

NorthWestern[™] Energy

October 1, 2008

Ms. Michelle Manary – PFE-6
The Bonneville Power Administration
P.O. Box 3621
Portland OR 97208-3621

Dear Michelle:

Today NorthWestern Energy (NWE) is filing an Appendix 1 Average System Cost (ASC) analysis pursuant to NWE's participation in the Residential Exchange Program. This filing is based on 2006 FERC Form 1 data and follows the requirements set forth in the Final Record of Decision (ROD) for the 2008 Average System Cost Methodology (ASCM) issued June 30, 2008.

Documents filed electronically include the Appendix 1 ASC filing, the related ASC Forecast Model, supporting workpapers (including one PDF file), a signed Attestation (in PDF format) and an index. Hard copies of this transmittal letter, the signed Attestation, a copy of Schedule 4 of Appendix 1 and the ASC worksheet from the ASC Forecast Model will be sent by regular mail.

The data used in this filing is consistent with that reported in NWE's FERC Form 1 filings, however, the FERC filings are based on our legal structure, which includes the Montana utility, South Dakota utility, and Colstrip Unit 4 unregulated operations. This filing has been prepared based on our Montana utility operations only. As such, reconciliations between the amounts included in this filing and the 2006 FERC Form 1 are provided. Additionally, in accordance with the ASCM requirements, supporting detail

and documentation demonstrating the functionalization of Direct Analysis accounts is provided.

NWE would like to point out two areas addressed in the ASCM Appendix 1 Endnotes that will require continuing discussion and joint participation between BPA and NWE through the review process. The first area is related to distribution losses. NWE does not have a current distribution loss study and is willing to work toward developing an appropriate method to measure distribution losses. The second area relates to the separation of transmission and distribution lines. NWE does not have a ruling from its Regulatory Body addressing such a separation. Again, NWE is willing to work with BPA to develop an allocation of transmission costs and wheeling revenues that will satisfy the ASCM. This filing does include an initial procedure to separate transmission and distribution based on a previous 7-factor analysis.

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 looks forward to continued participation in this process to provide the citizens of the region 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 that reads "Joe Schwarzenberger". The signature is written in a cursive style with a horizontal line extending from the end of the name.

Joe Schwarzenberger
Director of Regulatory Affairs