

STANDARDS OF CONDUCT

FOR

NORTHWESTERN ENERGY

I. PURPOSE

The purpose of these Standards of Conduct is to implement the Federal Energy Regulatory Commission's (Commission) Order No. 2004, and the regulations set forth in 18 C.F.R. Part 358 by ensuring that (a) the employees of NorthWestern Corporation, doing business as NorthWestern Energy (NorthWestern Energy) engaged in transmission system operations function independently from its marketing employees and Energy Affiliate employees; and (b) all Transmission Customers of NorthWestern Energy receive access to transmission information on a non-discriminatory basis. These Standards of Conduct may need to be revised after Commission action on NorthWestern Energy's compliance filing to be submitted in Docket No. TS04-3.

II. DEFINITIONS

Energy Affiliate is defined in 18 C.F.R. § 358.3(d), as clarified by the Commission's order issued in Docket No. TS04-3-000 on September 20, 2004, 108 FERC ¶ 61,243, PP 136 - 146 (2004), and pending further Commission action on NorthWestern Energy's compliance filing in Docket No. TS04-3-000. NorthWestern Energy currently has three Energy Affiliates: (1) Clark Fork and Blackfoot, LLC; (2) NorthWestern Energy Marketing, LLC; and (3) Montana Megawatts I, LLC.

System Operations Control Center (SOCC) is the location from which NorthWestern Energy exercises, for reliability purposes, real-time control of transmission facilities.

System Emergency is any abnormal system condition that could adversely affect the reliability of the electric system and which requires automatic or immediate manual action to limit loss of transmission facilities or generation supply.

Transmission Customer means any eligible customer (or its designated agent) that can or does execute a transmission service agreement with NorthWestern Energy, or can or does receive transmission service from NorthWestern Energy, including all persons who have pending requests for transmission service or for information regarding transmission.

Transmission Function Employee are those NorthWestern Energy employees who conduct transmission system operations or reliability functions. These employees include those primarily engaged in receiving and responding to requests for transmission service, determining Available Transmission Capacity and Total Transmission capacity, operating and maintaining NorthWestern Energy's control area and/or its transmission system, and employees responsible for planning expansion of NorthWestern Energy's transmission capabilities. These Transmission Function Employees are organized in the Transmission Operations Department within NorthWestern Energy.

Wholesale Merchant Function means sales for resale of electric energy in interstate commerce.

III. PROHIBITED CONDUCT

A. NorthWestern Energy's employees or contractors engaged in the Wholesale Merchant Function, or the employees of its Energy Affiliates, shall have access only to that information available to all Transmission Customers and must not have preferential access to any information about NorthWestern Energy's transmission system that is not publicly available to all OASIS users. NorthWestern Energy's employees or contractors engaged in the Wholesale Merchant Function, or Energy Affiliate employees, are prohibited from obtaining information concerning NorthWestern Energy's transmission system (including, but not limited to, information about available transmission capability, price, curtailments, ancillary services, maintenance activity, capacity expansion plans or similar information) through access to information not posted on the OASIS or that is not otherwise publicly available to all OASIS users without restriction. No NorthWestern Energy employee shall be used as a conduit for improper sharing of information.

B. No NorthWestern Energy employee or contractor engaged in the Wholesale Merchant Function or Energy Affiliate employee shall engage in any aspect of transmission system operations or reliability functions, or in any other activities associated with administering NorthWestern Energy's open access transmission tariff.

C. No NorthWestern Energy employee or contractor engaged in the Wholesale Merchant Function or Energy Affiliate employee shall have access to NorthWestern Energy's SOCC, or similar facilities used for the transmission operations or reliability functions, that differs in any way from the access available to other open access Transmission Customers.

D. No NorthWestern Energy Transmission Function Employee shall disclose to NorthWestern Energy's employees or contractors engaged in the Wholesale Merchant Function or Energy Affiliate employees any information concerning the transmission system of NorthWestern Energy or the transmission system of another (including, but not limited to, information received from non-affiliates or information about available transmission capability, price, curtailments, ancillary services, balancing, maintenance activity, capacity expansion plans or similar information) (i) through non-public communications conducted off the OASIS, (ii) through access to information not posted on the OASIS that is not at the same time available to the general public without restriction, or (iii) through information on the OASIS that is not at the same time publicly available to all OASIS users.

E. NorthWestern Energy Transmission Function Employees or employees of any Energy Affiliates engaged in transmission system operations and reliability functions shall not disclose any information obtained from non-affiliated transmission customers or potential non-affiliated transmission customers or developed in the course of responding to a request for transmission or ancillary services on the OASIS with employees or contractors of its Wholesale Merchant Function or any Energy Affiliate, except to the limited extent such information is required to be posted on the OASIS in response to a request for transmission service or ancillary services.

F. If a NorthWestern Energy Transmission Function Employee discloses information not posted on the OASIS in a manner contrary to the requirements of the Standards of Conduct, NorthWestern Energy must immediately post such information on the OASIS.

IV. IMPLEMENTATION

A. General Rule

Except as provided in paragraph C. (Emergencies) of this section, NorthWestern Energy's Transmission Function Employees will function independently of its Wholesale Merchant Function employees and of the employees of its Energy Affiliates.

B. Separation of Functions

NorthWestern Energy has functionally and physically separated its Transmission Function Employees from its employees engaged in the Wholesale Merchant Function and the employees of its Energy Affiliates. NorthWestern Energy has a security access system for its buildings. Site-specific access is granted to employees on the basis of need. Transmission Function Employees have immediate access to the SOCC. The offices of Wholesale Merchant Function employees and Energy Affiliate employees are located at least five miles away from the SOCC, and such employees do not have direct access to the SOCC or similar facilities used for transmission operations or reliability functions. They are required to seek access to the SOCC through the building receptionist, which is the same process the public uses.

Transmission Function Employees, Wholesale Merchant Function employees and Energy Affiliate employees have separate computer networks. While these networks are interconnected, they are separated by a combination hardware/software "fire wall" such that transmission information is not directly accessible by Wholesale Merchant Function employees, contractors or Energy Affiliate employees. The Energy Management System (EMS) employed by NorthWestern Energy is accessible exclusively for the transmission system operations and reliability function and is completely separate from any software used by the Wholesale Merchant Function employees and Energy Affiliate employees. Personnel that support EMS understand the importance of the standards of conduct, and will complete the training required by Order No. 2004 and will electronically certify that they have been trained regarding the Standards of Conduct requirements.

Monthly invoices for merchant transactions are created separately from invoices for transmission and ancillary service transactions. Revenue and expense summaries are sent to General Accounting from each respective area for consolidation on the corporate books. Accounts have been established to uniquely identify merchant and transmission transactions.

C. Emergencies

Notwithstanding any other provisions in this section, in emergency circumstances affecting system reliability, NorthWestern Energy may take whatever steps are necessary to keep the system in operation. NorthWestern Energy will report to the Commission and post on the OASIS each emergency that resulted in any deviation from the Standards of Conduct, within 24 hours of such deviation:

1. The cause and nature of the emergency;
2. The beginning and end day, hour and minute of the emergency;
3. All transmission schedules interrupted or curtailed in response to the emergency; and
4. Specific deviation(s) from these Standards of Conduct that occurred during the emergency.

The posting will remain on the OASIS for a period of ninety (90) days.

D. Employee Transfers

Transmission Function Employees or employees engaged in either Wholesale Merchant Functions or for an Energy Affiliate are not precluded from transferring between such functions or entities as long as such transfer is not used as a means to circumvent the Standards of Conduct. Any transfers between the Transmission Function and Wholesale Merchant Function or between the Transmission Function and an Energy Affiliate shall be posted on the OASIS. The posting will include the following information:

1. The name of the transferring employee;
2. The former job title of the employee in the department he/she is transferring from;
3. The new job title of the employee in the department he/she is transferring to;
4. The effective date of the transfer.

The information will be posted on the OASIS within seven (7) business days of the change and will be maintained on the OASIS for a period of ninety (90) calendar days.

E. Implementing tariffs

1. NorthWestern Energy's Transmission Function Employees shall strictly enforce all tariff provisions relating to the sale or purchase of open access transmission service, except to the extent that NorthWestern Energy's open access transmission tariff provides for the use of discretion. To the extent such discretion is invoked, it will be exercised in a fair and impartial manner that treats all Transmission Customers in a non-discriminatory manner. NorthWestern Energy will maintain a log, available for Commission audit, detailing the circumstances and manner in which it exercised discretion under the terms of its open access transmission tariff. Such log shall be posted on NorthWestern Energy's OASIS for public inspection and shall be updated on a daily basis and shall remain available for download on the OASIS for ninety (90) days. The logs will be retained and made available upon request for three (3) years from the date when they are first posted in the same electronic form as used when they originally were posted on the OASIS.

2. Any offer of a discount for any transmission service made by NorthWestern Energy will be announced to all potential customers by posting on the OASIS at the time the offer is contractually binding. The posting of the discount will include:

- a. The name of the customer involved in the discount and an identification as to whether the customer is an Energy Affiliate or an affiliate is involved in the transaction;
- b. The rate offered;
- c. The maximum rate;
- d. The time period for which the discount would apply;
- e. The quantity of power scheduled;
- f. The delivery points for the transaction; and
- g. Any conditions or requirements applicable to the discount.

The posting of discount information will remain on the OASIS for sixty (60) days from the date of posting.

3. All offers of transmission service will be made in accordance with NorthWestern Energy's open access transmission tariff, and NorthWestern Energy will not, through its tariffs or otherwise, give preference to sales for resale by the Wholesale Merchant Function or by its Energy Affiliates, over the interests of any other wholesale customer in matters relating to the sale or purchase of transmission service (including, but not limited to, issues of price, curtailments, scheduling, priority, ancillary services, etc.).

4. For any transaction for transmission service agreed to by NorthWestern Energy and a Transmission Customer for a transaction using NorthWestern Energy's bulk power

transmission system, NorthWestern Energy (at the time the available transmission capability must be adjusted in response to the transaction), will post on the OASIS (and make available for download) information describing the transaction (including price, quantity, points of receipt and delivery, length and type of service, identification of whether the transaction involves NorthWestern Energy's Wholesale Merchant Function or any Energy Affiliate, identification of what, if any, ancillary services are associated with the transmission transaction, and any other relevant terms and conditions) and shall keep such information posted on the OASIS for at least thirty (30) days. A record of transactions will be retained and kept available as part of the audit log required herein.

5. For any transaction for ancillary service agreed to by NorthWestern Energy and a Transmission Customer for a transaction using NorthWestern Energy's bulk power transmission system, NorthWestern Energy (at the time available transmission capability must be adjusted in response to the transaction), will post on the OASIS (and make available for download) information describing the transaction (including the date and time when the agreement was entered into, price, quantity, length and type of service, identification of whether the transaction involves NorthWestern Energy's Wholesale Merchant Function or any Energy Affiliate, identification of what, if any, transmission service transactions are associated with the ancillary service transaction, and any other relevant terms and conditions) and shall keep such information posted on the OASIS for at least thirty (30) days. A record of the transactions will be retained and kept available as part of the audit log required herein.

6. In processing a request for transmission service or ancillary service associated with transmission service on NorthWestern Energy's bulk power transmission system, NorthWestern Energy shall post the following information regarding each request:

- a. the date and time the request is made;
- b. its place in the queue;
- c. the status of the request; and
- d. the result (*i.e.*, whether it was accepted, withdrawn or denied).

G. Books and records

NorthWestern Energy will maintain its books of account and records (as prescribed under 18 C.F.R. Parts 101 and 125) separately from those of its affiliates and these will be kept available for inspection by the Commission and the state commission.

H. Maintenance of written procedures

This document constitutes NorthWestern Energy's written procedures for implementing the Standards of Conduct in 18 C.F.R. Part 358 of the Commission's regulations. NorthWestern Energy will post this document and any amendments hereto on the OASIS to enable customers

and the Commission to determine that NorthWestern Energy is in compliance with the requirements of this section. NorthWestern Energy will distribute to all its employees these written procedures.

I. Organizational Charts

NorthWestern Energy will prepare and post detailed organizational charts and job descriptions on the OASIS. The information will be of sufficient detail to satisfy the requirements of Order No. 2004. When organizational changes occur, the information will be updated within seven (7) business days of the change. All posted information will be archived off-line for a period of three (3) years.

J. Identifying Affiliates

NorthWestern Energy will post on its OASIS the names and addresses of its Wholesale Merchant Function units and its Energy Affiliates. It will also post any shared facilities.

K. Mergers

NorthWestern Energy will post information concerning potential merger partners within seven (7) days after the merger is announced.

V. AUDITING AND COMPLIANCE

A. Training

NorthWestern Energy will, at a minimum, distribute these written procedures to all new employees before they begin their assigned tasks. NorthWestern Energy will train each NorthWestern Energy Transmission Function Employee and each employee engaged in Wholesale Merchant Functions with respect to the Standards of Conduct. Training will also be provided, as necessary to NorthWestern Energy's employees who provide services to both of these functions to ensure that no prohibited information transfer takes place. NorthWestern Energy's Chief Compliance Officer will be responsible for selecting or developing and updating training materials, for coordinating training, and for ensuring that the training meets the requirements of the Standards of Conduct.

Effective August 1, 2004, the Chief Compliance Officer for NorthWestern Energy is Thomas J. Knapp, Vice President & Deputy General Counsel. Mr. Knapp can be contacted by e-mail at tom.knapp@northwestern.com, by telephone at (605) 978-2908 or at (202) 508-9561, or by mail at 125 S. Dakota Ave., Suite 1100, Sioux Falls, South Dakota 57104 .

B. Penalties for Non-Compliance

NorthWestern Energy views violations of these Standards of Conduct seriously and will take appropriate action to the extent violations occur. NorthWestern Energy employees that knowingly violate the Standards of Conduct may be subject to disciplinary action.

VI. REVISIONS

It may be necessary from time to time to revise this document in response to changes in regulation, changes in NorthWestern Energy's organization or other factors, including, but not limited to, organization of NorthWestern Energy's affiliates. When revisions are made, NorthWestern Energy will post notice of the change and the new Standards of Conduct on the OASIS. The new Standards of Conduct will be effective immediately upon posting on the OASIS. The old version of the Standards of Conduct will be retained on the OASIS as a reference for a period of thirty (30) days and will be archived thereafter for a period of three (3) years.