



April 28, 2023

Kristen Fleet, Acting Director, Division of Audits and Accounting
Division of Audits and Accounting | Office of Enforcement
Federal Energy Regulatory Commission
888 First Street NE, Room 5K-13
Washington, DC 20426

Re: *NorthWestern Corporation*, Docket No. FA20-7-000
Implementation Plan

Dear Ms. Fleet:

NorthWestern Corporation d/b/a NorthWestern Energy submits the enclosed updated implementation plan to comply with the recommendations contained in the Final Audit Report. As of April 28, 2023, all recommendations have been completed and therefore, this will be the final implementation plan update submitted for this Docket.

No.	Recommendation	Status
<i>Finding 1: Allowance for Funds Used During Construction</i>		
1	Revise its policies and procedures to ensure that its AFUDC base and rate calculation is consistent with Electric Plant Instruction (EPI) No. 3(A)(17) and other applicable Commission requirements. Revisions should include procedures to: use prior year ending balances as reported in NorthWestern's FERC Form No. 1 filings for the long-term debt and equity components; prevent balances in Account 216.1 from being included in the equity component; ensure AFUDC is compounded, at most, semi-annually; and prevent inclusion of unpaid contract retention amounts in the CWIP base in AFUDC calculations. Completed: June 1, 2022	Complete
2	Provide training to staff on the revised policies and procedures described in the previous recommendation. Also, develop a training program that supports the provision of periodic training in this area, as needed. Completed: June 1, 2022	Complete
3	Recalculate AFUDC for the period 2018-2021 in accordance with the requirements of EPI No. 3(A)(17) and the other pertinent guidance discussed in this finding. Based on the calculations, for periods in which AFUDC was over-accrued, submit a yearly estimate of over accruals to DAA within 60 days of receiving this audit report, with proposed corrected accounting entries and documentation that reflects corrections to remove over-accrued AFUDC balances from plant and associated accounts, such as depreciation, income tax expense, accumulated depreciation, and accumulated deferred income taxes. Completed: June 17, 2022	Complete



No.	Recommendation	Status
4	Revise electric plant, accumulated provision for depreciation, ADIT, and other account balances impacted by over-accrual of AFUDC after receiving DAA's approval of the proposed accounting entries, and restate and footnote the balances reported in the FERC Form No. 1 in the current and comparative years of the report, as necessary to reflect and disclose the revisions. Completed: March 6, 2023	Complete
5	Submit a refund report, within 60 days of receiving DAA's approval of the proposed accounting entries, to DAA for review that explains and details the following: (1) calculation of refunds that include the amounts of inappropriate recoveries that resulted from improper AFUDC computations during the audit period; (2) determinative components of the refund; (3) refund method; (4) the customers to receive refunds; and (5) period(s) refunds will be made. Completed: September 14, 2022 and resubmitted October 26, 2022	Complete
6	File a refund report with the Commission after receiving DAA's assessment of the refund analysis. Completed: Refund report filed on January 3, 2023	Complete
7	Refund the amounts disclosed in the refund report to customers, with interest calculated in accordance with section 35.19(a) of Commission's regulations. Completed: March 1, 2023 for South Dakota and April 28, 2023 for Montana.	Complete
<i>Finding 2: Accounting for Revolving Credit Facility Upfront and Commitment Fees</i>		
8	Revise existing accounting policies, procedures, and practices relating to accounting for credit agreement expenses used for general liquidity, such as upfront, commitment, revolving line of credit, and letter of credit fees, to be consistent with Commission accounting requirements. Completed: June 1, 2022	Complete
9	Train relevant staff on the revised accounting policies and provide periodic training, as needed. Completed: June 1, 2022	Complete
10	Submit proposed accounting entries and supporting documentation to DAA to reflect the transfer of credit agreement-related balances improperly recorded in Account 181 to Account 186, Miscellaneous Deferred Debits. Completed: June 17, 2022	Complete

Attachment Staff 1.9b
Page 3 of 12

11	Revise miscellaneous deferred debit balances to appropriately account for and report credit agreement-related balances after receiving DAA's assessment of the proposed accounting entries, and restate and footnote the balances reported in the FERC Form No. 1 in the current and comparative years of the report, as necessary, to reflect and disclose the revisions. Completed: March 6, 2023	Complete
<i>Finding 3: Accounting for Membership Dues</i>		
12	Strengthen policies, procedures, and controls to account for the lobbying portion of membership dues consistent with the Commission's accounting requirements. Completed: June 1, 2022	Complete
13	Train relevant staff on the revised policies, procedures, and controls and provide periodic training in this area, as needed. Completed: June 1, 2022	Complete
14	Perform an analysis to identify other membership dues that were improperly accounted for during the audit period. Provide the results of the analysis to audit staff within 60 days of receiving this report. Completed: June 17, 2022	Complete
15	Submit a refund report, within 60 days of receiving this audit report, to DAA for review that explains and details the following: (1) calculation of refunds that include the amounts of inappropriate recoveries that resulted from improper accounting of lobbying costs in transmission formula rates during the audit period; (2) determinative components of the refund; (3) refund method; (4) customers to receive the refunds, and (5) period(s) refunds will be made. Completed: September 14, 2022 and resubmitted October 26, 2022	Complete
16	File a refund report with the Commission after receiving DAA's assessment of the refund analysis. Completed: Refund plan filed on January 3, 2023	Complete
17	Refund the amounts disclosed in the refund report to FERC-jurisdictional transmission customers, with interest calculated in accordance with section 35.19(a) of the Commission's regulations. Completed: March 1, 2023 for South Dakota and April 28, 2023 for Montana.	Complete



No.	Recommendation	Status
<i>Finding 4: Accounting for Lobbying Expenses</i>		
18	Develop and implement procedures and policies to track, report, review, and account for lobbying and other expenses of activities associated with influencing legislation and with other political activity consistent with Commission accounting requirements. Completed: June 1, 2022	Complete
19	Train relevant staff on the procedures and policies and provide periodic training in this area, as needed. Completed: June 1, 2022	Complete
20	Perform an analysis to identify other lobbying costs that were improperly accounted for during the audit period. Provide the results of the analysis to audit staff within 60 days of the date of issuance of this audit report. Completed: June 17, 2022	Complete
21	Submit a refund report, within 60 days of receiving this audit report, to DAA for review that explains and details the following: (1) calculation of refunds that include the amounts of inappropriate recoveries that resulted from improper accounting of lobbying costs in transmission formula rates during the audit period; (2) determinative components of the refund; (3) refund method; (4) customers to receive the refunds, and (5) period(s) refunds will be made. Completed: September 14, 2022 and resubmitted October 26, 2022	Complete
22	File a refund report with the Commission after receiving DAA's assessment of the refund analysis. Completed: Refund plan filed on January 3, 2023	Complete
23	Refund the amounts disclosed in the refund report to FERC-jurisdictional transmission customers, with interest calculated in accordance with section 35.19(a) of the Commission's regulations. Completed: March 1, 2023 for South Dakota and April 28, 2023 for Montana.	Complete
<i>Finding 5: Miscellaneous Accounting Classification Errors</i>		
24	Strengthen policies, procedures, and controls to ensure that NorthWestern records the different administrative and general expenses in the proper accounts consistent with Commission accounting requirements. Completed: June 1, 2022	Complete
25	Train relevant staff on the revised policies, procedures, and controls and provide periodic training in this area, as needed. Completed: June 1, 2022	Complete

26	Perform an analysis to identify other administrative and general expenses that were improperly accounted for during the audit period. Provide the results of the analysis to audit staff within 60 days of the date of issuance of this audit report. Completed: June 17, 2022	Complete
27	If the net results of the analysis from Recommendation 26 and the errors identified in this finding impacted formula rate billings, submit a refund report, within 60 days of receiving this report, to DAA for review that explains and details the following: (1) calculation of refunds that include the amount of inappropriate recoveries that resulted from improper accounting of administrative and general expense impacting charges under transmission formula rates during the audit period; (2) determinative components of the refund; (3) refund method; (4) customers to receive refunds; and (5) period(s) refunds will be made. Completed: September 14, 2022 and resubmitted October 26, 2022	Complete
28	File a refund report with the Commission after receiving DAA's assessment of the refund analysis. Completed: Refund plan filed on January 3, 2023	Complete
29	Refund the amounts disclosed in the refund report to FERC-jurisdictional transmission customers, with interest calculated in accordance with section 35.19(a) of the Commission's regulations. Completed: March 1, 2023 for South Dakota and April 28, 2023 for Montana.	Complete

Respectfully submitted,

Jeff Berzina
Controller



Implementation Plan

FA20-7-000

Finding 1: Allowance for Funds Used During Construction

Recommendation No. 1

Revise its policies and procedures to ensure that its AFUDC base and rate calculation is consistent with Electric Plant Instruction (EPI) No. 3(A)(17) and other applicable Commission requirements. Revisions should include procedures to: use prior year ending balances as reported in NorthWestern's FERC Form No. 1 filings for the long-term debt and equity components; prevent balances in Account 216.1 from being included in the equity component; ensure AFUDC is compounded, at most, semi-annually; and prevent inclusion of unpaid contract retention amounts in the CWIP base in AFUDC calculations.

Status: Complete

Documentation:

Along with this implementation plan, NorthWestern is submitting its policy for calculating and applying AFUDC. NorthWestern clarified its AFUDC policy to compound semi-annually in March and September. We clarified that we will use prior year ending balances for long-term debt and equity and exclude Account 216.1 from being included in the equity component. We also established a process for retention amounts to be excluded from AFUDC by creating a separate general ledger account for retention to be charged to in capital projects. All of these changes were implemented and resulted in proper presentation in NorthWestern's FERC 3-Q for Q1 2022.

Recommendation No. 2

Provide training to staff on the revised policies and procedures described in the previous recommendation. Also, develop a training program that supports the provision of periodic training in this area, as needed.

Status: Complete

Documentation:

NorthWestern has trained the accountant responsible for calculating AFUDC on the updated process and procedure. Additionally, the Accounting Managers approve the calculation each month as part of our internal controls. NorthWestern worked to correct its calculation throughout 2020 and 2021 with all changes implemented prior to 2022. The monthly compounding issue was fixed in 2020, and the year end balances and equity clarification was fixed in 2021. We established a new GL account for retention to be charged to, which is GL 521188. This is excluded from receiving AFUDC.

Recommendation No. 3

Recalculate AFUDC for the period 2018 through 2021 in accordance with the requirements of EPI No. 3(A)(17) and the other pertinent guidance discussed in this finding. Based on the calculations, for periods in which AFUDC was over-accrued, submit a yearly estimate of over accruals to DAA within 60 days of receiving this audit report, with proposed corrected accounting entries and supporting documentation that reflects corrections to remove over-accrued AFUDC balances from plant and associated accounts, such as depreciation, income tax expense, accumulated provision for depreciation, and accumulated deferred income taxes (ADIT).

Status: Complete

Documentation:

NorthWestern received final approval of its correcting journal entries on July 26, 2022.

Recommendation No. 4

Revise electric plant, accumulated provision for depreciation, ADIT, and other account balances impacted by over-accrual of AFUDC after receiving DAA's approval of the proposed accounting entries, and restate and footnote the balances reported in the FERC Form No. 1 in the current and comparative years of the report, as necessary to reflect and disclose the revisions.

Status: Complete

Documentation:

NorthWestern received final approval of its correcting journal entries on July 26, 2022. Those entries were posted in NorthWestern's accounting system as of September 30, 2022. NorthWestern's FERC Form 1 filing as of December 31, 2022 reflected these revisions, and it was filed on March 6, 2023.

Recommendation No. 5

Submit a refund report, within 60 days of receiving DAA's approval of the proposed accounting entries, to DAA for review that explains and details the following: (1) calculation of refunds that include the amounts of inappropriate recoveries that resulted from improper AFUDC computations during the audit period; (2) determinative components of the refund; (3) refund method; (4) the customers to receive refunds; and (5) period(s) refunds will be made.

Status: Complete

Documentation:

NorthWestern submitted its refund analysis on September 14, 2022 and resubmitted it on October 26, 2022 after implementing one audit staff recommendation.

Recommendation No. 6

File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

Status: Complete

Documentation: NorthWestern filed its refund report on January 3, 2023.

Recommendation No. 7

Refund the amounts disclosed in the refund report to customers, with interest calculated in accordance with section 35.19(a) of Commission's regulations.

Status: Complete

Documentation:

Refunds, with interest, were included in the Formula Rate Templates filed on March 1, 2023 for South Dakota and April 28, 2023 for Montana.

Finding 2: Accounting for Revolving Credit Facility Upfront & Commitment

Fees

Recommendation No. 8

Revise existing accounting policies, procedures, and practices relating to accounting for credit agreement expenses used for general liquidity, such as upfront, commitment, revolving line of credit, and letter of credit fees, to be consistent with Commission accounting requirements.

Status: Complete

Documentation:

Along with this implementation plan, NorthWestern is submitting its policy for accounting for the upfront and commitment fees related to its revolving credit facility. All accounting changes recommended the audit report have been implemented. Commitment fees are expensed to Account 930.2 and upfront fees are charged to Account 186 to be amortized to Account 930.2. All of these changes were implemented and resulted in proper presentation in NorthWestern's FERC 3-Q for Q1 2022.

Recommendation No. 9

Train relevant staff on the revised accounting policies and provide periodic training, as needed.

Status: Complete

Documentation:

NorthWestern's accounting staff has received training on the proper accounting for the revolver upfront fees and commitment fees. This included establishing a new GL Account, 264160, which maps to Account 186. Upfront fees were journalized to the new account and a new order number with FERC Account 930.2 was created for the amortization to be charged. The accountant responsible for these entries was trained and the Accounting Manager reviewed and approved all the entries.

Recommendation No. 10

Submit proposed accounting entries and supporting documentation to DAA to reflect the transfer of credit agreement-related balances improperly recorded in Account 181 to Account 186, Miscellaneous Deferred Debits.

Status: Completed

Documentation:

Along with this implementation plan, NorthWestern is submitting its accounting entries to reflect the upfront fees recorded in Account 186, amortized to Account 930.2, and commitment fees expensed to Account 930.2. The amounts were identified in our data responses during the audit.

Recommendation No. 11

Revise miscellaneous deferred debit balances to appropriately account for and report credit agreement-related balances after receiving DAA's assessment of the proposed accounting entries, and restate and footnote the balances reported in the FERC Form No. 1 in the current and comparative years of the report, as necessary, to reflect and disclose the revisions.

Status: Complete

Documentation:

NorthWestern received final approval of its correcting journal entries on July 26, 2022. Those entries were posted in NorthWestern's accounting system as of September 30, 2022. NorthWestern's FERC Form 1 filing as of December 31, 2022 reflected these revisions, and it was filed on March 6, 2023.

Finding 3: Accounting for Membership Dues

Recommendation No. 12

Strengthen policies, procedures, and controls to account for the lobbying portion of membership dues consistent with the Commission's accounting requirements.

Status: Completed

Documentation:

Along with this implementation plan, NorthWestern is submitting its policy for accounting for membership dues.

Recommendation No. 13

Train relevant staff on the revised policies, procedures, and controls and provide periodic training in this area, as needed.

Status: Completed

Documentation:

NorthWestern's accounting staff and invoice coders have received training on the proper accounting for the lobbying portion of membership dues.

Recommendation No. 14

Perform an analysis to identify other membership dues that were improperly accounted for during the audit period. Provide the results of the analysis to audit staff within 60 days of receiving this report.

Status: Completed

Documentation:

Along with this implementation plan, NorthWestern is submitting its accounting entries to reflect the lobbying portion of dues recorded in Account 426.4. A complete review of membership dues invoices from 2018 to 2021 was performed and additional lobbying was identified. The review included a thorough review of all invoices charged to GL account 554000, Membership Dues, by the accounting department. It also included meeting with the invoice coders for the Governmental Affairs group and the Economic Development group to identify any invoices they were aware of that contained a portion of lobbying expense.

Recommendation No. 15

Submit a refund report, within 60 days of receiving this audit report, to DAA for review that explains and details the following: (1) calculation of refunds that include the amounts of inappropriate recoveries that resulted from improper accounting of lobbying costs in transmission formula rates during the audit period; (2) determinative components of the refund; (3) refund method; (4) customers to receive the refunds, and (5) period(s) refunds will be made.

Status: Completed

Documentation:

NorthWestern submitted its refund analysis on September 14, 2022 and resubmitted it on October 26, 2022 after implementing one audit staff recommendation.

Recommendation No. 16

File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

Status: Complete

Documentation: NorthWestern filed its refund report on January 3, 2023.

Recommendation No. 17

Refund the amounts disclosed in the refund report to FERC-jurisdictional transmission customers, with interest calculated in accordance with section 35.19(a) of the Commission's regulations.

Status: Complete

Documentation:

Refunds, with interest, were included in the Formula Rate Templates filed on March 1, 2023 for South Dakota and April 28, 2023 for Montana.

Finding 4: Accounting for Lobbying Expenses

Recommendation No. 18

Develop and implement procedures and policies to track, report, review, and account for lobbying and other expenses of activities associated with influencing legislation and with other political activity consistent with Commission accounting requirements.

Status: Completed

Documentation:

Along with this implementation plan, NorthWestern is submitting its policy for accounting for lobbying expenses.

Recommendation No. 19

Train relevant staff on the procedures and policies and provide periodic training in this area, as needed.

Status: Completed

Documentation:

NorthWestern's accounting staff and invoice coders have received training on the proper accounting for lobbying expenses. Lobbyists were given special order numbers to charge labor and expenses. An additional meeting was held in May 2022 with the internal lobbyists to review the Accounts and Orders to be used for lobbying costs.

Recommendation No. 20

Perform an analysis to identify other lobbying costs that were improperly accounted for during the audit period. Provide the results of the analysis to audit staff within 60 days of the date of issuance of this audit report.

Status: Completed

Documentation:

Along with this implementation plan, NorthWestern is submitting its accounting entries to reflect the 2018 and 2019 lobbying journal entries required to properly record lobbying in Account 426.4. These amounts were identified as part of NorthWestern's responses to data requests during the audit. As was determined during the audit work, NorthWestern had revised its policies and procedures during the audit period, resulting in no errors in the 2020 or 2021 accounting periods.

Recommendation No. 21

Submit a refund report, within 60 days of receiving this audit report, to DAA for review that explains and details the following: (1) calculation of refunds that include the amounts of inappropriate recoveries that resulted from improper accounting of lobbying costs in transmission formula rates during the audit period; (2) determinative components of the refund; (3) refund method; (4) customers to receive the refunds, and (5) period(s) refunds will be made.

Status: Completed

Documentation:

NorthWestern submitted its refund analysis on September 14, 2022 and resubmitted it on October 26, 2022 after implementing one audit staff recommendation.

Recommendation No. 22

File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

Status: Complete

Documentation: NorthWestern filed its refund report on January 3, 2023.

Recommendation No. 23

Refund the amounts disclosed in the refund report to FERC-jurisdictional transmission customers, with interest calculated in accordance with section 35.19(a) of the Commission's regulations.

Status: Complete

Documentation:

Refunds, with interest, were included in the Formula Rate Templates filed on March 1, 2023 for South Dakota and April 28, 2023 for Montana.

Finding 5: Miscellaneous Accounting Classification Errors

Recommendation No. 24

Strengthen policies, procedures, and controls to ensure that NorthWestern records the different administrative and general expenses in the proper accounts consistent with Commission accounting requirements.

Status: Completed

Documentation:

Along with this implementation plan, NorthWestern is submitting its policy for accounting for certain administrative and general expenses.

Recommendation No. 25

Train relevant staff on the revised policies, procedures, and controls and provide periodic training in this area, as needed.

Status: Completed

Documentation:

NorthWestern's accounting staff and invoice coders have received training on the proper accounting for expenses. New orders were established with the implementation of S/4 HANA, which streamlined the process for expense coding. Employees received training on the new system, including the FERC solution, as well as received the policy as it was posted to the company's intranet site.

Recommendation No. 26

Perform an analysis to identify other administrative and general expenses that were improperly accounted for during the audit period. Provide the results of the analysis to audit staff within 60 days of the date of issuance of this audit report.

Status: Completed

Documentation:

Along with this implementation plan, NorthWestern is submitting its accounting entries to reflect the results of the

review of all A&G expenses recorded during the audit period. The audit sampled expenses recorded in A&G FERC Accounts from 2019. NorthWestern has reviewed A&G expenses for the remainder of the audit period, noting that because Account 930.1 is excluded from FERC Formula Rates, the analysis emphasized reviewing outside services expenses incurred for advertising. The analysis resulted in additional entries to reclass expenses from Account 923 to Account 930.1, which are reflected in the entries attached with this implementation plan.

Recommendation No. 27

If the net results of the analysis from Recommendation 26 and the errors identified in this finding impacted formula rate billings, submit a refund report, within 60 days of receiving this report, to DAA for review that explains and details the following: (1) calculation of refunds that include the amounts of inappropriate recoveries that resulted from improper accounting of administrative and general expense impacting charges under transmission formula rates during the audit period; (2) determinative components of the refund; (3) refund method; (4) customers to receive refunds; and (5) period(s) refunds will be made.

Status: Completed

Documentation:

NorthWestern submitted its refund analysis on September 14, 2022 and resubmitted it on October 26, 2022 after implementing one audit staff recommendation.

Recommendation No. 28

File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

Status: Complete

Documentation: NorthWestern filed its refund report on January 3, 2023.

Recommendation No. 29

Refund the amounts disclosed in the refund report to FERC-jurisdictional transmission customers, with interest calculated in accordance with section 35.19(a) of the Commission's regulations.

Status: Complete

Documentation:

Refunds, with interest, were included in the Formula Rate Templates filed on March 1, 2023 for South Dakota and April 28, 2023 for Montana.