

**IT'S TIME FOR NORTHWESTERN TO RESPOND TO STATE'S CONCERNS IN
BANKRUPTCY**

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NorthWestern's bankruptcy is now entering the phase most critical to its customers and to the state of Montana. What happens over the next several months will determine the position the Public Service Commission takes before the federal bankruptcy court concerning NorthWestern's proposal to reorganize its operations.

Last week, NorthWestern filed its Plan of Reorganization with the federal bankruptcy court in Delaware. A hearing in May concerning the "disclosure statement" that accompanied that plan will be a key milestone in determining the form in which the court will ultimately approve a plan, and therefore the nature of the utility that will provide most Montanans their natural gas and electricity.

Along with the Montana Consumer Counsel, the Governor, and the Attorney General, the Public Service Commission has been extremely active and effective in the bankruptcy so far. Before the bankruptcy court, we have managed to protect Montana customers from paying costs associated with the bankruptcy. We've helped protect customers from paying unjustified executive bonuses. We've helped protect the critical "universal system benefits" programs. We've quarantined gas and electric service and costs from the bankruptcy process.

Most importantly, the Commission and its experts have exchanged volumes of information with the NorthWestern bankruptcy team, and have communicated in detail the outcomes we believe Montana requires. NorthWestern understands our goals, and also understands that the plan as filed does not meet those expectations. When the plan was filed, NorthWestern CEO Gary Drook wrote to me, describing what he believed had been accomplished in the Plan so far, acknowledging that there is "still more to do," and saying that "we need to keep our advisors focused on trying to resolve any remaining issues." That's the right spirit. Through the very intensive negotiations now under way, it's time to convert good discussions and good intentions into good outcomes.

The PSC has focused on sound utility finances, high quality service, and good corporate governance. The utility should be viable over the long-term, regardless of who owns or manages it. The company should be focused on its core utility business. It should have a very strong Montana focus. With these goals in mind, we are focusing on several key objectives, as well as a longer list of other issues.

KEY PSC OBJECTIVES

1. Ring fencing of the utility operation.

There are several ways to build a good “ring fence” around the utility operation. Any approach should avoid shifting costs or risk of non-regulated utility operations to ratepayers; should be enforceable by the Montana PSC; should be highly transparent to knowledgeable outsiders (including regulators and investors); and, should be rigorous.

The utility operation needs to be Montana focused. NorthWestern makes seventy percent of its money here. This could be accomplished through a Montana-only utility affiliate or through a ring-fenced utility affiliate with specific assurances of a Montana focus (for example, a Montana headquarters, adequate resources in Montana as evinced by proportional expenditures of the Administrative and General budget, or other means).

2. Revenue requirements review.

Rates for regulated gas and electric distribution service – where the company earns its profit or “rate of return” - were set in 2001 based on 1999 information. Unlike rates for the natural gas and electricity commodities (which NorthWestern purchases on the wholesale market), distribution rates have remained unchanged during this time. That’s good news. Nonetheless, NorthWestern should submit to a complete PSC revenue requirements review based on one full year of post-bankruptcy information. Assuming the utility meets its target and emerges in 2004, a 2005 “test year” would support an earnings review case filed within two years. In the meantime, no distribution system rate increases should be sought based on the bankruptcy or other factors.

3. Service quality.

Progress has been made concerning service quality. An independent audit of operations and maintenance of the transmission and distribution system is currently out for a competitive bid. The Plan of Reorganization should include an assurance that central recommendations from the audit will be implemented, subject to PSC review and approval. In addition, the PSC will be considering additional administrative rules concerning electric service quality. It's also worth noting that the Commission is in the middle of evaluating NorthWestern's first electric default supply portfolio, and will be holding public meetings on that in the coming months.

4. Financial viability.

Our staff and outside financial and legal advisors are evaluating enormous amounts of information on an ongoing basis. We have tough questions concerning the overall valuation proposed by NorthWestern, and about certain components. We've been asking pointed questions about whether the Plan will best ensure that the reorganized company is viable over the long-term, and capable of providing Montanans with high quality service at fair rates.

RESOLVING A CRISIS OF TRUST

NorthWestern recognizes that it faces a crisis of trust among its Montana customers. This results in part from its own past actions, as NorthWestern has acknowledged; from the mess it purchased from Montana Power Company; and even from some circumstances largely beyond its control, such as high natural gas prices nationwide. The best way for NorthWestern to heal these wounds is by aggressively addressing the issues raised by the State and citizens of Montana, and specifically by the PSC. If it fails to do so, NorthWestern knows that others stand ready.

A company organized consistently with the principles and objectives I've described will be able to provide Montana gas and electric customers high quality, reliable, utility service,

based on the prudently-incurred costs of providing that service. It would do well when its customers are satisfied. That's what Montana deserves. That's what we should expect.