



MIDWEST RELIABILITY ORGANIZATION

COMPLIANCE AUDIT REPORT

PUBLIC VERSION

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Infrastructure Information)
Has Been Removed

Date: January 9, 2012

NorthWestern Energy

40 E Broadway
Butte, MT 59701

NERC Compliance Registry ID: NCR01021





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Executive Summary

Midwest Reliability Organization (MRO)¹ conducted a compliance audit of NorthWestern Energy (NWE), North American Electric Reliability Corporation (NERC) Compliance Registry Number NCR01021, for the planned audit period of June 18, 2007 to August 15, 2011. Within the scope of the audit, NWE was registered² for the following functions:

- Distribution Provider (DP)
- Load Serving Entity (LSE)
- Purchase-Selling Entity (PSE)
- Resource Planner (RP)
- Transmission Owner (TO)

NWE's Primary Compliance Officer was provided notice of the compliance audit on May 16, 2011, and an initial Request for Information (RFI) was provided to NWE's Primary Compliance Contact on May 16, 2011. The compliance audit was conducted during the period of August 8, 2011 to August 12, 2011.

The audit scope included the applicable Reliability Standards from the 2011 [Compliance Monitoring and Enforcement Program](#) (CMEP). MRO's audit team reviewed the applicable Reliability Standards³ for the period of June 18, 2007 to August 15, 2011.

The MRO audit team determined that Reliability Standards PRC-011-0 (R1), PRC-017-0 (R1, R2), and PRC-023-1 (R1, R2) were not applicable to NWE as NWE does not own and/or maintain any UVLS, SPS, or load-responsive relay protection system equipment.

Given the scope and conduct of the audit, no possible violations were discovered. These audit results are further explained later in this report.

MRO staff followed the applicable requirements of the [Rules of Procedure](#) (ROP) and CMEP in the conduct of the compliance audit.

¹ MRO is a [Regional Entity](#) in North America operating under authority from regulators in the United States and Canada through a delegation agreement with the [North American Electric Reliability Corporation \(NERC\)](#). In the United States, MRO operates under the authority found in Section 215 of the Federal Power Act, through the Federal Energy Regulatory Commission (FERC or Commission) and through other arrangements in Manitoba and Saskatchewan. The primary focus of MRO is assessing compliance with Reliability Standards on entities that own, operate or use [the Bulk Electric System](#) (BES), performing assessments of the BES, and technical analysis of matters impacting the reliability of the BES in the north central part of North America. For more information on MRO, please refer to www.midwestreliability.org

² Each owner, user, or operator of the BES is listed on a registry which can be found on [NERC's website](#). Entities on the registry are referred to as "Registered Entities".

³ An entire list of Reliability Standards can be found on [NERC's website](#).



Registered Entity Profile

NorthWestern Corporation, doing business as NorthWestern Energy (NWE), provides electricity and natural gas to approximately 665,000 customers in Montana, South Dakota and Nebraska. NWE's energy-delivery system includes more than 31,000 miles of transmission and distribution electrical lines and more that 8,000 miles of transmission and distribution gas pipelines.

NWE's transmission and distribution network in South Dakota consists of approximately 3,300 miles of overhead and underground transmission and distribution lines as well as 123 substations.

Power plants that NWE owns jointly with unaffiliated parties generate most of the electricity supplied to customers in South Dakota. In addition, NWE has several wholly owned peaking/standby generating units at seven locations throughout their service territory. Each of the jointly owned plants is subject to a joint management structure. NWE is not the operator of any of these plants. Most of the power allocated to NWE from these facilities is distributed to NWE's South Dakota customers.

For more information on NWE, please refer to their website at:
<http://www.northwesternenergy.com>

Audit Scope

MRO performed the compliance audit according to the planned scope and timing previously communicated to NWE, and included the Reliability Standards from [MRO's Implementation Plan](#) for an audit period of June 18, 2007 to August 15, 2011.

NWE is registered for the following functions:

- Distribution Provider (DP)
- Load Serving Entity (LSE)
- Purchase-Selling Entity (PSE)
- Resource Planner (RP)
- Transmission Owner (TO)

The following Reliability Standards were included in the scope of the compliance audit:

<u>Standard(s)</u>	<u>Title</u>
CIP-001-1	Sabotage Reporting
FAC-001-0	Facility Connection Requirements
FAC-003-1	Transmission Vegetation Management Program
FAC-008-1	Facility Ratings Methodology
FAC-009-1	Establish and Communicate Facility Ratings
IRO-004-1	Reliability Coordination - Operations Planning



IRO-005-2	Reliability Coordination - Current-Day Operations
MOD-004-1	Capacity Benefit Margin
PRC-004-1	Analysis and Mitigation of Protection System Misoperations
PRC-005-1	Transmission and Generation Protection System Maintenance and Testing
PRC-008-0	Under-Frequency Load Shedding Equipment Maintenance Program
PRC-011-0	Under-Voltage Load Shedding System Maintenance and Testing
PRC-017-0	Special Protection System Maintenance and Testing
PRC-023-1	Transmission Relay Loadability
TOP-002-2a	Normal Operations Planning

The MRO audit team determined that the following Reliability Standard(s) or requirement(s) *were not* applicable to NWE during the 2011 compliance audit:

1. *PRC-011-0, R1, The Transmission Owner and Distribution Provider that owns a UVLS system shall have UVLS equipment maintenance and testing program in place.*

Based upon MRO staff review and assertions by NWE, NWE does not own any UVLS equipment, therefore; this Reliability Standard and related requirement are not applicable to NWE.

2. *PRC-017-0, R1/R2, The Transmission Owner and Distribution Provider that owns an SPS shall have maintenance and testing program in place.*

Based upon MRO staff review and assertions by NWE, NWE does not own any SPS equipment, therefore; this Reliability Standard and related requirements are not applicable to NWE.

3. *PRC-023-1, R1/R2, The Transmission Owner with load-responsive phase protection system shall not limit transmission loadability; interfere with system operator's ability to take remedial action to protect system reliability; and be set to reliably detect all fault conditions and protect the electric network from these faults.*

Based upon MRO staff review and assertions by NWE, NWE does not own or maintain any load-responsive protection system equipment, therefore; this Reliability Standard and related requirements are not applicable to NWE.

Audit Process

MRO conducts compliance audits in accordance with the current version of the CMEP and ROP (as approved by the Federal Energy Regulatory Commission for entities in the United States or through other arrangements in Manitoba and Saskatchewan), and generally conforms to the United States Government Accountability Office Government Auditing Standards and other generally accepted audit practices applicable to the conduct of the work. The compliance audit process steps can be found in the NERC CMEP.



Compliance audits are conducted to obtain reasonable assurance of compliance with the applicable Reliability Standards. The compliance audit includes data requests, such as, program documents, procedures, and performance records considered necessary to provide reasonable assurance of any findings or conclusions. Audit procedures include tests of documentary evidence supporting compliance, tests of the assertions made regarding compliance, and direct confirmations of actions taken as part of compliance with the Reliability Standards.

If a finding is made of a possible violation, the matter is turned over to MRO enforcement staff for processing according to the CMEP. Upon validation by enforcement staff, NWE will be provided a written notice of the alleged violation within a reasonable timeframe that shall include the due process protections under the CMEP.

NWE is encouraged to maintain an adequate internal compliance program designed to ensure compliance with Reliability Standards to protect the reliability of the Bulk Electric System (BES). The program should contain internal controls designed to detect, correct and prevent recurrence of compliance violations.

Objectives

Entities that own, operate, or use the BES in North America are subject to compliance audits for applicable Reliability Standards based upon the functions performed within the scope of the compliance audit. The primary audit objectives are to:

1. Provide reasonable assurance of compliance to the identified applicable Reliability Standards.
2. Provide a reasonable basis for all determinations of any findings or conclusions.
3. Evaluate and identify the internal controls utilized by the Registered Entity for performance measurement(s) within their compliance program.

Methodology

The audit team reviewed the information, data, and evidence submitted by NWE and assessed compliance with requirements of the applicable Reliability Standards. Submittal of information and data was provided to MRO before the scheduled date of the entity review, or within the submittal parameters as described in subsequent RFIs.

Based upon the evaluation of initial information provided to the audit team, supplemental RFIs were requested and clarifications were sought from subject matter experts.

MRO staff was provided the necessary information and adequate access to subject matter experts without unreasonable restrictions.



The audit team reviews documentation and evidence provided by NWE, such as, programs, policies, procedures, emails, logs, studies, data sheets, and other relevant information. Requirements which called for a sampling to be conducted were developed according to the NERC Sampling Methodology Guidelines. MRO audit staff obtained sufficient, appropriate evidence to provide a reasonable basis for any findings and conclusions.

The audit report is subject to review by MRO executive staff and any findings are subject to a second, independent review by MRO mitigation and risk assessment staff, which is not part of this report. If there are findings as a result of the compliance audit, enforcement staff from MRO will contact NWE.

Conflict of Interest and Confidentiality Rules

Confidentiality and Conflict of Interest of MRO audit staff are governed under the MRO Regional Delegation Agreement with NERC; Section 1500 of the NERC ROP; MRO Policy and Procedure 5: Confidentiality; MRO Policy and Procedure 10: Conflict of Interest; and the MRO employee handbook. NWE was informed of MRO's obligations and responsibilities under the Regional Delegation Agreement and NERC ROP and was provided with a list of MRO audit staff and corresponding work histories. There have been no denials of or access limitations placed upon this audit team, and no objections to MRO staff assignments on the compliance audit.

Audit Results

Given the scope and conduct of the audit, no possible violations were discovered.

Internal Compliance Program and Controls

Within the scope of the compliance audit, NWE's compliance program and related controls applicable to the Reliability Standards were reviewed during the audit. For enforcement purposes, internal compliance program and other pertinent information are reviewed by the MRO enforcement staff and may be considered during any enforcement proceedings resulting from a finding of a possible violation as a result of the compliance audit.



MRO Contact Information

Any questions regarding this compliance audit report can be directed to:

Midwest Reliability Organization

Attn: Vice President Compliance, Mitigation, and Standards
2774 Cleveland Ave North
Roseville, MN 55113
(651) 855-1748

On behalf of MRO, this audit report was prepared and reviewed by:

Audit Manager	Signature	Date
William Smith		8/19/2011
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