

**NorthWestern Energy (NWMT)
Business Practice for
Conditional Firm Transmission Service**

Background: In Order No. 890, dated February 16, 2007, the Federal Energy Regulatory Commission (“FERC” or “Commission”) adopted a requirement for Transmission Service Providers (“TSP”) to offer conditional firm service (CFS) which is available when long-term firm point-to-point service is not available as requested. (Order No. 890 ¶¶903, 925). To review the Commission’s discussion and determination regarding CFS, see Order No. 890, paragraphs 962 to 1094. Further, the Commission added language in Sections 1.46, 13.6, 14.7 and 15.4 of the Order No. 890 *pro forma* Open Access Transmission Tariff (“OATT”) and/or Sections 13.4, 13.6, 14.7, 15.4 and 19.1 and 19.3 of NorthWestern Energy’s (NWE) Open Access Transmission Tariff (OATT) regarding the conditional curtailment option (CCO), which is the implementation of CFS. In Order No. 890, the Commission directed TSPs located in the same region to coordinate the development of business practices for the implementation of CFS (Order No. 890 ¶1046).

Purpose: The purpose of this Business Practice (“BP”) is to establish, based upon regional coordination, the procedures under which NWE will study and offer the option for CCO to a Transmission Customer (“TC”) in a long-term firm point-to-point service agreement. That regional effort, which is spearheaded by WECC, is ongoing and may result in changes to the NWE business practice. This BP will also describe the process by which CFS is implemented by NWE and the procedures for including CCO as part of the System Impact Study (“SIS”). This BP should be viewed as an initial “procedures” document, and as a result, this BP may be modified from time to time as various issues surrounding CFS are addressed and practices are improved.

Business Practice Content: This BP is divided into three sections. Section One contains definitions specific to CFS. Section Two provides general information regarding the characteristics of CFS, including NWE’s and the TC’s rights and obligations. Section Three describes the HOW TO Procedures a TC must follow when requesting a CFS study and the procedures NWE must follow when doing a reassessment of an existing CFS reservation.

Section One: Definitions

Bridge: The contract period which spans the gap in time between when the long-term firm point-to-point service agreement which includes provision of CCO is executed and when the relevant transmission upgrades become operational and NWE can provide the TC long-term firm Point-to-Point (“PTP”) transmission service without CCO provisions.

In order to receive a Bridge agreement the TC must commit to participate in the necessary system upgrades in accordance with the applicable provisions of the OATT.

Conditional curtailment option (“CCO”): The implementation of CFS which is offered by NWE pursuant to its OATT and selected by the TC when NWE does not have long-term firm available transfer capability (“ATC”) to meet the long term firm transmission service request of a TC. The terms and conditions of the CCO will be included in the TC’s long-term firm PTP transmission service agreement. Curtailments under the CCO shall occur at the non-firm/secondary network priority level either based on contract-specified system conditions (“System Conditions Option”) or based on a contract specified number of hours (“Number of Hours Option”) (Order No. 890 ¶¶ 1064, 1074).

Conditional Firm Service (“CFS”): A form of long-term firm PTP service that is offered as CCO as described and discussed in FERC Order 890 when NWE does not have long-term firm available transfer capability (“ATC”) to meet the request. CFS includes less-than-firm service defined by a lower curtailment priority in either a defined number of hours in a year or during predefined system conditions (Order No. 890 ¶¶ 911 and 912). CFS does not preclude NWE's obligation to offer other forms of partial interim service (i.e., partial MW offers, partial duration offers, or a combination of the two). NWE is obligated to make a partial offer of firm service if possible in accordance with applicable provisions of the OATT. The remainder can then be studied to determine whether a CCO offer is possible if the customer desires a SIS.

Number of Hours Option: A CFS option in which NWE’s Conditional Curtailment rights are tied to a contract-specified number of hours during the contract year and can be exercised by NWE any time curtailment would help to relieve actual or anticipated reliability problems on the transmission system (Order No. 890 ¶¶ 960, 978, 1064, 1066, 1068).

Reassessment: A biennial right of NWE to determine whether the system conditions or number of hours specified in the CFS service agreement need to be modified for purposes of maintaining reliability. Reassessment does not apply to TCs who have selected to commit to system upgrades that would allow them to receive long-term firm PTP service. Customers that have made this commitment are called “Bridge” customers (Order No. 890 ¶ 917 and footnotes 574, 959, 980, 981).

System Conditions Option: A CFS option in which NWE’s Conditional Curtailment rights are tied to contract-specified conditions of the transmission system and can only be exercised by NWE when those system conditions are occurring or are anticipated to occur (Order No. 890 ¶¶ 960, 978, 1064, 1066).

Section 2: CFS Characteristics

- If NWE is unable to provide long-term firm PTP service for all or a portion of the transmission service request, the TC may request a CFS study within its SIS as an

alternative to the construction of transmission upgrades required for firm PTP transmission service or during the interim period prior to the completion of required upgrades (a “Bridge”). NWE is then obligated to conduct the CFS study within the SIS. The TC is responsible for paying for these studies.

- NWE is not obligated to offer CFS if reliability would be negatively impacted by provision of such service. Under this BP, examples of negative impacts on reliability include, but are not limited to:
 - Violation of one or more of the NERC or WECC Reliability Standards.
 - Violation of a NWE reliability requirement.
 - Creation of chronic unscheduled (or “loop”) flow that cannot be anticipated on a long term basis.
 - Interferes with NWE's statutory obligations.

2.1 CFS Study Requirements

- The availability of CFS is determined by NWE by performing a study within the SIS. NWE shall study both the System Conditions Option and Number of Hours Option, unless the TC elects to not have the CCO assessed pursuant to Section 19.1 of NWE’s OATT.
- If the SIS determines that CFS can be offered, the TC must accept or reject CFS within the timeframe specified in the OATT. The TC must also decide if it desires to accept CFS as a Bridge product until the installation of study-defined upgrades to the transmission system are completed. If the TC accepts CFS, it must choose either the System Conditions Option or the Number of Hours Option in its service agreement. The TC may not choose both.
- NWE determines the CFS study methods and, if applicable, the CFS ATC at the constrained points on its system.
- For the Number of Hours Option, the SIS will state the hours that NWE may conditionally curtail service. Additionally, NWE may add a risk factor to this calculation of annual curtailment hours to account for the risk of forecasting error.

2.2 CFS Curtailment Characteristics

- Conditional Curtailments occur on the same basis as non-firm/secondary network curtailment priority.

- During non-conditional hours, CFS shall be curtailed on the same basis as all other firm transmission uses. This includes, for example:
 - When the number of hours in the service agreements run out in cases in which the TC chose the Number of Hours Option;
 - When there is a need for a curtailment due to a system condition not specified in cases in which the TC chose the System Conditions Option;
 - When the CFS has been upgraded to Firm based on Short-Term Firm (STF) availability.
- NWE can call upon the Conditional Curtailment rights during the operating hour and/or in advance of the operating hour (due to, for example, planned outages or contractual congestion or system conditions).
- NWE shall assign short-term firm service to CFS TCs as it becomes available. When curtailments are necessary, CFS will be curtailed pro rata with all other firm service, except during periods when the conditional curtailments apply. These curtailment priorities may change once the North American Electric Standards Board (“NAESB”) develops appropriate communication protocols (Order No. 890, ¶1078). At that time, it is anticipated that CFS that is reserved after short-term firm service is reserved is curtailable prior to the short-term firm service in the periods when CFS is conditional. Short-term firm service that is reserved after CFS is reserved is curtailable prior to the CFS reservation, because CFS is a long-term firm use of the system.
- If the TC chooses the System Conditions Option, Conditional Curtailments may only occur when the specific system conditions cited in the service agreement are occurring or are anticipated to occur.
 - NWE will provide the TC with as much advance notice as possible of an upcoming system condition that will or may cause curtailment of all or a portion of the TC’s CFS. However, Conditional Curtailments may occur during the operating hour requiring immediate curtailment when necessary to maintain reliability.
 - Conditional Curtailments may be required for scheduled or unscheduled maintenance.
 - NWE will track Conditional Curtailments based on each of those anticipated or realized system conditions, and provide documentation to the TC upon request.
- If the TC chooses the Number of Hours Option, Conditional Curtailments may occur any time a reliability event is occurring that curtailment of the service would help to

relieve, not just when system events are occurring that made it necessary for the reservation to be CFS.

- A full or partial curtailment lasting for one hour, or a full or partial curtailment lasting less than one hour, constitutes one hour of use of Conditional Curtailment rights.
- The priority of service will become Firm when all of the Conditional Curtailment hours specified in the service agreement, for the contractually-defined period, have been used.
- NWE will track the number of hours curtailed and the number of hours remaining for the year or other period defined in the service agreement and provide documentation to the TC upon request.

2.3 Biennial Reassessment

- CFS is subject to biennial Reassessment, unless the TC chooses to use it as a Bridge product prior to obtaining long-term firm PTP service.

2.4 Miscellaneous Characteristics of CFS

- Short-term firm ATC (i.e. hourly, daily, weekly or monthly) will be awarded to the CFS TCs in queue order during the term of its service agreement, as it becomes available, in accordance with rules adopted by NAESB.
- CFS qualifies as firm service that supports the designation of network resources imported from other regions/TSPs/Balancing Authorities.
- CFS TCs pay the long-term firm PTP rate (Order No. 890 ¶ 1047) regardless of any curtailments.
- CFS reservations have rollover rights under the same conditions in which rollover rights are available for a long-term firm PTP reservation and with the same conditions unless a reassessment changes the conditions.
- CFS reservations have the same redirect and resale rights as long-term firm PTP service.

Section 3: HOW TO Procedure for Requesting a CFS Study

3.1 The System Impact Study Process:

- The TC must submit a Transmission Service Request (“TSR”) on OASIS requesting firm PTP transmission service for a period of at least one year. In accordance with the OATT, the TC must request service for a period of at least five years to receive rollover rights. This requirement will take effect upon FERC’s acceptance of Attachment K to NWE's OATT.
- If NWE does not have sufficient ATC to provide long-term firm PTP service, NWE shall inform the TC in accordance NWE's OATT and offer a SIS Agreement.
- The TC and NWE determine the scope of the SIS and sign a SIS Agreement. For the SIS to include a study of CFS, the scope of the study must include those provisions at the time the SIS Agreement is signed.
- The SIS must identify the following:
 - Transmission additions or upgrades required to provide the requested long term firm PTP service.
 - Cost estimates for all transmission additions or upgrades.
 - System constraints, identified by transmission facility that caused NWE to be unable to provide long term firm transmission service. NWE may determine whether to consider physical, schedule and/or contractual congestion.
 - If CFS is studied, NWE shall provide information on both the Number of Hours Option and System Conditions Option unless otherwise requested by the TC.
- Unless otherwise agreed, NWE will use due diligence to complete the SIS within 60 days of execution of the SIS agreement, including the additional analysis required to identify capacity available as CFS.
- If the TC chooses CFS, it must select either the Number of Hours Option or the System Conditions Option for Conditional Curtailment. The service agreement offered by NWE must contain a description of the system conditions or number of conditional curtailment hours.
- NWE will file a signed service agreement with the Commission as a non-conforming agreement if the service agreement provides for CFS.

3.2 Reassessment

- For CFS TCs who have selected Reassessment and who are continuing their reservation, NWE will perform a Reassessment of the curtailment conditions and/or hours on a biennial (every other year) basis. The biennial Reassessment Study will be provided no less than ninety (90) days prior to the end of the biennial period, and the TC must pay all study costs. The following rules will apply to these Reassessments:
 - Hours/conditions worsen -- If the system conditions (for System Conditions TCs) or hours (for Number of Hours TCs) become more onerous to the TC, the TC may choose to either continue with the service under the new conditions or to discontinue the service. If the TC informs the NWE in writing that it chooses to discontinue the service on the date on which the system conditions or number of hours associated with the CFS change, NWE will annul the reservation as of the effective date of the more onerous conditions. Written notice of the choice to discontinue the reservation must be received by NWE at least thirty (30) calendar days in advance of the date upon which the system conditions or conditional hours would change.
 - Hours/conditions improve – If system conditions (for System Conditions TCs) improve or the number of conditional hours (for Number of Hours TCs) become less onerous to the TC, the TC may not terminate the service agreement; rather, both parties will remain contractually bound to continue the service until the next Reassessment or until the service agreement terminates, whichever comes first.
 - If the TC accepts the results of the biennial Reassessment, the service agreement will be amended accordingly. NWE is required to file the amended service agreement with the Commission.
 - If there are no changes in the conditions or hours, as applicable, both parties are obligated to continue the service through the term of the service agreement.
- If the TC chooses to use CFS as a Bridge to long-term firm PTP service, NWE is obligated to provide CFS, without change to the contract-specified system conditions or number of hours until the necessary system upgrade(s) is/are complete.