



March 3, 2008

Ms. Michelle Manary
Manager
The Bonneville Power Administration
Residential Exchange Program-FE-2
P.O. Box 3621
Portland OR 97208

Dear Michelle:

Please find enclosed NorthWestern Energy's (NWE) initial Appendix 1 Average System Cost (ASC) filing pursuant to NWE's participation in the Residential Exchange Program and the Bonneville Power Administration's (BPA) consultation process to determine a new ASC methodology. NWE submitted this Appendix 1 filing by e-mail on March 3rd. There are several issues that NWE wishes to bring to BPA's attention regarding our ASC filing. They are discussed below.

While the data used is consistent with that reported in our FERC Form 1 filings, those filings are based on our legal structure, which collectively includes our Montana utility, South Dakota utility, and Colstrip Unit 4 unregulated operations. We have prepared this filing based on our Montana utility operations only. As such, we have provided reconciliation between the amounts included in this filing and our 2006 FERC Form 1. Consistent with all other filings used to set rates, we have excluded a utility plant adjustment (goodwill) resulting from our emergence from bankruptcy and the adoption of fresh-start reporting from the rate base calculation.

In assigning costs to functions, direct assignment was used when possible. If direct assignment was not possible NWE used what it determined to be the most appropriate allocator. Documentation of the reason for any variance from the method of assignment in the BPA model will be provided in the near future.

Consistent with the guidance provided in the Federal Register, the filing includes the most recently approved cost of capital (based on a 1999 test year) for the Montana operations. At that time, The Montana Power Company's capital structure included Qualifying Income Preferred Securities (QUIPS) and preferred stock, which is no longer outstanding. While NWE currently has the first rate case since then pending before the Montana Public Service Commission, if a pending stipulation agreement is approved, the cost of capital will likely remain unchanged because this stipulation is silent on cost of capital.

I would also like to highlight a few areas where NWE's filing includes items that vary from the base BPA model. First, because Montana levies an income tax similar to the federal income tax, the tax gross-up in the cost of capital was adjusted to include Montana State Income Taxes.

Deregulation in Montana removed all rate based generation from the utility operations. As a result, NWE purchases 100% of its power supply. A significant portion (more than 25% in 2007) of our power supply is in the form of short-term (less than one year) contracts. With the changes in the wholesale market in recent years, the proposed use of a 5-year average of short term purchased power would not be representative of our actual ASC. As such, our short-term power costs are based solely on 2006 actual costs. We anticipate updating to more current costs in the near future and full documentation will be provided. NWE anticipates pursuing this issue during the consultation process. Without this change, our customers' true costs would be significantly understated.

Consistent with the purchased power costs, the load shown on the Average System Cost worksheet is our electric supply service load. This differs from total transmission loads that include loads for customers that secure their power from third parties. The total costs include a credit for the transmission service billed to those customers not included in NWE's electricity supply load.

NWE understands that the attached Appendix 1 filing is only intended to provide information for an initial average system cost for the FY-2009 expedited ASC Methodology process and that it does not reflect NWE's agreement to any particular cost or methodology, including any allocation or functionalization ratios included in this filing.

NWE wishes to thank BPA for the considerable effort its management and staff have provided in developing a new and significantly improved ASC methodology. NWE anticipates participating in this process and working with the other participants in finalizing this ASC methodology in a manner that provides the citizens of the region that happen to be served by Investor Owned Utilities their equitable and legally mandated share of the benefits of the Federal hydro system.

Sincerely,

A handwritten signature in black ink, appearing to read "Patrick R. Corcoran".

Patrick R. Corcoran
Vice President
Government & Regulatory Affairs

BONNEVILLE POWER ADMINISTRATION
RESIDENTIAL PURCHASE AND SALE AGREEMENT
Proposed 2008 Average System Cost Methodology

Schedule 1: Plant Investment / Rate Base

Account Description	(1) Form 1 page number	(2) Account Numbers	(3) Funct. Method	(4)	(5)	(6)	(7) Distribution/ Other
				Total	Production	Transmission	
Intangible Plant:							
Intangible Plant - Organization	204-207	301	PTD	19,995	43	7,181	12,772
Intangible Plant - Franchises and Consents	204-207	302	PTD	2,004	4	720	1,280
Intangible Plant - Miscellaneous	204-208	303	PTD	307,661	654	110,491	196,516
Intangible Plant - BPA Rattlesnake	204-207	303	DIRECT	868,284		868,284	-
Total Intangible Plant				1,197,944	701	986,675	210,568
Production Plant:							
Steam Production	204-207	310-316	DIR-P	0	-	-	-
Nuclear Production	204-207	320-325	DIR-P		-	-	-
Hydraulic Production	204-207	330-336	DIR-P		-	-	-
Income To Other Production	204-207	340-346	DIR-P	2,646,622	2,646,622	-	-
Total Production Plant				2,646,622	2,646,622	0	0
Transmission Plant: (i)							
Transmission Plant	204-207	350-359	DIR-T	446,900,651	-	446,900,651	-
Total Transmission Plant				446,900,651	0	446,900,651	0
Distribution Plant:							
Distribution Plant	204-207	360-373	DIR-D	794,846,278	-	-	794,846,278
Total Distribution Plant				794,846,278	0	0	794,846,278
General Plant:							
Land and Land Rights	204-207	389	PTD	402,050	855	144,389	256,806
Structures and Improvements	204-207	390	PTD	7,566,300	16,092	2,717,295	4,832,913
Furniture and Equipment	204-207	391	LABOR	1,046,919	15,591	293,365	737,963
Transportation Equipment	204-207	392	TD	25,636,266	-	9,226,408	16,409,858
Stores Equipment	204-207	393	PTD	400,192	851	143,721	255,619
Tools and Garage Equipment	204-207	394	PTD	4,018,009	8,546	1,442,993	2,566,471
Laboratory Equipment	204-207	395	PTD	3,317,020	7,055	1,191,246	2,118,720
Power Operated Equipment	204-207	396	TD	2,133,361	-	767,790	1,365,571
Communication Equipment	204-207	397	PTD	18,801,814	39,988	6,752,320	12,009,506
Miscellaneous Equipment	204-207	398	PTD	192,965	410	69,300	123,255
Other Tangible Property	204-207	399	DIRECT				
Electric Portion of Common	204-208	399.1	PTD	59,321,698	126,168	21,304,277	37,891,253
Total General Plant				122,836,594	215,556	44,053,103	78,567,935
Total Electric Plant In-Service				1,368,428,089	2,862,879	491,940,429	873,624,780

(Total Intangible + Total Production + Total Transmission + Total Distribution + Total General)

**BONNEVILLE POWER ADMINISTRATION
RESIDENTIAL PURCHASE AND SALE AGREEMENT
Proposed 2008 Average System Cost Methodology**

Schedule 1: Plant Investment / Rate Base

Account Description	(1) Form 1 page number	(2) Account Numbers	(3) Funct. Method	(4) Total	(5) Production	(6) Transmission	(7) Distribution/ Other						
LESS:													
Depreciation Reserve													
Steam Production Plant	219	108	DIR-P	0	-	-	-						
Nuclear Production Plant	219	108	DIR-P	-	-	-	-						
Hydraulic Production Plant	219	108	DIR-P	-	-	-	-						
Other Production Plant	219	108	DIR-P	1,945,332	1,945,332	-	-						
Transmission Plant (i)	219	108	DIR-T	173,762,817	-	173,762,817	-						
Distribution Plant	219	108	DIR-D	354,798,724	-	-	354,798,724						
General Plant	219	108	GP	35,207,876	61,784	12,626,662	22,519,430						
Amortization of Intangible Plant	219	108	DIRECT	-	-	-	-						
Mining Plant Depreciation	219	108	DIR-P	-	-	-	-						
Amortization of Plant Held for Future Use	219	108	DIR-D	-	-	-	-						
Capital Lease - Common Plant	219	108	DIRECT	-	-	-	-						
Leasehold Improvements	200-201	108	DIRECT	-	-	-	-						
Accum Prov for Depr, Amort, & Depl (In-Service: Deprc Cmmr	200-201	108	PTD	24,733,582	52,604	8,882,603	15,798,375						
Accum Prov for Depr, Amort, & Depl (Amort of Other Utl Plt: I	200-201	108	PTD	8,632,633	18,360	3,100,249	5,514,024						

Amortization Reserve

Total Depreciation and Amortization

599,080,964	2,078,080	198,372,331	398,630,553
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Total Net Plant

(Total Electric Plant In-Service) - (Total Depreciation & Amortization)

769,347,125	784,799	293,568,098	474,994,227
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BONNEVILLE POWER ADMINISTRATION
RESIDENTIAL PURCHASE AND SALE AGREEMENT
Proposed 2008 Average System Cost Methodology

Account Description	(1) Form 1 page number	(2) Account Numbers	(3) Funct. Method	(4) Total	(5) Production	(6) Transmission	(7) Distribution/ Other
					DIRECT	DIR-D	DIR-P
Assets and Other Debits (Comparative Balance Sheet)							
Cash Working Capital (f)		Calculation		13,235,775	948,600	3,580,544	8,706,630
UTILITY PLANT							
(Utility Plant) In Service (Classified) COMMON	200-201		DIRECT				
(Utility Plant) Held For Future Use	200-201	105	DIR-D				
(Utility Plant) Completed Construction - Not Classified	200-201	106	DIRECT				
Nuclear Fuel		120.1-120.6	DIR-P		-	-	-
Construction Work in Progress (CWIP)	200-201	107 & 120.1	DIR-T	272,720	-	272,720	-
Acquisition Adjustments (Electric)	200-201	114	DIR-T	3,106,285	-	3,106,285	-
Amortization of Electric Plant Acquisition Adj	200-201	116	DIR-T	(2,821,543)	-	(2,821,543)	-
Total				557,462	0	557,462	0
OTHER PROPERTY AND INVESTMENTS							
Investment in Associated Companies	110-111	123	DIRECT				
Other Investment	110-111	124	DIR-D		-	-	-
Long-Term Portion of Derivative Assets	110-111	175-176	DIR-P		-	-	-
Total				0	0	0	0
CURRENT AND ACCRUED ASSETS							
Fuel Stock	110-111	151	DIR-P	290,330	290,330	-	-
Fuel Stock Expenses Undistributed	110-111	152	DIR-P		-	-	-
Plant Materials and Operating Supplies	110-111	154	PTD	8,843,078	18,808	3,175,826	5,648,444
Other Materials and Supplies	110-111	155 - 156	PTDG		-	-	-
EPA Allowances	110-112	158.1 - 158.2	DIR-P		-	-	-
Stores Expense Undistributed	110-111	163	PTD		-	-	-
Prepayments	110-111	165	DIRECT				
Derivative Instrument Assets	110-111	175-176	DIR-P		-	-	-
Total				9,133,408	309,138	3,175,826	5,648,444

**BONNEVILLE POWER ADMINISTRATION
RESIDENTIAL PURCHASE AND SALE AGREEMENT
Proposed 2008 Average System Cost Methodology**

Schedule 1: Plant Investment / Rate Base

Account Description	(1) Form 1 page number	(2) Account Numbers	(3) Funct. Method	(4) Total	(5)			(7) Distribution/ Other
					Production	Transmission	(6)	
DEFERRED DEBITS								
Unamortized Debt Expenses	110-111	181	PTDG	7,140,595	14,939	2,566,995	4,558,661	
Extraordinary Property Losses	110-111	182.1	DIR-D		-	-	-	
Unrecovered Plant and Regulatory Study Costs	110-111	182.2	DIR-D		-	-	-	
Other Regulatory Assets	110-111	182.3	DIRECT	3,707,814		815,719	2,892,095	
Other Regulatory Assets	110-111	182.3	PTD	90,336,977	192,132	32,442,834	57,702,011	
Prelim. Survey and Investigation Charges (Electric)	110-111	183	DIR-D		-	-	-	
Preliminary Natural Gas Survey and Investigation Charges	110-111	183.1	DIR-D		-	-	-	
Other Preliminary Survey and Investigation Charges	110-111	183.2	DIR-D		-	-	-	
Clearing Accounts	110-111	184	DIR-D	(78)	-	-	(78)	
Temporary Facilities	110-111	185	DIR-D	78	-	-	78	
Miscellaneous Deferred Debits	110-111	186	DIRECT					
Deferred Losses from Disposition of Utility Plant	110-111	187	DIRECT					
Research, Development, and Demonstration Expenditures	110-111	188	DIR-D					
Unamortized Loss on Reacquired Debt	110-111	189	PTDG	2,934,065	6,138	1,054,776	1,873,150	
Accumulated Deferred Income Taxes	110-111	190	DIRECT	(5,381,363)	(1,622,295)	(1,540,343)	(2,218,725)	
Total				98,738,088	(1,409,086)	35,339,982	64,807,192	
Total Assets and Other Debits				121,664,733	(151,348)	42,653,814	79,162,267	

BONNEVILLE POWER ADMINISTRATION
RESIDENTIAL PURCHASE AND SALE AGREEMENT
Proposed 2008 Average System Cost Methodology

Schedule 1: Plant Investment / Rate Base

Account Description	(1) Form 1 page number	(2) Account Numbers	(3) Funct. Method	(4) Total	(5) Production	(6) Transmission	(7) Distribution/ Other							
Liabilities and Other Credits (Comparative Balance Sheet)														
CURRENT AND ACCRUED LIABILITIES														
Derivative Instrument Liabilities & Hedges	112-113	244 - 245	DIRECT		-									
Total				0	0	0	0							
OTHER NON-CURRENT LIABILITIES														
Accumulated Provision for Pension and Benefits	112-113	228.3	PTD	35,810,629	76,163	12,860,717	22,873,749							
				35,810,629	76,163	12,860,717	22,873,749							
DEFERRED CREDITS														
Long-Term Derivative Instrument Liabilities & Hedges	112-113	244 - 245	DIR-P		-	-	-							
Customer Advances for Construction	112-113	252	DIR-D	27,216,506	-	-	27,216,506							
Other Deferred Credits	112-113	253	PTD	38,988,006	82,921	14,001,813	24,903,272							
Other Regulatory Liabilities	112-113	254	DIRECT	594,301	287,718		306,583							
Accumulated Deferred Investment Tax Credits	112-113	255	DIR-D		-	-	-							
Deferred Gains from Disposition of Utility Plant	112-113	256	DIR-D		-	-	-							
Unamortized Gain on Reacquired Debt	112-113	257	PTDG		-	-	-							
Accumulated Deferred Income Taxes-Accel. Amort.	112-113	281	DIR-D		-	-	-							
Accumulated Deferred Income Taxes-Property	112-113	282	DIR-D	62,929,457	-	25,786,435	37,143,022							
Accumulated Deferred Income Taxes-Other	112-113	283	DIR-D	11,292,426	233,779	4,531,472	6,527,175							
Total				141,020,696	604,418	44,319,720	96,096,558							
Total Liabilities and Other Credits				176,831,325	680,581	57,180,437	118,970,307							
Total Rate Base <i>(Total Net Plant + Debits - Credits)</i>				714,180,533	(47,130)	279,041,476	435,186,187							
					714,180,533									

BONNEVILLE POWER ADMINISTRATION
RESIDENTIAL PURCHASE AND SALE AGREEMENT
Proposed 2008 Average System Cost Methodology

Schedule 1A: Cash Working Capital (I)

Account Description	(1)		(4)	(5)	(6)	Distribution/		
						Total	Production	Transmission
Cash Working Capital Calculation:								
Total Production O&M		DIR-P	326,350,578	326,350,578				
Total Transmission O&M (i)		DIR-T	18,891,375		18,891,375			
Total Distribution O&M		DIR-D	27,759,804			27,759,804		
Total Customer & Sales		DIR-D	12,512,936			12,512,936		
Total Administrative and General O&M		PTD	39,448,159	314,875	9,752,980	29,380,303		
Less Purchased Power, Public Purpose Charge, and Fuel Costs		DIR-P	(319,076,655)	(319,076,655)				
Revised Total O&M Expenses			105,886,197	7,588,798	28,644,355	69,653,043		
One-Eighthth Revised Total O&M Expenses								
Allowable Functionalized Cash Working Capital			13,235,775	948,600	3,580,544	8,706,630		

**BONNEVILLE POWER ADMINISTRATION
RESIDENTIAL PURCHASE AND SALE AGREEMENT
Proposed 2008 Average System Cost Methodology**

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Schedule 2: Capital Structure and Rate of Return (b)

Investor Owned Utility Return Calculation

Step 1: Weighted Cost of Capital from Most Recent State Commission Rate Order

Component	Capitalization Structure		Effective Cost	
	Amount	Percent	Embedded	Weighted
Debt	\$ 261,825.0	42.17%	6.46%	2.725%
QUIPS Preferred	\$ 48,815.0	7.86%	8.54%	0.672%
Preferred Equity	\$ 43,298.0	6.97%	6.40%	0.446%
Common Equity	\$ 267,005.0	43.00%	10.75%	4.623%
Total	\$ 620,943.0	100.000%		8.466%

Step 2: Gross Up Equity Return for Federal Income Taxes

Federal Income Tax Rate (Currently 35%)	35%
State Income Tax Rate	6.75%
Federal Benefit of Deducting State	<u>-2.3625%</u>
	<u>39.3875%</u>
Federal Income Tax Factor	3.295%
<i>{(ROR - (Embedded Cost of Debt * (Debt / (Total Capital)))} * {(Federal Tax Rate / (1- Federal Tax Rate)}</i>	

Federal Income Tax Adjusted Weighted Cost of Capital <i>(Weighted Cost of Capital Plus Federal Income Tax Factor)</i>	11.761%
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Step 3: Calculate Return on Rate Base	Total
Total Rate Base from Schedule 1	\$ 714,180,533
Federal Income Tax Adjusted Return on Rate Base	\$ 83,996,323

BONNEVILLE POWER ADMINISTRATION
RESIDENTIAL PURCHASE AND SALE AGREEMENT
Proposed 2008 Average System Cost Methodology

Account Description	Schedule 3: Expenses						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Form	Accoun	Funct.	Total	Production	Transmission	Distribution/ Other
Power Production Expenses:							
Steam Power Generation							
Steam Power - Fuel	320-323	501	DIR-P	3,288,385	3,288,385	-	-
Steam Power - Operations (Excluding 501 - Fuel)	320-323	500-509	DIR-P	-	-	-	-
Steam Power - Maintenance	320-323	510-515	DIR-P	-	-	-	-
Nuclear Power Generation							
Nuclear - Fuel	320-323	518	DIR-P	-	-	-	-
Nuclear - Operation (Excluding 518 - Fuel)	320-323	517-525	DIR-P	-	-	-	-
Nuclear - Maintenance	320-323	528-532	DIR-P	-	-	-	-
Hydraulic Power Generation							
Hydraulic - Operation	320-323	535-540	DIR-P	-	-	-	-
Hydraulic - Maintenance	320-323	541-545	DIR-P	-	-	-	-
Other Power Generation							
Other Power - Fuel	320-323	547	DIR-P	151,137	151,137	-	-
Other Power - Operations (Excluding 547 - Fuel)	320-323	546-550	DIR-P	21,120	21,120	-	-
Other Power - Maintenance	320-323	551-554	DIR-P	45,610	45,610	-	-
Other Power Supply Expenses							
Purchased Power (Excluding REP Reversal)	320-323	555	DIR-P	315,637,133	315,637,133	-	-
System Control and Load Dispatching	320-323	556	DIR-P	-	-	-	-
Other Expenses	320-323	557	DIR-P	720,7193	7,207,193	-	-
BPA REP Reversal	327	555	DIR-P	-	-	-	-
Public Purpose Charges (h)			DIRECT				
Total Production Expense				326,350,578	326,350,578	0	0
Transmission Expenses: (i)							
Transmission of Electricity to Others (Wheeling)	320-323	565	DIR-T	5,375,034	-	5,375,034	-
Total Operations less Wheeling	320-323	560-567	DIR-T	8,173,157	-	8,173,157	-
Total Maintenance	320-323	568-573	DIR-T	5,343,184	-	5,343,184	-
Total Transmission Expense				18,891,375	0	18,891,375	0
Distribution Expense:							
Total Operations	320-323	589	DIR-D	13,558,310	-	-	13,558,310
Total Maintenance	320-323	590-598	DIR-D	14,201,494	-	-	14,201,494

BONNEVILLE POWER ADMINISTRATION
RESIDENTIAL PURCHASE AND SALE AGREEMENT
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Account Description	<i>Schedule 3: Expenses</i>						Distribution/ Other
	(2) Form e num be	(3) Accoun t Method	(4)	(5)	(6)		
Total Distribution Expense			27,759,804	0	0		27,759,804

BONNEVILLE POWER ADMINISTRATION
RESIDENTIAL PURCHASE AND SALE AGREEMENT
Proposed 2008 Average System Cost Methodology

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Account Description	<i>Schedule 3: Expenses</i>				(4)	(5)	(6)	(7)	
	(1)	(2)	(3)	Form e num ber					
Customer and Sales Expenses:									
Total Customer Accounts	320-323901-905	DIR-D	8,115,487		-	-	-	-	8,115,487
Total Customer Service and Information	320-323907-910	DIR-D	3,512,043		-	-	-	-	3,512,043
Total Sales	320-323911-916	DIR-D	885,406		-	-	-	-	885,406
Total Customer and Sales Expenses					12,512,936	0	0	12,512,936	
Administration and General Expense:									
Operation									
Administration and General Salaries	320-323 920	LABOR	13,190,325		196,434	3,696,156	9,297,735		
Office Supplies & Expenses	320-323 921	LABOR	3,968,078		59,094	1,111,924	2,797,061		
(Less) Administration Expenses Transferred - Credit	320-323 922	LABOR	(3,691,830)		(54,980)	(1,034,514)	(2,602,336)		
Outside Services Employed	320-323 923	PTD	4,042,391		8,598	1,451,749	2,582,044		
Property Insurance	320-323 924	PTDG	523,235		1,095	188,099	334,041		
Injuries and Damages	320-323 925	LABOR	2,681,978		39,941	751,536	1,890,501		
Employee Pensions & Benefits	320-323 926	LABOR	3,543,720		52,774	993,011	2,497,935		
Franchise Requirements	320-323 927	DIR-D			-	-	-	-	
Regulatory Commission Expenses	320-323 928	PTD	337,150		717	121,081	215,352		
Regulatory Commission Expenses - FERC Order 582	320-324 928	DIR-T	783,728		-	783,728	-	-	
(Less) Duplicate Charges - Credit	320-323 929	PTDG			-	-	-	-	
General Advertising Expenses	320-323 930.1	DIR-D	9,131		-	-	-	-	9,131
Miscellaneous General Expenses	320-323 930.2	PTD	1,370,835		2,916	492,310	875,610		
USBC Expense	320-323 930.3	DIR-D	9,317,415						9,317,415
Rents	320-323 931	PTD	992,736		2,111	356,523	634,102		
Transportation Expenses (Non Major)	320-324 933	DIR-D			-	-	-	-	
Maintenance									
Maintenance of General Plant	320-323 935	GPM	2,379,267		6,177	841,377	1,531,713		
Total Administration and General Expenses					39,448,159	314,875	9,752,980	29,380,303	
Total Operations and Maintenance					424,962,852	326,665,453	28,644,355	69,653,043	

(Total Expenses: Production + Transmission + Distribution + Customer and Sales + Total Administration and General Expenses)

BONNEVILLE POWER ADMINISTRATION
RESIDENTIAL PURCHASE AND SALE AGREEMENT
Proposed 2008 Average System Cost Methodology

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Account Description	<i>Schedule 3: Expenses</i>				(4)	(5)	(6)	(7) Distribution/ Other
	(1)	(2)	(3)	Form e num ber				
	Account Description	Acct num ber	Funct. Method	Total				
Depreciation and Amortization:								
Intangible Plant	336	403	DIRECT	29,001	-	29,001		
Intangible Plant Allocable	337	404	PTD	7,930	17	2,848	5,065	
Steam Production Plant	336	403	DIR-P	0	-	-	-	
Nuclear Production Plant	336	403	DIR-P		-	-	-	
Hydraulic Production Plant - Conventional	336	403	DIR-P		-	-	-	
Hydraulic Production Plant - Pumped Storage	336	403	DIR-P		-	-	-	
Other Production Plant	336	403	DIR-P	107,690	107,690	-	-	
Transmission Plant (i)	336	403	DIR-T	12,435,893	-	12,435,893	-	
Distribution Plant	336	403	DIR-D	28,567,724	-	-	28,567,724	
General Plant	336	403	GP	3,320,747	5,827	1,190,925	2,123,994	
Common Plant - Electric	336	404	PTD	3,970,320	8,444	1,425,866	2,536,010	
Amortization of Plant Acquisition Adjustments (Electric)	200-201	114	DIR-T	94,914	-	94,914	-	
Total Depreciation and Amortization				48,534,219	121,978	15,179,447	33,232,793	
Regulatory Amortizations								
Pension Differential	115	407.3-4	LABOR	9,682,182	144,190	2,713,114	6,824,878	
Competitive Transition Costs	115	407.3-4	DIR-P	329,324	329,324	-	-	
Property Tax Tracker	115	407.3-4	PTDG	440,686	922	158,424	281,340	
Compensated Absences	115	407.3-4	LABOR	(36,276)	(540)	(10,165)	(25,571)	
BPA Residential Buyback	115	407.3-4	DIR-P	(3,579,322)	(3,579,322)	-	-	
Software Development costs	115	407.3-4	LABOR	435,296	6,483	121,977	306,836	
Total Regulatory Amortizations				7,271,890	(3,098,944)	2,983,350	7,387,484	
Total Operating Expenses				480,768,961	323,688,488	46,807,153	110,273,321	
<i>(Total O&M - Total Depreciation & Amortization)</i>								

BONNEVILLE POWER ADMINISTRATION
RESIDENTIAL PURCHASE AND SALE AGREEMENT
Proposed 2008 Average System Cost Methodology

Draft FRN Template

Schedule 3A Items: Taxes (Including Income Taxes)

Account Description	(1) Form e num	(2) Account Numbers	(3) Funct. Method	(4) Total	(5) Distribution/ (6) Production Transmission (7) Other		
					Distribution/ Production	Transmission	Other
FEDERAL							
Income Tax (Included on Schedule 2)	262	-					
Employment Tax	262	-	LABOR	2,815,525	41,930	788,959	1,984,637
Other Federal Taxes	262	-	DIR-D	11,172	-	-	11,172
TOTAL FEDERAL	262	-		2,826,697	41,930	788,959	1,995,808

STATE AND OTHER

State of Montana:

Property	262	-	PTDG	49,773,313	104,130	17,893,166	31,776,017
Energy License	262		DIR-P	812	812	-	-
Wholesale Energy	262		DIR-D	1,359,199	-	-	1,359,199
Unemployment	262		LABOR	14,588	217	4,088	10,283
Auto License	262		PTDG	107,138	224	38,515	68,398
City License	262		PTDG	5,337	11	1,919	3,407
Consumer Counsel & PSC	262		DIRECT	1,655,658	801,552	168,076	686,030
Subtotal Montana				52,916,044	906,947	18,105,763	33,903,335

State of South Dakota:

Auto License	262	-	PTDG	71	0	25	45
Subtotal South Dakota				71	0	25	45

State of Delaware

Franchise	262	-	PTDG	79,542.04	166	28,595	50,781
Subtotal Delaware				79,542	166	28,595	50,781

BONNEVILLE POWER ADMINISTRATION
RESIDENTIAL PURCHASE AND SALE AGREEMENT
Proposed 2008 Average System Cost Methodology

Draft FRN Template

(1) Account Description	Schedule 3B Other Included Items				(5) Total	(6) Production	(7) Distribution/ Other
	(2) Form 1 page number	(3) Account Numbers	Funct. Method	(4) Total			
Other Included Items:							
(Less) Gain from Disposition of Util	114	411.6	DIR-D	0	-	-	-
Loss from Disposition of Utility Plat	114	411.7	DIR-D	0	-	-	-
Total Disposition of Plant				0	0	0	0
Sale for Resale:							
Sales for Resale	310	447	DIRECT	47,339,875	34,393,658	12,946,217	-
Total Sales for Resale				47,339,875	34,393,658	12,946,217	0
Other Revenues:							
Forfeited Discounts	300	450	DIR-D	-	-	-	-
Miscellaneous Service Revenues	300	451	DIR-D	8,000	-	-	8,000
Sales of Water and Water Power	300	453	DIR-D	-	-	-	-
Rent from Electric Property	300	454	TD	2,321,726	-	1,671,540	650,186
Interdepartmental Rents	300	455	DIR-D	-	-	-	-
Other Electric Revenues	300	456	DIRECT	12,394,297	1,014,520	9,925,393	1,454,384
Revenues from Transmission of Elec	330	456.1	DIR-T	34,983,334	-	34,983,334	-
Total Other Revenues				49,707,357	1,014,520	46,580,267	2,112,570
Total Other Included Items				97,047,232	35,408,178	59,526,484	2,112,570
<i>(Total Disposition of Plant + Total Sales for Resale + Total Other Revenue)</i>							

BONNEVILLE POWER ADMINISTRATION
RESIDENTIAL PURCHASE AND SALE AGREEMENT
Proposed 2008 Average System Cost Methodology

DRAFT FRN Template

Schedule 4: Average System Cost

	Total	Production	Transmission	Distribution/ Other
Total Operating Expenses <i>(From Schedule 3)</i>	480,768,961	323,688,488	46,807,153	110,273,321
Federal Income Tax Adjusted Return on Rate Base <i>(From Schedule 2)</i>	83,996,323	(5,543)	32,818,674	51,183,192
State and Other Taxes <i>(From Schedule 3a)</i>	55,822,353	949,043	18,923,342	35,949,969
Total Other Included Items <i>(From Schedule 3b)</i>	97,047,232	35,408,178	59,526,484	2,112,570
Total Cost	523,540,406	289,223,809	39,022,685	195,293,912

(Total Operating Expenses + Return on Rate Base + State and Other Taxes - Total Other Included Items)

Contract System Cost	
Production	289,223,809
Transmission	39,022,685
(Less) New Large Single Load Costs (d)	
Total Contract System Cost	328,246,494
Contract System Load (MWh)	
Total Retail Load	5,749,741
(Less) New Large Single Load	
Total Retail Load (Net of NLSL) (d)	5,749,741
Distribution Loss (f)	287,487
Total Contract System Load	6,037,228
Average System Cost \$/MWh	\$ 54.37

1	Electric	
2	Operation	
3	Production	522,818
4	Transmission	3,705,809
5	Regional Market	
6	Distribution	7,706,480
7	Customer Accounts	2,259,154
8	Customer Service and Informational	2,168,867
9	Sales	59,981
10	Administrative and General	11,372,633
11	TOTAL Operation (Enter Total of lines 3 thru 10)	27,795,742
12	Maintenance	
13	Production	18,206
14	Transmission	2,190,807
15	Regional Market	
16	Distribution	6,191,052
17	Administrative and General	2,050,386
18	TOTAL Maintenance (Total of lines 13 thru 17)	10,450,451
19	Total Operation and Maintenance	
20	Production (Enter Total of lines 3 and 13)	541,024
21	Transmission (Enter Total of lines 4 and 14)	5,896,616
22	Regional Market (Enter Total of lines 5 and 15)	
23	Distribution (Enter Total of lines 6 and 16)	13,897,532
24	Customer Accounts (Transcribe from line 7)	2,259,154
25	Customer Service and Informational (Transcribe from line 8)	2,168,867
26	Sales (Transcribe from line 9)	59,981
27	Administrative and General (Enter Total of lines 10 and 17)	13,423,019
	TOTAL Oper. and Maint. (Total of lines 20 thru 27)	38,246,193

Ratio Used						
Labor Ratio Input:						
Production	DIR-P	\$ 541,024	541,024	-	-	-
Transmission	DIR-T	\$ 5,896,616	-	5,896,616	-	-
Regional Market						
Distribution	DIR-D	\$ 13,897,532	-	-	13,897,532	
Customer Accounts	DIR-D	\$ 2,259,154	-	-	2,259,154	
Customer Service and Informational	DIR-D	\$ 2,168,867	-	-	2,168,867	
Sales	DIR-D	\$ 59,981	-	-	59,981	
Administrative & General	PTD	\$ 13,423,019	28,549	4,820,626	8,573,844	
Total Labor		\$ 38,246,193	\$ 569,573	\$ 10,717,242	\$ 26,959,378	
		100%	1%	28%	70%	
GP						
Production	Funct.	Production	Transmission	Distribution		
Land and Land Rights	PTD	\$ 402,050	855	144,389	256,806	
Structures and Improvements	PTD	\$ 7,566,300	16,092	2,717,295	4,832,913	
Furniture and Equipment	LABOR	\$ 1,046,919	15,591	293,365	737,963	
Transportation Equipment	TD	\$ 25,636,266	-	9,226,408	16,409,858	
Stores Equipment	PTD	\$ 400,192	851	143,721	255,619	
Tools and Garage Equipment	PTD	\$ 4,018,009	8,546	1,442,993	2,566,471	
Laboratory Equipment	PTD	\$ 3,317,020	7,055	1,191,246	2,118,720	
Power Operated Equipment	TD	\$ 2,133,361	-	767,790	1,365,571	
Communication Equipment	PTD	\$ 18,801,814	39,988	6,752,320	12,009,506	
Miscellaneous Equipment	PTD	\$ 192,965	410	69,300	123,255	
Other Tangible Property	DIRECT	\$ -	\$ -	\$ -	\$ -	
Asset Retirement Costs for General Plant	PTD	\$ 59,321,698	126,168	21,304,277	37,891,253	
TOTAL		\$ 122,836,594	\$ 215,556	\$ 44,053,103	\$ 78,567,935	
RATIO (GP)		100%	0%	36%	64%	
PTD						
Production, Transmission, Distribution						
Steam Production	DIR-P	\$ -	-	-	-	-
Nuclear Production	DIR-P	\$ -	-	-	-	-
Hydraulic Production	DIR-P	\$ -	-	-	-	-
Other Production	DIR-P	\$ 2,646,622	2,646,622	-	-	-
Total Production Plant		\$ 2,646,622	\$ 2,646,622	\$ -	\$ -	
Transmission Plant	DIR-T	\$ 446,900,651	\$ -	\$ 446,900,651	\$ -	
Total Distribution Plant	DIR-D	\$ 794,846,278	\$ -	\$ -	\$ 794,846,278	
TOTAL		\$ 1,244,393,551	\$ 2,646,622	\$ 446,900,651	\$ 794,846,278	
RATIO (PTD = PLANT IN SERVICE)		100%	0%	36%	64%	
PTDG						
Production, Transmission, Distribution and General Plant						
PTD Total		\$ 1,244,393,551	\$ 2,646,622	\$ 446,900,651	\$ 794,846,278	
Intangible Plant - Organization	DIR-D	\$ 19,995	\$ 43	\$ 7,181	\$ 12,772	
Intangible Plant - Franchises and Consents	DIRECT	\$ 2,004	\$ 4	\$ 720	\$ 1,280	
Intangible Plant - Miscellaneous	DIRECT	\$ 868,284	\$ -	\$ 868,284	\$ -	
GP Total		\$ 122,836,594	\$ 215,556	\$ 44,053,103	\$ 78,567,935	
TOTAL		\$ 1,368,120,428	\$ 2,862,225	\$ 491,829,938	\$ 873,428,265	
RATIO (PTDG = GROSS PLANT)		100%	0%	36%	64%	
TD						
Transmission, Distribution						
Total Transmission Plant	DIR-T	\$ 446,900,651	-	446,900,651	-	-
Total Distribution Plant	DIR-D	\$ 794,846,278	-	-	794,846,278	
TOTAL		\$ 1,241,746,929	\$ -	\$ 446,900,651	\$ 794,846,278	
RATIO (TD)		100%	0%	36%	64%	
TDG						
Transmission, Distribution and General Plant						
Total Transmission Plant	DIR-T	\$ 446,900,651	-	446,900,651	-	-
Total Distribution Plant	DIR-D	\$ 794,846,278	-	-	794,846,278	
Intangible Plant - Organization T and D Only	DIR-D	\$ 19,995	-	7,181	12,772	
Intangible Plant - Franchises and Consents T and DIRECT	DIR-D	\$ 2,004	-	720	1,280	
Intangible Plant - Miscellaneous T and D Only	DIRECT	\$ 868,284	-	868,284	-	
General Plant Total 389,399(T&D Only)	TD	\$ 122,621,038	-	\$ 44,130,910	\$ 78,490,128	
TOTAL		\$ 1,365,258,250	\$ -	\$ 491,907,745	\$ 873,350,458	
RATIO (TDG)		100%	0%	36%	64%	
GPM						
Maintenance of General Plant						

Structures and Improvements	PTD	\$ 7,566,300	16,092	2,717,295	4,832,913
Furniture and Equipment	LABOR	\$ 1,046,919	15,591	293,365	737,963
Communication Equipment	PTD	\$ 18,801,814	39,988	6,752,320	12,009,506
Miscellaneous Equipment	DIR-D	\$ 192,965	-	-	192,965
TOTAL		\$ 27,607,998	\$ 71,672	\$ 9,762,979	\$ 17,773,347
RATIO (GPM)		100%	0%	35%	64%

Conservation Fuctionalization

Direct to Distribution
 Direct to Production
 Direct to Transmission
 Direct Allocation
 General Plant
 Maintenance of General Plant
 Labor Ratios
 Production, Transmission, Distribution
 Production, Transmission, Distribution, General
 Transmission, Distribution
 Transmission, Distribution and General Plant

Dir-C	70.00%	0.00%	30.00%
DIR-D	0.00%	0.00%	100.00%
DIR-P	100.00%	0.00%	0.00%
DIR-T	0.00%	100.00%	0.00%
DIRECT	0.00%	0.00%	0.00%
GP	0.18%	35.86%	63.96%
GPM	0.26%	35.36%	64.38%
LABOR	1.49%	28.02%	70.49%
PTD	0.21%	35.91%	63.87%
PTDG	0.21%	35.95%	63.84%
TD	0.00%	35.99%	64.01%
TDG	0.00%	36.03%	63.97%

NorthWestern Energy - Montana
Reconciliation of Amounts included in BPA Filing

	2006 FERC Form 1	South Dakota Operations	Colstrip 4 Operations and Other	BPA Filing
Expenses				
Operation Expense	475,777,308	56,272,315	16,511,698	402,993,295
Maintenance Expense	34,540,170	6,473,754	6,096,861	21,969,555
Depreciation Expense	60,465,627	13,409,630	1,587,195	45,468,802
Amortization of Utility Plan	4,163,881	1,182,821	10,557	2,970,503
Amortization of Plant Acq A	(4,998,960)		(5,093,874)	94,914
				<u><u>473,497,069</u></u>
Regulatory Amortizations				
Debits	16,039,714			16,039,714
Credits	(8,358,898)	408,926		<u><u>(8,767,824)</u></u>
				<u><u>7,271,890</u></u>
Total Expenses				<u><u>480,768,959</u></u>
Taxes other than Income	63,102,117	4,433,608	2,846,155	55,822,354
Revenues				
Total	757,313,087	110,463,197	49,286,228	597,563,662
Less Rate Schedule	648,640,639	99,064,100	49,060,108	<u><u>500,516,431</u></u>
				<u><u>97,047,231</u></u>

NorthWestern Energy - Montana
Reconciliation of Amounts included in BPA Filing

	2006 FERC Form 1	South Dakota Operations	Colstrip 4 Operations	Natural Gas and Other	BPA Filing
Plant					
Net Electric Plant Per Form 1 page 200 ln15	961,068,580	182,031,280	43,720,830		735,316,470
Montana Electric portion of Common Net Plant					34,588,116
					<u>769,904,586</u>
Net Plant per Sch 1					769,347,125
CWIP					272,720
Electric Plant Acquisition Adjustment					3,106,285
Amortization of Electric Plant Acquisition Adj					(2,821,543)
					<u>769,904,587</u>
Working Capital					13,235,775
Fuel Stock per Form 1 page 110 ln 45	3,313,948	2,300,646	722,972		290,330
Materials and Supplies page 110 ln 48	17,902,740	4,313,984	1,473,527	3,272,151	8,843,078
Unamortized Debt Expense page 111 ln 69	17,255,590	6,562,875		3,552,120	7,140,595
Regulatory Assets	148,502,899	16,964,870		37,493,237	94,044,792
Accumulated Deferred Tax Assets page 111 ln 82	45,646,258	53,155,615	(783,484)	(1,344,511)	(5,381,362)
Unamortized Loss on Reacquired Debt page 111 ln 81	4,637,192	243,563		1,459,564	2,934,065
Accumulated Provision for Pension and Benefits page 11	(52,570,168)	(670,705)		(16,088,834)	(35,810,629)
Customer Advances for Construction page 113 ln 56	(33,501,677)			(6,285,171)	(27,216,506)
Other Deferred Credits page 113 ln 59	(87,874,078)	(23,116,385)	(1,405,335)	(24,364,351)	(38,988,007)
Other Regulatory Liabilities page 113 ln 60	(26,296,808)	(9,729,517)		(15,972,990)	(594,301)
Accumulated Deferred Tax Liab - Property page 113 ln 6	(109,939,850)	(62,505,476)	(3,653,008)	19,148,091	(62,929,457)
Accumulated Deferred Tax Liab - Other page 113 ln 64	(50,367,990)	7,382,656	(538,730)	(45,919,489)	(11,292,427)
					<u>714,180,533</u>