---	---	---	---	---	---
15	Exports	92.905	92.987	92.968	92.757	92.802	93.001	92.893	92.819	93.236	93.588	94.074	94.682
16	Goods	99.062	98.898	98.501	98.104	98.137	98.248	98.072	97.86	98.43	98.783	99.211	99.976
17	Services	79.307	79.873	80.594	80.756	80.811	81.17	81.19	81.39	81.5	81.849	82.449	82.729
18	Imports	92.249	92.601	93.779	93.03	92.483	92.81	91.984	91.603	91.533	92.384	93.934	94.3
19	Goods	96.277	96.542	97.428	96.794	96.14	96.34	95.448	94.872	94.751	95.77	97.267	97.56
20	Services	74.416	75.049	77.192	76.061	75.911	76.693	76.138	76.499	76.634	76.828	78.555	79.22
21	Government consumption expenditures and gross investment	66.61	67.138	67.551	67.761	68.301	68.762	69.164	69.524	70.055	70.609	70.999	71.555
22	Federal	67.486	67.967	68.427	68.359	69.01	69.486	70.157	70.525	70.937	71.771	71.756	72.271
23	National defense	68.039	68.549	69.016	68.475	68.958	69.458	70.052	70.397	70.699	71.489	71.566	72
24	Nondefense	66.12	66.535	66.670	68.024	69.051	69.467	70.307	70.725	71.381	72.309	72.094	72.786
25	State and local	66.15	66.71	67.09	67.496	67.958	68.409	68.633	68.988	69.598	69.978	70.622	71.205
26	Addendum: Gross national product	75.942	76.411	76.765	77.204	77.673	78.106	78.468	78.901	79.314	79.692	80.164	80.578

**Table 1.1.9. Implicit Price Deflators for Gross Domestic Product**

[Index numbers, 2005=100] Seasonally adjusted

Bureau of Economic Analysis

Last Revised on: June 26, 2013 - Next Release Date July 31, 2013

Line	20-year average implicit price deflator # years	1995												1996				1997			
		2.1%												1.90%				1.77%			
		20	2.18%	2.14%	2.02%	2.01%	2.01%	1.95%	1.80%	1.84%	1.91%	1.76%	1.79%	1.61%							
		1995				1996				1997											
		I	II	III	IV	I	II	III	IV	I	II	III	IV								
1	Gross domestic product	81.038	81.397	81.78	82.195	82.67	82.987	83.25	83.71	84.251	84.447	84.742	85.055								
2	Personal consumption expenditures	81.456	81.932	82.277	82.633	83.116	83.656	84.04	84.623	85.061	85.289	85.53	85.839								
3	Goods	95.589	95.787	95.813	95.835	96.471	96.895	96.713	97.144	97.261	96.738	96.467	96.339								
4	Durable goods	124.917	124.786	124.387	124.113	124.206	123.387	123.067	122.536	122.065	120.893	120.089	119.427								
5	Nondurable goods	81.713	82.019	82.195	82.323	83.133	84.001	83.876	84.656	84.995	84.739	84.685	84.775								
6	Services	74.544	75.14	75.627	76.132	76.543	77.134	77.774	78.423	79.007	79.582	80.059	80.574								
7	Gross private domestic investment	90.857	91.119	91.483	91.38	91.236	91.028	90.324	90.806	91.329	90.034	90.367	90.155								
8	Fixed investment	90.107	90.405	90.528	90.529	90.236	89.961	90.226	90.173	90.029	89.92	89.942	89.801								
9	Nonresidential	102.627	102.915	102.953	102.748	102.151	101.545	101.53	101.262	100.853	100.511	100.235	99.756								
10	Structures	59.844	60.241	60.699	61.403	61.454	61.68	62.467	62.898	63.511	64.094	64.815	65.593								
11	Equipment and software	123.403	123.589	123.183	122.503	121.512	120.394	119.854	119.153	118.107	117.201	116.323	115.094								
12	Residential	65.941	66.25	66.521	66.884	67.132	67.442	68.19	68.529	68.877	69.207	69.802	70.319								
13	Change in private inventories	---	---	---	---	---	---	---	---	---	---	---	---								
14	Net exports of goods and services	---	---	---	---	---	---	---	---	---	---	---	---								
15	Exports	95.723	96.484	96.256	95.818	95.642	95.327	94.641	93.681	93.434	93.382	93.141	92.757								
16	Goods	101.31	102.013	101.652	100.955	100.277	99.837	98.579	96.901	96.671	96.409	96.071	95.404								
17	Services	83.15	84.026	84.083	84.188	85.078	85.033	85.592	86.202	85.938	86.378	86.368	86.645								
18	Imports	95.101	96.483	95.888	95.03	94.825	94.335	93.386	93.354	92.65	90.726	90.131	89.418								
19	Goods	98.778	99.89	99.085	98.065	97.705	96.993	95.695	95.495	94.744	92.384	91.839	91.063								
20	Services	78.241	80.741	81.053	80.901	81.376	81.866	82.469	83.193	82.707	82.788	81.958	81.533								
21	Government consumption expenditures and gross investment	72.143	72.517	72.809	73.505	74.328	74.133	74.49	74.95	75.537	75.664	75.86	76.352								
22	Federal	73.126	73.225	73.494	74.907	75.93	75.292	75.586	76.075	76.841	76.923	77.013	77.409								
23	National defense	72.664	72.861	73.176	73.982	75.394	75.103	75.399	75.84	76.462	76.445	76.443	76.716								
24	Nondefense	74.046	73.940	74.121	76.805	77.005	75.642	75.935	76.53	77.59	77.871	78.144	78.782								
25	State and local	71.63	72.169	72.474	72.749	73.453	73.515	73.909	74.353	74.841	74.992	75.246	75.791								
<b>Addendum:</b>																					
26	Gross national product	81.042	81.403	81.787	82.202	82.678	82.996	83.257	83.716	84.256	84.45	84.744	85.054								

**Table 1.1.9. Implicit Price Deflators for Gross Domestic Product**

[Index numbers, 2005=100] Seasonally adjusted

Bureau of Economic Analysis

Last Revised on: June 26, 2013 - Next Release Date July 31, 2013

Line	20-year average implicit price deflator # years	1998												1999				2000																																																																																																																																																																																																																																																																																											
		1.12%				1.13%				1.15%				1.10%				1.38%				1.49%				1.48%				1.53%				1.89%				2.04%				2.28%				2.45%																																																																																																																																																																																																																																																															
		I	II	III	IV																																																																																																																																																																																																																																																																																																								
1	Gross domestic product	85.198	85.402	85.729	85.988	86.371	86.675	86.998	87.305	88	88.446	88.979	89.447	85.88	86.08	86.368	86.635	86.907	87.402	87.859	88.343	89.132	89.526	90.047	90.546	95.589	95.207	95.175	94.999	94.892	95.576	96.049	96.38	97.144	97.608	97.874	97.981	118.558	117.679	116.778	115.901	114.911	114.325	113.78	113.085	112.544	112.307	111.622	111.348	84.095	83.925	84.261	84.388	84.668	85.903	86.829	87.62	88.984	89.774	90.488	90.782	80.986	81.462	81.902	82.382	82.837	83.239	83.687	84.245	85.044	85.404	86.05	86.745	89.699	89.362	89.306	89.453	89.681	89.295	89.268	89.092	89.788	90.046	90.504	90.744	89.332	89.077	89.004	88.943	89.071	89.058	88.933	89.054	89.611	89.909	90.317	90.478	98.948	98.324	97.86	97.435	97.279	96.877	96.395	96.301	96.522	96.626	96.949	96.89	66.516	67.231	67.784	68.34	68.831	69.281	69.764	70.36	71.188	71.834	72.596	73.467	113.285	111.905	110.872	109.92	109.432	108.603	107.648	107.207	107.109	106.937	107.03	106.507	70.512	70.989	71.694	72.365	73.08	73.878	74.51	75.102	76.403	77.142	77.747	78.397	---	---	---	---	---	---	---	---	---	---	---	---	91.833	91.369	90.649	90.328	90.164	90.306	90.498	90.913	91.484	92.032	92.303	92.432	94.284	93.558	92.545	92.009	91.683	91.605	91.766	92.253	92.547	93.036	93.126	93.261	86.168	86.297	86.245	86.425	86.634	87.272	87.54	87.791	89.015	89.707	90.423	90.533	87.209	86.139	85.015	84.955	84.7	85.697	86.728	87.954	89.588	89.58	90.214	90.684	88.777	87.316	85.923	85.6	85.308	86.244	87.313	88.738	90.637	90.732	91.411	91.989	79.681	80.439	80.576	81.761	81.701	83.01	83.861	84.103	84.406	83.892	84.303	84.235	76.434	76.63	77.01	77.423	78.177	78.982	79.711	80.438	81.57	81.983	82.863	83.624	77.684	77.822	78.039	78.172	79.17	79.625	80.079	80.635	82.079	81.836	82.905	83.286	77.098	77.215	77.362	77.625	78.636	79.032	79.387	79.808	81.418	81.361	82.142	82.362	78.846	79.018	79.379	79.249	80.228	80.798	81.441	82.257	83.385	82.795	84.397	85.08	75.769	75.995	76.463	77.022	77.651	78.634	79.503	80.318	81.292	82.034	82.818	83.769	85.197	85.399	85.726	85.986	86.368	86.673	86.996	87.303	87.997	88.442	88.977	89.444
14	Net exports of goods and services	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---																																																																																																																																																																																																																																																														
15	Exports	91.833	91.369	90.649	90.328	90.164	90.306	90.498	90.913	91.484	92.032	92.303	92.432	94.284	93.558	92.545	92.009	91.683	91.605	91.766	92.253	92.547	93.036	93.126	93.261	86.168	86.297	86.245	86.425	86.634	87.272	87.54	87.791	89.015	89.707	90.423	90.533	87.209	86.139	85.015	84.955	84.7	85.697	86.728	87.954	89.588	89.58	90.214	90.684	88.777	87.316	85.923	85.6	85.308	86.244	87.313	88.738	90.637	90.732	91.411	91.989	79.681	80.439	80.576	81.761	81.701	83.01	83.861	84.103	84.406	83.892	84.303	84.235	76.434	76.63	77.01	77.423	78.177	78.982	79.711	80.438	81.57	81.983	82.863	83.624	77.684	77.822	78.039	78.172	79.17	79.625	80.079	80.635	82.079	81.836	82.905	83.286	77.098	77.215	77.362	77.625	78.636	79.032	79.387	79.808	81.418	81.361	82.142	82.362	78.846	79.018	79.379	79.249	80.228	80.798	81.441	82.257	83.385	82.795	84.397	85.08	75.769	75.995	76.463	77.022	77.651	78.634	79.503	80.318	81.292	82.034	82.818	83.769																																																																																																																																																																								
26	Gross national product	85.197	85.399	85.726	85.986	86.368	86.673	86.996	87.303	87.997	88.442	88.977	89.444																																																																																																																																																																																																																																																																																																

**Table 1.1.9. Implicit Price Deflators for Gross Domestic Product**

[Index numbers, 2005=100] Seasonally adjusted

Bureau of Economic Analysis

Last Revised on: June 26, 2013 - Next Release Date July 31, 2013

Line	20-year average implicit price deflator # years	2001				2002				2003			
		2.1%				1.62%				2.10%			
		20	2.33%	2.51%	2.22%	2.00%	1.67%	1.43%	1.55%	1.82%	2.17%	2.01%	2.14%
		I	II	III	IV	I	II	III	IV	I	II	III	IV
1	Gross domestic product	90.054	90.666	90.952	91.232	91.555	91.965	92.363	92.894	93.543	93.815	94.337	94.818
2	Personal consumption expenditures	91.181	91.617	91.634	91.683	91.894	92.61	93.078	93.516	94.188	94.258	94.866	95.302
3	Goods	97.976	98.146	97.631	96.545	96.091	96.74	96.714	96.701	97.322	95.911	96.404	96.355
4	Durable goods	110.851	110.068	109.335	108.775	107.793	107.23	106.707	105.98	104.715	103.631	102.6	101.665
5	Nondurable goods	91.025	91.663	91.26	89.911	89.721	90.991	91.229	91.597	93.204	91.632	92.952	93.386
6	Services	87.7	88.268	88.547	89.165	89.71	90.458	91.175	91.845	92.547	93.381	94.052	94.744
7	Gross private domestic investment	90.684	90.879	91.262	91.423	91.364	91.39	91.283	91.875	92.323	92.136	92.409	93.046
8	Fixed investment	90.445	90.772	91.181	91.176	91.131	91.126	91.084	91.705	92.219	92.005	92.248	92.993
9	Nonresidential	96.369	96.403	96.379	96.105	96.126	95.894	95.665	95.866	95.629	95.28	95.358	95.618
10	Structures	74.525	75.67	76.889	77.368	78.101	78.958	79.668	80.601	81.561	81.602	82.205	83.319
11	Equipment and software	105.22	104.707	104.047	103.411	103.107	102.399	101.777	101.672	100.933	100.419	100.28	100.198
12	Residential	79.446	80.416	81.764	82.329	82.156	82.591	82.904	84.308	86.203	86.248	86.806	88.428
13	Change in private inventories	---	---	---	---	---	---	---	---	---	---	---	---
14	Net exports of goods and services	---	---	---	---	---	---	---	---	---	---	---	---
15	Exports	92.418	92.007	91.547	90.705	90.516	91.066	91.751	91.933	92.824	93.036	93.246	93.971
16	Goods	93.22	92.789	92.217	91.33	91.091	91.48	92.264	92.426	93.239	93.497	93.386	94.302
17	Services	90.581	90.218	90.018	89.285	89.216	90.138	90.595	90.824	91.891	91.996	92.938	93.228
18	Imports	90.253	88.526	87.136	85.195	85.032	86.872	87.407	87.965	90.475	89.187	89.604	90.134
19	Goods	91.411	89.425	87.686	85.484	85.222	87.102	87.445	88.131	90.781	88.686	89.052	89.672
20	Services	84.562	84.109	84.416	83.776	84.107	85.761	87.271	87.17	88.957	91.83	92.495	92.55
21	Government consumption expenditures and gross investment	84.266	84.653	84.976	85.144	86.057	86.64	87.145	88.141	90.118	90.358	90.842	91.271
22	Federal	83.659	83.89	84.37	84.862	86.9	87.085	87.121	88.133	90.624	90.863	91.139	91.449
23	National defense	83.036	83.172	83.671	84.036	85.833	86.226	86.453	87.915	90.188	90.463	90.788	91.158
24	Nondefense	84.892	85.301	85.747	86.472	86.955	86.757	86.44	88.015	91.511	91.68	91.857	92.049
25	State and local	84.545	85.01	85.253	85.256	85.599	86.382	87.13	88.117	89.82	90.06	90.661	91.157
26	Adendum: Gross national product	90.051	90.662	90.95	91.23	91.551	91.96	92.356	92.887	93.538	93.81	94.332	94.814

**Table 1.1.9. Implicit Price Deflators for Gross Domestic Product**

[Index numbers, 2005=100] Seasonally adjusted

Bureau of Economic Analysis

Last Revised on: June 26, 2013 - Next Release Date July 31, 2013

Line	20-year average implicit price deflator # years	2.1%	2004				2005				2006			
			2.24%	2.81%	2.98%	3.22%	3.28%	3.10%	3.41%	3.50%	3.32%	3.53%	3.25%	2.85%
			I	II	III	IV	I	II	III	IV	I	II	III	IV
1			95.643	96.45	97.149	97.874	98.776	99.437	100.458	101.302	102.055	102.948	103.724	104.186
2	Personal consumption expenditures		96.089	96.797	97.393	98.176	98.757	99.364	100.484	101.365	101.789	102.544	103.282	103.26
3	Goods		97.191	97.715	97.803	98.979	98.864	99.088	100.833	101.187	101.089	101.707	102.245	100.73
4	Durable goods		101.592	101.478	100.716	100.736	100.595	100.367	99.62	99.434	99.108	98.625	98.129	97.608
5	Nondurable goods		94.717	95.588	96.146	97.97	97.865	98.343	101.541	102.202	102.235	103.496	104.642	102.548
6	Services		95.503	96.307	97.171	97.744	98.699	99.513	100.296	101.461	102.165	102.995	103.842	104.63
7	Gross private domestic investment		94.087	95.151	96.119	97.099	98.196	99.25	100.54	101.948	103.099	103.931	104.58	105.529
8	Fixed investment		93.929	95.053	96.086	96.988	98.138	99.226	100.587	101.975	103.12	104.005	104.648	105.66
9	Nonresidential		95.908	96.574	97.096	97.696	98.796	99.578	100.235	101.343	102.146	102.954	103.745	104.809
10	Structures		85.052	86.992	89.425	92.206	95.073	97.72	101.491	105.853	108.78	111.706	113.855	117.002
11	Equipment and software		99.922	100.095	99.898	99.699	100.163	100.264	99.812	99.777	99.81	99.843	100.122	100.415
12	Residential		90.507	92.426	94.338	95.76	96.981	98.599	101.198	103.108	104.924	105.994	106.355	107.25
13	Change in private inventories		---	---	---	---	---	---	---	---	---	---	---	---
14	Net exports of goods and services		---	---	---	---	---	---	---	---	---	---	---	---
15	Exports		95.14	96.307	96.789	97.856	98.918	99.609	100.329	101.094	101.82	103.111	104.37	104.391
16	Goods		95.563	96.881	97.188	98.139	99.137	99.761	100.183	100.87	101.538	102.903	104.278	104.486
17	Services		94.192	95.019	95.893	97.216	98.419	99.263	100.666	101.615	102.485	103.603	104.582	104.154
18	Imports		92.12	93.391	94.348	96.616	97.432	98.796	100.832	102.81	103.219	104.298	105.103	103.887
19	Goods		91.824	93.125	94	96.433	97.248	98.63	100.801	103.17	103.371	104.394	105.215	103.768
20	Services		93.678	94.786	96.161	97.564	98.392	99.669	101.001	100.902	102.443	103.813	104.498	104.443
21	Government consumption expenditures and gross investment		92.766	93.889	95.04	96.423	98.164	99.244	100.681	101.895	103.231	104.644	105.435	106.051
22	Federal		93.992	95.175	95.75	96.402	99.168	99.674	100.416	100.727	103.103	104.19	104.505	104.636
23	National defense		93.446	94.644	95.311	96.154	99.131	99.667	100.395	100.799	103.336	104.498	104.88	104.959
24	Nondefense		95.107	96.262	96.640	96.91	99.247	99.094	100.40	100.576	102.628	103.562	103.739	103.981
25	State and local		92.056	93.144	94.627	96.434	97.577	98.99	100.837	102.583	103.302	104.91	105.984	106.886
26	Gross national product		95.639	96.448	97.146	97.872	98.774	99.436	100.461	101.306	102.06	102.952	103.729	104.186

**Table 1.1.9. Implicit Price Deflators for Gross Domestic Product**

[Index numbers, 2005=100] Seasonally adjusted

Bureau of Economic Analysis

Last Revised on: June 26, 2013 - Next Release Date July 31, 2013

Line	20-year average implicit price deflator # years	2007												2008				2009			
		2.1%												2.23%				0.87%			
		20	3.26%	3.06%	2.63%	2.66%	2.10%	2.08%	2.54%	2.19%	1.81%	0.94%	0.27%	0.45%							
		2007				2008				2009											
		I	II	III	IV	I	II	III	IV	I	II	III	IV								
1	Gross domestic product	105.38	106.098	106.453	106.958	107.591	108.302	109.162	109.3	109.539	109.325	109.457	109.793								
2	Personal consumption expenditures	104.262	105.153	105.735	106.831	107.853	109.054	110.22	108.652	108.064	108.496	109.314	110.139								
3	Goods	101.511	102.64	102.78	104.107	105.336	106.585	108.411	103.227	101.372	102.446	103.885	104.683								
4	Durable goods	97.147	96.735	96.115	95.75	95.426	94.775	94.522	93.685	93.121	93.062	92.458	92.699								
5	Nondurable goods	104.07	106.119	106.71	109.046	111.187	113.545	116.573	108.909	106.328	108.023	110.612	111.731								
6	Services	105.753	106.515	107.337	108.306	109.213	110.389	111.208	111.539	111.617	111.725	112.224	113.064								
7	Gross private domestic investment	106.163	106.231	106.302	106.448	106.323	106.983	107.839	109.648	108.566	106.756	105.078	104.558								
8	Fixed investment	106.265	106.363	106.352	106.46	106.719	107.09	107.951	108.723	108.063	106.544	105.371	105.167								
9	Nonresidential	105.412	105.685	105.68	105.793	106.306	106.902	108.235	109.61	108.959	107.449	106.169	105.666								
10	Structures	118.455	118.995	119.595	121.457	123.077	124.283	126.562	128.968	127.019	122.888	119.717	119.351								
11	Equipment and software	100.706	100.881	100.479	100.045	100.107	100.444	101.362	102.263	102.185	101.802	101.26	100.668								
12	Residential	107.823	107.487	107.485	107.643	107.187	106.866	106.122	104.739	104.03	102.479	101.715	102.583								
13	Change in private inventories	---	---	---	---	---	---	---	---	---	---	---	---								
14	Net exports of goods and services	---	---	---	---	---	---	---	---	---	---	---	---								
15	Exports	105.279	106.43	107.118	108.627	110.67	113.516	115.195	108.26	104.889	104.857	106.15	107.636								
16	Goods	105.2	106.378	106.947	108.518	110.813	114.309	115.909	107.107	103.061	103.604	104.919	106.304								
17	Services	105.45	106.542	107.514	108.878	110.335	111.623	113.467	110.849	108.887	107.635	108.867	110.572								
18	Imports	104.575	106.252	108.017	112.329	116.748	122.42	125.536	111.961	102.854	104.471	107.789	111.011								
19	Goods	104.454	106.123	107.903	112.737	117.747	123.875	127.308	111.645	100.956	103.008	106.845	110.339								
20	Services	105.175	106.92	108.647	110.224	111.604	114.963	116.501	112.967	110.936	110.672	111.745	113.71								
21	Government consumption expenditures and gross investment	108.215	109.444	110.235	111.519	113.666	115.501	116.694	115.1	114.339	114.182	114.617	115.218								
22	Federal	106.844	107.764	107.871	108.498	110.482	111.603	112.08	110.727	110.955	110.479	110.892	111.499								
23	National defense	107.103	108.179	108.42	109.244	111.231	112.691	113.249	111.561	111.503	110.875	111.192	111.817								
24	Nondefense	106.323	106.924	106.75	106.963	108.935	109.355	109.656	109.018	109.843	109.679	110.293	110.86								
25	State and local	109.028	110.441	111.641	113.323	115.57	117.848	119.496	117.751	116.347	116.401	116.849	117.445								
26	Addendum: Gross national product	105.382	106.098	106.453	106.963	107.6	108.312	109.176	109.295	109.534	109.327	109.46	109.791								

**Table 1.1.9. Implicit Price Deflators for Gross Domestic Product**

[Index numbers, 2005=100] Seasonally adjusted

Bureau of Economic Analysis

Last Revised on: June 26, 2013 - Next Release Date July 31, 2013

Line		20-year average implicit price deflator													
		# years												2.1%	
		20	0.62%	1.26%	1.63%	2010 1.33%	1.82%	1.96%	2.17%	2.44%	2011 2.13%	1.96%	1.98%	1.70%	1.63%
		2010				2011				2012					
		I	II	III	IV	I	II	III	IV	I	II	III	IV		
1	Gross domestic product	110.216	110.706	111.238	111.795	112.372	113.109	113.95	113.987	114.599	115.035	115.81	116.089		
2	Personal consumption expenditures	110.639	110.797	111.15	111.747	112.636	113.63	114.29	114.59	115.297	115.493	115.949	116.409		
3	Goods	105.021	104.279	104.536	105.557	107.263	108.817	109.63	109.567	110.254	109.741	110.258	110.548		
4	Durable goods	92.358	91.9	91.369	90.88	90.759	91.109	90.963	90.382	90.158	89.889	89.36	88.901		
5	Nondurable goods	112.458	111.556	112.27	114.178	116.971	119.239	120.627	120.88	122.138	121.473	122.661	123.44		
6	Services	113.645	114.279	114.683	115.053	115.5	116.19	116.769	117.268	117.986	118.573	118.995	119.55		
7	Gross private domestic investment	104.338	104.755	104.867	105.143	105.674	106.295	106.797	106.63	107.234	107.545	107.845	108.27		
8	Fixed investment	104.768	104.759	105.063	105.488	105.857	106.492	106.969	107.326	107.636	107.951	108.299	108.713		
9	Nonresidential	105.165	105.297	105.59	105.973	106.471	107.153	107.66	108.062	108.532	108.847	109.073	109.397		
10	Structures	119.862	120.659	121.475	122.575	124.054	126.022	127.749	129.15	130.014	131.044	131.386	131.827		
11	Equipment and software	99.793	99.688	99.797	99.939	100.131	100.424	100.554	100.648	100.992	101.085	101.273	101.558		
12	Residential	102.583	102.075	102.43	103.025	102.861	103.296	103.643	103.804	103.431	103.746	104.585	105.355		
13	Change in private inventories	---	---	---	---	---	---	---	---	---	---	---	---		
14	Net exports of goods and services	---	---	---	---	---	---	---	---	---	---	---	---		
15	Exports	108.93	110.262	110.526	113.087	116.104	118.475	118.988	117.838	118.651	118.801	118.791	119.235		
16	Goods	107.723	109.175	109.461	112.757	116.357	119.027	119.393	117.924	118.622	118.515	118.553	118.896		
17	Services	111.601	112.668	112.89	113.741	115.388	117.051	117.904	117.514	118.604	119.379	119.249	119.939		
18	Imports	113.181	112.595	111.735	114.445	119.419	123.053	122.458	122.452	124.145	122.931	120.896	122.454		
19	Goods	112.908	112.144	111.064	113.982	119.697	123.766	123.133	123.316	125.249	123.73	121.333	123.062		
20	Services	113.993	114.234	114.459	116.15	117.44	118.912	118.531	117.613	118.117	118.399	118.134	118.855		
21	Government consumption expenditures and gross investment	116.555	116.917	117.409	118.465	119.968	121.172	121.902	121.908	122.983	123.161	123.579	124.067		
22	Federal	113.012	113.336	113.665	114.307	115.696	116.716	117.368	117.114	118.042	118.406	118.683	119.145		
23	National defense	113.418	113.693	113.944	114.739	116.437	117.372	118.043	117.776	119.004	119.264	119.537	120.11		
24	Nondefense	112.197	112.618	113.103	113.437	114.216	115.399	116.013	115.785	116.117	116.685	116.97	117.215		
25	State and local	118.659	119.046	119.648	120.994	122.572	123.9	124.682	124.87	126.046	126.093	126.609	127.114		
<b>Addendum:</b>															
26	Gross national product	110.21	110.69	111.217	111.775	112.362	113.106	113.94	113.985	114.6	115.035	115.807	116.09		

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PSC-012      Regarding:    Modeling of Risk to Dams' Output  
                  Witness:      Stimatz part a / Rhoads, part b

- a.      Did NWE conduct any versions of the DCF or LT Rev Req modeling runs where expected generation changed (for instance, as a result of a prolonged drought or major outage at a large dam), or was there only one deterministic estimate of Hydros' output for these models' purposes?
- b.      To what extent has NWE compared the 5- and 20-year production history to the longer history of flows on the Madison-Missouri, Clark Fork, and West Rosebud waterways? Provide any due diligence conducted in reference to this topic.

RESPONSE:

- a.      (Response provided January 24, 2014.)  
          There was one deterministic estimate of Hydros' output for these models' purposes. The actual average generation provided by PPLM and used for analysis includes the reductions or additions to actual generation production influenced by the actual hydrologic year ("wet"/"dry" years) and unit outages.
- b.      (Response provided January 17, 2014.)  
          The actual generation for the 2002-2011 period and the 25-year period was analyzed in the due diligence independent consultant report (Exhibit\_\_WTR-2). The 25-year period recognized the influence of Thompson Falls Unit 7 coming on line in 1995. The average annual generation for the 2002-2011 period was 3,505,000 megawatt-hours (MWh). The average annual generation for the 25-year period prior to excluding Kerr was 3,572,000 MWh. The 60-year average annual generation included on the monthly reporting is 3,600,304 MWh. Therefore, the three periods mentioned above – the 10-year, the 25-year, and the 60-year – compare within 3% of their values. The past 10 years represent the more conservative system production. Year 2001 was a below-average year with an annual production of 2,471,225 MWh. The years 2002-2005 were also below average production as the basins began to recharge from 2001.

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PSC-013      Regarding:    Market Forecast  
                 Witness:        Stimatz

- a.      Please describe the differences between your method of calculating the forward per-MWh market price to the method the Commission adopted in D2012.1.3 for the purposes of calculating an avoided cost. Where a difference exists, explain why you believe it is warranted.
- b.      Please describe the differences between your method of calculating the forward per-MWh market price to the method that NWE proposed in D2012.1.3. Where a difference exists, please explain why NWE has departed from its previous method of estimating forward market prices.
- c.      The forecast includes an inflation rate of 2.1% applied to prices after a certain year. Please explain the basis of this factor.

RESPONSE (January 24, 2014):

- a.      The method adopted in Docket No. D2012.1.3 used an electricity market price forecast constructed by using four years of AECO natural gas forward price data, including a \$0.5925/MMBtu adder to account for transportation to a location within Montana, and one year of Mid-C electricity forward price quotes (heavy and light load) adjusted by \$3.00/MWh to account for the on-system basis differential from the Mid-C market to the Montana market. The first year forward price implied monthly heat rates were applied to the natural gas price forwards to calculate the monthly heavy and light load prices for years 2 through 4. A nominal escalation rate of 2.1% was applied to develop years 5 through 20 of the electric price forecast. The Commission required use of the Energy Information Administration ("EIA") escalation rate for the natural gas price forecast, but not for the electric price forecast.

In this docket, the electricity price forecast utilizes the AECO natural gas forward price quotes through 2017 and Mid-C electricity forward price quotes through 2020, and applies a nominal escalation factor of 2.1% to both the gas and electric prices thereafter.

The methodology applied in this docket is appropriate because it uses electric price quotes to derive the forward curve rather than constructing the electric curve indirectly from gas price quotes. The electric market quotes are more representative of the price levels that could be transacted in the electric market and are therefore a more accurate representation of the market value of the energy from the Hydros.

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- b. The method that NorthWestern proposed in Docket No. D2012.1.3 used an electricity market price forecast constructed by using four years of AECO natural gas forward price data, including a \$0.170/MMBtu adder to account for transportation to Montana, and one year of Mid-C electricity forward price quotes (heavy and light load) adjusted by \$3.00/MWh to account for the on-system basis differential from the Mid-C market to the Montana market. The first year forward price implied monthly heat rates were applied to the natural gas price forwards to calculate the monthly heavy and light load prices for years 2 through 4. A nominal escalation rate of 2.1% was applied to develop years 5 through 20 of the electric price forecast.

The methodology applied in this docket is appropriate because it uses electric price quotes to derive the forward curve rather than constructing the electric curve indirectly from gas price quotes. The electric market quotes are more representative of the price levels that could be transacted in the electric market and are therefore a more accurate representation of the market value of the energy from the Hydros.

- c. The basis of the 2.1% escalator is the 20-year average (1993-2012) implicit price deflator (also known as the GDP deflator).

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PSC-014      Regarding:    Basis Differential  
                 Witness:        Stimatz

Are you estimating the basis differential differently than NWE calculates the basis differential for the purposes of arriving at a revenue credit for the value of non-firm energy produced by Dave Gates Generating Station, which is credited back to regulation customers of the plant? If the methodology differs here, please explain the difference, including the reason why it is reasonable to treat the basis differential in a non-identical manner in these two circumstances.

RESPONSE (January 24, 2014):

Yes, the basis differential estimation for the DCF analysis differs from the methodology used in the Dave Gates Generating Station (“DGGS”) revenue credits. The DGGS methodology was a simple approximation of the transmission costs incurred to move excess energy from Montana to a liquid trading point where it can be sold. The \$7.00/MWh was applied to all periods and market prices, without regard to price levels. For the DCF analysis, the purpose was to estimate the wholesale market value in Montana of the energy produced by the Hydros from a third-party perspective. The intention was to develop a formulaic approach that is sensitive to price levels and transmission costs over time, and that also is consistent with actual transactions that have been executed in Montana. Actual basis differentials differ from transaction to transaction depending on the circumstances. The methodology NorthWestern used in the DCF analysis produces a basis that is generally consistent with the company’s experience in the market.

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PSC-015      Regarding:      Carbon Forecast  
                 Witness:         Stimatz

- a.      How did NWE settle on 2021 as the year when a significant per-ton carbon price would take effect?
- b.      Did NWE run alternatives to the 2021 carbon price through its LT Rev Req or DCF models? If so, provide. If not, explain why not.
- c.      Please evaluate your DCF model using a carbon price equal to zero in all periods.
- d.      Is NWE aware of current and forward carbon prices where it is today traded, and did NWE attempt to make use of these indicators?
- e.      Did NWE make reference to other utilities' integrated resource plans (such as MDU's) and how they attempt to price the risk of carbon regulation, before settling on the method presented in your testimony?

RESPONSE (January 17, 2014):

- a.      Carbon pricing has been included in NorthWestern's price forecasts for several planning cycles. NorthWestern has discussed the timing and magnitude of potential carbon pricing with its Electric Technical Advisory Committee ("ETAC") in the process leading up to each Supply Plan, including the 2013 Plan. The 2011 Plan included a Delayed Carbon Case with implementation in 2019 along with the Base Carbon Case that had implementation in 2015. Based in part on Commission comments to the 2011 Plan (as described in the Prefiled Direct Testimony of Joseph M. Stimatz on pages 24-25), NorthWestern pushed the carbon price implementation from 2015 to 2021, which represents a further delay than was contemplated in the Delayed Carbon Case from the 2011 Supply Plan.
- b.      No. The purpose of the DCF was to arrive at a mid-range estimate of the market value of the Hydros, to be considered along with other valuation information as described in the Prefiled Direct Testimony of Brian B. Bird. The LT Rev Req model was used to estimate the revenue requirement given a purchase price.

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- c. NorthWestern objects to this data request on the grounds that (1) it is beyond the proper scope of data requests in that it requires NorthWestern to make analyses that it did not make in evaluating the acquisition, (2) it can be prepared with equal ease by the Commission staff as NorthWestern has provided the electronic versions of the DCF model, and (3) the DCF model without consideration of carbon would be irrelevant and violate prior Commission orders and direction to include carbon in its planning and acquisition activities.
- d. NorthWestern is aware of carbon prices in some markets where it is traded. NorthWestern did not incorporate pricing from these markets in its estimates because the pricing is dependent on the rules specific to those markets and as such may or may not directly apply to the future regional carbon price that was needed for the DCF model.
- e. Yes. NorthWestern referred to the treatment of carbon in the planning documents of several other utilities. NorthWestern's view of the carbon price curve is toward the low end of the range of carbon prices that regional utilities have modeled. See Figure 6-11 on page 6-27 of the 2013 Supply Plan for a depiction of NorthWestern's carbon curve compared to other utilities' carbon curves. The methodology and approach used in the 2013 Supply Plan and in the evaluation of the Hydros is consistent with the modeling of carbon costs that has evolved over NorthWestern's planning cycles since the 2007 Supply Plan.

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PSC-016      Regarding:    PowerSimm  
                  Witness:      Dorris, part a / Stimatz, parts b-e

- a.      Does the “risk premium” in PowerSimm’s NPV calculations for various scenarios include a quantification of risk associated with water flows, major plant outages, and the liabilities inherent in owning large dam structures (such as plant failure due to seismicity)? Explain for each of these things how PowerSimm incorporates and measures the associated risk.
- b.      Ascend concludes, through its modeling, that “the expected cost of the Current Plus Hydro portfolio is lower than the expected cost of the Current Plus CC portfolio and the expected cost of the Current portfolio even before accounting for the differences in risk.” (JMS-44:1-4). In the LT Rev Req model, meanwhile, the “procure at market” scenario is less costly than the Hydro/Mustang portfolio, before accounting for risk. Please explain this discrepancy.
- c.      Was there any thought of using PowerSimm prior to NWE’s submission of a bid, and thus better inform the utility of the Hydros value on a portfolio basis?
- d.      Is Mr. Stimatz an expert with respect to the PowerSimm model? If so, please describe his experience with the model.
- e.      Please identify the Ascend consultant(s) who was responsible for running or helping to run the PowerSimm modeling for NWE.

RESPONSE:

- a.      (Response provided January 24, 2014.)  
Low water flows, forced outages, and major plant failures do represent a risk to power supply. The PowerSimm simulation methodology captures most known and measurable risks within the 95th or 99th percentile, including low water and “routine” forced outages consistent with the historical data. However, catastrophic plant failures are considered to be above the 99th percentile of likely outcomes, and thus are not explicitly modeled.

PowerSimm explicitly captures the impact of low water conditions by using a stochastic model of hourly hydro generation, based on historical generation levels of the Hydro Assets. The results of these stochastic simulations are illustrated in Figure 6-28 of the 2013 Plan.

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PowerSimm's modeling approach also explicitly captures the impacts of generator forced outages. Within the dispatch module of PowerSimm, outages of NWE's assets are modeled as discrete random events within each iteration of the simulation. Inputs for mean and standard deviation of outage rate and outage duration are based on historical data. PowerSimm also models planned maintenance periods.

PowerSimm does not model outages or failures substantially outside of the experienced historical operation, including failures related to seismicity or other very low-probability events.

- b. (Response provided January 24, 2014.)  
The LT Rev Req model "procure at market" scenario applies the electric market forecast to only the hydro volumes used in the supply portfolio; it doesn't consider the market cost of filling up the portfolio to serve the total supply load. When the additional market cost of serving the total supply load is added to the market cost of the hydro volumes, the total deterministic cost of serving load with market purchases (Current Portfolio) and the total deterministic cost of serving load with the hydro assets plus market purchases (Current plus Hydro) are very close (\$64.17 versus \$64.92; see table on JMS-38). However, when the residual value of the hydro assets is subtracted from the total cost of serving load in Ascend's analysis, the total cost of the Current plus Hydro portfolio is less than the Current portfolio, even before the risk premium is considered.
- c. (Response provided January 24, 2014.)  
No. The timing of the bidding process precluded the use of the PowerSimm model prior to the bid submittal on July 1. See the Prefiled Direct Testimony of John D. Hines on pages 29-31.
- d. (Response provided January 17, 2014.)  
No.
- e. (Response provided January 17, 2014.)  
Gary Dorris.

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PSC-017      Regarding:    2013 Procurement Plan prior to PPLM-NWE Agreement  
                 Witness:        Fine

- a.      Please describe the state of work on the 2013 Resource Procurement Plan prior to the incorporation of the Hydros into modeling exercises.
- b.      If (a) does not address the subject, please specifically identify any key modeling inputs (e.g., carbon price) that had been settled upon prior to the Sept. 2013 PPLM-NWE agreement.
- c.      If (a) does not address the subject, please explain the written product that had been created in advance of the Hydro acquisition in Sept. 2013, and explain also whether any modeling runs had been conducted prior to that date.

RESPONSE (January 24, 2014):

- a.      Prior to the September 2013 announcement of the PPLM-NorthWestern purchase and sale agreement (“PSA”), modeling and model validation was being performed using PowerSimm and spreadsheet-based tools. A number of components, including load, peak demand, commodity prices, weather, and resource definitions, for example, were being prepared and finalized for use in the PowerSimm modeling. In the time before the announcement of the Hydros PSA, Ascend had input these types of data into the model and created and tested the projections of model inputs over the planning horizon. Volume 2 Chapter 1 of the 2013 Electricity Supply Resource Procurement Plan provides documentation of the data and information used by NorthWestern and its advisors that was provided to the Electric Technical Advisory Committee (“ETAC”) prior to September 2013.
- b.      Modeling inputs, with the exception of the PPLM hydro resources, were determined prior to September 2013 and were presented and discussed with ETAC on August 28, 2013 (see 2013 Plan, Volume 2 Chapter 1). Much of the information presented at the August ETAC meeting was prepared and available for discussion at the July ETAC meeting; however, meeting time constraints delayed the sharing of the information until August. Specific modeling inputs discussed at the August 28, 2013 ETAC meeting included: load and customer forecasts, peak demand forecast, DSM, existing resources, new resources, natural gas price forecast, electricity price forecast, carbon penalty, renewable energy credit price forecast, and wind integration and ancillary services future rate estimates.

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- c. Written product created prior to September 2013 consisted primarily of data and information drafted in graphical and tabular form including the information discussed in the response to part b, above. Although portfolio modeling runs had not been completed prior to September 2013, many of the inputs to the model such as load, commodity prices, and weather were being entered and tested in the PowerSimm model. Many of the inputs to PowerSimm (see response to part b) employed models to create the necessary data files to support portfolio modeling. In addition, PowerSimm was being used prior to September 2013 to simulate future states of variables, such as the market for electricity and weather, and to validate forward projections with historical comparisons.

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PSC-018      Regarding:    Cap-Ex Estimates  
                 Witness:       Rhoads

- a.      For each year represented in the LT Rev Req Model and the DCF Model, please provide an itemized list of the capital expenditures included in the exhibits as aggregate figures (i.e., Row 21 in TEM-2; Row 29 in JMS-1.)
- b.      With respect to the answer at JMS-14:5-11, further describe how these capital expenditure estimates were assembled.
- c.      Detail each instance where NWE's cap-ex estimates, represented in the above exhibits, departs from the PPLM estimates mentioned on JMS-14:7-8.
- d.      When did PPLM create its estimates of future cap-ex requirements?
- e.      Describe what NWE did to check the future cap-ex requirements of the Hydros against other similar hydro facilities in the United States and elsewhere.

RESPONSE (January 17, 2014):

- a.      Assuming that "itemized list of the Capital expenditures" means specific assets, the list exists only for 2013 through 2017. On January 17, 2014, NorthWestern filed a motion for protective order regarding the itemized list. Attached is a redacted public version of this itemized list.

NorthWestern will update this response by providing this information in the appropriate format after the Commission rules on the motion for protective order.

In the event that the Commission does not grant the protective order sought by NorthWestern, NorthWestern objects to the question to the extent the request seeks information that is irrelevant, outside the reasonable scope of this proceeding, and not calculated to lead to the discovery of admissible evidence; to the extent that it seeks information or documents relating to entities other than NorthWestern; and to the extent that it requires public disclosure of information that is confidential or commercially sensitive to entities other than NorthWestern.

- b.      The aggregate annual capital expenditures for 2013-2017 were based on the original PPLM data that was detailed by project and common costs. NorthWestern reviewed and used the PPLM forecast with two material adjustments. An amount of \$1,000,000 was included in year 2015 for disposition of the old Rainbow powerhouse. The powerhouse

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status was undetermined at the time of valuation and currently is unknown. A \$1,000,000 timing adjustment was included in 2016 for a major unit upgrade at Holter prior to the 2023 planned upgrades to accelerate future upgrades for this plant.

The balance of unit upgrades will focus on Black Eagle, Hauser, and Madison. These plants' units are smaller than the majority of the larger unit plants. Therefore, the \$8,500,000 starting in 2018 and escalated forward is adequate for planned system upgrades and auxiliary capital expenditures.

PPLM also provided a detailed account of the projects and costs for years 2008-2012. These years were capital intensive including unique one-time expenditures including the Thompson Falls fish ladder, Rainbow new powerhouse, and the Great Falls Interconnection transmission and substation construction. Excluding these types of projects and the unanticipated Hebgren Intake work, annual capital expenditures for these years are comparable to those forecasted from 2018 forward. The 2008-2012 actual capital project lists identify the continuation of numerous auxiliary system upgrades supporting the substantial system upgrade summary provided by PPLM and confirmed through the due diligence work concluded in the CBI independent engineer's reports (Exhibit\_\_(WTR-2)).

- c. See the response to part b, above.
- d. PPLM created its five-year capex estimates prior to issuance of the CIM.
- e. NWE did not check the future cap-ex requirements of the hydros against other similar hydro facilities in the United States and elsewhere. However, NorthWestern employees are very knowledgeable about this hydroelectric system. NorthWestern and NorthWestern's independent consultant, CB&I, based their conclusions about the reasonableness of the PPLM forecasts through the due diligence process. The due diligence work, system familiarity, and professional experience provide the confidence for the NorthWestern capital forecast validity. The qualifications of the individuals whose resumes are included as Exhibit\_\_(WTR-1) reflect their professional knowledge and experience which qualifies them to evaluate these important hydro assets. There would be limited value gained in the short time and limited resources to seek such a comparison during its due diligence effort.

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The operating history of these projects provides the best benchmark for forecasts. Hydro facilities are unique based upon plant location, design, operation, and ongoing dam safety Part 12 analysis. Although generalizations may be made regarding plant upgrades and modernization at non-PPLM hydro plants, past capital expenditures and strategies for the existing PPLM system are a reasonable basis for possible future expenditures.

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PSC-019      Regarding:    Operational and Engineering Issues  
                  Witness:      Rhoads

Has your testimony related a full account of the “operational and engineering issues” referred to at 10:5-6 of your testimony? If not, please provide a full explanation of what you mean by this statement.

RESPONSE (January 24, 2014):

No. The due diligence effort focused on discovery of items of materiality. A detailed list of immaterial items was not compiled during the due diligence process so a “full account” of operational and engineering issues cannot be provided. However, the team conducted a review of FERC-related materials included as exhibits to the Prefiled Direct Testimony of William T. Rhoads, held discussions with PPLM personnel, and made site visits. The team did not find any material operational or engineering issues during its due diligence effort that require immediate attention. However, as stated in 10:5-6, “NorthWestern is aware of some operational and engineering issues, but these are manageable.” For instance, isolated areas of spalled concrete and housekeeping could be improved. In addition, the Annual FERC Dam Safety Inspections contain comments about operational and engineering items. However, none of these rose to the level of materiality.

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PSC-020      Regarding:    FERC Regulation of Hydros  
                  Witness:      Rhoads

Has FERC ever directed these dams' licensees to take the kind of action to remedy significant deficiencies, referred to on 13:2-4 of your testimony? If so, please describe those circumstances.

RESPONSE (January 24, 2014):

NorthWestern is not aware that the FERC has "ordered" PPLM to implement any action due to PPLM's refusal to implement actions. The normal issue resolution process includes consensus between the FERC, the licensee, and its consultants for response to issues arising from FERC regulatory inspection processes or operational concerns. Upon an agreed-upon plan and schedule, the FERC will issue a letter to the licensee accepting the plan and schedule. Certain plans and schedules address specific license article requirements. After consensus with all necessary entities, the FERC will issue an order accepting the agreed-upon plan and schedule for the license article work. Outside of this normal process, NorthWestern is not aware that the FERC has ordered PPLM to implement any actions due to PPLM's refusal to remedy an issue.

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PSC-021      Regarding:    Condition of Facilities  
                 Witness:       Rhoads

- a.      Mr. Rhoads testifies at WTR-17 that “[r]ecent available reporting indicates that generally the structures in the hydro system are in satisfactory condition and well maintained.” Do any structures in the system not meet this characterization? If so, please explain.
- b.      Does the recent available reporting cited above refer to CB&I’s Independent Engineer’s Final Report of January 1, 2013, the Addendum to Independent Engineer’s Final Report of June 25, 2013, or the Due Diligence Report supplementing Engineer’s Final Report of September 6, 2013? If no, please cite and provide (if not provided elsewhere in testimony) the reporting referred to.

RESPONSE (January 24, 2014):

- a.      Except for the intake structure at Hebgen, all structures meet FERC dam safety guidelines. The current remediation work at the Hebgen intake structure is scheduled to be completed by the end of 2014. The spillway structure will also be rehabilitated after the intake tower work. The remediation of these project components will adequately address the current seismic criteria the project is required to structurally meet.
- b.      No. The reference is made to Exhibit \_\_ (WTR-5) and Exhibit \_\_ (WTR-6), Part 12 Safety Inspections and Annual FERC Dam Safety Inspections, respectively.

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PSC-022      Regarding:      FERC Correspondence with Licensee  
                 Witness:      Rhoads

Please provide a full set of the correspondence between PPLM and FERC described on 18:6-17 of your testimony.

RESPONSE (January 24, 2014):

NorthWestern objects to this data request because it is unreasonable, unduly burdensome and oppressive, will needlessly increase the cost of litigation and interposed for an improper purpose. Many of the documents requested are public documents available on FERC's website, <http://www.ferc.gov/docs-filing/elibrary.asp>, and therefore are available to the Commission staff as easily as they are available to NorthWestern. These are documents that NorthWestern is not required to produce. To the extent that the correspondence is not public, it is in PPLM's Data Room. On January 24, 2014, NorthWestern filed an objection to the request for the data room (PSC-036a). NorthWestern will update its response to this data request after the Commission issues its decision on the objection to PSC-036 and the objection to this data request. NorthWestern notes that many of the requested documents that are not publicly available are listed as CEII on FERC's website.

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PSC-023      Regarding:    Hebgen  
                 Witness:       Rhoads

- a.      Provide a detailed description of the rehabilitation of the Hebgen intake structure and low-level outlet conduit described at 21:15-19 and 22:10-14 of your testimony, including a capital budget and timeline.
- b.      What is the worst case scenario of the risk identified for Hebgen by the Part 12 report, the Potential Failure Mode 2—failure of the intake structure under seismic loading.
- c.      Please describe the dam owner’s liabilities in the scenario described in (b). Has NWE quantified the possible damage to life and property resulting from such a scenario?

RESPONSE (January 24, 2014):

- a.      The FERC has reviewed and approved the plans for the Hebgen intake reconstruction. This information is classified as Critical Energy Infrastructure Information (CEII). No public documents are available. Pursuant to Protective Order No. 7323, the design report and the most current monthly construction report are being provided on a protected CD as Attachments 1 and 2, respectively, to parties who have signed the appropriate non-disclosure agreement. See the folder labeled “PSC-023.”

The project is currently in progress. The construction of the intake tower rehabilitation is scheduled to be complete by year-end 2014. The spillway upgrade is planned for completion in 2016.

More detailed information for the forecasted costs can be found in NorthWestern’s response to Data Request PSC-18a.

- b.      NorthWestern objects to this subpart of this data request because it calls for speculation and therefore is not relevant and not reasonably calculated to lead to admissible evidence. The Part 12 Report does not identify a “worst case scenario” for Potential Failure Mode 2.
- c.      NorthWestern objects to this subpart of this data request because it calls for speculation and therefore is not relevant and not reasonably calculated to lead to admissible evidence. The Part 12 Report does not identify a “worst case scenario” for Potential Failure Mode 2. Therefore, there is no scenario described in response to part b, above.

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PSC-024      Regarding:    Madison  
                 Witness:       Rhoads

- a.      Provide a detailed description of the stability of the rock at the left abutment of Madison Dam, described at 22:15-17, including a capital budget and timeline of remediation activities.
- b.      What is the worst case scenario of this risk?
- c.      Please describe the dam owner's liabilities in the scenario described in (b). Has NWE quantified the possible damage to life and property resulting from such a scenario?

RESPONSE (January 24, 2014):

- a.      The rock referenced was stabilized. The stabilization plans were developed by PPLM's engineering consultant, submitted to and reviewed by the FERC for adequacy. This information is classified as Critical Energy Infrastructure Information (CEII). No public documents are available. Pursuant to Protective Order No. 7323, the Madison Dam Rockfall Remediation Geotechnical Engineering Report and the Addendum are being provided on a protected CD as Attachments 1 and 2, respectively, to parties who have signed the appropriate non-disclosure agreement. See the folder labeled "PSC-024" on the CD attached to Data Request PSC-023.
- b.      NorthWestern objects to this subpart of this data request because it calls for speculation and therefore is not relevant and not reasonably calculated to lead to admissible evidence. None of the documents associated with the stability of the rock described in the cited testimony identifies a "worst case scenario." Furthermore, as described in part a, above, this matter has been remediated.
- c.      NorthWestern objects to this subpart of this data request because it calls for speculation and therefore is not relevant and not reasonably calculated to lead to admissible evidence. Part b, above, does not identify a "worst case scenario."

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PSC-025      Regarding:    Thompson Falls & Kerr Seismic Review  
                 Witness:       Rhoads

Please explain when the review of the seismic risk to these two dams described at 22:6-9 will be complete.

RESPONSE (January 24, 2014):

PPLM submitted the seismic analysis of the Kerr Project embankment and gravity sections of the project on January 8, 2014. PPLM plans to submit the balance of the Kerr evaluation related to the arch dam to the FERC by March 31, 2014.

As PPLM and the FERC have discussed, the seismic evaluation requested by the FERC for Thompson Falls is planned to be completed and submitted to the FERC by December 2014.

FERC will review the reports subsequent to receipt from PPLM.

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PSC-026      Regarding:    Total Number of Generating Units and System Reliability  
                  Witness:      Rhoads

- a.      Do upgrade plans exist that would reduce the number of generating units in any specific hydro facility, similar to how the recent renovation at Rainbow reduced the generating units from eight to one? If yes, please identify the specific facilities and provide documentation of the plans.
- b.      If the answer to the preceding question is no, is it conceivable that future upgrades would involve a reduction of the number of generating units in any particular plant?
- c.      Has NWE made any effort to evaluate how any future reduction in the number of total generating units in the hydro system may affect system reliability? If yes, please provide documentation of such evaluation.

RESPONSE (January 24, 2014):

- a.      There are no current plans for future upgrades that would reduce the number of generating units on the system.
- b.      NorthWestern objects to this subpart of this data request because it is vague and ambiguous, imprecise, argumentative, calls for speculation, and not interposed for any proper purpose. The term “conceivable” is subject to multiple interpretations, including by whom and during what time horizon. Without waiving said objection, NorthWestern reiterates that there are no current plans for future upgrades that would reduce the number of generating units on the system. Although it is possible that future upgrades could involve a reduction of the number of generating units in any particular plant, it is also possible that there could be an increase in the number of generating units at a plant, such as when Thompson Falls Unit #7 was added in 1995.
- c.      No.

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PSC-027      Regarding:    Major Upgrades  
                 Witness:       Rhoads

On a Dec. 12, 2013 site visit to Rainbow Dam by MPSC staff, PPLM personnel noted that the Rainbow upgrade was undertaken in relation to the FERC re-licensing of the complex, since FERC expects greater and more efficient usage of dams than the federal agency licenses.

Please explain whether the forward cap-ex budget includes expectations of large upgrades of this variety. And, if not, explain why NWE believes that forecasting such upgrades is not necessary, for instance around 2025 when Thompson Falls' FERC license is up for renewal.

RESPONSE (January 17, 2014):

NorthWestern objects to the introductory sentence of this data request as hearsay, irrelevant, and inadmissible. Without waiving said objection, NorthWestern responds to the second sentence of this data request as follows:

The forward capex budget includes plans for generator and turbine upgrades at the projects. These were referred to in the response to Data Request PSC-018 for Black Eagle, Madison and Hauser. The timeframes are:

Madison:        2020-2023  
Black Eagle:    2020-2022  
Hauser:         2016-2021

Cost estimates for these upgrades are included on the NorthWestern capex forecast for these years and associated projects. Significant hydraulic capacity was added with the installation of the Thompson Falls Unit No. 7 in 1995.

The forward cap-ex budget does not include expectations of major upgrades of the variety as was done recently at Rainbow Dam. Any investments going forward will be evaluated and justified on the basis of economics and reliability. NorthWestern will follow the procedures necessary to amend the license as required through appropriate consultation with the resource agencies. The Prefiled Direct Testimony of John D. Hines states that NorthWestern will look at cost effective upgrades into the future. Greater and more efficient usage of dams for generation does not mean that retirement of entire turbine generator units may be necessary. Economic and reliability evaluations will be inputs to the decision-making process.

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PSC-028      Regarding:    Generator Rewind  
                  Witness:      Rhoads

- a.      Describe the purpose of a generator re-wind.
- b.      How often, and why, does a typical generator need to be re-wound?
- c.      When do you anticipate that the generators listed on Exh. WTR-9 will next need to be re-wound, and does the capital budget in the Meyer and Stimatz testimony incorporate these estimates?

RESPONSE (January 24, 2014):

- a.      The purpose of a generator rewind is to replace the stator winding of a generator due to either (1) a winding failure, (2) a determination that the winding was electrically “weak” and could fail unexpectedly, (3) the winding has reached the end of its useful life, or (4) for efficiency.
- b.      Several factors influence the life of a generator winding, such as the quality of the winding, the quality of the installation, winding maintenance, repair options, and unit operation. Exhibit \_\_ (WTR-9) contains information about generator rewinds across the system.
- c.      Generator rewinds for the projects discussed in the response to Data Request PSC-027 are specifically identified in the 5-year cap-ex forecast. The years beyond do have a level of cost not specifically identified anticipating that major component repair or replacement will be warranted at the other plants over the next 20-25 years.

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PSC-029      Regarding:      Sufficiency of Capital Budget  
                 Witness:      Rhoads

Please explain the basis for this statement that “the capital upgrade program is consistent with industry practice to maintain reliability.” (31:6-7) To what extent has NWE conducted comparisons of the cap-ex program of PPLM assets to other dams of a similar vintage and design?

RESPONSE (January 17, 2014):

The reference to the Prefiled Direct Testimony of William T. Rhoads (31:6-7) pertains to the conclusions reached by both NorthWestern and NorthWestern’s independent engineer, CB&I. Neither NorthWestern nor NorthWestern’s independent engineer conducted a formal comparison of the cap-ex program of PPLM assets to other dams of a similar vintage and design.

See also the response to Data Request PSC-018e.

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PSC-030      Regarding:    Capital Budget for Environmental Upgrades  
                  Witness:      Rhoads

Is any significant cap-ex included in the capital budget forecast that concerns the environmental issues described on pages 35-45 of your testimony?

RESPONSE (January 17, 2014):

NorthWestern included \$1,000,000 in the capital budget forecast in 2015 for demolition of the old powerhouse at Rainbow.

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PSC-031      Regarding:      Risks Associated with Environmental Issues  
                 Witness:          Rhoads

Has NWE quantified the risk associated with the environmental issues described on pages 43-45 of your testimony. If so, please describe these efforts. If not, please explain why these risks have not been quantified and included within the models presented in the Stimatz and Meyer testimonies.

RESPONSE (January 17, 2014):

The environmental matters discussed in my testimony at pages 43-45 relate to potential future environmental liabilities. In conducting our analysis (which is discussed in the Prefiled Direct Testimony of Joseph M. Stimatz), we assessed each of these matters even though they are not current liabilities for the owner of the hydro facilities and they may never become such liabilities. We also made the following allowances in both models:

Contaminated Sediments near Black Eagle: A one-time estimate of \$375,000 in 2025 was included in the models.

Contaminated Sediments near Thompson Falls: Annual estimates of \$187,500 from 2021-2030 were included in the models.

Demolition of the Old Rainbow Powerhouse: A one-time sum of \$1,000,000 in 2015 was included in the models.

We did not make an allowance in the models for the possibility that the Arctic grayling might be listed under the Endangered Species Act because the listing is still uncertain, owner's responsibility and mitigation is not known with reasonable certainty, and if a listing is made it could be several years before costs arose and those costs would be incurred over multiple years.

We also did not include allowances in the models for potential future costs in the shoreline erosion cases. For the Kerr case (Flathead Lake), we addressed the future risk under the terms of the Purchase and Sale Agreement ("PSA"), which provides PPLM will be responsible for all pre-Closing damages which should constitute the majority of the damages. In addition, erosion mitigation measures are in place at Flathead Lake and they appear to be successful. For the Hauser case (Lake Helena), we found the claims had limited merit and the alleged damages were less than \$50,000.

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PSC-032      Regarding:    Forced Outages  
                  Witness:      Rhoads

- a.      Provide a description of the significant forced outages (for the purposes of answering this question, lasting more than a week) of the Hydros during PPLM's ownership of them. Please include details about their duration, their causes, and what was done to remedy the outage, including costs to PPLM.
- b.      Were adjustments for outages (both forced and voluntary, for instance during maintenance) made in the projection of generation of the Hydros that is used by Stimatz and Meyer?

RESPONSE (January 17, 2014):

- a.      PPLM provided the attached list of unit outages for the period January 1, 2003 to December 31, 2013. Costs for each outage are not available. The remedy for each outage is not included, but involved maintenance activity, or repair/replacement of the affected components.
- b.      Yes. The actual annual generation was used to develop economics that included outages affecting generation.

Adjustments to production for plant outages are inherently included in the actual annual plant production.

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PSC-033      Regarding:    Documents Related to Environmental Issues  
                 Witness:       Rhoads

To the extent the following documents were not provided with the application, please provide them. If they have been provided, please provide a citation to where they can be found.

- a.      The MOUs between PPLM and resource agencies referred to at 38:8-23.
- b.      The resource plans described at 39:1-16.
- c.      The programmatic agreements described at 39:18-40:2.

RESPONSE (January 24, 2014):

- a.      The Missouri-Madison Project 2188 Fisheries, Wildlife, Habitat, and Water Quality Protection, Mitigation, and Enhancement MOU and the Thompson Falls Hydroelectric Project Memorandum of Understanding for Facilitation and Funding of Commission Order Approving Construction and Operation of Fish Passage Facilities are Attachments 1 and 2, respectively, and are provided in the folder labeled "PSC-033" on the CD attached to Data Request PSC-003.
- b.      The Mystic *The Fisheries Monitoring Plan* and the Kerr *The Mitigation and Management Plan* are Attachments 1 and 2, respectively, and are provided in the folder labeled "PSC-033" on the CD attached to Data Request PSC-003.
- c.      The Programmatic Agreement Among the Federal Energy Regulatory Commission, The Advisory Council on Historic Preservation and the Montana State Historic Preservation Office Regarding Licensing and Continued Operation of the Missouri-Madison Hydroelectric Generating Project (FERC Project No. 2188) and the Programmatic Agreement Among the Federal Energy Regulatory Commission and the Montana State Historic Preservation Office for Managing Historic Properties that May be Affected by Issuing a License to PPL Montana for Continued Operation of the Mystic Lake Hydroelectric Project in Carbon and Stillwater Counties, Montana (FERC Project No. 2301) are Attachments 1 and 2, respectively, and are provided in the folder labeled "PSC-033" on the CD attached to Data Request PSC-003.

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PSC-034      Regarding:    Projected Bill Impacts  
                  Witness:      DiFronzo and Stimatz

Please provide electronic copies of Exhibit\_(PJD-3) reworked to compare expected charges with and without the PPL hydro assets in July 2014, January 2015 and July 2015.

RESPONSE (January 17, 2014):

NorthWestern objects to this data request on the grounds that it is beyond the proper scope of data requests in that it requires NorthWestern to make analyses that it did not make in evaluating the acquisition or preparing its Application.

Without waiving said objection, NorthWestern responds as follows:

See the two files in the folder labeled "PSC-034" on the CD. The "PSC-034 Bill Impact" file reflects the projected residential bill impacts and the "PSC-034 Electric Supply Rates" file provides the support for the estimated supply rates without the PPL hydro assets for the period July 2014, January 2015 and July 2015.

Please note that Exhibit\_(PJD-3) was based on using the updated first-year revenue requirement of \$128.4 million as shown on Exhibit\_(PJD-1). This updated first-year revenue requirement amount is \$12.8 million less than the valuation first-year revenue requirement amount used in Exhibit\_(PJD-4). The primary differences in the revenue requirement amounts are described in the Prefiled Direct Testimony of Travis E. Meyer starting on page TEM-15. The other difference between Exhibit\_(PJD-3) and Exhibit\_(PJD-4) was the estimated net electric market purchases needed to serve our customers after the hydro assets are purchased. In Exhibit\_(PJD-3) the net electric market purchases were based on the 12-month period from October 2014 through September 2015. In Exhibit\_(PJD-4) the net electric market purchase amounts were based on calendar year periods.

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PSC-035      Regarding:    Exhibit\_(PJD-2)  
                  Witness:      Stimatz

Please provide copies of all on and off-system, fixed and index price purchase and sale agreements associated with the volumes found in rows 9-21, 32-33, and 42-43 of Exhibit\_(PJD-2), page 4. In addition, please provide copies of all Requests for Information and Request for Proposals associated with these agreements.

RESPONSE (January 24, 2014):

See Attachment 1, the purchase and sale agreements, and Attachment 2, the Requests for Proposals, in the folder labeled "PSC-035" on the CD attached to Data Request PSC-003.