



**Compliance Audit Report
Public Version**

**Northwestern Corporation (NWC)
NERC ID: NCR05282**

**Confidential Information (including Privileged and Critical Energy Infrastructure
Information) – Has Been Removed**

Date of Audit: April 6 – 10, 2009

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Executive Summary

The Western Electricity Coordinating Council (WECC) performed an on-site compliance audit of Northwestern Corporation (NWC) (NERC ID # NCR05282) on April 6 - 10, 2009. At the time of the audit, NWC was registered on the North American Electric Reliability Corporation (NERC) Compliance Registry for the following functions:

| | |
|-------------------------------------|-----------------------------|
| Balancing Authority (BA) | Transmission Operator (TOP) |
| Transmission Owner (TO) | Transmission Planner (TP) |
| Transmission Service Provider (TSP) | Planning Authority (PA) |
| Generator Owner (GO) | Resource Planner (RP) |
| Purchase Selling Entity (PSE) | Load Serving Entity (LSE) |
| Distribution Provider (DP) | |

The Audit Team evaluated NWC for compliance with 47 FERC Approved Reliability Standards for the period June 18, 2007 through April 10, 2009 in accordance with the 2009 NERC Compliance Monitoring and Enforcement Program. This included 38 NERC Reliability Standards and 8 WECC Regional Standards. Also, the Audit Team evaluated NWC for compliance with one additional NERC Reliability Standard (INT-006-2) associated with an existing NWC mitigation plan. NWC provided information for the Audit Team's evaluation. The information provided by NWC is described below in the section titled "On-Site Audit".

Based on the information provided by NWC, the Audit Team determined that NWC complied with the applicable Reliability Standards. The Audit Team found no new possible violations. At the time of the on-site audit, NWC had submitted and completed eight mitigation plans. The Audit Team evaluated and confirmed NWC's continued compliance with the Reliability Standards addressed by the mitigation plans.

This audit report includes information that will be used to help WECC determine the severity level of sanctions and penalties, if applicable. Any possible violations of the Reliability Standards will be processed by WECC in accordance with the WECC Compliance Monitoring and Enforcement Program (CMEP).

<http://www.nerc.com/filez/enforcement/index.html>

Audit Process

The CMEP details the compliance audit process. The CMEP conforms generally to United States Government Accountability Office Government Auditing Standards (GAGAS) and to other generally accepted audit practices.

Objectives

All Registered Entities are subject to audit for compliance with all Reliability Standards applicable to the functions for which the Registered Entity is registered. The audit objectives are to:

- Independently review NWC's compliance with the requirements of the Reliability Standards that apply to NWC based on NWC's registered functions.
- Validate the Registered Entity's compliance with the applicable NERC Reliability Standards from the NERC 2009 Implementation Plan list of actively-monitored Reliability Standards and as selected by WECC.
- Validate evidence of self-reported violations and previous self-certifications, confirm compliance with other requirements of the Reliability Standard, and review the status of associated mitigation plans.
- Document NWC's compliance culture.

Scope

A compliance audit will include an evaluation of all of the Reliability Standards that apply to NWC monitored by WECC in accordance with the NERC and WECC 2009 Implementation Plans. The scope of an on-site compliance audit can vary depending on whether it is part of a regular, periodic scheduled audit, or as part of a compliance investigation. The audit team evaluated NWC for compliance during the period of June 18, 2007 through April 10, 2009

Confidentiality and Conflicts of Interest

The WECC Delegation Agreement with NERC and Section 1500 of the NERC Rules of Procedure govern issues of confidentiality and conflicts of interest that may arise as the result of an audit. WECC informed NWC of WECC's obligations and responsibilities under the Delegation Agreement and Rules of Procedure. WECC provided the work history for each Audit Team member to NWC. NWC had the opportunity to object to an Audit Team member's participation in the audit on the basis of a possible conflict of interest or because of other circumstances that could interfere with an Audit Team member's impartiality. NWC did not submit any objections within the fifteen day deadline.

On-Site Audit

WECC notified NWC of the audit on February 6, 2009. WECC informed NWC that the Audit Team would perform the audit in accordance with the CMEP and the 2009 NERC Compliance Questionnaire and Reliability Standard Audit Worksheet (QRSAW). WECC provided the following documents and information to NWC on February 6, 2009:

In response to WECC's requests, NWC did not provide completed QRSAWs and WECC RSAWs. NWC had contacted WECC before the audit and requested that alternate documentation to the QRSAW forms be allowed due to NWC's current method of compliance tracking. NWC did provide documentation similar to the QRSAW and RSAW forms including explanations of how NWC was compliant with the Reliability Standards, a list of documentation references and a list of subject matter experts. NWC also submitted copies of the above-listed documents to WECC as requested.

Methodology

As referenced above in the Audit Process section, WECC follows the GAGAS and conducts compliance audits as described in the NERC Compliance Auditor Manual.

Audit Overview

The on-site audit began on April 6, 2009. The Audit Team lead provided an overview of the audit process. NWC personnel presented an overview of the company's organization and operations. After the introductory meeting, the Audit Team separated into sub-groups of two to three auditors each to review and investigate each applicable Reliability Standard. At least twice each day, the entire Audit Team met to recount preliminary findings and to ensure the entire Audit Team concurred with each sub-group's conclusions.

Audit

During the on-site audit, the Audit Team substantiated the documents and information that NWC provided before the on-site audit commenced. The Audit Team requested additional information from NWC during the on-site audit, and cross-checked that information to ensure accuracy. The Audit Team spent a significant amount of time reviewing the NWC procedures, policies, interchange transactions, and records. Additionally, the Audit Team interviewed NWC personnel and subject matter experts during the on-site audit to evaluate the NWC compliance with the applicable Reliability Standards.

To reach its conclusions during the audit process, the Audit Team relied upon the following: (1) documentation provided by NWC; (2) interviews with NWC personnel; (3)

consultation with NWC's subject matter experts; (4) observations made by the Audit Team during the on-site audit; (5) the Reliability Standards; (6) the Audit Team's expertise regarding the Bulk Power System; and (7) consensus of the Audit Team's members. The interviews and documents provided by NWC provided the Audit Team with a basis for professional judgment when validating NWC's compliance with the Reliability Standards.

Exit Briefing

At the conclusion of the on-site audit on April 10, 2009, the Audit Team lead gave a slide presentation to the NWC personnel summarizing the Audit Team's preliminary findings regarding each applicable Reliability Standard. The Audit Team lead also explained the next steps in the audit process and how WECC processes possible violations under the CMEP.

Company Profile

NWC is a corporation organized under the laws of the State of Delaware and does business as NorthWestern Energy.

NWC's operations consist of regulated electric and natural gas distribution, transmission, and energy supply in Montana, South Dakota, and Nebraska.

The NWMT Balancing Area provides electric transmission and distribution services to approximately 332,500 customers in 187 communities in Montana, spanning a 97,540 square mile area. The NWMT system can peak during either the summer or winter. The Transmission and Distribution (T&D) business consists primarily of the regulated electric and natural gas utility operating in the State of Montana. The overlapping electric and natural gas service territories cover roughly 107,600 square miles, approximately 73 percent of Montana.

Audit Specifics

WECC conducted the compliance audit April 6-10, 2009 at NWC's offices.

Audit Team

The following is a list of Audit Team members and NWC personnel who participated in the audit.

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Been Removed

Audit Team Members

| Title | Company |
|---|----------------|
| Sr. Compliance Engineer (Audit Team Lead) | WECC |
| Sr. Compliance Engineer | WECC |
| Compliance Engineer | WECC |
| Contractor - Compliance Engineer | WECC |
| Contractor - Compliance Engineer | WECC |
| Contractor - Compliance Engineer | WECC |
| Compliance Program Coordinator | WECC |

NWC Audit Participants

| Title | Company |
|---|----------------|
| Manager Transmission and Storage Compliance | NWC |
| Transmission and Storage Compliance Specialist | NWC |
| Supervisor Transmission Maintenance | NWC |
| Analyst Electric Transmission | NWC |
| Manager Vegetation Management | NWC |
| Manager Transmission Maintenance | NWC |
| Manager Protective Relaying | NWC |
| Director, Transmission Operations | NWC |
| Manager Regional System Planning and Engineering (formerly Manager, Transmission Planning) | NWC |
| Supervisor System Operations | NWC |
| Supervisor, Energy Management Systems | NWC |
| Acting Manager Consultant, Electric Transmission Planning | NWC |
| Director, Transmission Marketing | NWC |
| System Operations Engineer | NWC |
| Transmission Planning Engineer | NWC |
| Manager SOCC Operations | NWC |
| Chief Transmission Officer | NWC |
| Counsel, Corporate | NWC |
| VP-General Council Corp Sec. and Chief Compliance Officer | NWC |
| VP-Wholesale Operations | NWC |
| Internal Audit and Controls Officer | NWC |

Audit Results

The Audit Team reviewed and validated all of the evidence presented by NWC for the audit, including additional information requested by the Audit Team during the audit and information provided during interviews with NWC subject matter experts.

- The Audit Team spent significant time reviewing the evidence, findings and conclusions. The Audit Team conducted an extensive review of NWC's procedures, descriptions of processes, transactions and records.
- The Audit Team exercised its professional judgment during the overall assessment of the evidence, and determined whether NWC's evidence was sufficient to confirm compliance with the applicable Reliability Standards.
- The Audit Team had ongoing communications with NWC during the audit.
- The Audit Team used RSAWS and summaries of auditor notes from interviews to validate compliance with each applicable Reliability Standard and to complete the findings for the audit.
- The Audit Team reviewed NWC's evidence concerning appropriate supervisory reviews, communications about any deficiencies in internal control and instances of possible violations, and the current status of any mitigation plans pending completion.

Findings

The Finding column may contain any one of the following: Compliant, New Possible Violation (NPV), Not Applicable (N/A), Not Audited, Outstanding Violation (OV), Retraction requested (Retract), Self-reported Violation (Self-Report), or other appropriate description.

| Reliability Standard | Requirement | Finding |
|----------------------|-------------|-------------|
| BAL-002-0 | R1. | Compliant |
| | R2. | N/A |
| | R3. | Compliant |
| | R4. | Not Audited |
| | R5. | Not Audited |
| | R6. | Not Audited |

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| | | |
|---------------|------|-------------|
| BAL-STD-002-0 | WR1 | Compliant |
| BAL-005-0 | R1. | Not Audited |
| | R2. | Compliant |
| | R3. | Not Audited |
| | R4. | Not Audited |
| | R5. | Not Audited |
| | R6. | Not Audited |
| | R7. | Not Audited |
| | R8. | Not Audited |
| | R9. | Not Audited |
| | R10. | Compliant |
| | R11. | Not Audited |
| | R12. | Not Audited |
| | R13. | Not Audited |
| | R14. | Not Audited |
| | R15. | Not Audited |
| | R16. | Not Audited |
| | R17. | Not Audited |
| CIP-001-1 | R1. | Compliant |
| | R2. | Compliant |
| | R3. | Compliant |
| | R4. | Compliant |
| COM-001-1 | R1. | Compliant |
| | R2. | Not Audited |
| | R3. | Not Audited |
| | R4. | Not Audited |
| | R5. | Not Audited |
| | R6. | Not Audited |
| COM-002-2 | R1. | Compliant |
| | R2. | Compliant |
| EOP-001-0 | R1. | OV |
| | R2. | N/A |
| | R3. | Compliant |
| | R4. | OV |
| | R5. | Compliant |
| | R6. | Compliant |
| | R7. | OV |

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| | | |
|-----------|------|-----------|
| EOP-002-2 | R1. | Compliant |
| | R2. | Compliant |
| | R3. | Compliant |
| | R4. | Compliant |
| | R5. | Compliant |
| | R6. | Compliant |
| | R7. | Compliant |
| | R8. | N/A |
| | R9. | N/A |
| EOP-003-1 | R1. | Compliant |
| | R2. | Compliant |
| | R3. | Compliant |
| | R4. | Compliant |
| | R5. | Compliant |
| | R6. | Compliant |
| | R7. | Compliant |
| | R8. | Compliant |
| EOP-005-1 | R1. | Compliant |
| | R2. | Compliant |
| | R3. | Compliant |
| | R4. | Compliant |
| | R5. | Compliant |
| | R6. | Compliant |
| | R7. | Compliant |
| | R8. | Compliant |
| | R9. | Compliant |
| | R10. | Compliant |
| | R11. | Compliant |
| EOP-008-0 | R1. | Compliant |
| FAC-001-0 | R1. | Compliant |
| | R2. | Compliant |
| | R3. | Compliant |
| FAC-003-1 | R1. | Compliant |
| | R2. | Compliant |
| | R3. | Compliant |
| | R4. | N/A |
| FAC-008-1 | R1. | Compliant |
| | R2. | Compliant |

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| | | |
|-----------|-----|-------------|
| | R3. | Compliant |
| FAC-009-1 | R1. | Compliant |
| | R2. | Compliant |
| FAC-010-1 | R1. | Not Audited |
| | R2. | Compliant |
| | R3. | Not Audited |
| | R4. | Not Audited |
| | R5. | Not Audited |
| FAC-014-1 | R1. | Not Audited |
| | R2. | Not Audited |
| | R3. | Not Audited |
| | R4. | Not Audited |
| | R5. | Not Audited |
| | R6. | Not Audited |
| INT-006-2 | R1 | Compliant |
| IRO-001-1 | R1. | N/A |
| | R2. | N/A |
| | R3. | N/A |
| | R4. | N/A |
| | R5. | N/A |
| | R6. | N/A |
| | R7. | N/A |
| | R8. | Compliant |
| | R9. | N/A |
| IRO-004-1 | R1. | N/A |
| | R2. | N/A |
| | R3. | N/A |
| | R4. | Compliant |
| | R5. | N/A |
| | R6. | N/A |
| | R7. | Compliant |
| IRO-005-1 | R1. | N/A |
| | R2. | N/A |
| | R3. | N/A |
| | R4. | N/A |
| | R5. | N/A |
| | R6. | N/A |
| | R7. | N/A |
| | R8. | Compliant |

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| | | |
|---------------|------|-------------|
| | R9. | N/A |
| | R10. | N/A |
| | R11. | N/A |
| | R12. | Compliant |
| | R13. | Compliant |
| | R14. | Not Audited |
| | R15. | N/A |
| | R16. | N/A |
| | R17. | N/A |
| IRO-006-3 | R1. | N/A |
| | R2. | N/A |
| | R3. | N/A |
| | R4. | N/A |
| | R5. | N/A |
| | R6. | Compliant |
| IRO-STD-006-0 | WR1. | OV |
| PER-001-0 | R1. | Compliant |
| PER-002-0 | R1. | Compliant |
| | R2. | Compliant |
| | R3. | Compliant |
| | R4. | Compliant |
| PER-003-0 | R1. | Compliant |
| PRC-001-1 | R1. | Compliant |
| | R2. | Compliant |
| | R3. | Compliant |
| | R4. | Compliant |
| | R5. | Compliant |
| | R6. | Compliant |
| PRC-STD-001-1 | WR1 | Compliant |
| PRC-STD-003-1 | WR1 | Compliant |
| PRC-004-1 | R1. | Compliant |
| | R2. | Compliant |
| | R3. | Compliant |
| PRC-005-1 | R1. | Compliant |
| | R2. | Compliant |
| PRC-STD-005-1 | WR1. | Compliant |
| PRC-008-0 | R1. | Compliant |
| | R2. | Compliant |
| PRC-017-0 | R1. | Compliant |

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| | | |
|-----------|------|-------------|
| | R2. | Compliant |
| TOP-001-1 | R1. | Compliant |
| | R2. | Compliant |
| | R3. | Compliant |
| | R4. | Compliant |
| | R5. | Compliant |
| | R6. | Compliant |
| | R7. | Compliant |
| | R8. | Compliant |
| TOP-002-2 | R1. | Compliant |
| | R2. | Not Audited |
| | R3. | Compliant |
| | R4. | Compliant |
| | R5. | Not Audited |
| | R6. | Not Audited |
| | R7. | Not Audited |
| | R8. | Not Audited |
| | R9. | Compliant |
| | R10. | Not Audited |
| | R11. | Compliant |
| | R12. | Not Audited |
| | R13. | N/A |
| | R14. | N/A |
| | R15. | N/A |
| | R16. | Compliant |
| | R17. | Compliant |
| | R18. | Compliant |
| | R19. | Compliant |
| TOP-004-1 | R1. | Compliant |
| | R2. | Compliant |
| | R3. | Compliant |
| | R4. | Compliant |
| | R5. | Compliant |
| | R6. | Not Audited |
| TOP-006-1 | R1. | Not Audited |
| | R2. | Compliant |
| | R3. | Not Audited |
| | R4. | Not Audited |
| | R5. | Not Audited |
| | R6. | Compliant |

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| | | |
|----------------|------|-------------|
| | R7. | Compliant |
| TOP-007-0 | R1. | Compliant |
| | R2. | N/A |
| | R3. | N/A |
| | R4. | N/A |
| TOP-008-1 | R1. | Compliant |
| | R2. | Compliant |
| | R3. | Compliant |
| | R4. | Not Audited |
| TOP-STD-007-0 | WR1. | Compliant |
| TPL-001-0 | R1. | Compliant |
| | R2. | Not Audited |
| | R3. | Not Audited |
| TPL-002-0 | R1. | Compliant |
| | R2. | Not Audited |
| | R3. | Not Audited |
| TPL-003-0 | R1. | Compliant |
| | R2. | Not Audited |
| | R3. | Not Audited |
| VAR-001-1 | R1. | Compliant |
| | R2. | Compliant |
| | R3. | Not Audited |
| | R4. | Not Audited |
| | R5. | Compliant |
| | R6. | Not Audited |
| | R7. | Compliant |
| | R8. | Compliant |
| | R9. | Compliant |
| | R10. | Compliant |
| | R11. | Not Audited |
| | R12. | Compliant |
| VAR-STD-002a-1 | WR1. | N/A |
| VAR-STD-002b-1 | WR1. | N/A |

Compliance Culture

The Audit Team evaluated the NWC compliance culture during the on-site audit.