

REQUEST FOR PROPOSAL
FOR
SYSTEM BALANCING SERVICE
FOR
NORTHWESTERN ENERGY'S
TRANSMISSION SYSTEM
September 08, 2008

By this Request for Proposal (RFP), NORTHWESTERN ENERGY (NWE) invites your proposal to provide System Balancing Service to NWE's transmission function for a minimum term of 1 year from commencement of services.

NWE will evaluate the proposals based on the following criteria:

a) Price of service

NWE will accept proposals that rely on any reasonable basis for pricing System Balancing Service. However, the respondent should provide a clear description of its pricing basis, and respondents are strongly encouraged to follow the suggested pricing concepts outlined in the "Requirements" section below

and

b) Ability to perform service

The respondent must provide documentation to support its ability to provide this type of service as required within this RFP. This documentation should include reference lists from parties that have utilized these, or similar, services in the past from the respondent.

The respondents must also satisfy the specific requirements listed in this RFP document. Unless otherwise specified in this Transaction, times under this Transaction shall be determined based on Mountain Prevailing Time.

Requirements:

Amount of System Balancing Service to Consider in Proposals

NWE will for any transmission system balancing need, on an hourly basis, require the ability to deliver to or receive from the System Balancing Service provider an amount of energy required to balance the transmission system of NWE. The range of requests that NWE will be allowed to make shall not be limited; however, in order to evaluate the typical, maximum and minimum requests that could be made of the System Balancing Service provider, included in the spreadsheet named SysBalancing_June07-May08.xls is historic data from June 1 2007 to May 31 2008 representing the hourly balancing that NWE has experienced. Note that historical transactions are not necessarily representative of the future system balancing needs of NWE.

Scheduling of Amount Requirement

NWE will notify the supplier via phone of the next hour amount (either receipt or delivery) as soon as possible but no earlier than 10 minutes to the top of the current hour for the next hour's needs and no later than 45 minutes before the beginning of the next hour. Unless otherwise determined by mutual agreement of both parties, times under this agreement shall be determined based on Mountain Prevailing Time

Firmness of Service Requirement

NWE expects bids for an "Energy" System Balancing Service. That is, Bidders will not be expected, nor is it desirable, to reserve capacity for this service and should not price the product as if it is capacity based. NWE believes that the hourly energy markets in the region are very liquid and that such liquidity will insure adequate market for this service. The successful bidder, therefore, shall be required to make all reasonable efforts to honor the hourly requests of NWE. Once scheduled, the energy delivery or receipt to provide the service must be firm for the hour. Interruptible or Unit Contingent service will not be accepted.

Transmission Arrangement Requirement

In all cases, the System Balancing Provider will be required to make deliveries to or accept deliveries at NWE's transmission system at points where hourly transmission capacity is available. The System Balancing Provider and NWE will work together each hour during the term of the agreement to identify a Point-of-Receipt/Point-of-Delivery at which NWE is capable of receiving/delivering the balancing energy.

Pricing Requirement

As described above, NWE anticipates bids based on commodity pricing characteristics for this energy product. NWE anticipates the service to be market-based with a fee in \$/MWH, or a fixed periodic fee, consistent with the level of service provided. All system balancing energy must be priced for delivery or receipt at NWE's transmission system borders or at appropriate points internal to NWE's system.

Commodity prices should be based on a widely recognized and published price index (e.g., the Dow Jones Mid-C Indexes for the respective times of peak, off-peak and Sundays).

Respondents are encouraged to propose other pricing schemes as they see fit. However, NWE prefers that all respondents submit at least one proposal consistent with the scheme described above.

Tagging Requirement

The System Balancing Service Provider shall be responsible for creating all electronic tags associated with the energy transactions.

Regulatory Requirement

Once the successful bidder is chosen, all executed agreements for service must be filed with the Federal Energy Regulatory Commission (FERC). The effective date of service under the agreements will be dependent on FERC approval which can take a minimum of 60 days from the initial filing date.

RFP Responses

1. Response Development and Presentation

A respondent should provide as a minimum the following information and provisions:

- a) Term of a Proposed Agreement – NWE prefers a minimum term of 2 years. Following the initial 2 year period, NWE would prefer that the agreement continue indefinitely with an automatic annual renewal, unless terminated upon mutual agreement of both parties. Under this construction, a party that wishes to terminate the agreement must provide a minimum of 9 months prior written notice to the other party.
- b) Definition of Terms used in the response
- c) Description of Service to be Provided
- d) Scheduling and Tagging Provisions.
- e) Pricing
- f) Non-Price Terms and Conditions
- g) Administrative Matters as Appropriate at the Proposal level

Contact Person (mailing address, fax, phone, e-mail).

h) Respondents must hold open the bid for services until negotiations are final and agreements are executed.

2. Responses

It is expected that potential suppliers will respond by delivery, fax or e-mail on or before the deadline. If an offer has special conditions, those special conditions must be stated.

3. Deadline to Respond

NorthWestern Energy must receive responses on or before 5 p.m. MPT, October 06, 2008.

4. Commencement

Service will commence as of the date and time agreed upon by the parties and subject to FERC approval as described above in Regulatory Requirement.

Proposed Timeline

This is an estimate only and may vary for a variety of reasons.

The proposed procurement and selection process will be carried out in accordance with the following schedule:

<u>Activity</u>	<u>Date</u>
RFP posted on NWE OASIS Website	09/08/2008
Electronic Solicitation for Expressions of Interest	09/08/2008
Pre-Bid Conference	09/22/2008
NorthWestern Evaluate RFP and Conduct Additional Due Diligence	10/06/08 to 11/03/08

NorthWestern Reserves the right to modify all or part of this proposed schedule at any time during the RFP process.

Selection

NWE reserves the right, in its sole discretion: (1) to select some or none of the proposals; and (2) to withdraw, without notice, this RFP. This is an RFP and no binding legal obligation will be entered into unless and until the successful bidder and NWE negotiate and execute a definitive agreement.

Confidentiality

All responses will be kept confidential by NWE Transmission Services and its Independent Monitor. Because NWE is regulated, NWE may be required to release RFP information to the appropriate regulatory authorities and other intervening parties during the course of future regulatory proceedings. NWE has retained the services of Brown, Williams, Moorhead & Quinn Inc., Energy Consultants, (BWMQ) to perform the duties

of Independent Monitor for the RFP process. NWE will release RFP information to BWMQ as needed to enable BWMQ to perform these duties.

Contact

Questions and Individual to receive Proposals:

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