

NorthWesternTM Energy

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Steve Wright
Administrator, Bonneville Power Administration
905 NE 11th Avenue
Portland, OR 97232

Dear Steve:

Thank you for your recent memo highlighting the residential exchange issue. From NorthWestern Energy's perspective this issue is a key piece to the overall settlement. As you note, this is a difficult and contentious issue and discussions need to take place between those with differing perspectives. To that end NWE has initiated discussions with individuals from public power, public service commissions, and of course other IOUs.

NWE recognizes that public power customers are the ratepayers who pay for the federal power system. However, the Northwest Power Act also clearly sets forth the policy of using the federal system to provide some level of benefit to residential and small farm customers of IOUs whose rates are greater than the publics. A total benefit settlement of the residential exchange that is based on federal law may prove to be helpful.

I would also like to briefly outline for you a couple of positions that NWE will be promoting throughout the upcoming settlement discussions. As you are aware, NWE and public officials in Montana believe the previous allocation between the IOUs did not provide an adequate level of benefit to NWE's small customers. NWE believes that the current settlement should contain not only the total benefit allocation to the IOUs but also contain the allocation between the IOUs. In order to facilitate this outcome NWE supports the immediate inclusion of each of the four state commissions into the settlement talks.

NWE looks forward to productive settlement discussions and a long-term allocation of the federal system.

Thank you,



Michael J. Hanson
President & CEO