

David G. Gates
Vice President, Transmission Operations
Telephone: (406) 497-2164
Facsimile: (406) 497-2150
David.Gates@northwestern.com

40 East Broadway St.
Butte, MT 59701
Telephone: 406-497-3000
Facsimile: 406-497-2535
www.northwesternenergy.com

September 9, 2005

Mr. Stephen J. Wright
Administrator & Chief Executive Officer
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621

Re: R3

Dear Mr. Wright,

NorthWestern Energy (NWE) is pleased to submit the following comments in response to BPA's solicitation of comments concerning the Grid West proposal and the Transmission Improvements Group (TIG) proposal.

Montana is the only state in the region that has embarked on full-scale deregulation, and as a result, NorthWestern Energy is unique among stakeholders in the region. It is the only control area operator that does not own or control significant generation and thus depends on the wholesale market place for its generation-based ancillary services. The vast majority of NorthWestern's transmission customers are totally dependent on the wholesale power market for their supply. With no embedded-cost supply resources in its portfolio, NorthWestern is more cognizant of the inefficiency of the wholesale marketplace than any other stakeholder. Wholesale market efficiency is absolutely critical to the majority of the citizens in the WECC portion of the State of Montana. NorthWestern Energy shares Bonneville's one-utility vision for the region's transmission system; however, NorthWestern Energy's desire to pursue such one-utility vision is founded on the need for efficiency in wholesale power and ancillary services markets. Only one proposal will ultimately lead to such efficiency – Grid West.

Contrary to Bonneville's characterization of three alternatives under consideration at Decision Point 2, NWE believes there are only two options for consideration by the region: the Grid West proposal and the TIG proposal. The region has not discussed the status quo option through any kind of an open, collaborative process. In fact the Regional Representatives Group (RRG) produced near-unanimous consensus that the status quo is not acceptable. The status quo represents a failure of the region to address the significant transmission issues that impede the continued development and efficient use of the Northwest's transmission system. Also contrary to Bonneville's characterization, NWE believes that the differences between the two proposals are so overwhelming at their fundamental levels as to eclipse any similarities they may share.

The region has been engaged for nearly 10 years in discussions about how best to solve the widely acknowledged shortcomings of the existing system of transmission management. The

most efficient proposal to come out of these protracted efforts was the RTO West Stage 2 proposal over 2 years ago. While that proposal effectively dealt with the root causes of transmission-induced wholesale market inefficiency, its timing was unfortunate – just a few short weeks before FERC released its hugely unpopular Standard Market Design (SMD) NOPR. Like other stakeholders, who recognized that the Stage 2 proposal had been painted with the SMD brush, NWE worked in good faith to find an alternative to the Stage 2 proposal that would address the issues while being more widely accepted in the region. In that process, NWE and other supporters of the Stage 2 proposal swallowed hard as the efficiencies inherent in that proposal were whittled away in the name of compromise.

The end result of that effort is the Grid West proposal now before the region. It is superior to the Stage 2 proposal only insofar as it is acceptable to a broader base of stakeholders as a result of the open, collaborative process that brought it forth. The Grid West market design and pricing recommendations are clear improvements over the status quo even if they don't measure up to the Stage 2 proposal in resolving the root causes of wholesale market inefficiency.

The heart and soul of Grid West is its comprehensive governance structure that successfully balances independence with accountability to the region. It depends on the input of regional stakeholders without compromising the ability of the independent Board to take action when failure to do so would hamper the movement to a more efficient means of managing the grid. Grid West has the potential to achieve market efficiencies incrementally over time because of this independent governance mechanism that was so thoroughly debated in the RRG.

In stark contrast to Grid West is TIG. The fundamental premise in the TIG proposal is that we can use existing institutions to secure the much-needed efficiency in management of the grid. It is very clear that the existing Northwest institutions are not adequately addressing the regional issues identified by the RRG. Quite frankly, the likelihood that the very institutions that have overseen the proliferation of these problems can now resolve them is remote. The TIG governance proposal doesn't even attempt to balance independence with regional accountability. Multiple multilateral contracts among the region's transmission owner's results in no independence whatsoever, and it is a far cry from a one utility management of the grid. For true efficiency in grid management, decision-making needs to be more centralized than it is today; however, the TIG proposal does "not alter decision-making responsibility".¹ In essence the TIG proposal is a further whittling down of the Grid West Stage 2 proposal to the point where the "incremental" changes identified by TIG mostly address only symptoms of the region's problems rather than the problems themselves (e.g. wholesale market inefficiency). We do not believe that TIG's incremental changes provide significant, long-lasting benefits to NWE, its customers, or Montana generators (present and future).

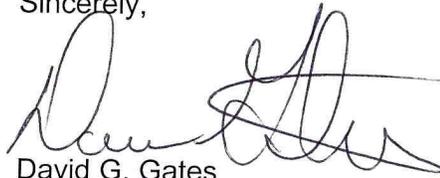
What separates these two proposals is independent decision making. The TIG proposal has decisions made by the transmission owners and by committee. This status quo changes only as much as the one who desires change the least allows. Everything comes down to the least-common denominator. The Grid West structure has an independent board making decisions based on the region's needs as determined by stakeholder input. It has more flexibility in moving the region forward. Grid West provides the better platform for evolving to meet future needs while solving transmission issues today.

¹ From Slide 7 August 10, 2005 TIG presentation

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In its solicitation letter, Bonneville denigrated the status quo. NorthWestern Energy agrees. There is only one proposal that moves us away from the status quo. We urge Bonneville to select Grid West at Decision Point 2 so the region can focus on perfecting the single utility vision for transmission management.

Sincerely,

A handwritten signature in black ink, appearing to read "David G. Gates". The signature is fluid and cursive, with a large initial "D" and "G".

David G. Gates
Vice President, Transmission Operations