

Schedule K-1

20:10:13:89. Schedule K-1 -- Working papers for federal income taxes. In support of federal income taxes, the utility shall submit a complete reconciliation of the book net income with taxable net income as reported to the federal Internal Revenue Service for the most recent year for which a tax return was filed and for the three previous years. A complete explanation of all items in the reconciliation shall be submitted. If the tax allowances claimed give effect to omission of items appearing or inclusion of items not appearing in the reconciliations for the most recent tax return, the reasons for such omissions or inclusions shall be submitted. All items in the reconciliation shall be referenced specifically to the elements of the cost of service to which they refer.

Source: 2 SDR 90, effective July 7, 1976; 12 SDR 86, effective November 24, 1985; 12 SDR 151, 12 SDR 155, effective July 1, 1986.

General Authority: SDCL 49-34A-4.

Law Implemented: SDCL 49-34A-10, 49-34A-12, 49-34A-41.

NorthWestern Corporation, dba NorthWestern Energy
Computation of Federal and State Income Taxes
Reconciliation of Income Per Books to Income Per Tax
Twelve Months Ending September 30, 2014

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Reconciliations of Book Income to Taxable Income For NorthWestern are attached for the Tax Years 2013, 2012, 2011, & 2010.

NorthWestern Corporation, dba NorthWestern Energy
Reconciliation of Income Per Books to Income Per Tax - 2013
Twelve Months Ending September 30, 2014

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Net Income/(Loss) before Income Tax per Books	26,458,501
<u>Tax Adjustments - Permanent Differences</u>	
Lobbying Expenses	74,940
Meals & Entertainment	139,228
Officers Life Insurance	126,089
Total Permanent Differences	<u>340,257</u>
<u>Tax Adjustments - Temporary Differences</u>	
AFUDC net of Capitalized Interest	(1,189,948)
Bad Debts	189,263
Bonuses & Compensation	(996,722)
Capitalized Overheads	70,893,914
Contributions in Aid of Construction	183,336
Deferred Interest	4,748
Deferred Power Costs	(3,185,114)
Deferred Revenue	(2,162,593)
Environmental Liability	(1,345,300)
FAS 106 & 112 Liability	349,055
Future SISF	(263,947)
Injuries & Damages	(42,473)
Loss on Reacquired Debt	14,836
Miscellaneous	(237,079)
Non-Qualified Retirement Comp & Benefits	5,963,182
Pension Liability	(10,745,503)
Property Taxes	61,382
Regulatory Asset-FERC Order 472	(5,070)
Regulatory Asset-MGPs	1,420,826
Regulatory Asset-Pension	9,551,094
Removal Costs net of Salvage	(1,643,814)
Repairs	(9,605,828)
Retirements	(676,256)
Sec. 174 Research & Experimental Expenses	(1,367,436)
Accelerated Tax Depreciation - Flow Thru	2,487,955
Accelerated Tax Depreciation - Deferred	(70,407,853)
Vacation Pay	144,455
Total Temporary Differences	<u>(12,610,888)</u>
Taxable Income / (NOL)	<u>14,187,870</u>

NorthWestern Corporation, dba NorthWestern Energy
 Reconciliation of Income Per Books to Income Per Tax - 2012
 Twelve Months Ending September 30, 2014

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Net Income/(Loss) before Income Tax per Books	24,834,009
<u>Tax Adjustments - Permanent Differences</u>	
Lobbying Expenses	69,648
Meals & Entertainment	121,112
Officers Life Insurance	(3,235)
Total Permanent Differences	<u>187,524</u>
<u>Tax Adjustments - Temporary Differences</u>	
AFUDC net of Capitalized Interest	(2,355,261)
Bad Debts	(121,545)
Bonuses & Compensation	1,747,659
Capitalized Overheads	62,831,469
Contributions in Aid of Construction	511,827
Deferred Interest	4,748
Deferred Power Costs	2,562,959
Deferred Revenue	1,433,405
Environmental Liability	246,000
FAS 106 & 112 Liability	27,955
Future SISF	(723,491)
Injuries & Damages	170,164
Loss on Reacquired Debt	14,836
Miscellaneous	34,976
Non-Qualified Retirement Comp & Benefits	2,397,214
Pension Liability	2,257,523
Property Taxes	548,143
Regulatory Asset-FERC Order 472	5,070
Regulatory Asset-MGPs	379,613
Regulatory Asset-Pension	(769,870)
Removal Costs net of Salvage	(2,225,158)
Repairs	(6,233,131)
Retirements	645,817
Sec. 174 Research & Experimental Expenses	(1,111,221)
Accelerated Tax Depreciation - Flow Thru	1,778,285
Accelerated Tax Depreciation - Deferred	(32,586,031)
Vacation Pay	154,112
Total Temporary Differences	<u>31,626,067</u>
Taxable Income / (NOL)	<u>56,647,600</u>

NorthWestern Corporation, dba NorthWestern Energy
 Reconciliation of Income Per Books to Income Per Tax - 2011
 Twelve Months Ending September 30, 2014

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Net Income/(Loss) before Income Tax per Books	25,476,539
<u>Tax Adjustments - Permanent Differences</u>	
Lobbying Expenses	120,103
Meals & Entertainment	128,791
Officers Life Insurance	25,192
Total Permanent Differences	<u>274,086</u>
<u>Tax Adjustments - Temporary Differences</u>	
AFUDC net of Capitalized Interest	(320,386)
Bad Debts	(41,895)
Bonuses & Compensation	(1,127,092)
Capitalized Overheads	43,784,230
Contributions in Aid of Construction	290,623
Deferred Interest	4,748
Deferred Power Costs	(2,418,862)
Deferred Revenue	2,393,434
Environmental Liability	(340,704)
FAS 106 & 112 Liability	354,060
Future SISF	(220,425)
Injuries & Damages	(238,217)
Loss on Reacquired Debt	14,836
Miscellaneous	(597,036)
Non-Qualified Retirement Comp & Benefits	2,641,937
Pension Liability	531,642
Property Taxes	(295,492)
Regulatory Asset-FERC Order 472	(6,012)
Regulatory Asset-MGPs	(431,727)
Regulatory Asset-Pension	(1,725,055)
Removal Costs net of Salvage	(784,355)
Repairs	(6,420,320)
Retirements	581,499
Sec. 174 Research & Experimental Expenses	-
Accelerated Tax Depreciation - Flow Thru	3,699,517
Accelerated Tax Depreciation - Deferred	(47,327,731)
Vacation Pay	244,934
Total Temporary Differences	<u>(7,753,850)</u>
Taxable Income / (NOL)	<u>17,996,774</u>

NorthWestern Corporation, dba NorthWestern Energy
 Reconciliation of Income Per Books to Income Per Tax - 2010
 Twelve Months Ending September 30, 2014

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Net Income/(Loss) before Income Tax per Books	28,504,523
<u>Tax Adjustments - Permanent Differences</u>	
Lobbying Expenses	64,203
Meals & Entertainment	121,794
Officers Life Insurance	33,636
Total Permanent Differences	<u>219,633</u>
<u>Tax Adjustments - Temporary Differences</u>	
AFUDC net of Capitalized Interest	(135,275)
Bad Debts	(32,895)
Bonuses & Compensation	3,554,948
Capitalized Overheads	35,675,520
Contributions in Aid of Construction	125,624
Deferred Interest	4,748
Deferred Power Costs	(3,071,063)
Deferred Revenue	1,848,403
Environmental Liability	(1,708,476)
FAS 106 & 112 Liability	417,631
Future SISF	(526,655)
Injuries & Damages	104,156
Loss on Reacquired Debt	14,836
Miscellaneous	(471,662)
Non-Qualified Retirement Comp & Benefits	1,505,299
Pension Liability	4,543,078
Property Taxes	270,058
Regulatory Asset-FERC Order 472	6,012
Regulatory Asset-MGPs	(1,303,010)
Regulatory Asset-Pension	(3,729,730)
Removal Costs net of Salvage	(300,362)
Repairs	(5,774,729)
Retirements	451,138
Sec. 174 Research & Experimental Expenses	-
Accelerated Tax Depreciation - Flow Thru	3,481,270
Accelerated Tax Depreciation - Deferred	(35,718,331)
Vacation Pay	217,201
Total Temporary Differences	<u>(552,267)</u>
Taxable Income / (NOL)	<u>28,171,890</u>