

NORTHWESTERN CORPORATION AUDIT COMMITTEE CHARTER

PURPOSE

The Audit Committee (the "Committee") of the Board of Directors (the "Board") of NorthWestern Corporation (the "Company") assists the Board in fulfilling its responsibilities for oversight of (a)(i) the Company's accounting and financial reporting processes, (ii) the audits and integrity of the Company's financial statements, (iii) the Company's compliance with legal and regulatory requirements, (iv) the independent auditor's qualifications and independence, and (v) the performance of the Company's internal audit function and independent auditors; (b) preparation of the Committee reports that the rules of the Securities and Exchange Commission (the "SEC") require to be included in the Company's annual proxy statement; (c) significant financings, dividend policy and dividend payment recommendations; and (d) such other duties as directed by the Board. The Committee shall assume and carry out all obligations of an audit committee pursuant to the rules and regulations of the SEC and the listing requirements of the New York Stock Exchange. ("NYSE").

PROCEDURE

The Committee shall meet as often as is deemed necessary by its chairperson or by any two of its members. Participation in meetings by means of conference telephone or similar communications equipment by which all persons participating in the meeting can hear each other, is permissible if done in compliance with the Company's Bylaws. The chairperson, in consultation with the other members of the Committee and appropriate officers of the Company, will establish the agenda for each Committee meeting. The Committee shall cause appropriate minutes to be prepared and preserved with respect to its proceedings and shall report its actions to the next following meeting of the Board.

The Committee may request any officer or other employee of the Company, or any representative of the Company's legal counsel or other advisors, to attend a meeting or to meet with any members or representatives of the Committee. Any member may be excused from a meeting to permit the remaining members to act on any matter in which such member's participation is not appropriate, and such member's absence shall not destroy the quorum for the meeting.

The Committee shall have the authority to retain independent advisors. The Committee also shall have appropriate resources and authority to discharge its responsibilities, including, without limitation, appropriate funding, in such amounts as the Committee deems necessary, for the payment of (i) compensation of the registered public accounting firm engaged for the purpose of issuing the audit report, (ii) compensation for any consultants or any other advisors retained by the Committee, and (iii) ordinary administrative expenses of the Committee. In the performance of its duties, the Committee and its members shall have unrestricted access to management.

ORGANIZATION AND MEETINGS

The membership of the Committee shall consist of not less than three non-employee members of the Board who are "independent" and are able to read and understand financial statements and are financially literate. To be "independent," a Committee member may not:

- (a) accept any consulting, advisory, or other compensatory fee, directly or indirectly, from the Company (except for Board or committee fees);

- (b) be an affiliate of the Company or any of its subsidiaries (except in the capacity as a member of the Board or the committee), as determined in accordance with the rules of the SEC; or
- (c) have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company within the past three years.

In addition, each member shall be an “independent” director, as determined in accordance with (a) the Company’s Corporate Governance Guidelines, (b) the rules of the NYSE, as such requirements are interpreted by the Board in its business judgment, and (c) Section 301 of the Sarbanes-Oxley Act of 2002 and the rules and listing requirements promulgated thereunder by the SEC, including Rule 10A-3 under the Securities Exchange Act of 1934 (the “Exchange Act”), and the NYSE.

The Committee shall have at least one member who has past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background that results in financial sophistication. The Committee also shall seek to have at least one member who is an “audit committee financial expert,” as determined in accordance with the SEC rules; provided that the Committee will not be in violation of its charter if it fails to have a member who is an audit committee financial expert. In discharging this oversight role, the Committee is expected to maintain free and open communication (including private executive sessions at least annually) with the Company’s independent public accounting firm (the “Accountant”) and the management of the Company and shall be empowered to investigate any matter brought to its attention, with full power to retain independent counsel, accountants or others to assist in the conduct of any investigation, at the Company’s expense.

Each Committee member shall receive as compensation from the Company only those forms of compensation as are permitted by Section 301 of the Sarbanes-Oxley Act of 2002 and the rules and listing requirements promulgated thereunder by the SEC and the NYSE. Permitted compensation includes (a) director’s fees (which includes all forms of compensation paid to Directors of the Company for service as a Director or member of a Board committee), and/or (b) fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Company provided that such compensation is not contingent in any way on continued service. Additional fees may be paid to the chairperson of the committee as compensation for the significant time and effort expended in performing the duties as the chairperson.

RESPONSIBILITIES

The Committee’s primary responsibilities are:

Oversight of the Independent Public Accounting Firm

- Appoint, determine the compensation of, retain, and oversee the Accountant engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company. This oversight includes resolution of disagreements, if any, between management and the Accountant regarding financial reporting. In the process, the Committee will discuss and consider the Accountant’s written affirmation that the Accountant is in fact independent pursuant to SEC rules, discuss the nature and rigor of the audit process, receive and review any reports, and provide to the Accountant full access to the Committee (and the Board) to report on any and all appropriate matters. The Committee shall make it clear to the Accountant that the Accountant shall report and be accountable to the Committee.

- At least annually, obtain and review a formal written statement by the Accountant describing: (a) the Accountant's internal quality-control procedures; (b) the material issues raised by the most recent internal quality-control review, or peer review, of the Accountant, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the Accountant, and any steps taken to deal with any such issues; and (c) the relationships between the Accountant and the Company consistent with the applicable requirements of the Public Company Accounting Oversight Board. The Committee shall engage actively in dialogue with the Accountant regarding any disclosed relationships or services that may impact the independence of the Accountant.
- Evaluate the Accountant's qualifications, performance and independence. This evaluation should include the review and evaluation of the lead partner of the Accountant. In making its evaluation, the Committee should take into account the opinions of management and the Company's internal audit personnel. In addition to assuring the regular rotation of the lead audit partner as required by law, the Committee should further consider whether, in order to assure continuing auditor independence, there should be regular rotation of the Accountant itself. The Committee shall present its conclusions with respect to the Accountant to the Board.
- Review and discuss the Accountant's required communications relating to the audit.
- Obtain assurance from the Accountant that in the course of conducting the audit, there have been no acts detected or that have otherwise come to the attention of the Accountant that require disclosure to the Committee under Section 10A(b) of the Exchange Act.
- Consider the appropriateness of any non-audit services provided by the Accountant to the Company. Pre-approve permissible non-audit services and audit, review or attest engagements. The Committee may adopt a pre-approval policy setting forth the procedures by which such pre-approvals shall be made.
- Determine the funding necessary to compensate the Accountant and other outside advisors engaged by the Committee, and advise the Company that it must make such funding available to the Committee.
- Review with the Accountant any audit problems or difficulties and management's response, including, among other things, any restrictions on the scope of the Accountant's activities or access to requested information, any significant disagreements with management, any accounting adjustments that were noted or proposed by the Accountant but were "passed" (as immaterial or otherwise), any communications between the audit team and the Accountant's national office respecting auditing or accounting issues presented by the engagement, and any "management" or "internal control" letter issued, or proposed to be issued, by the Accountant to the Company.
- Review any significant findings and recommendations made by the Accountant, and management's responses to them.
- Set clear hiring policies for employees or former employees of the Accountant.

Oversight of Accounting and Financial Reporting Matters

- Provide oversight of and review the adequacy of management's assessment of the effectiveness of the Company's internal control over financial reporting.

- Review and discuss annual and quarterly financial statements with management and the Accountant including (a) the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and (b) the disclosures regarding internal controls and other matters required by Sections 302 and 404 of the Sarbanes-Oxley Act of 2002 and any rules promulgated thereunder by the SEC. Such discussions shall include a review of (x) major issues regarding (i) accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and (ii) the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies, (y) analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative generally accepted accounting principles ("GAAP") methods on the financial statements, and (z) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company. Such review also may include, as deemed appropriate, quality of earnings, review of reserves and accruals, consideration of the suitability of accounting principles, review of highly judgmental areas, audit adjustments whether or not recorded, and such other inquiries as the Committee determines.
- Recommend to the Board whether audited financial statements should be included in the Company's Form 10-K.
- Review, evaluate, and provide guidance, as the Committee deems appropriate, to management as to the form and substance of earnings press releases and financial information and earnings guidance provided to analysts and rating agencies, which review may occur after issuance and may be done generally as a review of the types of information to be disclosed and the form of presentation to be made, and report any issues with respect thereto to the Board, with particular focus on any use of pro forma or adjusted non-GAAP information.

Oversight of the Internal Audit Function

- Ensure there are no unjustified restrictions or limitations placed on internal audit, and review the performance and compensation of, and concur in the appointment, replacement or dismissal of the senior internal audit executive. Review the responsibilities, budget and staffing of the Company's internal audit function and annually approve the internal audit charter and audit plan.

Oversight of the Company's Risk Management and Compliance Activities

- Assess and oversee (a) the risk of and management's processes for identification and control of key business, financial, and regulatory risks and (b) the Company's security program, including information security, physical security, business continuity and disaster recovery.
- Consider the appropriateness of, and approve, transactions with related persons as contemplated by Item 404 of Regulation S-K under the Exchange Act.
- Discuss with management and the Company's General Counsel the status of any pending litigation, regulatory or taxation matters and any other legal, regulatory or compliance matters that may have a material impact on the financial statements or the Company's compliance policies as may be appropriate.

- Review with management and the Accountant any significant risks and exposures of the Company and management's steps to minimize them.
- As appropriate, obtain advice and assistance from outside legal, accounting or other advisors.
- Establish complaint procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters. Establish complaint procedures for the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
- Annually review and recommend any proposed changes to the Company's Code of Conduct and Ethics. Periodically review any reports of violations of the Company's Code of Conduct and Ethics.
- Review policies and procedures regarding officer's expense accounts and perquisites, including their use of Company assets, and consider the results of reviews by internal audit or the Accountant.

Oversight of the Company's Capital Structure

- Review and recommend Board approval of dividend policy and dividend payment recommendations.
- Review and recommend Board approval of equity and debt financings.

General

- Meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with the Accountant.
- Annually review and reassess the adequacy of this Charter and recommend any changes to the Board as the Committee deems appropriate.
- Prepare, with the assistance of management, the Accountant and outside legal counsel, the Audit Committee Report and review those matters with respect to the Committee that are required by the SEC rules to be disclosed in the Company's annual proxy statement.
- Report regularly on Committee activities to the Board in such manner and at such times as the Committee and the Board deem appropriate, but in no event, less than once a year. Such report should include a review of any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Accountant, or the performance of the internal audit function.
- Conduct an annual review of its own performance against the requirements of this Charter and report the results of this self-evaluation to the Board.
- Such other duties as may be delegated by the Board.

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation's

financial statements are complete and accurate and are in accordance with GAAP. This is the responsibility of management and the Accountant. Nor is it the duty of the Committee to conduct investigations or to assure compliance with laws and regulations. However, the Committee may direct that investigations be conducted as necessary to address issues or concerns raised to or identified by the Committee.