

AGREEMENT REGARDING
FISCAL YEAR 2003 DEFERRAL AMOUNT
executed by the
BONNEVILLE POWER ADMINISTRATION
and
NORTHWESTERN CORPORATION
AUTHENTICATED

This AGREEMENT REGARDING FISCAL YEAR 2003 DEFERRAL AMOUNT ("Agreement") is executed by the UNITED STATES OF AMERICA, Department of Energy, acting by and through the BONNEVILLE POWER ADMINISTRATION ("BPA"), and NORTHWESTERN CORPORATION("NWC"). NWC is a corporation existing under the laws of the State of Delaware. BPA and NWC are sometimes referred to in this Agreement in the singular as "Party" and in the plural as "Parties."

RECITALS

A. On October 31, 2000, BPA and the Montana Power Company entered into Contract No. 00PB-12160 ("Settlement Agreement"), which settled the Parties' rights and obligations during the period from October 1, 2001, through September 30, 2011, under or arising out of section 5(c) of the Northwest Power Act.

B. In February 2002, NorthWestern Corporation purchased the remaining utility businesses of The Montana Power Company and announced the formation of NorthWestern Energy, L.L.C., a wholly owned subsidiary of NorthWestern Corporation, which thereafter operated these businesses.

C. On November 20, 2002, NorthWestern Corporation announced the restructuring and intra-company transfer of substantially all the assets and liabilities of NorthWestern Energy, L.L.C. to NorthWestern Corporation, completing a

reorganization establishing the provision of regulated utility operations in Montana by NorthWestern Energy, a division of NorthWestern Corporation.

D. BPA wishes to defer payment in FY 2003 of certain amounts of Monetary Benefit under the Settlement Agreement and yet wishes to facilitate a relatively uniform passthrough of benefits under the Settlement Agreement.

E. Contemporaneously with entering into this Agreement, BPA is entering into other agreements under which other investor-owned utilities and BPA are agreeing to BPA's deferral of payment in FY 2003 of payments under agreements similar to the Settlement Agreement. The total cumulative amount to be deferred under this Agreement and such other agreements equals \$55 million.

AGREEMENT

The Parties agree:

1. TERM

This Agreement shall become effective on the date signed by the Parties, and shall continue in effect through September 30, 2011. Upon the expiration or other termination of this Agreement, the rights and obligations then accrued or incurred for the payment of any amounts to NWC by BPA under this Agreement shall survive.

2. AMENDMENT OF SETTLEMENT AGREEMENT

The Settlement Agreement, as amended by Amendment Nos. 1 and 2, is further amended as follows:

(a) Amendment of Section 2

Sections 2(n), 2(o), and 2(p) are added at the end of and as part of section 2 of the Settlement Agreement:

“(n) "Deferral Amount for Contract Year 2003" means an amount equal to \$521,052.63.

(o) "Monthly Deferral Amount" means the following amounts for each month of February through September of Contract Year 2003, the sum of which is equal to the Deferral Amount for Contract Year 2003:

<u>Month, Year</u>	<u>Monthly Deferral Amount</u>
February 2003	65,131.57
March 2003	65,131.58

<u>Month, Year</u>	<u>Monthly Deferral Amount</u>
April 2003	65,131.58
May 2003	65,131.58
June 2003	65,131.58
July 2003	65,131.58
August 2003	65,131.58
September 2003	65,131.58
TOTAL:	<u>\$521,052.63</u>

(p) "SN CRAC Reduction" means in any month prior to October 1, 2006, an amount equal to the sum of

- (i) an amount equal to the reduction to Monetary Benefit paid in such month under section 4(c)(2)(A)(i) of this Settlement Agreement as a result of the application of the SN CRAC, plus
- (ii) an amount equal to the reduction to Monetary Benefit paid in such month under section 4(c)(2)(A)(ii) of this Settlement Agreement as a result of the application of the SN CRAC."

(b) **Amendment of Section 4(c)**

(1) Section 4(c)(3) is added at the end of and as part of section 4(c) of the Settlement Agreement:

“(3) Deferral of Fiscal Year 2003 Monetary Benefit

The monthly amount of Monetary Benefit to be paid to NWC pursuant to the provisions of section 4(c)(2)(A)(i) during the period February 2003 through September 2003 shall be reduced by the Monthly Deferral Amount.”

(2) Section 4(c)(4) is added at the end of and as part of section 4(c) of the Settlement Agreement:

“(4) Repayment of Deferral Amount for Contract Year 2003

(A) The Deferral Amount for Contract Year 2003 shall be paid, plus interest, to NWC by BPA as Monetary Benefit pursuant to sections 4(c)(4)(B) and 4(c)(4)(C) below. Such interest shall accrue at an

annual rate of 3.01 percent, compounded monthly, and shall accrue on the amount of each reduction commencing on (and including) the date it would have been due to be paid absent the occurrence of such Deferral Amount for Contract Year 2003 and continuing up to (but not including) the date such amount is paid pursuant to section 4(c)(4)(B) or 4(c)(4)(C) below.

- (B) If there is any SN CRAC Reduction in Contract Years 2003, 2004, 2005, or 2006, an amount equal to the lesser of
- (i) such SN CRAC Reduction; or
 - (ii) the amount, if any, by which the aggregate amount of reductions after January 31, 2003, of payments pursuant to section 4(c)(3) above, including interest calculated in accordance with section 4(c)(4)(A) until the Due Date determined under section 4(e), exceeds the aggregate amount of any payments that have then been previously made pursuant to this section 4(c)(4)(B)

shall be paid by BPA to NWC as Monetary Benefit at the time the SN CRAC Reduction is reflected in the payments to NWC under this Settlement Agreement.

- (C) In addition to paying each month any amounts otherwise due during such month to be paid to NWC pursuant to the provisions of this Settlement Agreement, as it may hereafter be amended, superseded, or replaced, BPA shall pay to NWC as Monetary Benefit an amount, if any, equal to (i) the Deferral Amount for Contract Year 2003 (plus interest as calculated in section 4(c)(4)(A) above), reduced by (ii) any amounts previously paid pursuant to section 4(c)(4)(B) above. Such amount shall be paid by BPA to NWC in 60 equal monthly installments during the period October 1, 2006, through September 30, 2011.

(D) The Parties agree that any amounts NWC is entitled to receive pursuant to section 4(c)(4)(C) above after September 30, 2006, shall be in addition to amounts NWC is otherwise entitled to receive under this Settlement Agreement, as it may hereafter be amended, superseded, or replaced (and shall only reduce other amounts NWC is entitled to receive after such date for the benefit of its residential and small farm customers, under this Settlement Agreement or otherwise, through its impact on the level of the Lowest PF Rate).”

(c) **Amendment of Section 6(b)**

Section 6(b) of the Settlement Agreement is amended by deleting the second sentence of such section 6(b) and inserting the following in its place:

“The amount of benefits held in the account described in section 6(c) below shall not at any time exceed an amount equal to the greater of (1) the expected receipts of monetary payments from BPA under this Settlement Agreement over the next 180 days or (2) the receipts of monetary payments from BPA under this Settlement Agreement over the immediately preceding 180 days.”

3. OTHER PROVISIONS

- (a) The Settlement Agreement (as amended by Amendment Nos. 1 and 2 and as further amended by this Agreement) shall be and continue in full force and effect.
- (b) For purposes of determining the Conservation and Renewable Discount for NWC’s Monetary Benefit under section 10 of the Settlement Agreement (and the terms specified in BPA’s applicable Wholesale Power Rate Schedules, including GRSPs), the forecasted amount of monthly Monetary Benefit to be paid to NWC shall be determined as though the Parties had not entered into this Agreement.
- (c) If this Agreement is held to be illegal, invalid or unenforceable for any reason, the Settlement Agreement shall be and continue in full force and effect (and any amounts that have then been deferred pursuant to this Agreement shall be paid to NWC by BPA within 30 days of such holding).

This section 3(c) shall be and remain in effect even if any or all of the other provisions of this Agreement are illegal, invalid or unenforceable.

- (d) This Agreement sets forth the entire agreement of the Parties with respect to the subject matter hereof and may only be amended by writing hereafter signed by each of the Parties. Each of the Parties represents that its signatory below is authorized to enter into this Agreement on behalf of the Party for whom he or she signs.

NORTHWESTERN CORPORATION

UNITED STATES OF AMERICA
Department of Energy
Bonneville Power Administration

By **/S/ PATRICK R. CORCORAN**
Vice President

By **/S/ LARRY KITCHEN**
Account Executive

Name **Patrick R. Corcoran**
(Print/Type)

Name **Larry Kitchen**
(Print/Type)

Date Signed **January 21, 2003**

Date Signed **December 18, 2002**

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