

NorthWestern[™] Energy

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PUBLIC SERVICE
COMMISSION

March 1, 2012

Mr. Will Rosquist
Montana Public Service Commission
1701 Prospect Avenue
Helena, MT 59620

Dear Mr. Rosquist:

Enclosed with this letter are copies of the 2011 Electric Universal System Benefits (USB) report for NorthWestern Energy as filed with the Montana Department of Revenue for distribution to members of the Montana Public Service Commission (PSC) and appropriate staff. Copies have also been provided to the Energy and Telecommunications Interim Committee of the Montana Legislature as required by law.

The report documents the revenues collected by NorthWestern Energy through the USB Charge; summarizes the qualifying expenditures made by the utility in the implementation of internal programs and activities, the credits claimed; and documents the collection and reimbursement of the USB charge from NorthWestern Energy's Large Customers.

A total of \$9,367,205 in electric USB revenues was collected from NorthWestern Energy's electric distribution customers in 2011.

Approximately 34% of the 2011 USB funds, or \$3,221,373 was directed to Low Income activities by NorthWestern Energy. Large Customers self-directed activities accounted for 29% of the total 2011 electric USB revenues, or \$2,748,767 with \$102,068 self-directed to Low Income activities and \$2,628,437 self-directed to energy reduction activities. Allocations by NorthWestern Energy to the other public purpose categories are as follows: \$1,483,095 to Local Conservation, \$344,107 to Market Transformation, and \$1,569,864 to Renewable Resources and Research and Development.

Included with the 2011 report are updates for the 2008, 2009, and 2010 reports.

No USB funds collected from NorthWestern Energy customers are being released to Statewide USB funds.

If you have questions, please contact our USB staff at 406-497-2491.

Sincerely,



Bill Thomas
Manager Regulatory Support Services

NorthWestern[®]
Energy

Delivering a Bright Future



**NorthWestern Energy
Universal System
Benefits Activities
2011 Annual Report**

March 2012



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March 1, 2012

Mr. Russ Trasky
Montana Department of Revenue
Large Customer Team
PO Box 5805
Helena MT 59620-5805

Dear Mr. Trasky:

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Sincerely,

A handwritten signature in black ink that reads "Bill Thomas".

Bill Thomas
Manager, Regulatory Support Services

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Executive Summary

NorthWestern Energy is committed to administering Universal System Benefits (USB) programs and activities to efficiently deliver public purpose benefits to its Montana distribution customers to the fullest extent possible.

Since 1999, electric customers in NorthWestern Energy's Montana service territory have funded more than \$115 million of Universal System Benefits programs. Through USB, funding of low income programs have been increased, conservation and market transformation programs have continued, and renewable generation opportunities have been initiated for NorthWestern Energy's customers.

A total of \$9,367,205 was collected from NorthWestern Energy's electric distribution customers in 2011. This is \$175,552 more than 2010 revenues largely due to increased non-Large customer loads.

The 2011 electric USB funds have been allocated to the categories consistent with guidelines provided in Montana Public Service Commission (MPSC) Order No. 6679e. MPSC Order No. 6679e recognizes and allows for the pooling of electric and natural gas USB funds for residential audits, Free Weatherization for low income customers, and emergency energy assistance through Energy Share of Montana.

As in past years, allocations have been adjusted between Market Transformation and Local Conservation; and, between Research and Development and Renewable Generation.

The mix of low income, conservation, and renewable generation programs in 2011 is similar to 2010. Increased enrollments for heating bill assistance through the Low Income Energy Assistance Program (LIEAP) in 2011 continued to drive demand for the electric low income discount compared to 2008, 2009, and 2010. The overall electric low income funding obligations in 2011 were met through the reallocation of low income funds remaining from the 2009 Low Income Appliance Replacement Program to the 2011 Low Income category.

Separate of the electric USB funded activities, NorthWestern Energy customers fund additional residential Local Conservation and Low Income activities with natural gas

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USB funds. Other energy efficiency programs are included in NorthWestern Energy's electric and natural gas supply portfolios and are funded through supply rates.

Of the 2011 electric USB revenues, \$3,221,373, or just over 34% were allocated to Low Income activities by NorthWestern Energy separate of low income allocations from the Large Customer category. Large Customers self-directed an additional \$102,068 of their 2011 electric USB funds to Low Income activities, and NorthWestern Energy is reallocating \$7,543 of unspent 2011 Large Customer funds to Low Income in 2012, bringing the total of 2011 electric USB funds directed to Low Income to \$3,330,984.

NorthWestern Energy implements its USB programs and activities consistent with the requirements of legislation for USB, the Department of Revenue (DOR) administrative rules for USB Programs, and tariffs and orders of the MPSC. NorthWestern Energy's allocation decisions for 2011 are consistent with well-established past practices. To the extent that substantial changes to programmatic or funding levels have been made, these changes are noted in the appropriate activity summary.

The activities for 2011 are summarized and the qualifying expenditures and credits claimed by NorthWestern Energy are documented with this report. *No funds are being released to the Statewide USB fund(s).* Large Customers that self-direct their funds are required to separately report those activities. To the extent that a Large Customer has informed NorthWestern Energy that it has directed funds to Low Income activities, the totals have been reported. Unspent Large Customer dollars have been reallocated to Low Income by the utility consistent with MPSC direction and are noted in this report.

This report includes brief highlights of activity in each category, a summary of the allocations of 2011 electric USB funds by category and activity, and a summary of the energy and demand savings and new renewable resources resulting from the 2011 allocations. The report also includes updates on previous years' activities, and a summary by public purpose category of electric USB funding from 1999-2011.

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UNIVERSAL SYSTEM BENEFITS REVENUES

NorthWestern Energy's Universal System Benefits Charge (USBC) tariffs went into effect January 1, 1999. As required in law, the tariffs were established to collect nearly \$8.6M (2.4% of 1995 revenues) in a weather-normal year based upon 1998 electric loads. The USBC generated \$9,367,205 in 2011. The table below shows that the USBC revenues are based upon electrical usage (kiloWatt hours or kWh), lists the USBC tariff rates by customer class, and the percentage of USB revenues each sector contributed in 2011.

General Description	Tariffed Customer Class	Rate/kWh	Percent
Residential	Residential	\$0.001334	34%
Commercial/Small Industrial	GS-1 & GS-2 under 1000 KW	\$0.001143	33%
Large Customer per USB	GS-1 & GS-2 over 1000 KW	\$0.000900	29%
Irrigation	Irrigation	\$0.001144	1%
Lighting	Lighting	\$0.003404	2%

NOTE: The sum of the percentages listed due not equal 100 due to rounding.

An average NorthWestern Energy residential customer using 750 kiloWatt hours (kWh)/month pays about \$1 each month for electric USBC. The Large Customer USB rate of \$0.0009 per kWh was set by the Montana legislature.

Large Customers are those customers with an individual qualifying load greater than 1,000 kiloWatt (kW) average monthly demand in the previous calendar year. By law, Large Customers may self-direct their USB funds to qualifying public purposes. The Large Customer USBC rate is applied to the qualifying load and all associated demand-metered accounts. Large Customers, representing 57 customers and their 475 accounts, make up close to \$2.75 M of the USB revenues.

Appendix 1 provides additional information regarding USB revenues by customer class.

Segregated USB Account

NorthWestern Energy segregates its electric and natural gas USB funds from other utility operating funds by depositing them into a separate interest-bearing bank account, per MPSC Order No. 6504a. In 2011, the net gain in interest to USB was \$5,264 of which \$3,580 was credited to the electric USB categories on a pro rata basis and the balance was credited to natural gas USB activities.

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UNIVERSAL SYSTEM BENEFITS EXPENDITURES

All electric USB funds collected from NorthWestern Energy customers in 2011 have been spent and/or committed to qualifying public purposes. No funds are being released to the Statewide USB fund(s).

This report includes information about the 2011 USB programs and activities for NorthWestern Energy customers. Sections are provided for Low Income, Local Conservation, Market Transformation, Renewable Resources, and Research and Development. A general summary of the Large Customer self-directed activities is provided. NorthWestern Energy does not “qualify” Large Customer self-directed activities and therefore, only provides the funding obligation and basic expenditure information. See Appendix 2 for a summary of the 2011 allocations and expenditures and Appendix 3 for energy savings and customer participation information.

NorthWestern Energy’s mix of programs and activities have been guided by the MPSC through Orders No. 5986 f, g, and i; Order No. 6514; Order No. 6504a; Order No. 6574c; and Orders No. 6679a, b, c, and e; advice from members of NorthWestern Energy’s USB Advisory Committee; input from the Montana Department of Health and Human Services (MDPHHS) and local Human Resource Councils (HRCs) for the Free Weatherization program; NorthWestern Energy’s experience in program design and implementation; and in response to customer needs and market conditions.

As provided for in the Administrative Rules of Montana and Montana Statute, NorthWestern Energy implemented qualifying internal utility programs and activities in 2011 and has financial commitments to implement additional activities/projects for completion in 2012. These programs and activities are described in this report. The breakdown between qualifying expenditures in the current year and financial commitments for completion in 2012 is documented in Appendices 2 and 3 to this report.

NorthWestern Energy requested, and was granted by the DOR, time extensions for projects for which the timelines have been modified requiring more time for completion as reported in the Addendums for the 2009 and 2010 Reports. None of the projects to which 2011 funds have been committed are expected at this time to extend beyond 2012.

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UNIVERSAL SYSTEM BENEFITS RESULTS

From 1999 through 2011, NorthWestern Energy has delivered USB benefits to various customer classes and across all public purpose categories. General descriptions of the activities or programs for 2011, along with the funding total for the category, follow.

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Large Customers-- \$2,748,767

Large Customers are allowed to self-direct their USB funds by statute. Those who self-direct funds are required to file individual reports with the DOR regarding their activities. NorthWestern Energy is required to collect the USBC from these customers pursuant to Montana Statute through a tariff. Individual customers file reimbursement claims with NorthWestern Energy for which the utility processes payment. NorthWestern Energy does not pre-qualify Large Customer credits and bears no financial responsibility for any disallowance of their USB activities. Energy savings associated with Large Customer projects are not accounted for in NorthWestern Energy's report.

Large Customer revenues are included in the utility's annual USB obligation. Large Customers may self-direct their funds and do not have a minimum funding requirement for Low Income nor an obligation to fund any of the utility's activities. Likewise, Large Customers are not eligible to participate in NorthWestern Energy's USBC funded Efficiency Plus (E+) programs.

In 2011, \$2,748,767 was collected from 57 Large Customers to meet their 2011 obligations. All but six of these customers self-directed all of their 2011 USB funds. Large Customers self-directed \$2,003,446 of 2011 funds toward energy reduction projects within their facilities, and have carried over \$624,991 for additional projects in 2012. Large Customers self-directed \$102,068 to Low Income activities in 2011.

The unclaimed Large Customer funds and the USB account interest covered NorthWestern Energy administrative costs for this area leaving a balance of \$7,543 that is being reallocated to the Low Income category for expenditure in 2012 by NorthWestern Energy, consistent with historic MPSC direction.

Claims to NorthWestern Energy for reimbursement are documented as received. Reimbursements are made after the USBC has been collected from the customer.

Large Customer USB obligations and claims are only provided by NorthWestern Energy to DOR under Protective Order for accounting purposes only.

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Low Income Activities--\$ 3,221,373

In Order No. 5986i, the MPSC directed the utility to allocate 21% of the total electric USB funds collected to Low Income activities and to reallocate any unspent Large Customer funds to Low Income activities. In 2005, the MPSC issued Orders No. 6574c, 6679a and 6679b, all of which served to increase the allocation of electric USB funds to the Low Income sector. MPSC Order No. 6679e (December 2008) made permanent the Low Income bill discount levels and established a Low Income allocation guideline as part of the direction to guide allocations amongst the electric USB categories.

NorthWestern Energy directed \$3,042,426 in 2011 electric USB funds to Low Income activities, or 34% of electric USB revenues. Large Customers reported self-directing an additional \$102,068 to Low Income activities, and NorthWestern Energy has reallocated unspent 2011 Large Customer revenues of \$7,543 to Low Income activities bringing the total 2011 funds committed to Low Income to \$3,152,037 or more than 34% of the total funds collected. These funds, along with carryover funds for Free Weatherization were insufficient to cover the electric Low Income obligations as set forth in Order 6679e.

The Low Income section of Appendix 2 shows an allocation of \$323,215 to low income that is the result of the redirection of funds remaining from the 2009 allocation to the Low Income Appliance Replacement Program. Details of the program are detailed in the 2009 Addendum. Funds were committed for the program as a result of remaining 2009 low income funds in 2009. The program was implemented in 2011 and once the targeted customer pool had been served, the remaining funds were redirected to the 2011 Low Income category.

Appendix 4 to the 2011 report provides a summary of NorthWestern Energy's Electric USB allocations for 1999-2011 by category and better illustrates the low income reallocations.

Low Income USB funds are directed to a wide range of activities that benefit low income customers of the utility. Program offerings include bill assistance, weatherization and emergency energy assistance.

Households served by NorthWestern Energy that meet the LIEAP eligibility requirements receive bill assistance in the form of a discount, and may be eligible for weatherization services through the Free Weatherization Program. LIEAP eligibility guidelines are set by MDPHHS each heating season which is defined as November through April. Within calendar year 2011, there were two separate LIEAP eligibility guidelines. For the heating season of November 1, 2010 through April 30, 2011, MDPHHS set the LIEAP eligibility guideline as up to 200% of the Federal poverty guidelines. LIEAP eligibility for the heating season of November 1, 2011 through April 30, 2012 is set as up to 150% of the Federal poverty guidelines. The 2011-2012 LIEAP

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eligibility guideline is consistent with the guideline in place prior to the supplemental funds provided through the American Recovery and Reinvestment Act (ARRA).

Higher income levels for LIEAP eligibility from November 2008 through April 2011 have resulted in more NorthWestern Energy customers qualifying for bill assistance through LIEAP and NorthWestern Energy's Low Income bill discount and greater demands on Low Income USB funds. LIEAP qualified customers may also qualify for the Free Weatherization Program and households with energy emergencies may receive assistance through Energy Share of Montana.

More than 15,000 low income households were served in 2011 with electric USB funds. The financial impact of electricity costs on low income households was reduced through bill assistance, weatherization, and emergency energy assistance.

Bill Assistance

Consistent with MPSC Order No. 6679e the electric Low Income bill discount is 25% from November through April and 15% from May through October. Electric USB funds cover the electric Low Income discount. Separately, natural gas USB funds cover the natural gas USB Low Income Discount.

Customers qualifying for LIEAP, the federally funded heating assistance program, also receive the NorthWestern Energy bill discount. Customers may apply for LIEAP assistance through their local HRC. As noted earlier, LIEAP eligibility guidelines were increased by MDPHHS during the 2008-2009, 2009-2010, and 2010-2011 heating seasons. These increases in eligibility increased the number of customers receiving bill discounts over 2008 and, likewise, the total funds required to support the bill discount. The funding of the electric Low Income discount totaled \$2,927,723 in 2011 for the 15,018 low income customers served. This represents an increase of \$286,150 compared to the 2010 electric bill discount, nearly \$800,000 more than 2009, and almost \$1M more than the 2008 electric bill discount.

The Free Weatherization Program

NorthWestern Energy partners with MDPHHS and local HRCs to offer the Free Weatherization Program.

The commitment of federal funds to Low Income weatherization through ARRA dramatically increased funding available to weatherize low income homes in Montana over the three heating seasons leading up to 2011-2012. Federal funding for the 2011-2012 season has been reduced. In response to the funding fluctuations, and in cooperation with MDPHHS, NorthWestern Energy has made annual modifications to its Free Weatherization Program contract with MDPHHS to adjust the funding mix between federal funds and NorthWestern Energy USB funds. This has been done in an effort to simplify the administrative process associated with the increased funds and has been intended to better maximize the weatherization results of all funding sources for NorthWestern Energy low income customers.

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The 2011 Free Weatherization Program pooled the 2009, 2010, and 2011 electric USB funds, along with 2011 natural gas funds to complete \$1,860,750 of low income weatherization work for nearly 760 low income customers in 2011. The Free Weatherization program includes a comprehensive energy audit, installation of air-sealing, hot water conservation, insulation measures and compact fluorescent light bulbs, and energy related health and safety improvements such as heating equipment tune-ups and repairs. Customers whose homes are heated primarily with electricity from NorthWestern Energy are considered for conversion to natural gas. Customers are provided with information to help them better manage their energy usage and to better understand their energy costs.

Additional program contract changes are included for 2012 and will be noted in future reports.

Customers served through the program provide comments back to NorthWestern Energy about their experiences through letters and customer response cards handed out by the HRCs.

- ***“The people that you have doing the work for you are very personable and friendly. They are also very knowledgeable and let you know how to maintain the work done.”***
- ***“Everyone was great and I was reminded about a lot of ways to save energy. I appreciated everyone and everything that was done! Thank you!”***
- ***“It is wonderful having access to this program. Thank you so much for funding this program; money well spent.”***
- ***“This is a great program especially for me on SS and disability.”***

Energy Share

Energy Share of Montana offers assistance to those facing heating emergencies. It is intended to be a one-time, last resort safety net, used after all other resources have been exhausted. MPSC Order No. 6679e retained the total annual commitment of USB funds to Energy Share at \$575,000 with \$239,000 being allocated from the electric USB funds and the balance from natural gas USB funds. A combination of \$101,584 of 2011 electric USB funds along with unspent Large Customer funds from previous years (\$61,700 from 2008, \$52,688 from 2009, and \$23,028 from 2010) met the 2011 electric funding commitment to Energy Share.

In 2012, unspent Large Customer funds in the amounts of \$36,586 from 2010 and \$7,543 from 2011 have been directed by NorthWestern Energy to Energy Share to benefit NorthWestern Energy low income customers in the future. As additional

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unspent Large Customer funds have been identified, NorthWestern commits those funds to electric low income activities consistent with needs and opportunities.

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Local Conservation Activities-- \$ 1,483,095

The mix of energy conservation and market transformation programs offered by NorthWestern Energy with USB funding has been more limited as some programs have been shifted to the electric supply portfolio as demand side management (DSM) acquisition. The primary focus of the USBC-funded energy conservation and market transformation programs is to provide energy savings across customer sectors-- residential, commercial, institutional, and small industrial facilities on NorthWestern Energy's system. Customers meeting Large Customer USB criteria are not eligible to participate in these USBC funded programs.

Efficiency Plus (E+) Energy Audit Program

The E+ Audit for the Home is an on-site energy audit program for residential customers whose space and/or water heating fuels are delivered by NorthWestern Energy. It is a flagship of energy efficiency for NorthWestern Energy's non-low income customers. The E+ audit includes the installation of water-related energy efficiency measures that start saving right away. Customer education about where their energy dollar is going is supported through a blower door analysis, a natural gas appliance inspection for customers whose natural gas is delivered by NorthWestern Energy, and with specific suggestions for customers to better manage their homes or change behaviors to achieve greater energy-efficiency. Customers receive a report specific to their home and energy use habits. The report breaks out historical energy usage by end-use, provides recommendations on cost-effective weatherization measures, and offers tips on energy-efficient practices and natural gas appliance maintenance. Demand for energy audits has increased in recent years and additional funds have been allocated to this program to the extent available. More than 3,000 on-site residential audits were funded in 2011.

NorthWestern Energy *electric baseload-only customers (no space heat or water heat fuels delivered by NorthWestern Energy)* are offered a separate audit service. The E+ Energy Survey is a mail-out audit for baseload customers consisting of a survey mailed to residential customers with specific consumption profiles. Customers complete and return the survey; they receive a report similar to the on-site E+ Audit report. In addition to breaking out the historical energy usage by appliance end-use, the report includes customer-specific recommendations for appliance usage in the customer's home. General weatherization and water heating recommendations are provided. With the combination of the on-site audit, the Free Weatherization program, and the E+ Energy Survey, almost every NorthWestern Energy residential customer has an energy efficiency assessment tool available for their home. While few customers participated in the E+ Energy Survey program in 2011, a campaign to initiate participation was kicked off in January of 2012 with electric USB dollars.

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Customers are provided the opportunity to comment to NorthWestern Energy regarding the E+ Audit for the Home:

- ***“This is a very helpful program and will help us conserve energy and be safer using gas.”***
- ***“Love the Service! Great advice and tips!”***
- ***“I encouraged everyone at work to step up and do an audit.”***
- ***“Glad I had it done. Gave helpful advice and showed me exact areas I could improve my energy efficiency. Will recommend this audit to friends—it was very helpful. Thank you.”***

The E+ Energy Appraisal Program for Businesses focuses on identifying electric conservation opportunities for commercial customers on NorthWestern Energy’s electric distribution system with a primary emphasis on smaller, “main street” businesses. In addition to the obvious lighting efficiency opportunities, many small businesses benefit from a greater understanding of where their energy dollar is going within their operation and the significance maintenance plans can have on their energy use and bills. More than 275 commercial facilities were evaluated through this program offering with 2011 USB funding.

Efficiency Plus (E+) Business Partners Program-New/Retrofit/Irrigation

Most of the NorthWestern Energy’s E+ Business Partners Program activity is funded as DSM through electric supply rates. Irrigation projects and those electric commercial non-Large Customers in Choice may qualify for the USB-funded portion of the program. Incentives are offered for energy conservation and load management projects in new and retrofit applications. Projects under this program frequently take more than a year to develop and implement.

In 2011, six irrigation efficiency improvement projects were funded and completed with 2011 USB dollars. The remaining nine Business Partners projects incentives were provided commercial electric Choice customers for non-lighting electric efficiency improvements.

Customers qualifying for “Large Customer” USBC are not eligible for this USB funded program.

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Market Transformation – \$344,107

Market Transformation is the process of bringing more energy efficient products, practices, and services into the marketplace with a goal of changing behaviors, practices, standards, and markets in such a way that the market, rather than an interventional program or activity, supports energy efficiency.

Efficiency Plus (E+) Commercial Lighting Rebate Program

As was reported in previous years, the E+ Commercial Lighting Rebate program has largely been transitioned to electric supply DSM funding. Rebates for qualifying lighting measures from electric commercial non-Large Choice customers are funded with as requested. Thirteen projects from this customer group were completed in 2011.

ENERGY STAR[®] and New Homes

Homes built to the Northwest ENERGY STAR standards are on the increase in Montana despite declines in the new housing market. USB funds provide to outreach for the Northwest ENERGY STAR homes program including builder and verifier training and program promotion continues to be funded as a USB market transformation program. Additionally, USB funds were used to provide training and develop educational information related to Montana's adoption of the 2009 Energy Code for builders, trade allies and the general public.

Motor Management and Building Operator Certification Training

Training and education are important components in moving customers to more energy efficient products and practices that provide benefits to NorthWestern Energy's customers. These two market transformation activities provide quality, regionally and nationally recognized training sessions to qualifying customers and trade allies at little or no cost to participants. These activities help support other electric energy efficiency programs of NorthWestern Energy.

Regional Market Transformation

NorthWestern Energy has directed 2011 market transformation funds to regional collaborative and training efforts. In particular for 2011, Variable Frequency Drive (VFD) and Key Performance Indicator training was offered targeting education to smaller industrial customers of energy management opportunities in their facilities. Additionally, NorthWestern Energy, along with the Montana Department of Environmental Quality, and the Northwest Energy Efficiency Alliance's (NEEA's) BetterBricks organized a conference for commercial customers and the energy services community that support them. The conference included more than 25 training and information sessions on commercial energy efficiency topics and included recognition of the 2011 Montana BetterBricks Award winners.

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***Renewable Resources, and
Research and Development--\$1,569,864***

Renewable energy development as a public purpose category was initiated with the Universal System Benefits programs in NorthWestern Energy's service territory in 1999. The Research and Development activities funded in 2011 were tied to renewable resources, so the two categories have been combined for this discussion. Costs for the separate categories are broken out in the appendices. Projects that maximize the partnering of funding and/or benefits are encouraged.

There are now more than 850 net-metered renewable generators in the NorthWestern Energy service territory and nearly all received USB funds. Additionally, through the years, USBC has provided funding toward projects without net-metering, most notably for some solar thermal systems and one biomass project. Solar Photovoltaic (PV) projects represent the majority of USB funded projects.

There were about 120 projects completed in 2011, with a majority of these projects funded with 2010 dollars. Most projects completed in 2011 were installed on private residences. Six low income residences received systems. A handful of PV systems were installed at fire stations and schools, locations which increase awareness of solar generation in public or non-profit settings. At schools, the systems provide an educational opportunity for students to learn about the capabilities of renewable generation. At fire stations, the PV systems include a battery storage to provide backup power for public safety. The size of systems installed on schools and fire stations ranged between 2 and 4.5 kW.

Additional projects completed in 2011 with funds from previous years are noted in the Addendums to the 2008, 2009, and 2010 reports.

The following table summarizes renewable projects that have received USB funding and were completed by the end of 2011.

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USB Renewable Projects 1999-2011		
Facility Type	#	KW
Commercial Projects	34	186.28
Fire Stations	35	77.91
Irrigation Projects	5	102.80
Low Income	50	147.17
Non-Profit Projects	33	77.07
Private Residences	527	1315.22
Schools	59	223.72
Other Public Buildings	16	232.20
Biomass	1	750.00
Solar Thermal	19	NA
Biodiesel	2	15.00

NorthWestern Energy has instituted safety and experience qualification requirements for solar PV and small-scale wind installers. Since 2009, installers receiving USB Renewable Resources funds must meet safety and experience requirements. At the end of 2011, 22 businesses met the solar PV qualification requirements and five businesses met the small-scale wind qualification requirements. These installers are listed on NorthWestern Energy's website. Installers are added to the listing as they meet the requirements.

USB funds are used in partnership with the Montana Renewable Energy Association (MREA) and the Occupational Safety and Health Administration (OSHA) to provide safety training to installers of small renewable generation systems. NorthWestern Energy sponsored a three-day conference in Helena in the fall of 2011. This conference covered a variety of topics including, OSHA electrical safety, Four Hazards Training, Fall Protection, and NFPA 70E. Additional training for installers has been committed to for 2012. The qualified installers, as well as several program contractors, provide education, project development services and rebates to residential and commercial customers. Seminars, tours, workshops and exhibits for individuals interested in renewable energy technologies and sustainable building practices continue to be funded.

NorthWestern Energy initiated the E+ Green Power program in 2003. Through this program, customers may elect to purchase the environmental benefits associated with renewable energy generated in the Northwest and Wyoming. USB funds have been used to support the marketing of the program and revenues that are greater than expenses are returned to the Renewable Resources category and directed to other renewable projects. In 2011, funds were returned to the renewable energy category. Customer interest in this program has been sustained; the majority of participating

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customers are homeowners, but the majority of the renewable energy credits (RECs) are sold to a handful of commercial accounts.

NorthWestern Energy continues to consult with its USB Renewable Advisory Subcommittee regarding allocations of Renewable Resources and Research and Development funds and works to maintain a mix of projects with diverse geographic distribution, and to a mix of public, non-profit, and private electric customers.

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Conclusion

In every year since the inception of USB, NorthWestern Energy's activities have covered all public purpose categories—Low Income, Local Conservation, Market Transformation, Renewable Resources and Research and Development, and, the offerings have included all customers—low income, senior citizens, and other residential customers; main street businesses, schools and also government, office buildings, irrigation, and small industrial companies (with the exception of the Large Customers, who may self-direct USB funds).

Programs and funding activities continue to be coordinated by NorthWestern Energy staff with much of the implementation work being performed by others. The Free Weatherization Program is a cooperative effort between NorthWestern Energy, MDPHHS, and the local HRCs. The HRCs also qualify customers for the utility's bill discount, free weatherization and emergency bill assistance through Energy Share.

NorthWestern Energy collects the natural gas USBC from its customers and implements Low Income bill assistance and weatherization, and residential conservation activities. MPSC Order No. 6679e recognizes and allows for the pooling of electric and natural gas USB funds for residential on-site audits, Free Weatherization for low income customers, and emergency assistance through Energy Share of Montana. The natural gas USB activities are funded and implemented consistent with law and MPSC direction. Additional cost-effective energy efficiency, demand side management (DSM), programs for NorthWestern Energy customers are funded through electric and natural gas supply rates as part of NorthWestern Energy's supply portfolios.

Addendums for the years 2008, 2009, and 2010 are included to provide an update of funded USB activities that were completed this past year.

Find out more about NorthWestern Energy USB programs by visiting www.northwesternenergy.com/eplus in the Montana sections under "At Home" and "At Work".

For further information regarding this report, please contact:

Regulatory Support Services
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Butte, MT 59701
Phone: 406 497-2491
FAX: 406 497-2084
e-mail: E+Programs@northwestern.com

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Appendices 1-4



	USBC kWh (Load)	USBC Revenue By Class	% of USB Revenue By Class
Residential			
Residential	2,396,491,743	\$ 3,194,632	34%
General Service			
GS-1/GS-2 < 1000 kW	2,752,154,165	\$ 3,124,624	33%
Irrigation	77,588,989	\$ 88,053	1%
Lighting	61,984,450	\$ 211,130	2%
Total Non-Large Customer	5,288,219,347	\$ 6,618,439	71%
Large Customer			
GS-1/GS-2 > 1000 kW and Special Contracts	3,284,518,701	\$ 2,748,767	29%
Total Large Customer	3,053,563,932	\$ 2,748,767	29%
Total USBC	8,341,783,279	\$ 9,367,206	100%

Note: The Residential class includes income-qualified customers receiving the 25% Low-Income discount from November 1st - April 30th and the 15% Low-Income discount from May 1st - October 31st. The discount is applied to the total bill, including the Universal System Benefits Charge. The percentage for the Total Non-Large Customer revenues does not equal the sum of the subtotals due to rounding.

	Revenue Allocation		Spent in 2011	Contracted - Complete 2012	Allocation & Expenses
	per Order 6679e	Reallocation ^(a)			
Local Conservation	1,115,130	367,965	1,083,095	400,000	1,483,095
E+ Residential Audit/Sm. Comm Audit			878,135	400,000	1,278,135
E+ Business Partners / Irrigation Projects			121,103	-	121,103
Promotion			49,010	-	49,010
Labor			30,596	-	30,596
Admin. Non-labor			4,677	-	4,677
Interest Income			(426)	-	(426)
Local Conservation Summary			1,083,095	400,000	1,483,095
Market Transformation	712,071	(367,965)	336,268	7,839	344,107
E+ Commercial Lighting			167,173	-	167,173
Motor Management Training			9,838	-	9,838
Energy Star Homes			39,328	-	39,328
Building Operator Certification			28,821	6,727	35,548
Commercial Industrial Training & Conference			38,945	1,112	40,057
Promotion			33,355	-	33,355
Labor			18,381	-	18,381
Admin. Non-labor			699	-	699
Interest Income			(272)	-	(272)
Market Transformation Summary			336,268	7,839	344,107
Renewable Resources	1,275,320	(31,652)	97,328	1,146,341	1,243,669
Generation/Education			58,985	1,146,341	1,205,326
Green Power Product			(11,935)	-	(11,935)
Promotion			4,314	-	4,314
Labor			46,000	-	46,000
Admin. Non-labor			451	-	451
Interest Income			(487)	-	(487)
Renewable Resources Summary			97,328	1,146,341	1,243,669
Research & Development	294,543	31,652	12,381	313,814	326,195
R&D/ Infrastructure			4,550	313,814	318,364
Promotion			808	-	808
Labor			7,039	-	7,039
Admin. Non-labor			96	-	96
Interest Income			(113)	-	(113)
Research & Development Summary			12,381	313,814	326,195
Low Income	3,221,373	-	3,042,426	178,947	3,221,373
Bill Assistance			2,927,723	-	2,927,723
Free Weatherization			267,909	178,947	446,856
Elec Wx Incentives			26,638	-	26,638
Fuel Switch Analyses			2,000	-	2,000
Energy Share			101,584	-	101,584
Promotion			6,176	-	6,176
Labor			33,610	-	33,610
Admin. Non-labor			1,231	-	1,231
2009 Low Income Reallocated to 2011 ^(b)			(323,215)	-	(323,215)
Interest Income			(1,231)	-	(1,231)
Low Income Summary			3,042,426	178,947	3,221,373
Large Customer	2,748,767	(0)	2,116,233	632,534	2,748,767
Self-Directed Energy Reduction			2,003,446	624,991	2,628,437
Self-Directed to Low Income			102,068	-	102,068
NWE Reallocate to Energy Share			-	7,543	7,543
Labor			11,769	-	11,769
Admin. Non-labor			-	-	-
Interest Income			(1,050)	-	(1,050)
Large Customer Summary			2,116,233	632,534	2,748,767
Unallocated	-	-	-	-	-
Totals	9,367,205	(0)	6,687,730	2,679,475	9,367,205
2011 USB Revenues less Expenses and Contractual Commitments					-

^(a) Allocations have been adjusted between Market Transformation and Local Conservation; and, between Research and Development and Renewable Generation consistent with past practice.

^(b) 2009 Low Income funds unspent upon completion of the Low Income Appliance Replacement Program were reallocated to meet the overall 2011 low income funding obligations.

2011 USB FUNDING AND EXPENDITURE SUMMARY

USB Category	Allocation of 2011 funds based on Order 6679e	Percentage by Category	Allocation of 2011 funds	Percentage by Category	Allocation w/Lrg Cust funds self-directed to LI ^(a)	Percentage by Category	Total Electric USB Funds Spent in 2011	2011 Electric USB Funds Contracted to Spend in 2012 ^(b)
Local Conservation	\$ 1,115,130	12%	\$ 1,483,095	16%	\$ 1,483,095	16%	\$ 1,083,095	\$ 400,000
Market Transformation	\$ 712,071	8%	\$ 344,107	4%	\$ 344,107	4%	\$ 336,268	\$ 7,839
Renewables	\$ 1,275,320	14%	\$ 1,243,669	13%	\$ 1,243,669	13%	\$ 97,328	\$ 1,146,341
Research & Development	\$ 294,543	3%	\$ 326,195	3%	\$ 326,195	3%	\$ 12,381	\$ 313,814
Low Income	\$ 3,221,373	34%	\$ 3,221,373	34%	\$ 3,330,984	36%	\$ 3,042,426	\$ 178,947
Large Customer	\$ 2,748,767	29%	\$ 2,748,767	29%	\$ 2,639,156	28%	\$ 2,116,233	\$ 632,534
	\$ 9,367,205	100%	\$ 9,367,205	100%	\$ 9,367,205	100%	\$ 6,687,730	\$ 2,679,475

2011 LOW-INCOME FUNDING SUMMARY

Low-Income Category	
Bill Assistance	\$ 2,927,723
Free Weatherization	\$ 267,909
Elec Wx Incentives	\$ 26,638
Fuel Switch Analysis	\$ 2,000
Energy Share	\$ 101,584
NWE Promotion	\$ 6,176
NWE Labor	\$ 33,610
NWE Admin. Non-labor	\$ 1,231
USB Interest & Svc Chg	\$ (1,231)
Self-Directed Large Customer	\$ 102,068
Electric USB sources + \$144,268 of reallocated 2009 Low-Income funds:	\$ 3,467,709
Reallocated 2009 Low-Income funds:	\$ (144,268)
Low-Income USB Funding from all 2011 Electric USB sources:	\$ 3,323,441
Low-Income share of 2011 Electric USB Revenues:	35%

2011 ELECTRIC USB PARTICIPATION SUMMARY

Electric USB Activity by Category	Quantity	Units
Conservation		
Residential Onsite Audits	3,023	homes
Residential Mail out Audits	26	homes
Business Appraisals	276	businesses
Business Partners / Irrigation	15	projects
Market Transformation		
Commercial Lighting	13	projects
NWE Building Operator Certification	28	people
Motor Training	107	people
Vendor Miser	-	units
Energy Star Builder Training	125	people
Renewables		
Generation / Education	7	projects
Research & Development		
Renewable Energy Seminars/Workshops	-	attendees
Low-Income		
Bill Assistance	15,018	households
Free Weatherization	663	homes
Energy Share	1,328	households

2011 ENERGY SAVINGS & RENEWABLE RESOURCES ESTIMATES

	Savings & Resources acquired in 2011 w/ 2011 \$		
	aMW	MWH	MW
Local Conservation	0.2381	2,086	0.432
Market Transformation	0.1707	1,495	0.259
Renewables	0.0031	27	0.021
Research & Development	NA	NA	NA
Low Income	0.0241	212	0.086
Large Cust - Low Income	NA	NA	NA
Large Customer ^(c)	NA	NA	NA
	0.4361	3,820	0.797

	Projected Savings & Resources to acquire in 2012 w/ 2011 \$ (d)		
	aMW	MWH	MW
Local Conservation	0.0313	274	0.058
Market Transformation	-	-	-
Renewables	0.0245	214	0.163
Research & Development	NA	NA	NA
Low Income	0.0161	141	-
Large Cust - Low Income	NA	NA	NA
Large Customer ^(c)	NA	NA	NA
	0.0719	630	0.222

Total Savings & Resources	0.5080	4,450	1.019
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^(a) Large Customers may self-direct their USB dollars to energy saving and renewable activities in their own facilities, or to Low-Income activities. In 2011, Large Customers self-directed a total of \$102,068 to Low-Income.

^(b) Low Income funding represents the balance of 2009 Low Income funds after the 2011 funding obligations had been met. \$323,215 of 2009 Low Income electric USB funds remained after the completion of the Low Income Appliance Replacement Program and were reallocated to 2011 Low Income obligations. \$144,268 covered the 2011 obligations with the balance of \$178,947 committed to the 2012 Free Weatherization Program.

^(c) Large Customer energy savings estimates are reported by individual large customers and are not available in this report.

^(d) Projected Savings & Resources are based on contracts that were in place at the end of 2011. Actual results will be reported in 2012.

Annual Electric USB Allocation

Original Allocation per D97.7.90, Order 5986g (a)

	% by Category	\$ by Category
Local Conservation	20%	1,704,748
Market Transformation	13%	1,069,860
Renewables	12%	1,051,686
Research & Development	3%	212,437
Low-income	21%	1,866,219
Large Customers	31%	2,981,806
	100%	8,886,756

Current Allocation per D2005.6.106, Order 6679e (a)

	% by Category	\$ by Category
Local Conservation	11.37%	1,079,000
Market Transformation	7.26%	689,000
Renewables	13.00%	1,234,000
Research & Development	3.00%	285,000
Low-income	32.84%	3,117,000
Large Customers	32.52%	3,087,000
	100%	9,491,000

Historic Allocation of Electric USB Funds (b)

Year	Total Electric USB Funds	Large Customers	Low Income (c)	Supplemental Low Income (d)	Total Low Income	USB Categories						
						Conservation	Market Transformation	Renewables	Research & Development	Irrigation		
1999	7,789,477	2,715,626	1,666,669	-	1,666,669	1,622,585	721,031	654,449	409,117	-		
2000	8,631,017	2,942,611	1,287,513	525,000	1,812,513	1,461,945	1,140,529	1,070,900	202,519	-		
2001	8,200,995	2,469,907	1,294,533	500,000	1,794,533	1,660,401	852,251	1,113,545	64,328	246,030		
2002	8,237,435	2,437,538	1,863,220	-	1,863,220	1,439,131	950,714	864,334	188,252	494,246		
2003	8,522,939	2,543,165	1,966,700	725,604	2,712,304	1,142,524	1,077,120	916,703	114,849	16,274		
2004	8,886,755	2,965,994	2,247,698	-	2,247,698	1,573,264	1,094,692	860,226	144,881	-		
2005	9,018,197	3,046,997	2,387,502	586,394	2,973,896	1,446,761	586,332	838,336	125,876	-		
2006	9,340,465	3,049,832	3,858,505	-	3,858,505	1,482,096	77,023	812,829	110,296	-		
2007	9,410,198	3,063,311	4,170,445	-	4,170,445	1,315,910	77,023	673,328	110,179	-		
2008	9,625,630	3,145,276	3,408,329	-	3,408,329	1,866,896	136,441	974,290	94,396	-		
2009	9,361,818	2,897,568	3,146,326	-	3,146,326	1,340,555	444,078	1,362,237	171,054	-		
2010	9,191,653	2,740,669	3,139,869	-	3,139,869	1,579,218	201,753	1,193,053	337,091	-		
2011	9,367,205	2,748,767	3,221,373	-	3,221,373	1,483,095	344,107	1,243,669	326,195	-		
	115,583,785	36,767,260	33,678,681	2,336,999	36,015,680	19,414,381	7,652,978	12,577,900	2,399,034	756,549		

Allocation as % of Revenue by Category	100%	32%		31%	17%	7%	14%	2%	1%
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Allocation as % of Revenues, excluding Large Customer Revenues	100%		46%	25%	10%	16%	3%	1%
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(a) SB 390 required that utilities collect 2.4% of their 1995 electric revenues to fund approved USB activities, and direct 17% of the total to the low income category. The allocation set forth by MPSC in Order 5986g increased NorthWestern Energy's low-income requirement to 21% of total revenues. While this adjustment did not affect the allocation for Large Customers, it effectively reduced the amount of USB funds available for other USB categories. In December 2008 MPSC issued Order 6679e, which reallocated funds as shown above.

(b) The historic allocation table illustrates the expenditure or direction of electric USB by category from 1999 through 2011.

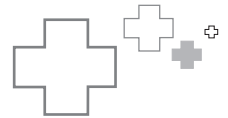
(c) This column summarizes all funds reallocated to low-income activities by NorthWestern Energy, except those noted in (d). In addition to funds reallocated by NorthWestern Energy, Large Customers have self-directed \$1,980,590 to low-income activities since 1999.

(d) 2003 Supplemental low income funds reallocated based on a recommendation from the Governor's Energy Consumer Protection Taskforce, and MPSC Order 6514. 2005 Supplemental low-income funds reallocated based on a stipulation reached between NWE, District XI HRC, AARP, RNP & NRDC in Docket D2004.6.90, Order 6574c.

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**NorthWestern Energy
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2011 Annual Report**



ADDENDUM 2010 REPORT



**ADDENDUM
to the
2010 Report**



The 2010 NorthWestern Energy USBC revenues totaled \$9,191,653. Of this \$7,182,421 was spent on projects completed in 2010 and \$1,682,030 on projects completed in 2011, leaving a balance of \$327,202 of projects to complete in 2012.

The projects associated with \$1,682,030 of 2010 USB funds, including \$542,685 Large Customer self-directed activities, were completed in 2011. The results are included in Appendix 2 of this addendum. Included in the 2011 expenditures, NorthWestern Energy reallocated \$23,028 of unspent Large Customer 2010 funds to Energy Share of Montana for energy emergencies of NorthWestern customers. The reallocation of unspent Large Customer funds to a Low Income activity is consistent with historic MPSC direction.

NorthWestern Energy requested and was granted extensions from the Department of Revenue as allowed per ARM 49.29.111 for renewable generation and research and development projects totaling \$290,615 for completion in 2012. An additional \$36,586 in unspent Large Customer 2010 funds has been identified and NorthWestern Energy will reallocate these funds to a Low Income activity in 2012.

Updated results are provided in the 2010 Addendum in Appendices 2 and 3 (p. 2010-2 and p. 2010-3).

	Revenue Allocation		Spent in 2010	Spent in 2011	Contracted - Complete 2012 ^(b)	Allocation & Expenses
	per Order 6679e	Reallocation ^(a)				
Local Conservation	1,414,916	164,302	1,462,136	117,082	-	1,579,218
E+ Residential Audit/Sm. Comm Audit			1,214,737	117,082	-	1,331,819
E+ Business Partners / Irrigation Projects			120,000	-	-	120,000
NWE Promotion			84,362	-	-	84,362
NWE Labor			42,407	-	-	42,407
NWE Admin. Non-labor			1,561	-	-	1,561
USB Interest & Svc Chg			(931)	-	-	(931)
Local Conservation Summary			1,462,136	117,082	-	1,579,218
Market Transformation	366,055	(164,302)	201,753	-	-	201,753
E+ Commercial Lighting			25,899	-	-	25,899
Motor Management Training			12,873	-	-	12,873
Energy Star Homes			43,947	-	-	43,947
Building Operator Certification			61,219	-	-	61,219
Regional Market Transformation			12,060	-	-	12,060
NWE Promotion			17,904	-	-	17,904
NWE Labor			18,983	-	-	18,983
NWE Admin. Non-labor			9,109	-	-	9,109
USB Interest & Svc Chg			(241)	-	-	(241)
Market Transformation Summary			201,753	-	-	201,753
Renewable Resources	1,243,054	(50,000)	377,855	617,270	197,928	1,193,053
Generation/Education			340,862	617,270	197,928	1,156,060
Green Power Product Offering			(34,573)	-	-	(34,573)
NWE Promotion			4,654	-	-	4,654
NWE Labor			66,865	-	-	66,865
NWE Admin. Non-labor			863	-	-	863
USB Interest & Svc Chg			(817)	-	-	(817)
Renewable Resources Summary			377,855	617,270	197,928	1,193,053
Research & Development	287,091	50,000	57,864	186,540	92,687	337,091
R&D/ Infrastructure			49,686	186,540	92,687	328,913
NWE Promotion			1,876	-	-	1,876
NWE Labor			6,292	-	-	6,292
NWE Admin. Non-labor			199	-	-	199
USB Interest & Svc Chg			(189)	-	-	(189)
Research & Development Summary			57,864	186,540	92,687	337,091
Low Income	3,139,869	-	2,944,444	195,425	-	3,139,869
Bill Assistance			2,641,573	-	-	2,641,573
Free Weatherization			-	195,425	-	195,425
Elec Wx Incentives			7,309	-	-	7,309
Fuel Switch Analyses			1,500	-	-	1,500
Energy Share			239,000	-	-	239,000
NWE Promotion			9,742	-	-	9,742
NWE Labor			44,714	-	-	44,714
NWE Admin. Non-labor			2,670	-	-	2,670
USB Interest & Svc Chg			(2,065)	-	-	(2,065)
Low Income Summary			2,944,444	195,425	-	3,139,869
Large Customer	2,740,668	-	2,138,370	565,713	36,586	2,740,669
Self-Directed Energy Reduction			1,970,421	511,315	-	2,481,736
Self-Directed to Low Income			156,734	31,369	-	188,104
USB Interest & Svc Chg			(1,802)	-	-	(1,802)
-NWE Labor			13,016	-	-	13,016
-NWE Admin. Non-labor			-	-	-	-
-NWE Reallocate to Energy Share			-	23,028	36,586	59,614
Large Customer Summary			2,138,370	565,713	36,586	2,740,669
Unallocated	-	-	-	-	-	-
Totals	9,191,653	-	7,182,421	1,682,030	327,202	9,191,654
2010 USB Revenues less Expenses and Contractual Commitments						-

^(a) Allocations have been adjusted between Market Transformation and Local Conservation; and, between Research and Development and Renewable Generation consistent with past practice.

^(b) 2010 funds have been granted time extensions for completion in 2012 by the Department of Revenue. Unspent Large Customer funds are reallocated by NWE to Low Income per historic direction.

PROJECTS COMPLETED IN 2011 WITH 2010 FUNDS

Energy Savings & Renewable Resource Estimates			
USB Category	Projects Completed in 2011 with 2010 USB \$		
	aMWH	MWH	MW
Local Conservation	0.0194	170	0.039
Market Transformation	-	-	-
Renewables	0.0421	369	0.293
Research & Development	NA	NA	NA
Low Income	0.0176	154	-
Large Customer	NA	NA	NA
	0.0792	694	0.331
Program Participation Summary			
USB Category / Program Segment	Quantity	Units	
Conservation			
Residential Onsite Audits	403	homes	
Residential Mail out Audits	3	homes	
Business Appraisals	37	businesses	
Business Partners	-	projects	
Market Transformation			
Commercial Lighting	-	projects	
NWE Building Operator Certification	-	people	
Vendor Miser	-	vending machines	
Motor Training	-	people	
Energy Star Builder Training	-	people	
Renewables			
Generation / Education	84	projects	
Research & Development			
Renewable Energy Seminars/Workshops	503	attendees	
Low-Income			
Bill Assistance	-	households	
Free Weatherization	82	homes	
Energy Share	-	households	

TOTAL OF PROJECTS COMPLETED WITH 2010 FUNDS

Energy Savings & Renewable Resource Estimates			
USB Category	Total Projects Completed with 2010 USB \$		
	aMWH	MWH	MW
Local Conservation	0.2499	2189	0.482
Market Transformation	0.3438	3012	0.054
Renewables	0.0509	446	0.311
Research & Development	NA	NA	NA
Low Income	0.0176	154	0.000
Large Customer	NA	NA	NA
	0.6623	5802	0.846
Program Participation Summary			
USB Category / Program Segment	Quantity	Units	
Conservation			
Residential Onsite Audits	4,009	homes	
Residential Mail out Audits	2,342	homes	
Business Appraisals	262	businesses	
Business Partners	12	projects	
Market Transformation			
Commercial Lighting	2	projects	
NWE Building Operator Certification	65	people	
Vendor Miser	45	vending machines	
Motor Training	52	people	
Energy Star Builder Training	484	people	
Renewables			
Generation / Education	102	projects	
Research & Development			
Renewable Energy Seminars/Workshops	800	attendees	
Low-Income			
Bill Assistance	15,291	households	
Free Weatherization	773	homes	
Energy Share	1,178	households	

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**NorthWestern Energy
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2011 Annual Report**

ADDENDUM 2009 REPORT

**ADDENDUM
to the
2009 Report**



The 2009 NorthWestern Energy USBC revenues totaled \$9,361,818. Of this \$6,502,172 was spent on projects completed in 2009, \$2,130,902 on projects completed in 2010, \$644,648 in 2011, leaving a balance of \$84,096 of projects to complete in 2012. Extensions of time for use of these funds leading into 2012 was granted by the Department of Revenue (DOR) as allowed per ARM 49.29.111 The results are included in Appendix 2 of this addendum.

Of the expenditures in 2011 of 2009 funds, \$517,802 was directed to low income activities.

Unspent Large Customer Funds

\$52,688 of unspent Large Customer funds were reallocated by NorthWestern Energy to the Energy Share of Montana endowment for future energy emergencies of NorthWestern customers. The reallocation of unspent Large Customer funds to a Low Income activity is consistent with historic MPSC direction.

Free Weatherization

As previously reported, workflow challenges as associated with the influx of American Recovery and Reinvestment Act (ARRA) funds resulted in 2009 Free Weatherization funds remaining and being carried forward to support the 2011 Free Weatherization program. \$31,107 of 2009 funds were included in the mix of electric and natural gas USB funds supporting the 2011 Free Weatherization program contract with the Montana Department of Public Health and Human Services.

Low Income Appliance Replacement Program

Energy Share of Montana implemented through the local Human Resource Councils (HRCs) the Low Income Appliance Replacement Program to which 2009 Low Income electric USB had previously been committed. This program resulted in 130 qualifying low income customers receiving ENERGY STAR[®] qualified refrigerators as replacements for refrigerators manufactured in 1994 or earlier. The older refrigerators use more than twice as much electricity as an ENERGY STAR model of the same size and with the same features and are generally the largest electricity user in the qualifying customer's home. The replacement of the older refrigerators allowed for a significant reduction in electricity usage for the life of the new refrigerator. Low income homeowners were extended this program offering based upon LIEAP eligibility over a

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span of time, past weatherization participation, and age of their existing refrigerator. Multiple outreach efforts were completed to identify participants with the HRCs verifying customer eligibility through on-site visits. If qualifications were met and the customer was agreeable, the HRC arranged for the delivery of the ENERGY STAR refrigerator along with the removal and disablement and disposal of the old refrigerator. Fewer eligible customers had older refrigerators than anticipated. Funding for this activity required \$110,882. The remaining \$323,215 was reallocated by NorthWestern Energy to 2011 low income activities to cover the funding shortfall in that category. Significant demands on the 2011 electric bill discount along with meeting the other low income obligations as defined in Order 6679e required additional funds.

Market Transformation

Progress was made on the two market transformation projects to which 2009 funds have been previously been committed. More than \$14,000 of work was completed in 2011 and it is anticipated that the final work and reports associated with these pilot effort will be completed in 2012.

Renewable Generation

More than \$112,000 of renewable generation projects associated with 2009 renewable generation funds were completed in 2011.

NorthWestern Energy requested and was granted extensions from DOR for completion of the two market transformation projects totaling \$71,794 and renewable generation projects totaling \$12,302 for completion in 2012.

Updated results are provided in the 2009 Addendum in Appendices 2 and 3 (p. 2009-3 and p. 2009-4).

	Revenue Allocation		Spent in 2009	Spent in 2010	Spent in 2011 ^(b)	Contracted - Complete 2012 ^(c)	Allocation & Expenses
	per Order 6679e	Reallocation ^(a)					
Local Conservation	1,089,151	251,404	1,288,353	52,202	-	-	1,340,555
E+ Residential Audit/Sm. Comm Audit			1,034,850	52,202	-	-	1,087,052
E+ Business Partners / Irrigation Projects			161,760	-	-	-	161,760
NWE Promotion			43,954	-	-	-	43,954
NWE Labor			36,680	-	-	-	36,680
NWE Admin. Non-labor			11,786	-	-	-	11,786
USB Interest & Svc Chg			(676)	-	-	-	(676)
Local Conservation Summary			1,288,353	52,202	-	-	1,340,555
Market Transformation	695,482	(251,404)	189,522	168,289	14,474	71,794	444,078
E+ Commercial Lighting			-	-	-	-	-
Motor Management Training			14,087	-	-	-	14,087
Energy Star Homes			41,724	-	-	-	41,724
Building Operator Certification			57,496	-	-	-	57,496
Distribution Efficiency Initiative			4,200	-	7,011	48,789	60,000
Regional Market Transformation			29,527	118,320	7,432	23,005	178,284
DEQ Appliance Replacement Program			-	49,969	31	-	50,000
NWE Promotion			23,207	-	-	-	23,207
NWE Labor			18,542	-	-	-	18,542
NWE Admin. Non-labor			1,170	-	-	-	1,170
USB Interest & Svc Chg			(432)	-	-	-	(432)
Market Transformation Summary			189,522	168,289	14,474	71,794	444,078
Renewable Resources	1,245,610	116,627	318,361	919,202	112,372	12,302	1,362,236
Generation/Education			275,361	919,202	112,372	12,302	1,319,237
Green Power Product Offering			(17,982)	-	-	-	(17,982)
NWE Promotion			11,143	-	-	-	11,143
NWE Labor			49,311	-	-	-	49,311
NWE Admin. Non-labor			1,300	-	-	-	1,300
USB Interest & Svc Chg			(774)	-	-	-	(774)
Renewable Resources Summary			318,361	919,202	112,372	12,302	1,362,236
Research & Development	287,681	(116,627)	23,704	147,350	-	-	171,054
R&D/ Infrastructure			16,000	147,350	-	-	163,350
NWE Promotion			2,296	-	-	-	2,296
NWE Labor			5,286	-	-	-	5,286
NWE Admin. Non-labor			300	-	-	-	300
USB Interest & Svc Chg			(179)	-	-	-	(179)
Research & Development Summary			23,704	147,350	-	-	171,054
Low Income	3,146,325	-	2,447,608	233,605	465,114	-	3,146,326
Bill Assistance			2,137,133	-	-	-	2,137,133
Free Weatherization			-	233,605	31,017	-	264,622
Elec Wx Incentives			12,985	-	-	-	12,985
Fuel Switch Analyses			400	-	-	-	400
Energy Share			239,000	-	-	-	239,000
Appliance Replacement Program			-	-	110,882	-	110,882
NWE Promotion			15,723	-	-	-	15,723
NWE Labor			40,588	-	-	-	40,588
NWE Admin. Non-labor			3,733	-	-	-	3,733
2009 Low Income Reallocated to 2011 ^(b)			-	-	323,215	-	323,215
USB Interest & Svc Chg			(1,954)	-	-	-	(1,954)
Low Income Summary			2,447,608	233,605	465,114	-	3,146,326
Large Customer	2,897,568	-	2,234,625	610,255	52,688	-	2,897,568
Self-Directed Energy Reduction			2,166,301	504,715	-	-	2,671,017
Self-Directed to Low Income			58,650	71,205	-	-	129,855
USB Interest & Svc Chg			(1,799)	-	-	-	(1,799)
-NWE Labor			11,473	-	-	-	11,473
-NWE Admin. Non-labor			-	-	-	-	-
-NWE Reallocate to Low-Income			-	34,335	52,688	-	34,335
Large Customer Summary			2,234,625	610,255	52,688	-	2,844,880
Unallocated	-	-	-	-	-	-	-
Totals	9,361,818	-	6,502,172	2,130,902	644,648	84,096	9,361,819
2009 USB Revenues less Expenses and Contractual Commitments							-

^(a) Allocations have been adjusted between Market Transformation and Local Conservation; and, between Research and Development and Renewable Generation consistent with past practice.

^(b) The Low-Income Appliance Replacement program required \$110,882 and the remaining Low Income funds of \$323,215 were reallocated to 2011 electric Low-Income obligations.

^(c) 2009 funds have been granted time extensions for completion in 2012 by the Department of Revenue.

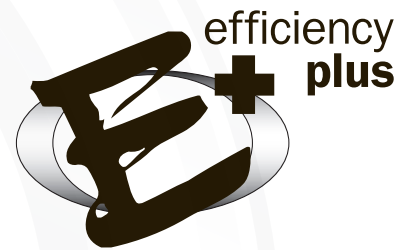
PROJECTS COMPLETED IN 2011 WITH 2009 FUNDS

Energy Savings & Renewable Resource Estimates			
USB Category	Projects Completed in 2011 with 2009 USB \$		
	aMWH	MWH	MW
Local Conservation	-	-	-
Market Transformation	0.01	56	-
Renewables	0.0132	116	0.088
Research & Development	NA	NA	NA
Low Income	0.0042	37	-
Large Customer	NA	NA	NA
	0.0238	209	0.088
Program Participation Summary			
USB Category / Program Segment	Quantity	Units	
Conservation			
Residential Onsite Audits	-	homes	
Residential Mail out Audits	-	homes	
Business Appraisals	-	businesses	
Business Partners	-	projects	
Market Transformation			
Commercial Lighting	-	projects	
NWE Building Operator Certification	-	people	
Vendor Miser	-	vending machines	
Motor Training	-	people	
Energy Star Builder Training	-	people	
Renewables			
Generation / Education	18	projects	
Research & Development			
Renewable Energy Seminars/Workshops	-	attendees	
Low-Income			
Bill Assistance	-	households	
Free Weatherization	13	homes	
Appliance Replacement	130	units	
Energy Share	-	households	

TOTAL OF PROJECTS COMPLETED WITH 2009 FUNDS

Energy Savings & Renewable Resource Estimates			
USB Category	Total Projects Completed with 2009 USB \$		
	aMWH	MWH	MW
Local Conservation	0.2468	2,162	0.522
Market Transformation	0.4124	3,613	-
Renewables	0.0886	776	0.593
Research & Development	NA	NA	NA
Low Income	0.0495	434	-
Large Customer	NA	NA	NA
	0.7973	6,985	1.115
Program Participation Summary			
USB Category / Program Segment	Quantity	Units	
Conservation			
Residential Onsite Audits	3,257	homes	
Residential Mail out Audits	2,287	homes	
Business Appraisals	261	businesses	
Business Partners	12	projects	
Market Transformation			
Commercial Lighting	-	projects	
NWE Building Operator Certification	53	people	
Vendor Miser	108	vending machines	
Motor Training	-	people	
Energy Star Builder Training	143	people	
Renewables			
Generation / Education	125	projects	
Research & Development			
Renewable Energy Seminars/Workshops	464	attendees	
Low-Income			
Bill Assistance	12,772	households	
Free Weatherization	771	homes	
Appliance Replacement	130	units	
Energy Share	954	households	

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**NorthWestern Energy
Universal System
Benefits Activities
2011 Annual Report**

ADDENDUM 2008 REPORT

**ADDENDUM
to the
2008 Report**



In 2008 NorthWestern Energy USBC revenues totaled \$9,625,630. Of this \$7,562,696 was spent on projects completed in 2008, \$1,736,145 completed in 2009, \$204,239 completed in 2010, leaving a balance of \$122,548 of projects for completion in 2011.

In the 2010 addendum to the 2008 report, NorthWestern Energy reported that it had requested and was granted extensions from the Department of Revenue for renewable generation projects for completion in 2011. This work was completed. An additional \$6,602 of unspent Large Customer funds were identified and along with the \$55,098 unspent Large Customer funds reported in the 2010 Addendum to the 2008 report, were reallocated to Energy Share of Montana for energy emergencies of NorthWestern customers. The total unspent Large Customer 2008 funds reallocated to low income in 2011 was \$61,700. Such reallocation is consistent with historic MPSC direction.

Updated results are provided in the 2008 Addendum in appendices 2 and 3 (p. 2008-2 and p. 2008-3).

	Revenue Allocation		Spent in 2008	Spent in 2009	Spent in 2010	Spent in 2011	Allocation & Expenses
	per Interim Order 6679a	Reallocation ^(a)					
Local Conservation	1,262,612	604,284	1,555,923	310,973	-	-	1,866,896
E+ Residential Audit/Sm. Comm Audit			1,401,177	310,973	-	-	1,712,150
E+ Business Partners / Irrigation Projects			62,350	-	-	-	62,350
NWE Promotion			39,872	-	-	-	39,872
NWE Labor			50,150	-	-	-	50,150
NWE Admin. Non-labor			3,837	-	-	-	3,837
USB Interest & Svc Chg			(1,463)	-	-	-	(1,463)
Local Conservation Summary			1,555,923	310,973	-	-	1,866,896
Market Transformation	114,139	22,302	123,453	12,988	-	-	136,441
E+ Commercial Lighting			-	-	-	-	-
Motor Management Training			11,357	3,643	-	-	15,000
Energy Star Homes			35,237	9,345	-	-	44,582
Building Operator Certification			44,379	-	-	-	44,379
NWE Promotion			15,366	-	-	-	15,366
NWE Labor			17,161	-	-	-	17,161
NWE Admin. Non-labor			86	-	-	-	86
USB Interest & Svc Chg			(132)	-	-	-	(132)
Market Transformation Summary			123,453	12,988	-	-	136,441
Renewable Resources	663,314	310,977	198,224	555,616	153,001	67,449	974,290
Generation/Education			165,526	555,616	153,001	67,449	941,592
Green Power Product Offering			(3,592)	-	-	-	(3,592)
NWE Promotion			5,038	-	-	-	5,038
NWE Labor			31,826	-	-	-	31,826
NWE Admin. Non-labor			195	-	-	-	195
USB Interest & Svc Chg			(768)	-	-	-	(768)
Renewable Resources Summary			198,224	555,616	153,001	67,449	974,290
Research & Development	90,936	3,460	21,898	72,498	-	-	94,396
R&D/ Infrastructure			17,875	72,498	-	-	90,373
NWE Promotion			1,256	-	-	-	1,256
NWE Labor			2,846	-	-	-	2,846
NWE Admin. Non-labor			27	-	-	-	27
USB Interest & Svc Chg			(105)	-	-	-	(105)
Research & Development Summary			21,898	72,498	-	-	94,396
Low Income ^(c)	3,571,063	(162,734)	3,154,950	205,094	48,285	-	3,408,329
Bill Assistance			1,944,818	-	-	-	1,944,818
Free Weatherization			399,313	205,094	48,285	-	652,691
Elec Wx Incentives			12,504	-	-	-	12,504
Fuel Switch Analyses			3,400	-	-	-	3,400
Energy Share			575,000	-	-	-	575,000
2008 Natural Gas USB Shortfall Recovery ^(b)			170,649	-	-	-	170,649
NWE Promotion			11,808	-	-	-	11,808
NWE Labor			39,439	-	-	-	39,439
NWE Admin. Non-labor			3,003	-	-	-	3,003
USB Interest & Svc Chg			(4,982)	-	-	-	(4,982)
Low Income Summary			3,154,950	205,094	48,285	-	3,408,329
Large Customer	3,145,276	(0)	2,508,247	572,376	2,953	61,700	3,145,276
Self-Directed Energy Reduction			2,372,871	496,557	-	-	2,869,428
Self-Directed to Low Income			127,428	31,610	-	-	159,038
USB Interest & Svc Chg			(3,616)	-	-	-	(3,616)
Unspent \$ Reallocated by NWE			-	-	-	-	-
-NWE Labor			11,564	-	-	-	11,564
-NWE Admin. Non-labor			-	-	-	-	-
-NWE Reallocate to Low-Income			-	44,209	2,953	61,700	108,862
Large Customer Summary			2,508,247	572,376	2,953	61,700	3,145,276
Unallocated	778,291	778,291	-	-	-	-	-
Totals	9,625,630	-	7,562,696	1,729,544	204,239	129,149	9,625,630
2008 USB Revenues less Expenses and Contractual Commitments							-

^(a) 2008 electric USB funds were allocated based on the stipulation reached in MPSC Order 6679a issued in November 2005. MPSC Interim Order 6679a required a reallocation of funds between categories to meet low-income program obligations.

^(b) To protect the integrity of the segregated USB cash account, MPSC Interim Order 6679a, 6679b and 6679c authorized NWE to cover natural gas USB revenue shortfalls related to the natural gas low-income discount with surplus electric USB funds.

^(c) 2008 low income funding was adjusted in recognition of a significant increase in funding during 2007. An average of 2007 & 2008 is comparable to the 2006 low income funding as per the MPSC Order 6679a allocation guideline.

PROJECTS COMPLETED IN 2010 WITH 2008 FUNDS

Energy Savings & Renewable Resource Estimates			
USB Category	Projects Completed in 2010 with 2008 USB \$		
	aMW	MWH	MW
Local Conservation	-	-	-
Market Transformation	0.0026	23	0.022
Renewables	NA	NA	NA
Research & Development	-	-	-
Low Income	NA	NA	NA
Large Customer	0.0026	23	0.022
Program Participation Summary			
USB Category / Program Segment	Quantity	Units	
Conservation			
Residential Onsite Audits	-	homes	
Residential Mail out Audits	-	homes	
Business Appraisals	-	businesses	
Business Partners	-	projects	
Market Transformation			
Commercial Lighting	-	projects	
NWE Building Operator Certification	-	people	
Vendor Miser	-	vending machines	
Motor Training	-	people	
Energy Star Builder Training	-	people	
Renewables			
Generation / Education	6	projects	
Research & Development			
Renewable Energy Seminars/Workshops	-	attendees	
Low-Income			
Bill Assistance	-	households	
Free Weatherization	-	homes	
Energy Share	-	households	

TOTAL OF PROJECTS COMPLETED WITH 2008 FUNDS

Energy Savings & Renewable Resource Estimates			
USB Category	Total Projects Completed with 2008 USB \$		
	aMW	MWH	MW
Local Conservation	0.2588	2267	0.504
Market Transformation	0.5349	4686	-
Renewables	0.0445	390	0.360
Research & Development	NA	NA	NA
Low Income	0.0564	494	0.074
Large Customer	NA	NA	NA
	0.8946	7837	0.938
Program Participation Summary			
USB Category / Program Segment	Quantity	Units	
Conservation			
Residential Onsite Audits	3,686	homes	
Residential Mail out Audits	3,151	homes	
Business Appraisals	426	businesses	
Business Partners	4	projects	
Market Transformation			
Commercial Lighting	-	projects	
NWE Building Operator Certification	33	people	
Vendor Miser	6	vending machines	
Motor Training	72	people	
Energy Star Builder Training	39	people	
Renewables			
Generation / Education	112	projects	
Research & Development			
Renewable Energy Seminars/Workshops	551	attendees	
Low-Income			
Bill Assistance	10,966	households	
Free Weatherization	324	homes	
Energy Share	1,155	households	