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January 16, 2004

Chairman Bob Rowe
Montana Public Service Commission
P.O. Box 202601
Helena MT 59620-2601

Re: Electric Default Supply Portfolio Filing

Dear Chairman Rowe:

This letter responds to your letter of December 30, 2003, concerning NorthWestern Energy's (NWE) delay in filing its electric default supply portfolio plan filing (Plan) with the Montana Public Service Commission (PSC).

This letter is a status report on the Plan, rather than a detailed dialogue concerning the sufficiency of resources supporting NWE's regulatory agenda, or the depth of NWE's commitment to the default supply function. Instead, I will state that our personnel are very busy dealing with a host of issues. We are working to complete a quality Plan filing as expeditiously as possible, but in a manner that is consistent with ensuring that the Plan meets the Commission's rules and its objective that the Plan initiate a thorough public discussion of Montana's electric future.

After receiving your letter of December 30, we continued to work to complete the filing, which we now fully expect to complete next week.

Here is our present thinking on our steps to complete the filing:

Tuesday, Jan. 20—we will electronically provide the Commission, its staff and the NWE Technical Advisory Committee with copies of the core portions of the Plan. This will include a report on the Portfolio Modeling and Analysis that we have completed; the proposed Demand Side Management (DSM) plan; and a range of the required technical support for those sections. The supporting materials will include load forecasts for the Plan period (through 2013); historical information regarding what was formerly the vertically integrated production function and is now default supply service; the resource needs assessment; and materials responsive to the bulk of the PSC's default supply procurement rules. Missing will be the executive summary, a discussion of our risk management and mitigation practices, the resource acquisition chapter (which describes how we conduct acquisitions), and the three-year action plan. The action plan is of particular interest, inasmuch as it will detail our proposed actions to both replace market purchases with long-term contracts, and the proposed steps to replace our current base and heavy load contracts expiring in 2007.

As you know, the Plan is a complex and lengthy document that will take interested parties a considerable amount of time to digest.

We envision the January 20 submittal as a “work in progress” filing. While we will file electronically, we do not plan to file paper copies of the documents as we will be completing final edits next week.

Wednesday, January 21—We will be meeting with the Technical Advisory Committee to review and summarize the Tuesday filing, as well as exploring in some detail our plans for a public participation in the review of the Plan. We are particularly enthusiastic about the work we have been doing to prepare a website that will include the Plan, supporting materials, additional energy-related information, and links to a variety of websites that will provide background materials for those interested in additional detail. We are also planning public meetings throughout the State.

No later than Friday, January 22—We will file paper copies of the complete Plan with the Commission, and replace the initial electronic filing with an electronic version of the complete Plan.

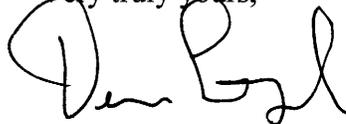
Monday, February 2—This is the target date to “launch” the website for discussion of the Plan, which we have tentatively identified as www.montanaenergyforum.com

Following completion of the filing, we will shift our attention to preparation of applications to the PSC for approval of specific contracts. You should be aware that we are close to completing procurement contracts with Florida Power and Light for the Judith Gap wind project (75 MW) and with the Basin Creek gas-fired facility (approximately 50 MW of peaking facility output in the form of 5 MW reciprocating engines). These contracts are conditioned on advanced approval by the PSC of the proposed prices, quantities and price-affecting terms, and by the bankruptcy court (inasmuch as these are non-ordinary course contracts). We believe that these projects can be financed with these approvals.

We regret the delay in filing the Plan, but we believe that the filing next week will meet your needs and provide the basis for a thorough and thoughtful public discussion of the preferable means of meeting NWE’s default supply loads in the next 10 years.

If you have any questions, please let me know.

Very truly yours,



Dennis Lopach



Mike Hanson



Pat Corcoran

Cc: Bob Nelson
Gerald Mueller
Gary Drook
Mike Hanson