

**MEMORANDUM OF UNDERSTANDING
MSTI PROJECT**

THIS MEMORANDUM OF UNDERSTANDING ("MOU") dated January 9, 2012 (the "Effective Date") is entered into by and between NorthWestern Corporation, a Delaware corporation, doing business as NorthWestern Energy ("NorthWestern") with offices at 40 East Broadway, Butte, Montana, 59701 and Bonneville Power Administration, a federal power marketing agency ("BPA"), with offices at 7500 NE 41st Street – Suite 130, Vancouver, Washington 98662-7905 (together with NorthWestern, the "Parties").

RECITALS:

- A. NorthWestern is developing a 500 kV electric transmission line from Townsend, Montana to the Midpoint Substation near Shoshone, Idaho known as the Mountain States Transmission Intertie Project ("MSTI" or "MSTI Project"), and is planning to conduct an Open Season that will provide potential shippers an opportunity to subscribe capacity on the MSTI line.
- B. NorthWestern's MSTI Project is proceeding through the siting and permitting process with an expected in-service date in 2016. MSTI will provide additional bi-directional transmission capacity to meet the increasing demand for electricity, improve reliability and energy diversification by facilitating the transfer of renewable and other energy sources from Montana to Idaho and to other regional markets.
- C. BPA has current and future requirements to serve load in Southeast Idaho, Western Wyoming, and Southern Montana ("SE Idaho load") with a nominal forecast peak load of about 550 MW. BPA currently holds agreements with PacifiCorp, the South Idaho Exchange ("SIE") and PacifiCorp General Transfer Agreement ("GTA"), that provide transmission services to BPA's SE Idaho load. Under the SIE agreement PacifiCorp delivers power for BPA at Goshen substation to serve the requirements of BPA Preference Customers in Southeast Idaho, Western Wyoming and Southern Montana in exchange for BPA delivering the same amount of power to PacifiCorp's main system.
- D. In addition, BPA serves load requirements in the Burley area of Southern Idaho with a nominal forecast peak load of about 250 MW.
- E. BPA is evaluating alternatives to serve its SE Idaho load following the termination of the SIE agreement in 2016. One of these alternatives is potentially acquiring capacity on NorthWestern's proposed MSTI transmission line.
- F. The Parties have entered into discussions concerning a possible business relationship or transaction(s) relating to the planning, construction, and use of MSTI facilities for transmission service between Montana and SE Idaho, and may determine at some point to enter into such a relationship or transaction(s).
- G. The Parties have agreed to explore together the potential of a MSTI Project that would accommodate both Parties' needs.
- H. The Parties will work together to determine the most appropriate business arrangement to manage the interests of both Parties.

- I. For the purpose of discussing potential business opportunities related to the proposed MSTI Transmission Project, BPA and NorthWestern entered into a Mutual Confidentiality and Non-Disclosure Agreement dated February 14, 2011.

NOW, THEREFORE, THE PARTIES hereby agree as follows:

1. Nothing in this MOU shall prohibit NorthWestern from independently continuing and completing the MSTI Project, with or without the involvement of BPA.
2. Nothing in this MOU shall prohibit NorthWestern from continuing and completing the "MSTI Open Season for Transmission Capacity and Project Development" (the "Open Season") under the terms and conditions set forth in NorthWestern's Open Access Transmission Tariff (OATT) and other requirements NorthWestern deems necessary to conduct the Open Season process.
3. Nothing in this MOU shall prohibit NorthWestern from continuing and completing an upgrade or new construction addition to the Colstrip transmission system or other upgrades on its system.
4. Nothing in this MOU shall prohibit BPA from evaluating or pursuing other alternatives or other business matters necessary to serve SE Idaho load.
5. BPA and NorthWestern agree to jointly participate, as described in this MOU, in assessing the business feasibility of the MSTI Project in meeting both Parties' needs.
6. In order to meet the Parties needs, the Parties will address the following:
 - a) MSTI being constructed in a manner to accommodate BPA's service to its SE Idaho load;
 - b) high level technical and financial studies to determine the feasibility of the MSTI Project serving BPA's SE Idaho load, including issues related to siting/permitting, costs, engineering, commercial aspects of the MSTI Project, and tariff and other regulatory requirements;
 - c) potential equity and capacity ownership alternatives; and
 - d) such other matters as the Parties deem necessary.
7. Under the terms of this MOU the Parties will seek to meet the following milestones:
 - a) By no later than February 1, 2012, the Parties begin meeting to discuss the subject matter described in the MOU;
 - b) By no later than March 30, 2012, the Parties identify specific scenarios for detailed study, the methods for evaluating the engineering and economic viability of scenarios, and the responsibilities of the respective Parties in conducting required studies; and

- c) By no later than July 31, 2012, the Parties complete all engineering and economic studies of agreed upon scenarios, complete all associated study requirements as outlined in Section 6, and finalize a capacity and cost allocation methodology, including other partners in the line and treatment for unsubscribed capacity and cost, which would serve as the basis for future agreements addressing BPA's participation in MSTI, unless otherwise mutually agreed.
8. The execution of this MOU shall in no way obligate either Party to negotiate or reach an agreement at all with respect to BPA's participation in the development of the MSTI Project or to reach agreement on the milestones in Section 7. This MOU is not intended to, and shall in no way be construed so as to, legally obligate BPA or NorthWestern to proceed with the joint development of the MSTI Project. The Parties agree that any final decision to proceed with the joint development of the MSTI Project will require, among other matters, further definitive documentation between the Parties, approval by the executives and/or board of directors for NorthWestern and BPA's Administrator, and compliance with applicable statutes and regulations, including, without limitation, the National Environmental Policy Act.
9. The Parties covenant and agree that while activities subject to this MOU are being pursued, nothing in this MOU shall prevent NorthWestern from continuing to develop the MSTI project, including discussing the potential for investment in such project with prospective investors, nor shall it prevent either NorthWestern or BPA from continuing to develop other transmission projects, including discussing the potential for investment in such projects with prospective investors, or BPA developing non-transmission options for service to SE Idaho load.
10. The Parties hereby acknowledge that all covenants, agreements, provisos, terms, conditions, representations, warranties and things whatsoever contained or implied in the Confidentiality Agreement between the Parties dated February 14, 2011, shall continue in full force and effect and shall continue to govern the undertakings, actions, agreements and transactions referred to in this MOU, and that the Confidentiality Agreement is incorporated by reference into and made a part of this MOU.
11. The Parties covenant and agree that neither party shall issue or make any public announcement or statement regarding this MOU unless it first furnishes the other Party with a copy of such announcement or statement and obtains the prior written approval of the other Party hereunder. Such approval shall not be unreasonably withheld.

12. All notices, where required herein, shall be in writing and shall be sufficiently given if delivered personally, by prepaid double registered mail or by fax or other electronic means directed as follows:

To NorthWestern: NorthWestern Energy
40 East Broadway
Butte, MT 59701

Attention: Tom Loberg
Fax: (406) 497-3480
Telephone: (406) 497-3361
Email: tom.loberg@northwestern.com

To BPA: Bonneville Power Administration
7500 NE 41st Street – Suite 130
Vancouver, Washington 98662-7905

Attention: Brian Altman
Fax: (360) 619-6940
Telephone: (360) 619-6003
Email: bdaltman@bpa.gov

Such notice shall be deemed to have been delivered on the date of actual delivery if delivered personally or by prepaid acknowledgement receipt and on the next business day following the date of receipt if given by fax or other electronic means. Either Party may change its address or fax number from time to time by giving written notice of the change to the other Party.

13. This MOU will become effective as of the Effective Date. It will terminate (with the exception of Sections 10 and 11) upon the earliest to occur of the following events:

- (a) the written agreement of the Parties that this MOU be terminated;
- (b) upon thirty (30) days following written notice from either Party pursuant to Section 12; or
- (c) the date that is five (5) years from the Effective Date.

Termination of this MOU shall not, in and of itself, result in termination of the Confidentiality Agreement. Information developed as part of this MOU shall remain subject to the applicable provisions of the Confidentiality Agreement.

14. This MOU is for the sole and exclusive benefit of the Parties and shall not be deemed to establish any right or provide a basis for any action, either legal or equitable, by any person or class of persons against the United States, its departments, agencies, instrumentalities or entities, or its officers or employees, challenging a government action or failure to act, or against Northwestern or its board of directors, officers, employees, or agents.

15. Nothing in this MOU shall be construed as creating any partnership, fiduciary relationship, agency or joint or several liability between BPA and NorthWestern. For clarity, the Parties

expressly disclaim any intention to create a partnership or to constitute the other Party as its agent with respect to the subject matter hereof.

Each Party covenants that:

- (a) it will not, at any time, allege or claim that a relationship of partnership or agency has been created with respect to the subject matter hereof;
- (b) nothing in this MOU will constitute the Parties as partners nor constitute one Party as the agent of the other Party;
- (c) neither Party will have any authority to act for or on behalf of the other Party with respect to the subject matter hereof; and
- (d) the rights and obligations of each Party hereunder shall be several and not joint or joint and several.

16. This MOU represents the entire agreement between the Parties and supersedes all communications, negotiations and agreements written or verbal relating to the subject matter of this MOU with the exception of the Confidentiality Agreement noted herein.

17. This MOU may be executed in counterparts, each of which when so executed shall be deemed to be an original, and such counterparts together shall constitute but one and the same instrument. Signatures delivered by facsimile shall be deemed for all purposes to be original counterparts of this MOU.

18. This MOU shall not be altered, changed or amended, except by an instrument in writing executed by each of the Parties.

19. This MOU shall be governed by the laws of the United States.

IN WITNESS WHEREOF this MOU has been signed by the duly authorized officers of the Parties hereto as of the Effective Date.

**NORTHWESTERN CORPORATION
d/b/a NORTHWESTERN ENERGY**

By: Michael R. Cashell

Printed Name: Michael R. Cashell
Vice President - Transmission

Title: _____

BONNEVILLE POWER ADMINISTRATION

By: Brian D. Artman

Printed Name: Brian D. Artman

Title: Transmission Account Executive