

June 6, 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
MCC Set 10 Data Requests (217-225)

Dear Ms. Whitney:

Enclosed for filing is a copy of NorthWestern Energy's responses to MCC Set 10. 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,

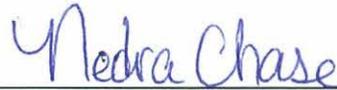
Nedra Chase
Administrative Assistant
Regulatory Affairs

NC/nc
CC: Service List

CERTIFICATE OF SERVICE

I hereby certify that a copy of NorthWestern Energy's response to MCC Set 10 Data Requests (217-225) 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. These data request responses 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. They will also be emailed to counsel of record.

Date: June 6, 2014



Nedra Chase
Administrative Assistant
Regulatory Affairs

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

Joe Schwartzenberger
NorthWestern Energy
40 E Broadway
Butte MT 59701

Patrick R Corcoran
NorthWestern Energy
40 E Broadway
Butte MT 59701

Nedra Chase
NorthWestern Energy
40 E Broadway
Butte MT 59701

Al Brogan
NorthWestern Energy
208 N Montana Ave Suite 205
Helena MT 59601

Sarah Norcott
NorthWestern Energy
208 N Montana Ave Suite 205
Helena MT 59601

Kate Whitney
Montana Public Service Commission
1701 Prospect Ave Box 202601
Helena MT 59620-2601

Robert A Nelson
Montana Consumer Counsel
111 North Last Chance Gulch Ste1B
Helena MT 59620-1703

John W Wilson
J W Wilson & Associates
1601 N Kent Ste 1104
Arlington VA 22209

Albert E Clark
2871 Conway Rd. 127
Orlando FL 32812

Michael J Uda
Uda Law Firm, P C
7W 6th Ave Suite 4E
Helena MT 59601

Roger Kirk/Ben Singer
Hydrodynamics Inc
825 W Rocky Creek Rd
Bozeman MT 59715-8693

Joe Hovenkotter Gen Counsel
Energy Keepers Inc
110 Main Street Suite 304
Polson MT 59860

Ranald McDonald
CSKT Tribal Legal Dept
P O Box 278
Pablo MT 59855

Thorvald Nelson
Holland & Hart LLP
6380 South Fiddlers Green Circle
Suite 500
Greenwood Village CO 80111

Nikolas Stoffel
Holland & Hart LLP
6380 South Fiddlers Green Circle
Suite 500
Greenwood Village CO 80111

Charles Magraw
501 8th Ave
Helena MT 59601

Dr Thomas Power
920 Evans
Missoula MT 59801

Fred Szufnarowski
Essex Partnership, LLC
65 Main St. Suite 22
Ivoryton, CT 06442

Monica Tranel
Montana Consumer Counsel
111 North Last Chance Gulch
Suite 1B
Helena MT 59620-1703

NorthWestern Energy
Docket D2013.12.85
PPLM Hydro Assets Purchase

Montana Consumer Counsel (MCC)
Set 10 (217-225)

Data Requests served May 23, 2014

MCC-217

Regarding: Future Event Adjustments
Witness: Robert C. Rowe

In reference to your Rebuttal Testimony at page RCR-16, lines 7-23:

- a. If, in the future, a major repair cost (e.g., \$200 million) becomes essential, which repair cost was not contemplated or included in the Company's evaluation of the hydros acquisition in this case, and the Commission determines that the possibility of such future repair cost should have been known to the Company, is it your opinion that the Commission may require the Company to make the repair and disallow rate recovery of all or part of the cost? Unless your answer is an unqualified "yes," please fully explain your answer.
- b. If there is an early retirement of one or more of the dams due to a structural or equipment failure that is too costly to repair, and if the Commission determines that the Company should have known about the possibility of such an occurrence but did not consider and account for it in evaluating the hydros acquisition, is it your opinion that the Commission may then terminate the Company's future ability to recover all or part of the remaining cost of such dams? Unless your answer is an unqualified "yes," please fully explain your answer.

RESPONSE:

- a. No. Future Commission decisions will be based on the complete set of facts known at the time of the presentation of any particular future cost recovery request, not simply on the fact that "the possibility of" something existed.
- b. See the response to part a, above.

NorthWestern Energy
Docket D2013.12.85
PPLM Hydro Assets Purchase

Montana Consumer Counsel (MCC)
Set 10 (217-225)

Data Requests served May 23, 2014

MCC-218

Regarding: MWh Cost of Electricity
Witness: John D. Hines

In reference to Chart 2, shown on page JDH-8 of your Rebuttal Testimony in this docket:

- a. Please explain why you cut this chart off at 2008 and did not show values for subsequent years.
- b. Please provide the corresponding values for each year from 2009 to 2013.

RESPONSE:

- a. This chart was developed to illustrate the rise in supply costs from the time deregulation became effective (the end of the buy-back contract) to when NorthWestern was again able to place generation into rate base.
- b. Please see the response to Data Request PSC-315a.

NorthWestern Energy
Docket D2013.12.85
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Montana Consumer Counsel (MCC)
Set 10 (217-225)

Data Requests served May 23, 2014

MCC-219

Regarding: Utility's Responsibility in Addressing Risk
Witness: John D. Hines

In reference to page JDH-11, lines 1-2 of your Rebuttal Testimony in this docket:

- a. Do you agree that the utility should bear some or all of the cost responsibility for risks that it undertakes. Unless your answer is an unqualified "yes," please fully explain your answer.
- b. Please list and discuss some of the risks for which the utility should bear cost responsibility.

RESPONSE:

- a. Please see the response to Data Request MCC-217.
- b. Please see the response to Data Request MCC-217.

NorthWestern Energy
Docket D2013.12.85
PPLM Hydro Assets Purchase

Montana Consumer Counsel (MCC)
Set 10 (217-225)

Data Requests served May 23, 2014

MCC-220

Regarding: Utility's Responsibility in Addressing Risk
Witness: John D. Hines

On page JDH-21, lines 7-8 of your Rebuttal Testimony, you state: "Even though the Mid Columbia ("Mid-C") market has recently been trading at a relatively low level, at times actual price volatility has been significant."

- a. Please specify what you mean by "recently".
- b. Please admit that average annual Mid-C prices have been below \$40/MWh in all years after 2008.
- c. Please admit that average annual mid-c futures prices are below \$45/MWh in all years through 2020.

RESPONSE:

- a. The term "recently" in my Rebuttal Testimony was not presented for a discrete time frame. However one recent example of significant volatility was in February 2014. An example of the significant volatility that I discussed is illustrated in the attached Powerdex hourly index prices for February 6, 2014. For that day, heavy load power traded at prices ranging from \$95/MWh to \$600/MWh with a weighted average of \$179.44/MWh.

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- b. Average annual Mid-C prices have been below \$40 in each of the five years after 2008. However, this is clearly not the case for monthly, daily, and hourly prices – see the response to part a, above. Also, the average annual Mid-C prices were above \$40 in each of the five years 2004-2008.
- c. I disagree. As of June 2, 2014, the 2020 average annual Mid-C futures price is higher than \$45 per MWh.

Because it is copyright-protected, MCC-220a

**Attachment has not been efiled. Paper copies have
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purposes of this docket only.**

NorthWestern Energy
Docket D2013.12.85
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Montana Consumer Counsel (MCC)
Set 10 (217-225)

Data Requests served May 23, 2014

MCC-221

Regarding: Risk Free Transaction
Witness: Brian B. Bird

On page BBC-4, lines 14-16 of your Rebuttal testimony, you state “I do acknowledge preapproval allows us to manage risk to an acceptable level for investment by investors, but certainly not to a risk free level.” Please list and discuss the capital investment risks in the hydros that NWE will continue to bear with the prior approval that it seeks in this case.

RESPONSE:

The capital we invest in the Hydros will have similar risks as all other electric utility capital we invest in our business and, thus, the equivalent authorized return request as the other electric utility assets. See my rebuttal testimony regarding the importance of preapproval and see § 69-8-421(9), MCA.

NorthWestern Energy
Docket D2013.12.85
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Montana Consumer Counsel (MCC)
Set 10 (217-225)

Data Requests served May 23, 2014

MCC-222

Regarding: Colstrip IV
Witness: Joe Stimatz

In reference to your Rebuttal testimony at page BBB-7, lines 18-19: What is the carbon loading to CU4 costs (\$ per mwh) in 2021 that would pertain to CU4 production under the same carbon cost assumptions (per ton) that NWE has made for market purchases in this case?

RESPONSE:

The cost is \$21.55/MWh.

NorthWestern Energy
Docket D2013.12.85
PPLM Hydro Assets Purchase

Montana Consumer Counsel (MCC)
Set 10 (217-225)

Data Requests served May 23, 2014

MCC-223

Regarding: Capital Structure
Witness: Brian B. Bird

On page BBB-9, line 19 of your Rebuttal Testimony, you state: "It appears that Dr. Wilson used amounts taken from our investor materials." Please provide the "investor materials" to which you refer.

RESPONSE:

Attachments 1 and 2 represent the investor materials regarding the Hydro financings. The first was included in the investor presentation on September 27, 2013 announcing the Hydro transaction and the other was made to investors at the EEI Financial conference on November 10, 2013.



Financing Strategy

Low Risk Financing Strategy

- Assets will become fully regulated by MPSC as part of NorthWestern rate base upon closing
- Fully committed initial bridge from Credit Suisse and Bank of America Merrill Lynch for full \$900 million purchase price
- In conjunction with syndicating the Bridge Facility, NorthWestern may seek to extend its current \$300 million revolver to a 2018 final maturity
- Maintain ample liquidity post closing

Permanent Financing

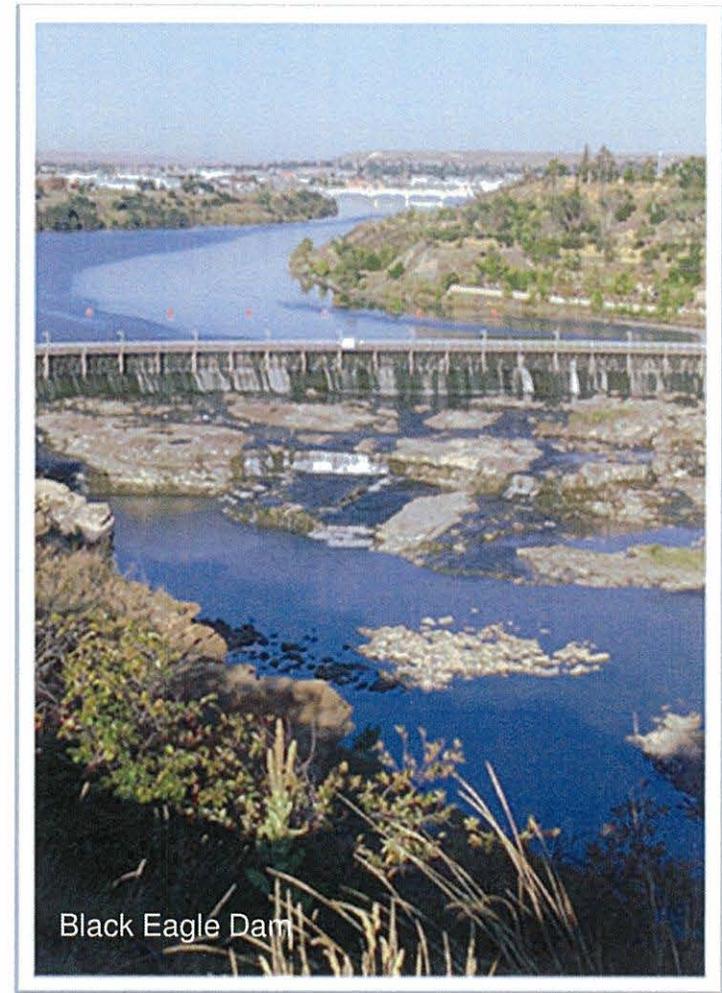
- To be funded with approximately 50 - 55% long-term debt with the remainder through a combination of new equity issuance and cash flow from operations
- Acquisition expected to be immediately earnings and cash flow accretive
- Supports solid investment grade profile

Conservative, low-risk financing strategy supports earnings and cash flow accretion.



HYDRO - FINANCING STRATEGY

- Financing Plans
 - Plan to close into permanent financing with approximately \$450 – 500 million of debt, up to \$400 million of equity, and up to \$50 million of free cash flows.
 - If capital market access is limited we have the option of closing into the \$900 million committed Bridge Facility with Credit Suisse and Bank of America Merrill Lynch.



Black Eagle Dam

NorthWestern Energy
Docket D2013.12.85
PPLM Hydro Assets Purchase

Montana Consumer Counsel (MCC)
Set 10 (217-225)

Data Requests served May 23, 2014

MCC-224

Regarding: Selling of Hydros to Others
Witness: Brian B. Bird

In reference to page BBB-14, lines 17-22 of your Rebuttal testimony, please describe the ways in which an out-of-state utility could deliver the electric power produced at the dams to its service area that would allow the utility to claim the dams as firm resources. For the purpose of answering this question you may pick an out-of-state utility (e.g., Puget) as an example to illustrate how the power from the dams could be delivered to its service area.

RESPONSE:

My testimony on page 14 does not make any assertion regarding whether utilities could “claim the dams as firm resources.” However, neighboring utilities could potentially achieve this to varying degrees through the use of 1) existing NorthWestern transmission; 2) upgrades of existing transmission such as the Colstrip Transmission System; or 3) use of excess transmission potentially made available through future coal plant retirements.

NorthWestern Energy
Docket D2013.12.85
PPLM Hydro Assets Purchase

Montana Consumer Counsel (MCC)
Set 10 (217-225)

Data Requests served May 23, 2014

MCC-225

Regarding: New Hydroelectric Generation
Witness: Ahmad Masud

In reference to pages AM-4, line 18 through AM-5 line 2 of your Rebuttal testimony, please provide and discuss all of the reasons why you consider the Safe Harbor facility to be economically comparable to the hydroelectric assets in this case.

RESPONSE:

Safe Harbor is a 417MW, run-of-river hydroelectric generation facility located in Manor Township, 10 miles southwest of Lancaster, Pennsylvania, on the Susquehanna River. The basic facts about the facility are as follows:

1. Powerhouse: 12 units consisting of two 25 Hertz units and eight 60 Hertz units (five original with COD in 1931-33; five installed in 1985-86) and two station service units. (Note that the first two units supply 25 Hertz power to Amtrak).
2. Dam: 74 feet high and approximately 4,900 feet long including the powerhouse, 31 total spill gates with three double-leaf regulating gates, gravity type, run-of-river 55 feet rated head
3. Transformers: Eight 230 kV high voltage, 60 Hertz and two 69 kV high voltage, 60 Hertz, triple phase
4. Land: Approximately 2,300 acres
5. FERC: FERC (Project Number 1025), license was renewed August 14, 1980 for a second 50-year term and will expire in 2030
6. Average Capacity Factor: 10 Years (2004-2013) Average: 30.01%; 5 Years (2009-2013): 30.92% per SNL.
7. ISO Location: PJM MAAC region
8. Revenue Sources: PPL zone (MAAC) market prices; PJM MAAC region Capacity payments; ancillary revenues

Safe Harbor is a single large run-of-river facility with generation capability of 417 MW which is similar in size to the PPL Montana Hydro run-of-river portfolio of 439 MW (excluding Kerr). Safe Harbor has a long-term FERC license that expires in 2030 (16 years remaining) vs. PPL Montana Hydro Portfolio licenses which have a MW weighted average remaining FERC license life of approximately 23 years.

The historical average capacity factor for the Safe Harbor facility is approximately 31% (per SNL data) which is less than half compared to PPL Montana Hydro historical average portfolio capacity factor of approximately 65%.

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Data Requests served May 23, 2014

MCC-225 cont'd

The realized prices in the PJM MACC region (energy + capacity + ancillary) for Safe Harbor on a merchant basis is estimated at approximately \$71-\$73/MWh assuming current PPL zone power prices, cleared PJM capacity prices in the MACC zone and regulation services market quotes as of May 2014 forwards per SNL. This realized revenue / MWh (assuming 31% capacity factor) for Safe Harbor is very favorable compared to the realized merchant prices at Mid-C that would drive PPL Montana's revenues of \$33-35/MWh (around-the-clock price as of May 2014 forwards per SNL).

The estimated unhedged Gross Margin of Safe Harbor is approximately \$82 million calculated simplistically as follows:

$417\text{MW} * 8760 * 31\% \text{ capacity factor} * \$72/\text{MWh}$ (all in realized around the clock price including energy, capacity and ancillary revenues) = ~\$82 million.

The unhedged gross margin for PPL Montana's Hydro Portfolio (excluding Kerr) on a merchant basis is very similar calculated simplistically as follows:

$439\text{MW} * 8760 * 65\% \text{ capacity factor} * \$34/\text{MWh}$ (all in realized around the clock current price per SNL) = ~\$85 million.

The PPL Montana Hydros (excluding Kerr) on merchant basis produce more than double the MWhs but earn less than half the revenues per MWh and therefore the gross margins are very comparable.

Based on the information above, Credit Suisse believes that the Safe Harbor facility is economically (in addition to operations) comparable to the hydroelectric assets in this case.