NorthWestern® Energy

Before The Public Service Commission
Of the State of Montana

DOCKET NO. D2013.12.85

Application for Approval to Purchase and Operate PPL Montana's Hydroelectric Facilities, for Approval of Inclusion of Generation Asset Cost of Service in Electricity Supply Rates, for Approval of Issuance of Securities to Complete the Purchase, and for Related Relief

TESTIMONY AND EXHIBITS

December 2013

NorthWestern Energy
Delivering a Bright Future

December 20, 2013

Ms. Kate Whitney
Administrator, Regulatory Division
Montana Public Service Commission
1701 Prospect Avenue
PO Box 202601
Helena, MT 59620-2601

RE: **Docket No. D2013.12.85** - NorthWestern Energy's Application for Approval to Purchase and Operate PPL Montana's Hydroelectric Facilities, for Approval of Inclusion of Generation Asset Cost of Service in Electricity Supply Rates, for Approval of Issuance of Securities to Complete the Purchase, and for Related Relief

Dear Ms. Whitney:

NorthWestern Corporation d/b/a NorthWestern Energy ("NorthWestern") hereby submits to the Montana Public Service Commission ("Commission") an Application for Approval to Purchase and Operate PPL Montana's ("PPLM") Hydroelectric Facilities (the "Hydros"), for Approval of Inclusion of Generation Asset Cost of Service in Electricity Supply Rates, for Approval of Issuance of Securities to Complete the Purchase, and for Related Relief ("Application"). The Application consists of the printed material and three CDs.

NorthWestern is a Delaware corporation providing electric and natural gas services in Montana and is subject to the jurisdiction of the Commission. NorthWestern makes this Application pursuant to § 69-8-421, MCA, and the Commission's implementing regulations, ARM 38.5.8201 through 38.5.8229. As described in this Application and as supported by the testimony submitted herewith, the purchase and operation of the Hydros is in the public interest and is consistent with the requirements of § 69-3-201, MCA, the objectives in § 69-8-419, MCA, and Commission rules.

For NorthWestern's Electric Utility, this filing addresses the request for approval of the Hydros as an electricity supply resource. The Hydros consist of PPLM's 11 hydroelectric generating facilities and related assets.

On September 26, 2013, NorthWestern signed a Purchase and Sale Agreement with PPLM to acquire the Hydros. Since the sale by The Montana Power Company to PPLM,[1] NorthWestern has obtained a great deal of baseload power from PPLM and its affiliate, PPL EnergyPlus, LLC ("PPL Eplus") through market purchases. NorthWestern has an ongoing need for baseload power; the 7-year PPL Eplus Power Supply Contract expires in mid-2014. Through this acquisition NorthWestern can acquire predictable baseload power from hydro generation. The addition of the Hydros will result in a more environmentally responsible electricity supply portfolio and provide substantial long-term benefits including: lower supply market risk; greater resource diversity, adequacy and reliability; and stable and reasonable costs/prices. NorthWestern is the optimal owner of these assets, as the electric utility delivery systems NorthWestern owns, in particular the transmission system, were originally built around these facilities as part of a fully integrated electric utility system. This represents a significant opportunity for the Commission to approve the addition of utility-owned, regulated hydroelectric generation to NorthWestern's electricity supply resource portfolio. The Hydros will provide a stable, affordable, and long-term electric supply resource to NorthWestern's customers.

By letter dated October 11, 2013, pursuant to ARM 38.5.8228, NorthWestern notified the Commission and the Montana Consumer Counsel ("MCC") of its intent to submit this filing and reconfirmed its intent in subsequent telephone or personal contacts.

The following materials are submitted with this Application:

Prefiled Direct Testimony of Robert (Bob) C. Rowe
Prefiled Direct Testimony and Exhibits of Brian B. Bird
Prefiled Direct Testimony of John D. Hines
Prefiled Direct Testimony and Exhibits of Travis E. Meyer
Prefiled Direct Testimony and Exhibits of Joseph M. Stimatz
Prefiled Direct Testimony and Exhibits of William T. Rhoads
Prefiled Direct Testimony and Exhibit of Ahmad Masud
Prefiled Direct Testimony and Exhibits of Allen Otto
Prefiled Direct Testimony and Exhibits of Kendall G. Kliewer
Prefiled Direct Testimony and Exhibits of Patrick J. DiFronzo

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[1] On October 31, 1998, MPC sold the Hydros to PP&L Global, Inc ("PPL Global") pursuant to the terms of the Asset Purchase Agreement ("APA"). PPL Global assigned the APA to PP&L Montana, LLC on December 17, 1999. PP&L Montana, LLC later changed its name to PPL Montana, LLC.

Portions of Exhibit__(WTR-2) and the entirety of Exhibits__(WTR-5), (WTR-6) and (WTR-8) attached to the Prefiled Direct Testimony of William T. Rhoads include Critical Energy Infrastructure Information that has been redacted in accordance with Protective Order No. 7323 ("Order"). According to the terms of the Order, a separate protected CD is provided concurrent with this filing to the Commission under separate cover. The protected exhibits will also be provided on CD under the terms of the Order to those parties who execute the associated non-disclosure agreement.

Exhibits attached to the Prefiled Direct Testimonies of Ahmad Masud and Allen Otto include protectable forward looking financial information that has been redacted pending the Commission's decision on a motion for protective order that has been filed by NorthWestern on the same date as this Application. Some portions of the schedules included in Exhibit__(APP-2) include information that is protectable under Montana's Right to Privacy. This information has been redacted pending the Commission's decision on a motion for protective order that has been filed by NorthWestern on the same date as this Application. NorthWestern will provide the redacted material pursuant to the orders ultimately issued by the Commission on the motions.

PPLM has also requested that certain information in the schedules included in Exhibit__(APP-2) be redacted. A motion for protective order will be filed regarding this information and this redacted information will be provided pursuant to a Commission order.

An original and ten copies of this Application are submitted with this filing, and three copies are provided to the MCC.

While electronic information is not required by Commission rules, nor is it standard practice to provide this data at this stage of a filing, electronic versions of exhibits, electronic data supporting tables and charts included in testimony, and electronic supporting workpapers are being compiled and will be provided on CD as soon as possible.

All of the above materials will be available for public inspection at the following locations:

The Montana Public Service Commission
1701 Prospect Avenue
Helena, Montana 59601

Montana Consumer Counsel
111 North Last Chance Gulch, Suite 1B
Helena, Montana 59601

NorthWestern Energy
40 East Broadway
Butte, Montana 59701

NorthWestern requests that the Commission publish legal notice to inform the public that the Application has been made.

For a typical residential customer using 750 kWh of electricity per month, approval of this Application would result in an increase in the total bill of approximately $3.53 per month or 4.22%.

The NorthWestern employee responsible for answering questions concerning this Application or for inquiries to the appropriate members of the utility staff is:

Mr. Patrick R. Corcoran, Vice President
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NorthWestern asks that the names of Patrick Corcoran, Nedra Chase, Al Brogan, Sarah Norcott, and Joe Schwartzenberger appear on all service lists in this proceeding.

Respectfully submitted,

Patrick R Corcoran

Patrick R. Corcoran
Vice-President
Government and Regulatory Affairs

Enclosures

CERTIFICATE OF SERVICE

I hereby certify that original and ten copies of NorthWestern Energy's Application for Approval to Purchase and Operate the Hydroelectric Facilities of PPL Montana, LLC in Docket No. D2013.12.85 has been hand delivered to The Montana Public Service Commission (MPSC) and three copies to the Montana Consumer Counsel.

Date: December 20th, 2013

Nedra Chase

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DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

In the Matter of NorthWestern Energy's Application for Approval to Purchase and Operate PPL Montana's Hydroelectric Facilities, for Approval of Inclusion of Generation Asset Cost of Service in Electricity Supply Rates, for Approval of Issuance of Securities to Complete the Purchase, and for Related Relief	)	REGULATORY DIVISION DOCKET NO. D2013.12.85

APPLICATION FOR HYDRO ASSETS PURCHASE

On September 26, 2013, NorthWestern Corporation d/b/a NorthWestern Energy ("NorthWestern") announced that it had entered an agreement to acquire 11 hydroelectric generating facilities and related assets (the "Hydros") from PPL Montana, LLC ("PPLM"). The Purchase and Sale Agreement ("PSA") is attached as

Exhibit__(APP-1).[1] The schedules to the PSA are attached as Exhibit__(APP-2).[2] Since the September 26th announcement, public and editorial comment has been overwhelmingly favorable.[3] Pursuant to § 69-8-421, MCA, and the Montana Public Service Commission's ("Commission") implementing regulations, ARM 38.5.8201 through 38.5.8229, NorthWestern submits this application requesting a Commission Order approving the Hydros as an electricity supply resource ("Application"). As described in this Application and as supported by the testimony submitted with this Application, the purchase and operation of the Hydros is in the public interest and is consistent with the requirements of § 69-3-201, MCA, the objectives in § 69-8-419, MCA, and this Commission's rules. The following accompany and are part of this Application:[4]

[1] There are eight exhibits attached to the Application. The following table includes a listing and description of each exhibit, as well as the form in which each is provided:

Exhibit__(APP-1)	Purchase and Sale Agreement	Provided On CD
Exhibit__(APP-2)	Schedules to the Purchase and Sale Agreement	Provided On CD – Includes Protectable Information that has Been Redacted
Exhibit__(APP-3)	Samples of Editorials and Public Comment	Hard Copy Provided
Exhibit__(APP-4)	2013 Electricity Supply Resource Procurement Plan	Provided On CD
Exhibit__(APP-5)	Supporting Documentation for Pre-filing Communications	Provided On CD
Exhibit__(APP-6)	NorthWestern's Most Recent Form 10-Q	Provided On CD
Exhibit__(APP-7)	NorthWestern's Most Recent Form 10-K	Provided On CD
Exhibit__(APP-8)	Proposed Order Approving Request for Authority to Issue Securities	Hard Copy Provided

[2] Some portions of the schedules are confidential. NorthWestern has redacted this information pending the Commission's decisions on motions for protective orders that NorthWestern filed on the same date as this Application or that will be forthcoming if redaction was requested by PPLM.
[3] Attached as Exhibit__(APP-3) are samples of the editorials and public comment.
[4] Certain of the witnesses' exhibits contain non-public information such as Critical Energy Infrastructure Information and forward looking financial information. Some of this information is provided pursuant to a

A. The Prefiled Direct Testimony of Robert C. Rowe ("Rowe Direct Testimony");

B. The Prefiled Direct Testimony and Exhibits of Brian B. Bird ("Bird Direct Testimony");

C. The Prefiled Direct Testimony of John D. Hines ("Hines Direct Testimony");

D. The Prefiled Direct Testimony and Exhibits of Travis E. Meyer ("Meyer Direct Testimony");

E. The Prefiled Direct Testimony and Exhibits of Joseph M. Stimatz ("Stimatz Direct Testimony");

F. The Prefiled Direct Testimony and Exhibits of William T. Rhoads ("Rhoads Direct Testimony");

G. The Prefiled Direct Testimony and Exhibit of Ahmad Masud ("Masud Direct Testimony");

H. The Prefiled Direct Testimony and Exhibits of Allen Otto ("Otto Direct Testimony");

I. The Prefiled Direct Testimony and Exhibits of Kendall G. Kliewer ("Kliewer Direct Testimony"); and

J. The Prefiled Direct Testimony and Exhibits of Patrick J. DiFronzo ("DiFronzo Direct Testimony").

Throughout their testimony, when witnesses refer to another witness's testimony, they may use the shortened designation set forth above without redefining the term.

I. Description of the Hydros

The Hydros consist of four federally-licensed hydroelectric projects: (1) the Missouri-Madison Hydroelectric Project No. 2188, (2) the Thompson Falls Project No. 1869, (3) the Mystic Lake Hydroelectric Project No. 2301, and (4) the Kerr Hydroelectric Project No. 5. Below is a pictorial of the Hydros' locations within Montana.

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protective order; the balance is redacted pending the Commission's decisions on motions for protective order that have been filed on the same date as this Application.

Thompson Falls
Flathead Lake
Kerr
Clark Fork River
Ryan
Cochrane
Morony
Great Falls
Rainbow
Black Eagle
Holter
Hauser
Montana
Missouri River
Fort Peck Lake
Yellowstone River
Glendive
Missoula
Helena
Missouri River
Butte
Madison River
Billings
Colstrip
Yellowstone River
Madison
Mystic
Hebgen

A. The Missouri-Madison Hydroelectric Project

The Missouri-Madison Hydroelectric Project develops hydropower on a 324-mile stretch of the Madison and Missouri rivers. Nine hydroelectric developments, of which eight have power generating facilities, make up the project.[5] The project includes facilities in Gallatin, Madison, Lewis and Clark, and Cascade counties.

The Hebgen Development is located on the Madison River and consists of a dam, an impoundment, and other appurtenances. The Hebgen Development provides storage and regulation of water; it does not provide generation.

The Madison Development is located on the Madison River. The development includes a dam, an impoundment, a control building, an intake structure, a flow line, a surge chamber, four penstocks, a powerhouse, interconnection with NorthWestern's transmission system, a tailback, and other appurtenances. The Madison Development's net capacity is 8 megawatts ("MW").[6]

The Hauser Development is on the Missouri River about 14 miles northeast of Helena, Montana. It includes a dam, an impoundment with two connected bodies of water, an intake and forebay structure, six penstocks, a powerhouse, interconnection, a tailback, and other appurtenances. The Hauser Development has net capacity of 19 MW.

The Holter Development is on the Missouri River about 26 miles downstream from the Hauser Development. The development includes a dam, an impoundment,

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[5] The Federal Energy Regulatory Commission ("FERC") classifies the Hebgen Development as a hydroelectric facility even though it does not include generation. The Hebgen Development is not one of the 11 hydroelectric facilities referred to in NorthWestern's September 26, 2013 announcement but is included in the Hydros.

[6] PPLM provided the net capacity of each development. The net capacity may differ from the installed capacity shown in the relevant FERC license. Throughout this Application, net capacity refers to the specification provided by PPLM.

and intake/powerhouse structure, interconnection, a tailrace, and other appurtenances. The Hauser Development's net capacity is 48 MW.

The next five Missouri-Madison Hydroelectric Project developments are located on the Missouri River near Great Falls. Each development includes a dam, a reservoir, intake and powerhouse structures (combined or separate), a tailrace, and other appurtenances ("Common Components").

The Black Eagle Development has, in addition to the Common Components, a forebay and an interconnection to NorthWestern's transmission system. The net capacity is 21 MW.

The Rainbow Development has undergone redevelopment during the past four years. Redevelopment included the construction of a new intake, powerhouse, and penstock; installation of a new turbine and generator, transformers, breakers, and switchgear; construction of a new tailrace; construction of a new road; and other activities. The new net capacity of the Rainbow Development is 60 MW.[7]

The Cochrane Development, which achieved commercial operation in 1958, is the newest of the nine developments. It includes a 2.9 mile-long transmission line in addition to the Common Components. Its net capacity is 69 MW.[8]

The Ryan Development is immediately upstream from the crest of the Great Falls of the Missouri. It includes a 4.6 mile-long transmission line and has net capacity of 60 MW.

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[7] The redevelopment of the Rainbow Development increased the net capacity from 36 MW to 60 MW.
[8] The redevelopment of the Rainbow Development allows the Cochrane pool to operate with an approximately six feet higher head and increased the net capacity of Cochrane from 64 MW to 69 MW.

The Morony Development is the furthest downstream on the Missouri of the nine hydroelectric developments. It includes an 8.5 mile-long transmission line. The Morony Development's net capacity is 48 MW.

The Missouri-Madison Project has a total net capacity of 333 MW and has an annual average generation of 1,980 gigawatt-hours ("GWh"). The total storage capacity of the nine developments is 808,885 acre-feet at normal maximum water surface elevation. The project includes 28 turbine generator units.

B. The Thompson Falls Hydroelectric Project

The Thompson Falls Project is located on the Clark Fork River in Sanders County, Montana. The project includes a primary development, a secondary development, and a fish ladder. The primary development consists of a main dam, a smaller dam located in a dry channel of the river, a reservoir, a powerhouse, six generating units, and appurtenant facilities. The secondary development, built in the 1990s, consists of an intake channel, a sluiceway, a powerhouse, a tailrace channel, an access road, a transmission line to the primary development's powerhouse, and appurtenant facilities.

The Thompson Falls Project has a total net capacity of 94 MW and an annual average generation of 496 GWh. It has seven turbine generator units.

C. The Mystic Lake Hydroelectric Project

The Mystic Lake Hydroelectric Project is located on West Rosebud Creek in Stillwater County, Montana. The project has two reservoirs, Mystic Lake, which is a storage reservoir, and West Rosebud Lake, which is downstream of the powerhouse and used to moderate peaking flows. In addition to the reservoirs, the project includes a

dam, a flowline, a powerhouse, two turbine generator units, two tailrace tunnels, a reregulation dam, a surge tank, two distribution lines, two transmission lines, and appurtenant facilities.

The project has a total net capacity of 12 MW and an average annual generation of 51 GWh. The storage capacity is 47,000 acre-feet. The Mystic Lake Hydroelectric Project provides some peaking capacity.

D. The Kerr Project

The Kerr Project is located on the Flathead River in Flathead and Lake counties. The project consists of a reservoir, a dam, three concrete-lined penstocks, a powerhouse with three generating units, transmission facilities, and appurtenant facilities.

The Kerr Project has a total net capacity of 194 MW and an average annual generation of 1,098 GWh.

PPLM and the Confederated Salish and Kootenai Tribes of the Flathead Reservation ("CSKT") hold the license to the project as "joint licensees."[9] Although it issued the license for the Kerr Project in 1985, FERC did not clarify what it meant by "joint" until 2001 after PPLM had acquired MPC's interest in the project. In subsequent orders (*Order on Rehearing,* 94 FERC ¶ 61,129 (February 12, 2001); *Order Denying Rehearing*, 95 FERC ¶ 61,053(April 12, 2001); and *Order on Rehearing*, 98 FERC ¶ 61,098 (February 2, 2002)), FERC clarified that, under the license as issued, MPC and CSKT were each a sole licensee under the license during their respective periods of ownership. Thus, the license contemplates successive, not concurrent, control of the

[9] FERC issued the joint license to The Montana Power Company ("MPC") and CSKT in 1985. 32 FERC ¶ 61,070 (July 17, 1985). FERC approved transfer of MPC's interest to PPLM in 1999. 88 FERC ¶ 62,010 (July 7, 1999).

project. 94 FERC ¶ 61,129 (February 12, 2001). The license provides that between September 2015 and September 2025, CSKT have the right to purchase the Kerr Project with at least one year's notice. The license also provides that, beginning in September 2014, CSKT may designate a date for the transfer. Until CSKT purchase the Kerr Project, PPLM (or its successor) has exclusive project control, operation, and responsibility and CSKT do not have any rights or obligations under the license. *Id.* NorthWestern believes that CSKT will exercise their right to purchase the project at the earliest possible date, i.e., September 2015.

II. Specific Relief Requested

By this Application NorthWestern requests that the Commission issue an order:

(1) finding that approval of this Application is in the public interest;

(2) finding that acquisition of the Hydros is consistent with the requirements of § 69-3-201, MCA, the objectives in § 69-8-419, MCA, and the Commission's rules;

(3) authorizing NorthWestern to make a compliance filing following the Final Order in this docket to adjust the purchase price to reflect the actual cost of debt ("Compliance Filing");

(4) authorizing NorthWestern to recover the estimated total revenue requirement of $128,402,190, as adjusted in the Compliance Filing in electric supply rates;

(5) authorizing NorthWestern to make a final compliance filing in approximately December 2015 to reflect post-closing adjustments, the conveyance of the Kerr Project to CSKT, if it occurs, and the actual property tax expense for the Hydros;

(6) authorizing NorthWestern to track revenue credits on a portfolio basis through the Electricity Supply Cost Tracker;

(7) approving the Request (defined below) and authorizing financing transactions proposed herein; and

(8) authorizing NorthWestern to utilize the proceeds from the financing transactions as proposed herein.

III. Purchase Price and Revenue Requirement for the Hydros

NorthWestern has agreed to pay $900 million plus or minus closing adjustments for the Hydros. The 2014 test period Revenue Requirement is $128,402,190. This consists of costs of $66,570,901 and a return of $61,831,289. This Revenue Requirement results in an increase of 4.22% or $3.53/month for an average residential customer using 750 kilowatt-hours per month.

IV. Public Interest Analysis

Two statutes, § 69-8-421(6), MCA, and § 69-3-109, MCA, require the Commission to consider the public interest. Section 69-8-421(6)(c)(i), MCA, requires that a Commission order approving an application include a finding that approval "is in the public interest." Section 69-3-109, MCA, allows the Commission to include an acquisition adjustment for property purchased by a public utility in rate base "if the transfer of the property to the purchasing utility is in the public interest." An analysis of each of these statutes follows.

A. Section 69-8-421(6), MCA

The statute does not define the term "public interest." However, the Commission has determined, in multiple decisions, that the acquisition of a resource under § 69-8-421, MCA, is in the public interest "if the benefits outweigh the risks to ratepayers." *In the Matter of the Application of NorthWestern Energy for Approval to Purchase and Operate the Spion Kop Wind Project, for Certification of the Spion Kop Wind Project as an Eligible Renewable Resource, and for Related Relief*, Docket No. D2011.5.41, Order No. 7159l, ¶ 95 (February 16, 2012); *Accord, In the Matter of an Application by NorthWestern Corporation for Approval of its Interest in Colstrip Unit 4 as an Electricity*

Supply Resource, Docket No. D2008.6.69, Order No. 6925f, ¶ 217 (November 13, 2008); *In the Matter of the Application of NorthWestern Energy for Approval to Construct and Operate the Mill Creek Generating Station*, Docket No. D2008.8.95, Order No.6943a, ¶ 211 (May 20, 2009).

As demonstrated by the testimony in this docket, the Commission's approval of this Application is in the public interest because the benefits of the Hydros to NorthWestern's customers clearly outweigh any risk. The benefits of the Hydros to NorthWestern's customers include:

- The Hydros provide the best long-term strategy for maintaining stable and reasonable rates for customers (Hines Direct Testimony);
- The Hydros substantially reduce the market supply and fuel price risk in NorthWestern's electricity supply portfolio (Rowe Direct Testimony, Hines Direct Testimony);
- The Hydros reduce the environmental risk in NorthWestern' s electricity supply portfolio (Hines Direct Testimony, Stimatz Direct Testimony);
- The Hydros support NorthWestern in assembling and maintaining a balanced, environmentally responsible portfolio (Rowe Direct Testimony); and
- Inclusion of the Hydros in the electricity supply portfolio is a step toward balancing NorthWestern's mix of electricity supply resources with respect to underlying fuels, technologies, and associated environmental impacts and adds long-term resources to the portfolio (Hines Direct Testimony).

As discussed throughout the witnesses' testimonies, these customer benefits clearly outweigh the risks associated with the Hydros.

Since Montana abandoned its ill-fated experiment with electric industry restructuring and customer choice, NorthWestern has taken steps to transition into a vertically integrated utility to provide long-term rate stability for its customers. NorthWestern dedicated its interest in Colstrip Unit 4 ("CU4") to the public interest,

constructed the Dave Gates Generating Station at Mill Creek, and acquired the Spion Kop Wind Farm in a build and transfer transaction. Commission approval of this Application to acquire the Hydros represents the necessary "green light" for NorthWestern to consummate a once-in-a-lifetime transaction and continue to evolve as a fully integrated utility for the long-term benefits of its customers.

B. Section 69-3-109, MCA

Section 69-3-109, MCA, establishes parameters around the value of the property to be used in setting rates. It provides that "value may not exceed the original cost of the property, except that the commission may include all or some of an acquisition adjustment for certain property purchased by a public utility in the purchasing utility's rate base if the transfer of the property to the purchasing utility is in the public interest." § 69-3-109, MCA. Prior to 1975, the Commission calculated utility rate bases "on the basis of reproduction cost new or commercial value of utility plants." *Petition of Montana Power Co. for Increased Rates and Charges in Gas and Electric Services*, 180 Mont. 385, 398-399, 590 P.2d 1140, 1148 (1979) (*"MPC 1979")*. The Legislature amended the law in 1975 to prohibit the inclusion of any value that exceeded the property's original cost in rate base. The 1975 amendment provided: "The commission is not bound to accept or use any particular value in determining rates, provided that if any value is used, such value may not exceed the original cost of the property." 1975 Mont. Laws, ch. 28, § 1. As the Court stated, "From 1975 forward, however, the legislature transformed original cost into The factor to be considered in rate base calculation; from 1975 forward, utility plants could not be valued in excess of original cost." *MPC 1979*, 180 Mont. at 399, 590 P.2d at 1148 (*capitalization in original)*.

In 1995, the Legislature revised the statute to allow for the inclusion of an acquisition adjustment in rate base where justified by the public interest. The Legislature included an exception to the original cost limitation by adding, "except that the commission may include all or some of an acquisition adjustment for certain property...if the transfer of the property to the purchasing utility is in the public interest." 1995 Mont. Laws, ch. 373, § 1. The 1995 legislative change was supported by many, including the Commission, the Montana Consumer Counsel ("MCC"), Montana-Dakota Utilities, MPC, and the Citizens Telecommunications Company of Montana.[10]

The legislative history of 1995 Mont. Law, ch. 373 is instructive, as it demonstrates that the Legislature wanted utilities to be able to rate base an acquired asset at a market-base value, including an acquisition adjustment, if the Commission found that purchase was in the public interest. The legislation's sponsor, Rep. Quilici, described the bill's purpose in comments before the House Taxation Committee:

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[10] At a February 2, 1995 hearing before the House Taxation Committee, MPC testified that:

> When a piece of property comes up for sale it is not automatically transferred to another utility. It may be put up for bid and Montana Power Company has had two instances in the past year where the bid was lost because they could not bid above the original cost. If they could have obtained the property, it would have resulted in reduced rates for consumers.
>
> MDU testified that MDU had been penalized for making a wise decision because the Commission was precluded by Montana law from including the full price in the rate base, and that the Commission should have the discretion to use the full purchase price in setting rates.
>
> Citizens Telecommunications Company of Montana testified that it found itself in the same situation as MDU.
>
> The Chair of the Commission, Commissioner McCaffree, provided written comments on behalf of the Commission and stated that "under some circumstances the public interest may be served by allowing into ratebase a purchase price above book value, i.e. original cost depreciated."
>
> Representative ("Rep.") Quilici, in response to a question from Rep. Rose, stated that the legislation had been approved by the MCC. Hearing on HB 360, House Taxation Committee, Feb. 2, 1995, page 3 of 15.

> set[s] a flexible standard and it must be proved that it is within the public's interest. If a utility needs more capacity and can show that a useful utility could be acquired, and they cannot use the acquired cost in setting rates, they could build a new facility which would, in most cases, cost much more than it would have been had they been able to acquire the existing utility.[11]

Similarly, in closing remarks before the Montana Senate Business & Industry Committee, Rep. Quilici stated that the legislation "was good for utilities because if they were furnishing the money to buy a certain property, they should be able to rate-base it upon the commission's recommendation it was in their best interest."[12, 13]

The Commission first examined § 69-3-109, MCA, as revised, in Docket No. D2008.6.69, Order No. 6925f, ¶¶ 244-248 (November 13, 2008) ("Order 6925f") and held that § 69-3-109, MCA, did not prohibit the rate basing of CU4 at a value determined by market negotiations. Although the status of the Hydros is not directly comparable to that of CU4, the Commission's analysis and determinations are instructive. First, the Commission discussed the application of § 69-3-109, MCA, to assets that were not dedicated to public service:

> The application of § 69-3-109, MCA, to a situation such as that posed by this [CU4] Application is not entirely clear. The evils that the value limitations are meant to prevent, using replacement cost new as the rate base value, or inflating the value of assets devoted to public service by multiple transactions, are not present.

Order 6925f, ¶ 247.

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[11] Hearing on HB 360, House Taxation Committee, Feb. 2, 1995, at p.3.

[12] Hearing on HB 360, Senate Business & Industry Committee, March 2, 1995, at p. 4.

[13] There was no testimony opposing the legislation either before the House Taxation or the Senate Business & Industry Committees. Hearing on HB 360, Senate Business & Industry Committee, March 2, 1995, at p. 3 ("Opponents' Testimony: None."); Hearing on HB 360, House Taxation Committee, Feb. 2, 1995 at p. 3 ("Opponents' Testimony: None.").

Second, the Commission considered the statute's limitations on rate base value in light of §§ 69-8-421(6)(d) and 69-8-103(13), MCA, and the authority granted therein to allow a return on all invested capital and costs of acquisition. The Commission harmonized § 69-3-109, MCA, and § 69-8-421(6)(d), MCA, by stating:

> Further, where statutes appear to be inconsistent, they are to be harmonized if possible. *Montana Consumer Counsel v. Department of Pub. Serv. Reg.*, 181 Mont 225, 229, 593 P.2d, 34, 36 (Mont. 1979). If invested capital and all costs associated with the acquisition of a plant are equated with original cost plus any acquisition adjustment, then the statutes are not inconsistent.

Order 6925f, ¶ 244.

The Hydros are unique relative to § 69-3-109, MCA. The Hydros are not devoted to public service at this time. The Hydros, except for the investments made by PPLM, were originally dedicated to public service. However, state law mandated that they be removed from public service. "On the effective date of a commission order implementing a public utility's transition plan pursuant to 69-8-202, the public utility **shall remove its generation assets from the rate base**." § 69-8-210(1), MCA (1997), (repealed 2003 Mont. Laws, ch. 509, § 5) (emphasis added). Pursuant to the statute, MPC removed the Hydros from its rate base and sold them to PPLM.[14] In Montana, PPLM owns and operates the assets. PPLM is not a regulated utility and has not dedicated its assets to public service.

NorthWestern has never owned the Hydros. NorthWestern purchased the transmission and distribution assets of MPC. MPC sold the Hydros to PPLM prior to selling any assets to NorthWestern. From NorthWestern's perspective, its invested

[14] On October 31, 1998, MPC sold the Hydros to PP&L Global, Inc ("PPL Global") pursuant to the terms of the Asset Purchase Agreement ("APA"). PPL Global assigned the APA to PP&L Montana, LLC on December 17, 1999. PP&L Montana, LLC later changed its name to PPL Montana, LLC. In this Application, PPLM refers to the predecessors as well as PPL Montana, LLC.

capital is the amount at which it will purchase the Hydros from PPLM. Under the Commission's harmonization of the statutes, NorthWestern's invested capital is the sum of the original cost of the Hydros as of the date of the sale to PPLM, PPLM's investments, and the acquisition adjustment. For these reasons, pursuant to § 69-3-109, MCA, the Commission may approve NorthWestern's purchase of the Hydros and include them in NorthWestern's rate base at NorthWestern's acquisition cost.

There is no separate public interest standard to apply to the transfer of the Hydros to NorthWestern. Just as the acquisition of the Hydros is in the public interest pursuant to § 69-8-421(6), MCA, the transfer of the Hydros to NorthWestern is in the public interest under § 69-3-201, MCA.

V. Procurement of the Hydros is Consistent with the Requirements in § 69-3-201, MCA

Section 69-8-421(6)(c)(ii), MCA, requires that a Commission order approving an application include a finding that procurement of the electricity supply resource is consistent with the requirements in § 69-3-201, MCA. Section 69-3-201, MCA, provides:

> Every public utility is required to furnish reasonably adequate service and facilities. The charge made by any public utility for any heat, light, power, water, or regulated telecommunications service produced, transmitted, delivered, or furnished or for any service to be rendered as or in connection with any public utility shall be reasonable and just, and every unjust and unreasonable charge is prohibited and declared unlawful.

The Hydros will be NorthWestern-owned generation assets that, upon Commission approval of this Application, will be incorporated into NorthWestern's regulated electric utility rate base. The Rowe, Bird, Hines, Meyer, Stimatz, Rhoads, Kliewer, and DiFronzo Direct Testimonies establish the adequacy of the Hydros and of the service

that they will provide and the reasonableness and justness of costs and charges associated with them.

VI. Procurement of the Hydros is Consistent with the Objectives in § 69-8-419, MCA

Section 69-8-421(6)(c)(ii), MCA, requires that a Commission order approving an application include a finding that procurement of the electricity supply resource is consistent with the objectives in § 69-8-419, MCA. Section 69-8-419(2), MCA, provides:

> The public utility shall pursue the following objectives in fulfilling its duties pursuant to subsection (1):
>
> (a) Provide adequate and reliable electricity supply service at the lowest long-term cost;
> (b) Conduct an efficient electricity supply resource planning and procurement process that evaluates the full range of cost-effective electricity supply and demand-side management options;
> (c) Identify and cost-effectively manage and mitigate risks related to its obligation to provide electricity supply service;
> (d) Use open, fair, and competitive procurement processes whenever possible; and
> (e) Provide electricity supply service and related services at just and reasonable rates.

The first step in demonstrating achievement of the objectives in § 69-8-419, MCA, is developing and submitting electricity supply resource procurement plans. § 69-8-420, MCA.

On December 15, 2011, NorthWestern filed its 2011 Electricity Supply Resource Procurement Plan ("2011 Plan"). In the 2011 Plan, NorthWestern identified its need for additional resources. In the 2011 Plan, NorthWestern stated:

> Opportunity electricity supply resource acquisitions may become available to NorthWestern and could be in the form of contracts for power or asset purchases of new or existing generation facilities. Existing facilities could include gas-fired, **hydro**, or coal-fired generation . . . This Plan will provide the fundamental tools, such as identification and values for key risks, price

> forecasts, and portfolio needs, that will be used in the evaluation of any opportunity electricity supply resource acquisitions.

2011 Plan, p. 1 (emphasis added). The Commission responded to NorthWestern's statements regarding opportunity resources, stating, "Without explicitly using the term 'opportunity resource,' the Commission's rules allow NWE to forego the preferred competitive procurement process if it can justify an alternative procurement approach." *Written Comments Identifying Concerns Regarding NorthWestern Energy's Compliance with ARM 38.5.8201*-8229, Docket No. N2011.12.96, ¶ 23 (September 28, 2012) ("*Written Comments*").

There was no method, other than the bilateral negotiation process, by which NorthWestern could acquire the Hydros. The Rowe, Bird, Hines, and Meyer Direct Testimonies describe and justify the procurement process for the Hydros. As the Hydros are PPLM's assets, PPLM had the unilateral right to determine whether to sell the assets and to establish the process by which it would sell the assets.

The 2011 Plan identified a group of preferred resources and preferred portfolios. However, as the Hydros were not available, the 2011 Plan did not include modeling of any opportunity resources including the Hydros. In evaluating the acquisition of the Hydros, NorthWestern compared a portfolio that includes the Hydros with a portfolio that includes a combined cycle combustion turbine ("CCCT"). The 2011 Plan identified a CCCT as the preferred baseload resource. NorthWestern found the Hydros to be a better alternative. (Stimatz Direct Testimony).

On December 23, 2013, NorthWestern will file its 2013 Electricity Supply Resource Procurement Plan ("2013 Plan") in Docket No. N2013.12.84. The 2013 Plan, on CD, is attached as Exhibit__(APP-4). In preparing the 2013 Plan, NorthWestern

adopted a new modeling tool, PowerSimm, from Ascend Analytics.[15] Subsequent to the September 26th announcement, PowerSimm was run to compare a portfolio with the Hydros to portfolios without the Hydros. The portfolio including the Hydros is the lowest long-term risk-adjusted cost option. (Stimatz Direct Testimony).

Both the 2011 Plan and the 2013 Plan demonstrate NorthWestern's compliance with the objectives in § 69-8-419, MCA. The Hines and Stimatz Direct Testimonies demonstrate that the Hydros are consistent with both the 2011 Plan and the 2013 Plan.

The testimonies referred to above, considered as a whole, demonstrate that acquisition of the Hydros is consistent with the objectives in § 69-8-419, MCA.

VII. Acquisition of the Hydros is Consistent with the Commission's Rules

Section 69-8-421(6)(c)(ii), MCA, requires that a Commission order approving an application include a finding that procurement of the electricity supply resource is consistent with the Commission's rules. ARM 38.5.8201 through 38.5.8229 ("GUIDELINES") are the Commission's guidelines to public utilities on the procurement of long-term electricity supply resources. The rules most clearly applicable to the acquisition of the Hydros are ARM 38.5.8203 – GOALS; ARM 38.5.8204 – OBJECTIVES; ARM 38.5.8210 – RESOURCE NEEDS ASSESSMENT; ARM 38.5.8212 – RESOURCE ACQUISITION; ARM 38.5.8213 – MODELING AND ANALYSIS; ARM 38.5.8219 – RISK MANAGEMENT AND MITIGATION; ARM 38.5.8220 – TRANSPARENCY AND DOCUMENTATION; ARM 38.5.8226 – ELECTRICITY RESOURCE PLANNING AND PROCUREMENT FILINGS; and ARM 38.5.8228 –

[15] In the *Written Comments, ¶ 16*, the Commission expressed concern about NorthWestern's modeling tool and stated it "expects NWE to reassess its ability to simulate system operations and system costs with owned or contracted dispatchable resources, intermittent resources and, potentially, market-based ancillary services and shorter scheduling periods."

MINIMUM FILING REQUIREMENTS FOR UTILITY APPLICATIONS FOR APPROVAL OF ELECTRICITY SUPPLY RESOURCES.

A. Compliance with Substantive Rules

ARM 38.5.8203 establishes five goals of the GUIDELINES:

(1) to facilitate the provision of adequate and reliable electricity supply services, stably and reasonably priced, at the lowest long-term total cost ("Goal 1");

(2) to promote economic efficiency and environmental responsibility ("Goal 2");

(3) to facilitate a utility's financial health ("Goal 3");

(4) to facilitate a process through which a utility identifies and cost-effectively manages and mitigates risks related to the provision of electricity supply service ("Goal 4"); and

(5) to build on the fundamental rate making relationship between the Commission and the utility to advance the goals (Goal 5").

Acquisition of the Hydros is consistent with the GUIDELINES' goals. The testimony establishes that the Hydros will provide electricity at the lowest long-term cost with reasonable, stable prices (Goal 1) and reduced market and environmental risk (Goal 4). Acquisition of the Hydros will increase the renewable portion of NorthWestern's electricity supply portfolio to over 50% (Goal 2). Including the Hydros in rate base will enhance NorthWestern's financial health (Goal 3). With respect to Goal 3, while the Commission has stated that it views rate-basing as a permissive and not a

mandatory activity,[16] the Commission has determined that "Rate-based generation is central to the proper operation of a vertically integrated utility as acknowledged by the 2007 Legislature's enactment of House Bill 25, which allows NWE to own generation." Order No. 6925f, ¶ 230. NorthWestern believes that including the Hydros in rate base is a vital element of fulfilling this important goal.

ARM 38.5.8204(1) sets forth the objectives that NorthWestern should pursue in assembling and managing an electricity supply resource portfolio in order of importance:

> (a) provide customers adequate and reliable electricity supply services, stably and reasonably priced, at the lowest long-term total costs;
>
> (b) design rates that are equitable and promote rational, economically efficient consumption decisions;
>
> (c) assemble and maintain a balanced, environmentally responsible portfolio of electricity supply resources coordinated with economically efficient cost allocation and rate design that most efficiently provides electricity supply services to customers over the planning horizon;
>
> (d) maintain an optimal mix of electricity supply resources with respect to underlying fuels, technologies, and associated environmental impacts, and a diverse mix of long, medium, and short duration power supply contracts with staggered start and expiration dates; and
>
> (e) maximize the dissemination of information to customers regarding the mix of resources and corresponding level of emissions and other environmental impacts associated with electricity supply service through itemized labeling and reporting of the portfolio's energy products.

The Hydros contribute to achieving these objectives. Specifically, the Hydros contribute to achieving the most important objective, "adequate and reliable electricity supply services, stably and reasonably priced, at the lowest long-term total cost," the third most important objective, an "environmentally responsible portfolio," and the fourth most important objective, "an optimal mix of electricity supply resources with respect to

[16] *Written Comments,* ¶ 25.

underlying fuels, technologies, and associated environmental impacts." The Hydros, like all other resources, do not directly contribute to the design of rates or the dissemination of information (the second and fifth objectives).

ARM 38.5.8210 requires that a utility should perform a Resource Needs Assessment before acquiring a multi-year electricity supply resource. NorthWestern analyzed its current and future needs in its 2011 Plan and 2013 Plan. As explained above, the Hydros fulfill specific needs that were identified in those plans. The Hines Direct Testimony demonstrates the match between the Hydros' output and NorthWestern's needs.

ARM 38.5.8212 provides guidance regarding resource acquisition. A utility is advised to use "industry standard procurement practices." ARM 38.5.8212(1). "[C]ompetitive solicitations with short list negotiations" is the preferred procurement method. ARM 38.5.8212(2). "To the extent a utility does not use competitive solicitations to acquire electricity supply resources it should thoroughly document the exercise of its judgment in evaluating and selecting resource options, including the decision not to use competitive solicitations." ARM 38.5.8212(3). The Rowe, Bird, and Hines Direct Testimonies thoroughly document NorthWestern's decision to not use a competitive solicitation with respect to the Hydros. Had NorthWestern insisted on a competitive solicitation or tried to test the price through some sort of hypothetical request for proposals, it could not have acquired the Hydros. "A decision by a utility regarding the acquisition of an equity interest in an electricity generating plan or equipment or the construction of such a resource on its own should be thoroughly evaluated against available market-based alternatives." ARM 35.8.8212(4). The Bird,

Hines, Meyer, and Stimatz Direct Testimonies describe this comprehensive evaluation. The Hydros were compared to a market forecast with and without risk, were compared to similar hydro transactions, and were priced in a market process.

ARM 38.5.8213 requires a utility to use computer modeling and rigorous analyses in its electricity supply resource planning, procurement, and decision-making processes. The 2011 Plan used GenTrader. The 2013 Plan used Ascend Analytics' PowerSimm. NorthWestern used, but did not rely solely on, the computer modeling. NorthWestern also engaged in additional rigorous analyses and decision-making to evaluate the Hydros. The Hines, Bird, Stimatz, Meyer, and DiFronzo Direct Testimonies explain and illustrate the rigorous analyses and decision-making that NorthWestern used.

ARM 38.5.8219 requires evaluation, management, and mitigation of risk. Acquisition of the Hydros is important to reducing the risks that NorthWestern and its customers face. The Rowe, Hines, Meyer, and Stimatz Direct Testimonies demonstrate NorthWestern's risk analysis and the specific attributes of the Hydros that contribute to the management, mitigation, and reduction of various types of risk.

ARM 38.5.8220 requires transparency and documentation in implementing the Commission's GUIDELINES. PPLM's sales process was confidential, and NorthWestern could not disclose PPLM's determination to sell the Hydros or any element of the negotiation process. However, in this Application and accompanying testimony, NorthWestern provides transparency by thoroughly documenting its procurement process, analysis, and decision-making.

ARM 38.5.8226 requires the filing of electricity supply resource procurement plans. Although NorthWestern will file the 2013 Plan in a separate docket, it is attached as an exhibit to this Application, and the Hines and Stimatz Direct Testimonies demonstrate that acquisition of the Hydros is consistent with it. Furthermore, the resource planning and procurement requirements of ARM 38.5.8226 are more fully discussed in Section VI above.

B. Compliance with Minimum Filing Requirements

This Application, including the attached witnesses' testimony and exhibits, complies with the Commission's minimum filing requirements as set forth in ARM 38.5.8228. Because of the design and nature of the resource, not all of these criteria apply to the Hydros. The Hines Direct Testimony addresses compliance with ARM 38.5.8228. Additionally, each of the 14 criteria, as well as how each is addressed in this Application, is highlighted below:

1. **ARM 38.5.8228(1).** "If a utility intends to file an application for approval of an electricity supply resource that is not yet procured, it must notify the Commission and the Montana Consumer Counsel far enough in advance of filing to accommodate adequate pre-filing communication. If the resource will result from a competitive solicitation, notice must be provided before the utility issues a request for proposals."

NorthWestern Response: NorthWestern entered into the PSA on September 26, 2013, and publicly announced the transaction that same day. On October 11, 2013, NorthWestern submitted a letter to the Commission, with a copy to the MCC. The letter informed the Commission and the MCC that NorthWestern

intended to file an application for approval of the Hydros by December 24, 2013, and offered to engage in pre-filing communication. A copy of that letter is included in Exhibit__(APP-5) that is described below. As already discussed, the Hydros did not result from a competitive solicitation, and NorthWestern did not issue a request for proposals.

2. **ARM 38.5.8228(2)(a).** "A complete and thorough explanation and justification of all changes to the utility's most recent long-term resource plan and three year action plan, including how the utility has responded to all Commission written comments."

NorthWestern Response: To some extent, this requirement is complicated by the timing of the resource acquisition and this filing. When NorthWestern was evaluating the Hydros, the most recent resource plan was the 2011 Plan. The 2013 Plan was being developed during the same period and subsequent to execution of the PSA, NorthWestern completed its 2013 Plan which it will file on December 23, 2013. To the extent applicable, this rule is satisfied through testimony regarding the 2011 Plan, the 2013 Plan, the changes from 2011 to 2013, and NorthWestern's response to the *Written Comments*. See the Hines Direct Testimony.

3. **ARM 38.5.8228(2)(b).** "A statement explaining whether the application pertains to a power purchase agreement with an existing generating resource, a lease or acquisition of an equity interest in a new or existing generating resource, or a power purchase agreement for which approval will result in construction of a new generating resource."

NorthWestern Response: This Application is for an acquisition of a 100% equity interest in an existing generating resource.

4. **ARM 38.5.8228(2)(c).** "Testimony and supporting work papers describing the resource and stating the facts (not conclusory statements) that show that acquiring the resource is in the public interest and is consistent with the requirements in 69-3-201 and 69-8-419, MCA, the utility's most recent long-term resource plan (as modified by (2)(a)), and these rules."

NorthWestern Response: NorthWestern presents the information required by this rule throughout the accompanying testimony but principally in the Rowe, Hines, Meyer, Stimatz, Rhoads, and DiFronzo Direct Testimonies. Each witness has attached the appropriate and necessary work papers as exhibits to his testimony.

5. **ARM 38.5.8228(2)(d).** "Testimony and supporting work papers demonstrating the utility's estimates of the cost of the resource compared to the cost of each alternative resource the utility considered and all relevant functional differences between each alternative."

NorthWestern Response: NorthWestern presents the information required by this rule principally in the Bird, Hines, Meyer, and Stimatz Direct Testimonies. Additionally, the Masud and Otto Direct Testimonies address the value of the Hydros. Each witness has attached the appropriate and necessary work papers as exhibits to the testimony.

6. **ARM 38.5.8228(2)(e).** "Testimony and supporting work papers demonstrating the implementation of cost-effective carbon offsets for an

electricity supply resource fueled primarily by natural or synthetic gas constructed after January 1, 2007."

NorthWestern Response: This is not applicable as the Hydros were not constructed after January 1, 2007 and are not fueled by natural or synthetic gas.

7. **ARM 38.5.8228(2)(f).** "Testimony and supporting work papers demonstrating the capture and sequestration of 50% of the carbon dioxide produced by a electricity supply resource fueled primarily by coal constructed after January 1, 2007."

NorthWestern Response: This is not applicable as the Hydros were not constructed after January 1, 2007 and are not fueled by coal.

8. **ARM 38.5.8228(2)(g).** "A copy of the proposed power purchase agreement, including all appendices and attachments."

NorthWestern Response: This requirement is not strictly applicable because this does not involve a power purchase agreement. Nevertheless, as set forth above, the PSA and the PSA Schedules are attached as Exhibit__(APP-1) and Exhibit__(APP-2), respectively.

9. **ARM 38.5.8228(2)(h).** "A copy of any request for proposals issued in connection with acquisition of the electricity supply resource."

NorthWestern Response: This is not applicable. NorthWestern did not issue any request for proposals in connection with the acquisition of the Hydros.

10. **ARM 38.5.8228(2)(i).** "Testimony and supporting work papers comparing all bids received in connection with any request for proposals with respect to price and non-price factors."

NorthWestern Response: This is not applicable. NorthWestern did not issue any request for proposals in connection with the acquisition of the Hydros.

11. **ARM 38.5.8228(2)(j).** "Testimony and work papers describing all due diligence and bid evaluation in connection with any request for proposals, including the ranking of bids and reliance on management judgment."

NorthWestern Response: The Rhoads Direct Testimony describes NorthWestern's due diligence with respect to the physical condition of the Hydros. Mr. Rhoads has attached appropriate exhibits to his testimony, some of which are provided pursuant to a Protective Order issued by the Commission. The requirements regarding bid evaluation and ranking of bids are not applicable. NorthWestern did not receive, evaluate, or rank bids in connection with the acquisition of the Hydros. The Rowe, Bird, Hines, and Stimatz Direct Testimonies describe NorthWestern's reliance on management judgment in evaluating the Hydros and comparing the Hydros to other portfolios.

12. **ARM 38.5.8228(2)(k).** "Thorough explanation and justification for any terms, other than price, quantity, and contract duration, in a power purchase agreement for which the utility is requesting approval."

NorthWestern Response: This is not applicable. There is no power purchase agreement involved in the acquisition of the Hydros.

13. **ARM 38.5.8228(2)(l).** "A complete description of each aspect of the resource for which the utility requests approval."

NorthWestern Response: This Application identifies and describes the Hydros. Specific aspects and attributes of the Hydros are addressed throughout the testimony.

14. **ARM 38.5.8228(2)(m).** "Testimony and supporting documentation describing all pre-filing communication."

NorthWestern Response: The Rowe Direct Testimony discusses NorthWestern's pre-filing communications. Contemporaneous with the September 26th announcement, NorthWestern employees personally notified the Commissioners, Regulatory Division Staff members, Legal Staff members, and the MCC. Additionally, NorthWestern employees reached out to other interested stakeholders. Subsequent to the initial notifications and as described above, on October 11, 2013, NorthWestern provided notice of its intent to file this Application with the Commission. On October 18, NorthWestern made a presentation to the Commission in a noticed public meeting regarding the acquisition of the Hydros. On October 18 and November 13, 2013, NorthWestern held meetings of its Electrical Technical Advisory Committee at which it presented information on and received comment about the Hydros, the acquisition, and the modeling for the 2013 Plan. On October 22, 2013, NorthWestern held a community meeting in Great Falls at which it provided information about the acquisition. On November 8, 2013, NorthWestern met with and made a presentation to the Legislature's Energy and Telecommunications Interim Committee to explain the acquisition. Supporting documentation for the pre-filing communications is attached as Exhibit__(APP-5).

VIII. Authority to Issue Securities

As part of this Application, NorthWestern requests authority to issue securities necessary to consummate the transaction ("Request") and represents in connection with that Request the following:

1. NorthWestern is a Delaware corporation duly authorized to do business in the State of Montana as a foreign corporation and is doing business in the State of Montana as a public utility. Consistent with Commission practice, NorthWestern's most recent Form 10-Q and Form 10-K filings are attached hereto as Exhibit__(APP-6) and Exhibit__(APP-7), respectively.

2. This Request is submitted in accordance with the provisions of Title 69, Chapter 3, Part 5, MCA. By this Request, NorthWestern seeks an order from the Commission for authority to issue securities (as further described in this Request) in connection with its Application.

3. If the Commission approves the Application, NorthWestern intends to permanently finance the $900 million purchase price associated with the Acquisition with a combination of debt securities, equity securities, and cash from operations. The Acquisition has been structured to allow NorthWestern a brief period, if the Commission approves the Application, to access the capital markets and obtain long-term financing prior to the closing of the transaction. NorthWestern believes that it will have sufficient time prior to closing to finance the transaction on a long-term basis with approximately $450-500 million of secured debt securities and up to $400 million of equity securities (plus cash). However, in the event that NorthWestern is unable to obtain long-term financing

during such period, NorthWestern has arranged unsecured interim (bridge) financing for the full $900 million purchase price. If NorthWestern is required to access the interim financing, NorthWestern intends to repay and replace the interim financing with long-term financing at its earliest opportunity.[17]

4. Accordingly, NorthWestern is requesting approval to issue, if necessary, unsecured debt securities not to exceed in the aggregate $900 million with respect to any interim financing that may be necessary in connection with the transaction and, in addition to the interim financing approval, approval to issue some or all of the following kinds of securities, not to exceed in the aggregate $900 million, as NorthWestern determines to be necessary with respect to long-term financing in connection with the transaction:

a. Equity securities of NorthWestern not to exceed $450 million, including, without limitation, common stock, preferred stock, convertible or unconvertible preferred securities and hybrid securities issuable directly or indirectly by NorthWestern ("Equity Securities");

b. Secured debt securities of NorthWestern, not to exceed $500 million ("Secured Debt Securities"), including, without limitation:

[17] To be clear, if NorthWestern requires interim financing and then replaces that interim financing with long-term financing, the total aggregate of securities NorthWestern would issue would be $1.8 billion, consisting of $900 million of interim securities and $900 million of long-term securities. However, only $900 million would be outstanding at any given time.

i. One or more new series of First Mortgage Bonds to be issued under NorthWestern's Montana mortgage;[18] or

ii. Other secured debt securities; and

c. Unsecured debt securities of NorthWestern, not to exceed $900 million, including, without limitation, subordinated or unsubordinated unsecured debentures, debt securities, notes, commercial paper or other evidences of unsecured indebtedness ("Unsecured Debt Securities").[19]

By this Request, NorthWestern seeks authority to issue Equity Securities, Secured Debt Securities or Unsecured Debt Securities (collectively, the "Securities") by methods, which may include methods other than competitive bidding and negotiated offers, as is expressly permitted by 18 C.F.R. § 34.2(a)(3)(iii).

5. NorthWestern requests that the Commission issue a single order to authorize the relief NorthWestern seeks through this Request. NorthWestern seeks the flexibility to issue the Securities in one or more public offerings, private placements, direct placements, or agency transactions, or any combination of these methods of issuance, so long as NorthWestern determines any such method is in the best interests of NorthWestern, its customers, and its stockholders.

[18] Mortgage and Deed of Trust, dated as of October 1, 1945, as amended and supplemented.

[19] If the Commission approves this Request, the $900 million of authorized Unsecured Debt Securities would exclude Applicant's existing $300 million revolving credit facility which is covered under the Commission's order dated December 4, 2012 in Docket No. D2012.11.114, Order No. 7253, said order being effective through December 31, 2014.

6. NorthWestern may determine to issue the Securities in accordance with the competitive bidding or negotiated offer requirements set forth in 18 C.F.R. §§ 34.2(a)(1) and 34.2(a)(2). However, it may decide, depending on market conditions and other relevant factors, that proceeding outside of these requirements, as permitted by 18 C.F.R. § 34.2(a)(3)(iii), will be most advantageous. NorthWestern will base its determination as to the proper method of issuance principally upon the terms and conditions of the financing available to it, as guided by discussions with potential underwriters, agents, and/or purchasers, and the advice of its financial executive team, investment banking firm, and financial advisors.

7. NorthWestern requests that the Commission authorize NorthWestern to issue the Securities from time to time, in one or more transactions. The authorization issued by the Commission in this Docket would be with respect to the Application only and would be in addition to and would not replace the Commission's order dated December 4, 2012 in Docket No. D2012.11.114, Order No. 7253, said order being effective through December 31, 2014.

8. NorthWestern proposes to utilize the proceeds provided by the issuance of the Securities to pay the purchase price for the transaction and related transaction costs and expenses.

9. NorthWestern respectfully represents that (a) the transactions it proposes herein are consistent with the public interest; (b) the laws of the State of Montana permit the purpose or purposes of such transactions; and (c) the

total, aggregate amount of NorthWestern's securities outstanding, including those proposed herein, will not exceed the fair value of the properties and business of the NorthWestern.

10. NorthWestern respectfully requests the Commission act upon this Request simultaneously with and in connection with the Commission's consideration of the Application and waives the time limit for Commission action established in § 69-3-503, MCA.

11. To the extent the provisions of Section C.1.b. of Consent Order No. 6505e issued in Docket No. D2003.8.109 apply to this Request, this Request also shall serve as, and NorthWestern hereby affirmatively provides, notice to the Commission and the MCC forty-five (45) days in advance of the earlier of an irrevocable commitment or an undertaking on the part of NorthWestern that impacts the NorthWestern Montana Public Utility assets or facilities having either a net book value or transaction value (whichever is greater), as reflected in NorthWestern's records in accordance with the Uniform System of Accounts (18 C.F.R. Part 101), of not less than five million dollars ($5,000,000.00) per transaction.

12. For the convenience of the Commission, a proposed Order approving this Request is attached hereto as Exhibit__(APP-8).

IX. Conclusion

The Hydros will be a valuable electricity supply resource that will enhance NorthWestern's resource portfolio. As detailed in this Application and the testimony and exhibits of the witnesses, approval of this Application is in the public interest and procurement of the Hydros is consistent with the requirements in § 69-3-201, MCA, the objectives in § 69-8-419, MCA, and the Commission's rules. This Application complies with the Commission's minimum filing requirements for approval of an electricity supply resource that is not yet procured. NorthWestern requests that the Commission issue an order approving this Application and granting the specific relief requested herein including (1) approving the Request and authorizing the financing transaction proposed herein; and (2) authorizing NorthWestern to utilize proceeds from the transactions as proposed herein.

RESPECTFULLY SUBMITTED this 20th day of December 2013.

NORTHWESTERN ENERGY

By: _____

Al Brogan
Sarah Norcott
NorthWestern Energy
Attorneys for NorthWestern Energy

SEP 26, 2013

TESTER STATEMENT ON NORTHWESTERN ENERGY PURCHASE OF MONTANA HYDRO DAMS

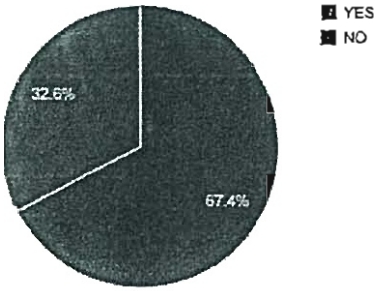
(U.S. SENATE) - Senator Jon Tester today released the following statement in response to news that NorthWestern Energy plans to acquire PPL Montana's hydroelectric dams:

"Northwestern has a long history of reliable service to Montana customers, and today's news ensures that ratepayers in the Treasure State will be able to use electricity generated from Montana's own waterways."

Independent Record

Is NorthWestern Energy's purchase of PPL Montana's dams a good thing for Montanans?

Is NorthWestern Energy's purchase of PPL Montana's dams a good thing for Montanans?



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September 26, 2013 6:04 pm (1) Comments

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Missoulian

GEORGE OCHENSKI: Montana's energy deregulation debacle about to come to an end

SEPTEMBER 29, 2013 11:37 PM • BY GEORGE OCHENSKI

The announcement that NorthWestern Energy will buy 11 hydroelectric dams on Montana's major rivers will finally bring one of the worst public policy decisions ever made to an end.

On the up side, it means that Montana will once again have a vertically integrated, regulated utility to serve its hundreds of thousands of customers. On the down side, it means we'll be paying twice for the same dams and generators we paid for when the former Montana Power Company owned them.

The story begins back in 1997, when Republican Gov. Marc Racicot teamed up with Bob Gannon, the CEO of MPC, to jam a utility deregulation bill through the Republican-controlled legislature. Instead of providing time for careful consideration and debate by introducing the long and complex measure early, the legislature had to suspend its own rules in the final weeks of the session to allow for the late introduction of the massive bill. In a classic case of what can come from single-party control, minority Democrats put up a good struggle, but it was ultimately futile.

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The Republican logic, if you can call it that, hinged on the belief that more competition in the utility market would ultimately result in lower energy prices. The fatal flaw, however, was that Montana already had the sixth-cheapest power in the nation and the lowest rates in the Northwest. In truth, we had little to gain but much to lose – far more than anyone suspected when the bill became law in April.

What was never discussed during the truncated debates was the possibility that MPC, which employed thousands of Montanans and was considered a very stable investment, would use deregulation to sell off all its energy assets. By December, however, CEO Gannon announced that they would do just that and pour the revenue into a new telecommunications company called Touch America.

To make a long story shorter, Gannon sold the dams to Pennsylvania Power and Light, the gas fields and lines to other entities, and liquidated the Montana Power Company. Montanans were aghast that an out-of-state entity would now control not only most of the dams on our major rivers, but would also own the very senior water rights, giving them legal rights to shut down most irrigation in the Upper Missouri River Basin in a severe drought.

But the disaster was just beginning and soon MPC's stock plunged from $63 a share to mere pennies, wiping out lifetime investments of those who formerly thought of the

regulated utility as virtually risk-free. Touch America went bankrupt, however, so perhaps there is some semblance of justice in the world.

The pain didn't stop there, unfortunately. Without the regulatory power to keep rates at near the cost of production, NorthWestern Energy, which bought MPC's transmission lines, was forced to buy power on the open market. The Republican free-market competition never materialized due to the limited customer base and significant transmission infrastructure. As a result, customers saw their electricity rates go from the lowest in the region to some of the highest.

*****

Slowly but surely, NorthWestern has been acquiring and building its own generation capacity, seeking to stabilize long-term power costs instead of relying on the often-volatile energy market. The Public Service Commission once again regulates the rates NorthWestern charges its customers, as it did with the former MPC.

Acquiring the dams will take Montanans back to a saner and more stable energy supply. Moreover, it will mean those all-important water rights that are appurtenant to the dams will be under the control of a western corporation – not one from the East Coast.

Unfortunately, the $900 million it will take to re-acquire the dams will, once again, be passed on to consumers. Ironically, in the old regulated system, the costs of building and operating the dams were "rate-based" – meaning MPC simply passed on those expenses as "cost of production."

Nonetheless, it seems prudent that Montanans will once again have clean hydroelectric production that doesn't rely on the price of various fuels or market forces. The deal still has to be approved by the Public Service Commission and the Federal Energy Regulatory Agency, which is expected to happen by the end of next year.

The lessons Montanans learned from the deregulation debacle were hard and expensive. But perhaps they'll be worth it if future Montanans are more skeptical when smooth-talking governors, corporate CEOs, and their minions in the legislature try to talk us into deregulation as a free market panacea.

George Ochenski writes a weekly column for the Missoulian's Monday Opinion page. He can be reached at oped@missoulian.com.

Exhibit (APP-2)
Docket No. 2013.12.85
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For comments, tips or corrections
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or 800-438-6600, or email recke@greatfallstribune.com.

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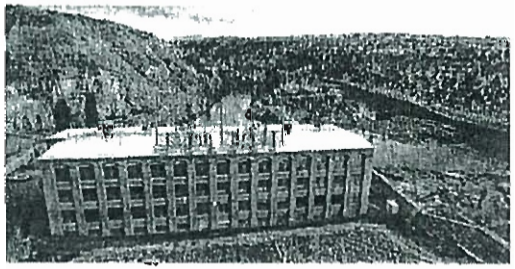
OUR OPINION

Dam investment seems wise for NorthWestern



The Ryan Dam powerhouse located 10 miles northeast of Great Falls generates power at the site of the Great Falls of the Missouri River. TRIBUNE PHOTO/LARRY BECKNER

Things have come nearly full circle in Montana's energy picture with the announcement late last month that NorthWestern Energy, the state's largest utility, will buy 11 hydroelectric dams in the state for $900 million.

Twenty years ago, Montana's largest utility, the Montana Power Co., owned the five hydroelectric dams on the Missouri River near Great Falls, plus six other dams across Big Sky Country, providing inexpensive power to Montanans.

Then came an unfortunate series of events. Montana legislators in 1997 deregulated energy at the power company's request. Montana Power sold off its power lines and sources of energy generation, including the dams, bought optic-fiber lines, and morphed into a company called Touch America that eventually declared bankruptcy.

South Dakota-based NorthWestern Energy bought the power lines from Montana Power. Pennsylvania Power and Light, or PPL, bought the Montana dams and a share of coal-fired power plants from Montana Power.

Efforts by liberal activists to get the state of Montana to buy the dams in 2002 fell flat, as voters turned down the proposal.

PPL Montana ran the dams for more than a decade, had good relations with recreationists in the area, including backers of River's Edge Trail, and probably made a tidy sum on power it sold from the dams.

Then the recession of 2008 and 2009 sent power prices plunging, and PPL EnergyPlus got ensnared in the bankruptcy filing of the Southern Montana Electric Generation and Transmission Cooperative in 2011. PPL went on to offer for sale its sources of power generation in Montana; PPL EnergyPlus stands to lose more than $300 million in the SME bankruptcy case.

Since PPL in 1999 paid more than $700 million for the dams and Montana Power's share of coal-fired power plants in Colstrip and Billings, the deal announced recently means the utility will receive more for the dams than it paid for the dams and coal-fired generation combined a decade ago. However, NorthWestern reports that PPL invested some $400 million in the dams since acquiring them.

Now the state's largest utility, NorthWestern, will gain ownership of the dams, including the newly upgraded Rainbow Dam northeast of Great Falls. We are hopeful that under the tutelage of NorthWestern, more dam upgrades will take place in Cascade County. Hydroelectric power is clean and never runs out, as long as water keeps flowing in the rivers behind the dams.

The 11 dams have a combined generating capacity of nearly 633 megawatts of power.

"This is a unique opportunity to acquire hydroelectric facilities dedicated to service our Montana customers for generations to come," said Bob Rowe, NorthWestern's president and chief executive officer. About 70 PPL Montana employees in hydro operations will become NorthWestern Energy employees when the sale is finalized.

David Hoffman, a spokesman for PPL, called the dams "a great fit for the NorthWestern system."

The acquisition is subject to regulatory approval by the Montana Public Service Commission, the Federal Energy Regulatory Commission and other state and federal agencies. The sale is expected to close in the second half of 2014.

We agree with officials such as PSC Commissioner Travis Kavulla of Great Falls that the state regulatory commission will need to take a hard look at the proposal, which looks good at first blush, to see if it will be a good deal for customers. Current NorthWestern electric rates are higher than average in the Northwest, where hydropower is prevalent, but less than average nationwide, according to the utility.

NorthWestern's Rowe initially said the purchase of the dams would mean an initial price increase of about 5 percent to customers, but rates based upon hydropower would tend to be stable in ensuing years.

Among the many questions that might emerge from the purchase: What kind of a life span can NorthWestern expect from the dams themselves and their hydroelectric components? Are maintenance costs expected to increase over time? Would there be ways to use hydropower to store power generated by nearby wind farms?

Energy is a complex field.

Just ask the city of Great Falls, which expects to lose $15 million from a failed energy venture.

But we think the dam purchase proposal looks highly promising at this stage.

— Tribune editorial board

Editor's note: *For another view on the tentative dam purchase, see tomorrow's Viewpoints page for an opinion piece by Bob Rowe, president of NorthWestern Energy.*

Northwestern Energy: Hydropower purchase ideal for state

OCTOBER 24, 2013 10:00 AM

NorthWestern Energy and PPL Montana LLC announced the sale of PPL's hydropower generation capacity within Montana on Sept. 26. The electric power ratepayers in the Northwestern Energy system have become the winners in the long-range power supply matrix when the final purchase approvals are passed by pertinent state and federal agencies.

With 630 megawatts of clean,

non-carbon electrical energy, Northwestern will be able to better plan for distribution and fair pricing for consumers by controlling this expanded generation source. Hydropower is a clean, non-controversial energy source that is reliable over time, and can offer stable pricing. With this purchase, Northwestern can reduce by nearly

one-half its reliance on carbon-based energy generation.

As a state senator, I introduced legislation to ensure that energy suppliers look to expansion of hydro generation through retro-fitting and new development of certain other water source energy prospects. I currently serve as chairman of the Energy and Telecommunications Interim Committee of our Montana Legislature. In our previous interim committee work, we examined hydropower in great detail, examining approaches that would encourage generators to consider various ways to expand this renewable, predictable source of power.

With their ownership of the Spion Kop Wind Project and now the addition of 630 megawatts of hydropower, NorthWestern will produce about half of its energy needs from clean, non-polluting sources. The approximately 270,000 Montanans who secure their energy needs from the company should see an improvement over time of the rates and charges they pay for electricity. The company will purchase less energy on the open market, which is subject to many vagaries including irregular challenges of supply and demand.

It's good news for the consumers of Montana to learn that the largest single generator and distributor of electricity in Montana is in the hydro business in a big way.

Sen. Cliff Larsen, Senate District 50, Senate Minority Whip, Missoula

Missoulian

MISSOULIAN EDITORIAL: NorthWestern's plans to buy dams just makes sense

OCTOBER 27, 2013 8:00 AM

NorthWestern Energy's recent announcement that it plans to buy PPL's 11 hydroelectric dams in Montana is a significant event – and $900 million is a significant price.

While the acquisition of the dams will initially mean an expected rate increase of about 5 percent, according to NorthWestern President and CEO Bob Rowe, the long-term result will be more stable rates.

That's because, with the dams generating a combined 630 megawatts of power, the largest electric utility in Montana will be in a position to buy a lot less electricity on the open market.

But in order for the deal to go through, the state Public Service Commission and the Federal Energy Regulation Commission, along with other state and federal agencies, have to be convinced that it's in the best interests of the public.

It is. While a deal of this magnitude comes with plenty of complexity, we are confident that both federal and state commissions will find plenty of reason to approve this purchase.

The facilities included in the sale are at Kerr Dam on the Flathead River, at the Thompson Falls Dam on the Clark Fork River, at the Hebgen Lake and Madison dams on the Madison River, at Hauser and Holter dams and at the Black Eagle, Cochrane, Morony, Rainbow and Ryan dams on the Missouri River.

Before PPL, these power plants were owned by Montana Power Co. However, Montana Power proposed a deregulation bill which the Montana Legislature passed and the governor signed in 1997, and that same year, Montana Power announced its intention to start selling off its various power assets.

The power plants went to a Pennsylvania power company called PPL Inc. The electricity and gas distribution network were sold to a South Dakota-based utility called NorthWestern Corp. Then, Montana Power converted into a company call Touch America and promptly went bankrupt.

It took 10 years, but in 2007 the Montana Legislature approved legislation that effectively re-regulates the state's electric utilities. And in the years since, NorthWestern has been

slowly working to rebuild itself as a "traditional" utility that owns its own power sources. Last month's announcement marks a tremendous leap toward that goal for the company.

But the agreement hinges on the slow, deliberate process of regulatory approval -- approval which NorthWestern and PPL hope to gain before the end of next year. In the meantime, both utilities will be doing their utmost to show regulators exactly how the purchase will benefit Northwestern's approximately 330,000 Montana ratepayers.

For one thing, the addition of hydroelectric power plants will help diversify NorthWestern's sources of energy. For another, the plants are a source of clean energy and aren't subject to the kinds of environmental oversight and controls as, say, coal-fired plants.

But just as importantly, NorthWestern's ownership of these hydropower facilities will allow the utility to provide power to Montanans in the most straightforward way possible, instead of acting as an intermediary that delivers power from other producers to their own customers. And that just makes sense.

EDITORIAL BOARD: Publisher Jim McGowan, Editor Sherry Devlin, Opinion Editor Tyler Christensen

BILLINGS GAZETTE

Lawmakers look at NorthWestern Energy dam purchase

NOVEMBER 08, 2013 2:07 PM • ASSOCIATED PRESS

HELENA — NorthWestern Energy's planned $900 million purchase of 11 hydroelectric dams will mean decades of stable customer rates after an initial increase of about 5 percent, or about $4 per month, on an average residential bill, company executives told lawmakers Friday.

NorthWestern CEO Bob Rowe and vice president of supply John Hines outlined the utility's agreement to buy the 11 PPL Montana dams to an interim legislative committee.

The deal isn't expected to be completed until at least September 2014, and it must be approved by the Montana Public Service Commission, the Federal Energy Regulatory Commission and antitrust regulators in the U.S. Department of Justice.

NorthWestern now only owns between 25 percent and 30 percent of the resources it uses to provide electricity to its customers, Hines said. Adding the dams, which produce a combined 633 megawatts of power, would bump up the utility's resource ownership to more than 60 percent, he said.

That means NorthWestern will be less susceptible to swings in the energy market, he said. That, combined with the flat cost of operating the dams, means greater long-term rate stability for customers, he said.

"We believe these assets will continue to operate as long as there is water in the rivers," Hines said.

NorthWestern and PPL Montana have been working on the deal since June and announced the agreement in October. PPL bought the dams on the Missouri and Clark Fork rivers from Montana Power Co. during deregulation in the late 1990s and early 2000s.

Though more information is needed, having NorthWestern Energy buy the dams instead of them going to an outside buyer should be good for the state, Sen. Alan Olson, R-Roundup, said.

"The opportunity to take that risk out of the market will go a long way toward the stability we used to have with the old Montana Power Co.," he said.

PSC Chairman Bill Gallagher told the committee that he expects NorthWestern to submit a pre-application in December. If it is approved, the regulator has 270 days to approve the final deal, putting the deadline around mid-September, he said.

NorthWestern plans to finance the purchase through a combination of debt and equity, Rowe said. The dams are already in the utility's territory, so no additional transmission build-out will be required, he said.

The addition of the dams would mean half of NorthWestern's power generation comes from water or wind, Rowe said.

Editorial: NorthWestern dams purchase a win-win for all Montanans

Posted: Friday, November 15, 2013 11:41 am

//Read by Mike//Ted

NorthWestern Energy's plan to purchase 11 hydroelectric dams from PPL Montana sounds like a good deal for the utility and Montana energy consumers. While regulators should scrutinize the plan carefully, it appears the deal could help stabilize and even lower Montanans' electricity rates far into the future.

When state lawmakers deregulated much of the energy production industry in the late 1990s, the former Montana Power Co. was essentially split in two, with NorthWestern buying the delivery end of the business and PPL buying the hydroelectric dams. Now PPL is looking for a buyer for those dams, and it would be best for Montanans if they were purchased by a utility within the state.

According to company officials, financing the $900 million deal will mean a 5 percent rate increase initially, or about $4 a month to the average residential consumer. But it will enable the utility to produce some 60 percent of the electricity it needs to meet consumer demand.

Right now, NorthWestern produces just 25-30 percent of its electricity needs. That means it must go to the open market for as much as 75 percent of the power we consume. And fluctuations in that market make planning for future needs difficult and expensive.

Montanans once enjoyed some of the lowest utility bills in the nation. Deregulation proved to be a costly miscalculation that many lawmakers came to regret. But we can't put that toothpaste back in the tube. The best we can do is put control of energy production and consumption in the hands of Montanans. And the purchase of the 11 hydroelectric dams by NorthWestern Energy could be a big step in that direction.

The deal is subject to Public Service Commission approval. And the commissioners should be diligent in making sure there are no hidden downsides to the deal and that NorthWestern is paying a fair price for the dams.

But assuming there are no devils in the details, this should be a win-win for all Montanans.

Service Date: _____

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

In the Matter of NorthWestern Energy's Application for Approval to Purchase and Operate PPL Montana's Hydroelectric Facilities, for Approval of Inclusion of Generation Asset Cost of Service in Electricity Supply Rates, for Approval of Issuance of Securities to Complete the Purchase, and for Related Relief	)	REGULATORY DIVISION DOCKET NO. D2013.12.85

[Proposed] Order Approving Request

1. On December 20, 2013, NorthWestern Corporation d/b/a NorthWestern Energy (NorthWestern"), a Delaware corporation authorized to transact business within Montana, filed with the Montana Public Service Commission ("Commission") its Application in this docket, which included a request ("Request") pursuant to Mont. Code Ann. §§ 69-3-501 through 69-3-507, seeking an Order for authority to issue up to $900 million worth of additional securities of Applicant as proposed in the Request.

2. The Request is supported by exhibits and data in accordance with Commission practice and rules and regulations governing the issuance and sale of securities by public utilities operating

within the State of Montana. For detailed information with respect to the general character of NorthWestern's business and the territory served by it, reference is made to its annual report on file with the Commission.

Findings of Fact

1. NorthWestern is a corporation organized and existing under and by virtue of the laws of the State of Delaware and is qualified to transact business in the State of Montana.

2. NorthWestern is a public utility as defined in Mont. Code Ann. § 69-3-101 and is engaged in furnishing electric and natural gas service in the State of Montana.

3. The Commission has jurisdiction over the subject matter of the Request pursuant to Mont. Code Ann. §§ 69-3-501 through 69-3-507.

4. NorthWestern applies for a Commission order for authorization to issue, in connection with its acquisition of the Hydros and associated assets from PPL Montana, LLC (the "Transaction"), some or all of the following kinds of securities, as NorthWestern determines to be necessary to obtain interim financing, not to exceed in the aggregate $900 million, and long-term financing, not to exceed in the aggregate $900 million,[1] for the purposes hereinafter discussed:

   a. Equity securities of Applicant not to exceed $450 million, including, without limitation, common stock, preferred stock, convertible or unconvertible preferred securities and hybrid securities issuable directly or indirectly by NorthWestern ("Equity Securities");

[1] If NorthWestern requires interim financing and then replaces that interim financing with long-term financing, the total aggregate of securities NorthWestern would be authorized to issue hereunder would be $1.8 billion, consisting of $900 million of interim securities and $900 million of long-term securities, although only $900 million would be outstanding at any given time.

b. Secured debt securities of NorthWestern, not to exceed $500 million ("Secured Debt Securities"), including, without limitation:

   i. One or more new series of First Mortgage Bonds to be issued under NorthWestern's Montana mortgage;[2] or

   ii. Other secured debt securities; and

c. Unsecured debt securities of NorthWestern, not to exceed $900 million, including, without limitation, subordinated or unsubordinated unsecured debentures, debt securities, notes, commercial paper or other evidences of unsecured indebtedness ("Unsecured Debt Securities").[3]

NorthWestern further seeks authority to issue Equity Securities, Secured Debt Securities and Unsecured Debt Securities (collectively, the "Securities") by methods, which may include methods other than competitive bidding and negotiated offers, as is expressly permitted by 18 C.F.R. § 34.2(a)(3)(iii).

5. NorthWestern requests that the Commission issue a single order to authorize the relief NorthWestern seeks through its Petition. NorthWestern seeks the flexibility to issue the Securities in one or more public offerings, private placements, direct placements, or agency transactions, or any combination of these methods of issuance, so long as NorthWestern determines any such method is in the best interests of NorthWestern, its customers, and its stockholders.

6. NorthWestern requests that the Commission authorize the NorthWestern to issue the Securities from time to time, in one or more transactions, in connection with the Transaction. The authorization issued by the Commission in this docket would be with respect to the

[2] Mortgage and Deed of Trust, dated as of October 1, 1945, as amended and supplemented.
[3] The $350 million of authorized Unsecured Debt Securities excludes NorthWestern's existing $300 million revolving credit facility.

Transaction only and would be in addition to and would not replace the Commission's order dated December 4, 2012 in Docket No. D2012.11.114, Order No. 7253, said order being effective through December 31, 2014.

7. NorthWestern will use the proceeds provided by the issuance of the Securities to pay the purchase price for the Transaction and related transaction costs and expenses.

8. The Transaction NorthWestern proposes is consistent with the public interest. The laws of the State of Montana permit the purpose or purposes of such transactions. The transactions are necessary or appropriate for, and consistent with, the proper performance by NorthWestern of service as a public utility. The total, aggregate amount of NorthWestern's securities outstanding, including those proposed herein, will not exceed the fair value of the properties and business of the NorthWestern.

Conclusions of Law

1. The financing transactions proposed by the Request, as hereinafter authorized, will be for a lawful purpose, are consistent with the public interest, and are necessary or appropriate for and consistent with the proper performance by NorthWestern of service as a public utility in Montana.

2. The Request satisfies the forty-five (45) day notice requirement required by Section C.1.b. of Consent Order No. 6505e issued in Docket No. D2003.8.109 as NorthWestern has properly provided notice to the Commission and the MCC.

Order

1. The Petition of NorthWestern for authority to issue up to $900 million worth of interim financing Securities and an additional $900 million worth of permanent financing Securities, as

described in the Request in accordance with the Findings of Fact, is hereby approved and the authority is granted. This authorization is effective immediately upon the issuance of this Order and shall continue through and including the closing of the Transaction, unless further extended.

2. Neither the issuance and sale of securities by NorthWestern pursuant to the provisions of this Order, nor any other act or deed done or performed in connection therewith, shall be construed to obligate the State of Montana to pay or guarantee, in any manner whatsoever, any security authorized, issued, assumed or guaranteed hereunder.

3. The approval of this Request shall not be construed as precedent to prejudice any future action of this Commission.

4. Issuance of this Order does not mean acceptance of NorthWestern's exhibits or other material accompanying the Application for any purpose other than the issuance of this Order. Approval of this Request is for financing purposes only. This approval is without prejudice to the regulatory authority of the Commission with respect to ratemaking, rates, service, accounts, valuations, estimates, or determinations of cost, or any other matter subject to its jurisdiction as provided by law.

Done in open session at Helena, Montana, this ____ day of _____, 2014, by a vote of ____ to ____.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

W.A. GALLAGHER, Chairman

BOB LAKE, Vice Chairman

KIRK BUSHMAN, Commissioner

TRAVIS KAVULLA, Commissioner

ROGER KOOPMAN, Commissioner

ATTEST:
Aleisha Solem
Commission Secretary

(SEAL)

Note: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within 10 days. *See* 38.2.4806, ARM.

Department of Public Service Regulation
Montana Public Service Commission
Docket No. D2013.12.85
PPLM Hydro Assets Purchase
NorthWestern Energy

PREFILED DIRECT TESTIMONY OF

ROBERT C. ROWE

ON BEHALF OF NORTHWESTERN ENERGY

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Witness Information

Q. Please state your name and business address.

A. My name is Robert (Bob) C. Rowe. My business address is 40 East Broadway, Butte, MT 59701.

Q. By whom are you employed and in what capacity?

A. I am employed by NorthWestern Energy ("NorthWestern") as the President and Chief Executive Officer. I have held this position since August 2008. I also serve as the only non-independent Director on NorthWestern Corporation's Board of Directors.

Q. Please describe your education and relevant employment history.

A. From 2005 through 2008, I was senior partner in Balhoff, Rowe & Williams, a specialized national professional services firm providing financial and policy advice in the telecommunications and utility industries. Prior to that, I was a Commissioner with the Montana Public Service Commission ("Commission") for 12 years from 1993 through 2004. During that period, I served at various times as Chairman of the Commission, Chairman of the National Association of Regulatory Utility Commissioners ("NARUC") Telecommunications Committee, President of NARUC, Chairman of the Regional Oversight Committee for US West, and in other capacities. I was a member of the Federal State Joint Board on Universal Service. I was active nationally, regionally and in Montana on telecommunications and energy matters, and

testified before the United States Senate Energy Committee, the House and Senate Commerce Committees, in other legislative hearings, and before the Federal Communications Commission. I have also participated as a trainer in scores of university-based and other professional training events. I am the immediate past Chair of the Western Energy Institute, Co-Chair of the Institute for Electric Innovation (part of the Edison Foundation, a project of the Edison Electric Institute) and a senior fellow at the University of Florida Public Utility Research Center. Over my career I have been a member of various other university-related boards, including at Columbia University. I received a Bachelor of Arts degree in History and Political Science from Lewis and Clark College in Portland, Oregon, a Juris Doctorate from the University of Oregon, and I completed the Kennedy School Senior Executives' Program.

Purpose of Filing and Testimony

Q. What is the purpose of this filing?

A. As detailed in the Application for this filing, NorthWestern is seeking approval from the Commission to (1) acquire 11 hydroelectric generating facilities and related assets located in Montana (the "Hydros") from PPL Montana, LLC ("PPLM") for $900 million; (2) include the Hydros' associated generation assets' cost of service in NorthWestern's electricity supply rates; and (3) issue the securities necessary to consummate the acquisition.

Q. What is the purpose of your testimony?

A. My testimony provides NorthWestern's overall company view of the acquisition of the Hydros by addressing the topics listed above under the Table of Contents.

Owning Montana Hydroelectric Generation

Q. How long has NorthWestern been focused on owning the Hydros?

A. NorthWestern started thinking about this possibility, in earnest, in 2009, after the Commission approved the inclusion of Colstrip Unit 4 ("CU4") in rate base.

As a prelude to this, House Bill 25 was passed by the Montana Legislature in 2007, allowing NorthWestern to own electric generation once again. NorthWestern grew stronger financially following its 2004 restructuring bankruptcy, enabling us to invest in all parts of our utility business. As we considered various energy supply ownership options, acquiring the former Montana Power Company ("MPC") hydro plants, to the extent they were ever available to purchase, and dedicating them to serve our Montana customers was a clear addition to the list. However, as noted by Mr. Hines, at that time it did not seem realistic to expect that PPLM would be willing to sell only the Hydros, as opposed to all of its Montana generation assets.

To that end, as discussed in more detail in the Bird Direct Testimony, from that time forward we had informal discussions with PPL Corporation ("PPL")

about buying PPLM and/or its Montana generation assets, finally leading to the actual acquisition of the Hydros.

Many Montanans have wanted to "get the dams back" ever since they were sold to PPLM.[1] This meant having the dams dedicated to serve Montanans and subject to economic regulation by Montana, or perhaps even acquiring them as publicly owned resources. It is a subject that has been raised by individual Montanans and at various community meetings on a regular basis since I joined NorthWestern.

Q. Why was NorthWestern so direct, diligent and patient when it came to owning the Hydros, as compared to other electric generation options?

A. Owning the Hydros, or indeed any of PPLM's assets, was only an option if PPLM ultimately decided to sell them. Because of the facilities' importance in enabling NorthWestern to provide safe and reliable energy to its customers for generations to come at reasonable rates, we approached PPL several years ago to ensure that it understood that we were interested in acquiring the Hydros if PPL ever decided to sell them. It was clear to us that NorthWestern was the optimal owner of these assets, as the Montana electric utility delivery systems we own, in particular the transmission system, were originally built around these facilities as part of a fully integrated electric utility

[1] On October 31, 1998, MPC sold the Hydros to PP&L Global, Inc ("PPL Global") pursuant to the terms of the Asset Purchase Agreement ("APA"). PPL Global assigned the APA to PP&L Montana, LLC on December 17, 1999. PP&L Montana, LLC later changed its name to PPL Montana, LLC.

system. In other words, they were already a perfect fit for us from a system standpoint. The Hydros were also a perfect fit from an energy supply portfolio standpoint. Since the sale by MPC to PPLM, we have obtained much of our baseload power from PPLM and its affiliate, PPL EnergyPlus, LLC ("PPL Eplus"), through market purchases, and continue to have an ongoing need for baseload power.

So, if PPLM ever decided to sell the Hydros, we wanted to be at the table. It is not an exaggeration to say that the Hydros purchase is a once-in-a-lifetime opportunity for our customers, shareholders and employees. When the neighbor's farm comes up for sale at a fair price, and if you are serious about farming, you'll take a close look at it. We decided it was the right time to buy the neighbor's farm, and to dedicate it to serving our customers.

Q. Why were the Hydros so attractive and important to NorthWestern?

A. They are a perfect fit for NorthWestern's electricity supply portfolio, and the timing of their availability is ideal, given that the existing PPLM market-based contracts are about to expire. Owning the Hydros is good for NorthWestern, and good for our Montana electric utility customers as the plants would be dedicated to serving them. NorthWestern's ownership of the Hydros is also good for Montana. The following summarizes the numerous attributes and benefits of acquiring and owning the Hydros at this time:

For NorthWestern Energy and our Montana electric utility customers, ownership of the Hydros:

1. Significantly improves the sustainability and long-term value of NorthWestern's electricity supply portfolio to serve our customers, with long-term reliable power and stable costs;
2. Results in customer prices that are less affected by the market than if this purchase were made when the market price curve was high; and, if approved by the Commission, this relatively low market price curve will become the base for future cost-based prices for our customers;
3. Provides site diversity and generation dispersion, as the facilities include multiple generating units, are situated in two separate river basins covering both sides of the Continental Divide, and are dependable, with a history of strong and reliable operating performance, low variable operating costs and favorable environmental qualities;
4. In conjunction with current coal, natural gas and wind assets, increases our energy capacity and provides NorthWestern greater certainty regarding our energy supply, which will enable us to provide continued reliability and stability to our customers;
5. Provides excellent supply diversity;
6. Provides NorthWestern a greater ability to minimize a range of risks associated with electric supply, resulting in enhanced price stability for customers

7. Is an environmently responsible resource, and pending and future environmental regulation will likely increase the value of hydroelectric generation assets in the Northwest as they do not emit carbon;
8. Provides customers a dedicated and reliable supply of baseload hydropower to meet their energy needs today and for generations to come;
9. Offers hydropower, a clean, stable and sustainable source of electricity, which some customers will consider a value independent of our risk assessment;
10. Manages fuel price risk;
11. Allows us to operate a locally-controlled integrated system for the benefit of our customers – because these units were designed as part of the integrated electric system that we operate, they fit seamlessly within our existing transmission system in Montana, with no incremental transmission interconnection or costs;
12. Supports our goal of providing our customers the benefits of a long-term portfolio; and
13. Allows us to continue to execute our strategy of providing reasonably and stably-priced energy supply to our customers while earning a reasonable return on investment versus procuring supply from the market;

I recognize that there is overlap between these attributes. I also recognize that others have identified their own reasons why the transaction is compelling to them.

<u>For Montana, NorthWestern Energy's ownership of the Hydros:</u>

1. Represents a unique opportunity to acquire hydroelectric resources that will be locally operated, rededicated to serving our Montana customers' electricity requirements for generations to come;
2. Reinforces and expands NorthWestern's commitment to Montana, its citizens and its environment; and
3. Continues to support the economic well-being of Montanans.

It would be hard to overstate the value of the Hydros to Montana, in terms of power supply, environmental significance, and cultural importance. The systems cover hundreds of miles of rivers and reservoirs, winding through open valleys, cutting through canyons and passing many Montana communities, most of which we serve.

Q. What has been the reaction from Montana to NorthWestern's announcement to buy the Hydros?

A. Extremely positive! I am regularly approached by people who are eager to express their support, from all segments of Montana, including customers, business owners, state officials, legislators, and various business and community leaders.

1 **Q Did NorthWestern's interest in owning the Hydros impede its pursuit of**
2 **other electricity supply resources to serve its short-term and long-term**
3 **supply needs?**
4 **A.** No. While we were certainly interested in the Hydros, it was always a matter
5 of, "if they became available!" The availability of opportunistic resources was
6 described in NorthWestern's 2011 Electricity Supply Resource Procurement
7 Plan ("2011 Plan"), but we did not have the luxury of waiting for the Hydros. A
8 good example of this was NorthWestern's focus on building a natural gas-
9 fired generation unit, which was also discussed in the 2011 Plan. Since
10 publishing that plan we engaged in preparation stages for such a plant,
11 including listing potential sites and possible technologies.
12
13 **NorthWestern Business Strategy**
14 **Q. How does owning the Hydros fit with NorthWestern's business**
15 **strategy?**
16 **A.** Perfectly. NorthWestern's business strategy recognizes that, at our core, we
17 are a fully regulated, investor-owned electric and natural gas distribution,
18 transmission, and supply public utility. Accordingly, this requires us to work
19 together to deliver safe, reliable and innovative energy solutions that create
20 long-term value for customers, communities, employees, and investors.
21
22 We provide essential services to our customers, the communities where they
23 work and live, and indeed to most of Montana. The availability of safe,

reliable and affordable electricity and natural gas is foundational to the economic well-being of all of us in Montana.

Given the importance of the utility services that NorthWestern provides, we are focused on delivering integrated, sustainable electric and natural gas utility services well into the future. NorthWestern's utility pyramid, illustrated below, is built on a firm foundation of utility core-competence from bottom to top.

As we continually evaluate NorthWestern's "Supply Adequacy and Stability," securing and maintaining baseload resources like the Hydros is one of our primary goals. A baseload resource is the base – the foundation – of the stack of resources running around the clock and is one of the most important resources in an electric utility's portfolio.

Q. Why is it important for NorthWestern to own electric generation facilities such as the Hydros?

A. When it comes to providing sustainable energy supply service, we believe locally operated and managed Hydros will certainly benefit our customers. I think of "sustainability" as meeting today's needs while ensuring we are also able to meet future needs. It is the opposite of the short-term mindset that afflicts too many companies, politicians and policymakers, and even families and individuals. Short-term thinking got us into trouble with supply deregulation and divestiture. Working together, we now have the opportunity to do the right thing for the long-term. Investing in our customers by owning resources dedicated to serving them at prices based on the cost to own and operate, rather than the market, contributes directly to our ability to remain a sustainable and financially sound utility. This, in turn, facilitates our ability to provide long-term safe, reliable and affordable electric and natural gas utility service. Put simply, acquiring these assets greatly benefits our customers, and Montana.

1 We prepared the following diagram several years ago to communicate to
2 employees how we think about "sustainability." We have refined it from time
3 to time and discuss it in everything from strategic planning and goal setting to
4 new employee orientation and other employee meetings. Because we
5 provide essential services and infrastructure, and especially because we
6 serve a relatively rural area, it is important for us to excel at meeting our
7 responsibilities now, and to be able to meet those decades into the future.
8 Sustainability for NorthWestern is about being commited to financial
9 soundness, cultural integrity, operational excellence, and supporting
10 constructive policy:

We focus collectively on the above four key areas when we think about sustainability. Owning the Hydros fundamentally reflects all of these. They are briefly described below:

Financial Soundness – As a publicly traded company, we have a fundamental obligation to be profitable. We cannot be sustainable as a business if we are not financially strong and able to meet the needs of our shareholders and debt owners. We must be both profitable and sustainable to continue to satisfy our shareholders and customers over the long term.

Cultural Integrity – NorthWestern is highly valued because we are viewed as a stable provider of essential service, a good partner, a sound investment in the business sector, and a company that follows the best corporate governance practices. We are proud of our vision and we actively promote it. We need to be unambiguous about what we do; communicate it clearly; and show leadership through excellent performance management. We also have a strict focus on our multiple compliance duties; are open and transparent when reporting our business affairs; and execute what we say through our actions.

We are environmentally conscious; we recognize that we all have a duty to work and operate in an environmentally responsible manner. We are a

responsible corporate citizen. Through our Community Works program we contribute almost $2 million annually to philanthropic, economic development and community enrichment activities throughout our service territory. As our operations grow, we look forward to increasing this commitment. In addition, our employees contribute their time and talents – both on and off the job – to make their communities great places to raise their families.

A strong corporate culture at all levels is a key component of sustainability. Like the infrastructure we build, operate, and maintain, our culture will be an important part of the legacy we leave to future generations of employees and customers. The overwhelming response of our employees to the Hydro acquisition affirmed to me that it was important for cultural reasons as well.

Operational Excellence – The health and safety of our employees is key to our sustainability efforts. Work should be a positive experience so that we can achieve our vision. Our employees' health and wellbeing underpin our ability to remain a sustainable business, and we want our employees to go home in at least as good a shape as when they arrived at work. (We consider employee safety to be a cultural as well as an operational attribute.) As the Commission is aware, through our work on the Distribution System Infrastructure Plan and other important efforts, we

have a clear focus on our operations and infrastructure using long-range asset management, customer care support, and workforce planning and development. The Hydros acquisition is consistent with and will complement our operational focus.

Constructive Policy – Because we have no non-utility lines of business, policy is very important. Because a majority of our operations are in Montana, Montana policy matters very much. We seek to align the long-term needs and interests of our customers, employees, shareholders and other stakeholders through our approach to business. We must consider the effects of our decisions inside and outside the company and work with and support our employees, our communities and the people in them. As described below, the Hydros acquisition is enabled by thoughtful policy-making and implementation by the Legislature and this Commission.

State of Montana Electric Generation Public Policy

Q. What is the public policy of the State of Montana regarding the ownership of electric generation assets by utilities like NorthWestern?

A. The 2007 Montana Legislative Session introduced and passed House Bill 25. The spirit and intent of House Bill 25 is still embodied in Chapter 8 of Title 69 of Montana Law, and its Short Title in § 69-8-101, MCA. This chapter may be cited as the "Electric Utility Industry Generation Reintegration Act." As is evident in the title and to those who participated directly in the debate, the

Montana Legislature wanted NorthWestern to reintegrate generation as part of a fully integrated utility service: that is, much like the former Montana Power Company, to provide fully bundled electric utility generation, transmission and distribution service, with utility owned assets.

House Bill 25, which for our non-industrial customers removed the remnants of the "Electric Utility Industry and Customer Choice Act" of 1997, an ill-conceived competitive market-based experiment that most have recognized failed miserably. As part of MPC's implementation of this Act, its generation assets were sold to PPLM in 1998. Policymakers were at least farsighted enough to ensure that the so-called "net stranded benefits" from the sale went to customers, in the form of an immediate supply rate reduction at the time of the sale. Additionally, MPC entered into a "buy-back contract" with PPLM, which provided protection from the extreme western electric market volatility through June 30, 2002, for those customers who continued to obtain their electricity through MPC, and eventually NorthWestern.

However, NorthWestern and its customers have essentially been left at the mercy of the regional electric market and its price volatility over the last decade. The market-based prices we paid under PPLM and/or PPL EPlus contracts, as one of our major power suppliers, beginning July 1, 2002, is a primary example of this.

It was in part, the economic activities, resource decisions, and public policy initiatives occurring far outside Montana's borders that shaped, for better or worse, outcomes for customers during this time. Owning the Hydros, under the regulation of this Commission, will allow NorthWestern to control a big part of our own destiny.

We believe the public policy of the State of Montana clearly sets out owned generation as a preference and provides NorthWestern the opportunity to own the Hydros and reintegrate them as part of its portfolio of electric resources, as long as it meets the other related requirements of Montana law and Administrative Rules ("ARM"). The Hines Direct Testimony addresses how acquisition of the Hydros meets these requirements.

Q. Are there potential parties that question a utility-owned generation preference?

A. Yes. There are energy supply developers who understandably would like to finance their own potential projects through sales to our customers. NorthWestern is a natural focus for these developers as we have continued to add to our portfolio of resources to serve the future needs of our electricity utility customers. Some appear to believe that they should receive an automatic preference or priority, and attempt to use the regulatory setting or the Montana Legislature to achieve such an outcome.

A recent example of this was the introduction and defeat of House Bill 475 in the 2013 Montana Legislative Session. This bill would have established a mandatory competitive bid process for a public utility seeking preapproval of any electricity supply resource it attempted to acquire, whether constructed or purchased. The bid process would have been regulated and controlled by the Commission. Although a utility could have requested a waiver from the competitive solicitation process, it would have had to meet a prescribed set of requirements and a defined process to do so. Such a process would have provided additional opportunities for energy supply developers to challenge the waiver. These suppliers are continually looking for a home for the energy from their potential projects. Others are simply philosophically opposed to utility-owned generation. A waiver request would likely become a highly contested, time-consuming matter before the Commission.

Q. Is competitive solicitation the preferred method under existing ARMs guiding NorthWestern's resource acquisitions?

A. Yes, but it is not mandatory in all instances. While ARM 38.5.8212 - Resource Acquisition states, "a utility should use competitive solicitations" as a preference, it also provides the following exception:

> "To the extent a utility does not use competitive solicitations to acquire electricity supply resources it should thoroughly document the exercise of its judgment in evaluating and selecting resource options, including the decision not to use competitive solicitations."

1 **Q. If House Bill 475 had passed and required a mandatory "competitive**
2 **solicitation process," or if current Montana law did not have a**
3 **competitive solicitation exception, would NorthWestern have been able**
4 **to purchase the Hydros?**
5 **A.** No, as a practical matter NorthWestern would have been precluded from
6 making such a purchase. First, PPLM was selling the Hydros through a
7 market-based transaction, attempting to secure the highest price from willing
8 buyers. It was PPLM's process, not NorthWestern's. It is evident that PPLM
9 would not have participated in a NorthWestern-initiated "competitive
10 solicitation process" aimed at securing the lowest possible price from
11 competing projects. We know there were likely other willing buyers waiting in
12 the wings, if NorthWestern did not buy the Hydros
13
14 Second, it would have been difficult to purchase the Hydros without an ability
15 to seek advanced approval of such a purchase from the Commission.
16 NorthWestern cannot assume the risk of closing a transaction of this size in
17 advance of the Commission's approval while continuing to meet our other
18 obligations to customers. It should also be noted that the requirement for
19 regulatory approval is a delay-causing risk that PPLM would not face were it
20 selling the properties to a merchant operator. NorthWestern is the only
21 purchaser that would have required the Montana Commission's approval. In
22 any event, it is extremely fortunate that NorthWestern had the opportunity to
23 purchase the Hydros.

Buying the Dams

Q. How did NorthWestern decide whether or not to "buy the Dams"?

A. As discussed above, the Hydros are clearly an ideal resource, embedded in our transmission and distribution systems, and they match our resource needs. However, NorthWestern still had to determine the price to pay. Thoughtful consideration of the impact of the acquisition on NorthWestern and our customers was necessary to answer this question.

Ultimately, after a thorough process that involved numerous employees throughout NorthWestern, assisted by a number of external advisors, each with significant knowledge and experience in their area of focus, we confirmed that the Hydros were an extremely valuable asset given their unique characteristics and attributes and the natural benefits they provide. The Rhoads Direct Testimony provides a detailed discussion of the due diligence review and site inspections performed for the Hydros.

The most difficult challenge we faced was to balance the need to acquire the Hydros at a satisfactory market-based price acceptable to PPLM, while at the same time focusing on the billing impact such a purchase would have on NorthWestern's electric utility customers.

The Bird and Hines Direct Testimonies provide further information regarding the detailed elements of the process that NorthWestern used to determine the $900 million purchase price for the Hydros.

The Purchase and Sale Agreement by and between PPL Montana, LLC and NorthWestern Corporation dated as of September 26, 2013, is contained as part the Application for this Filing.

Q. How did NorthWestern determine the purchase price?

A. As described in the Hines and Bird Direct Testimonies, NorthWestern used a deliberate and focused approach to determine the correct purchase price. Front and center throughout these deliberations was a focus on the need to meet this Commission's regulatory standards of review, which are discussed in my testimony below.

Q. How did NorthWestern address the bill impact of the purchase on the electric utility customers?

A. The bill impact on our customers was a focal point of the purchase process. While a determination of an acceptable level of billing impact will be different to different parties, NorthWestern focused on a 10% general rule of thumb. We believed that, even for these tremendous assets, a first year impact greater than 10% would be too much.

At the time we announced our Hydros purchase decision, the billing impact was forecasted at a 5% increase or about $4 per month on a total typical residential bill (based on rates as of September 2013). Additionally, the cost of power from hydroelectric facilities dedicated to serve Montana customers should be very stable over time and not subject to market price swings. After the initial increase, hydroelectric generation facility costs are expected to remain relatively stable for many years.

Q. Have the customer billing impact figures changed since NorthWestern's public announcement of the Hydros acquisition?

A. Yes. Since that time, we have continued to refine our analyses based on the latest available information leading up to the preparation of this filing and the development of a detailed 2014 test year Generation Asset Cost of Service. Based on the latest information, as shown in the DiFronzo Direct Testimony, we now forecast a 4.22% increase or about $3.53 per month on a total typical residential bill, when compared to rates in effect as of November 2013.

Q. What other energy supply options were available to NorthWestern leading up to the Hydros being offered for sale?

A. As presented in NorthWestern's prior and current biennial Montana Electricity Resource Procurement Plans, we continue to require adequate baseload resource to meet the constant energy needs of our electric utility customers. Our primary baseload resource options included combinations of market

purchases and building a natural gas-fired generation plant at some point in the near future. These options are discussed in further detail in the Hines Direct Testimony and in the Stimatz Direct Testimony.

Stated directly, once PPLM decided to sell the Hydros, we had two choices: buy the hydro generation assets ourselves or let someone else from out of state buy them. The Hydros were prime assets that were going to be easily sold if NorthWestern didn't buy them. We had a once-in-a-lifetime opportunity to buy the Hydros and we were not going to pass it up if they were available on reasonable terms.

Q. What would have been the likely regulatory consequences to NorthWestern for not having aggressively pursued the Hydros?

A. Given the importance and great interest of the Hydros to and in Montana, failing to pursue these assets could have led to a future determination by this Commission of imprudence on the part of NorthWestern, as well as intense customer and public criticism. We considered these consequences real risks.

In sum, we were deliberative in pursuit of the assets on reasonable terms. We were serious about an upper constraint on a price we could offer based on customer bill impacts. We also believed that we had a responsibility to our customers to pursue the acquisition.

Regulatory Standard of Review

Q. You mentioned earlier in your testimony that there was a consistent focus on the need to meet the regulatory standards of review. Please describe what you mean by this statement.

A. As a result of our previous advanced approval filings with the Commission related to Colstrip Unit 4 ("CU4"), the Dave Gates Generating Station ("DGGS"), and the Spion Kop Wind Project ("Spion"), NorthWestern was well aware of the statutory and regulatory standards by which the Commission would review NorthWestern's advanced approval request. These include:

1. The determination that the acquisition is in the "public interest" (§ 69-8-421, MCA) if the benefits outweigh the risks to customers, long-term;
2. The determination that the acquisition is consistent with the "Electric Supply Resource Planning and Procurement Goals and Objectives (ARM 38.5.8203 and 38.5.8204)";
3. The determination that the Advanced Approval Filing meets the "Minimum Filing Requirements of utility applications for Approval of Electricity Supply Resource (ARM 38.5.8228)"; and
4. Consideration of Ascertaining Property Values (§ 69-3-109, MCA), which allows inclusion of an acquisition adjustment.

Items 1, 2 and 3 are addressed in the Hines Direct Testimony. Item 4 is addressed in the Bird Direct Testimony and in the Kliewer Direct Testimony. I

will also provide additional information regarding items 1 and 4 in the testimony below.

Q. What is the Commission's primary standard of review for filings like this one?

A. NorthWestern specifically submitted its Application in this filing with the Commission for approval under § 69-8-421, MCA - Approval of electricity supply resources. Part (6) (c) under this statute, requires that "A commission order granting approval of an application must include the following findings:

> (i) approval, in whole or in part, is in the public interest; and
> (ii) procurement of the electricity supply resource is consistent with the requirements in 69-3-201, the objectives in 69-8-419, and commission rules."

NorthWestern has previously filed, and the Commission has evaluated and approved, three separate electricity supply resource preapproval applications. These include:

1. CU4 in Docket No. D2008.6.69;
2. DGGS in Docket No. D2008.8.95; and
3. Spion in Docket No. 2011.5.41.

As a result, this type of filing is not new to the Commission, and each of its respective orders pertaining to these dockets has followed the above statutory requirements and established some controlling case history along the way.

Purchasing the Hydros is in the Public Interest and the Long-term Benefits Outweigh the Long-term Risks

Q. Describe "public interest" from an historical perspective applicable to this proceeding, and generally from a regulatory point of view.

A. In the previous three filings, listed above, I think it is fair to state that the Commission found that each of these long-term resource acquisitions was in the public interest *because the benefits of acquiring the resource outweighed the risks to customers.*

This is readily apparent in Finding of Fact No. 95 in Docket No. D2011.5.41, Order No. 7159l, in NorthWestern's Spion advanced approval filing, which also references the DGGS and CU4 filings. It reads as follows:

> 95. In order for the Commission to grant approval of electricity supply resources that a utility seeks an ownership interest in, the Commission must find that the approval is in the public interest. § 69-8-421(6)(c)(i), MCA. The utility must present evidence to the Commission showing that the acquisition of the resource is in the public interest. *See* ARM 38.5.8228 (requires a utility seeking pre-approval to file certain documents justifying its request); see also Order No. 6505e, ¶B2 in Docket No. D2003.8.109 (finding that the party seeking a change bears the burden). The Commission has found that acquisition of a resource under § 69-8-421, MCA, is in the public interest if the benefits outweigh the risks to ratepayers. *See* In the Matter of an Application by NorthWestern Corporation for Approval of its Interest in Colstrip Unit 4, Order No. 6925f, ¶ 217, and In the Matter of the Application for Approval to Construct and Operate the Mill Creek Generating Station, Order No. 6943a, ¶ 211.

I would also point out that the traditional public interest view emphasizes the role of regulation in protecting customers against discriminatory pricing or unreliable service. This is the reason § 69-8-421, MCA, also refers to § 69-3-

201, MCA, requiring public utilities to provide adequate service at reasonable charges.

Q. How do the electricity supply resource planning and procurement objectives in § 69-8-419, MCA, factor into the public interest consideration under § 69-3-201 MCA?

A. These objectives are intended to provide high-level guidance as a public utility plans, procures, and manages a portfolio of electricity supply resources to serve its customers. The objectives specify that a public utility shall:

(a) provide adequate and reliable electricity supply service at the lowest long-term total cost;
(b) conduct an efficient electricity supply resource planning and procurement process that evaluates the full range of cost-effective electricity supply and demand-side management options;
(c) identify and cost-effectively manage and mitigate risks related to its obligation to provide electricity supply service;
(d) use open, fair, and competitive procurement processes whenever possible; and
(e) provide electricity supply service and related services at just and reasonable rates.

The objective to provide service at just and reasonable rates incorporates the public interest consideration to provide adequate service at reasonable charges found in § 69-3-201, MCA.

A number of these objectives are reflected in the benefits/risks comparison below; the Hines Direct Testimony addresses them as well.

Q. Given that the Commission has primarily found that a long-term resource acquisition is in the public interest *if the benefits of acquiring the resource outweighed the risks to customers*, how does NorthWestern assess the benefits and risks of the Hydros?

A. NorthWestern assesses the "benefits and risks of the Hydros" in the context of Montana statutes and the Commission's rules pertaining to Electricity Supply Resource Planning and Procurement ("Rules").

Montana statutes (§ 69-8-419, MCA) require a Public Utility to:

(a) plan for future electricity supply resource needs;
(b) manage a portfolio of electricity supply resources; and
(c) procure new electricity supply resources when needed.

Meeting this regulatory standard is guided by the Rules, with specific goals and objectives. These Rules essentially provide the side-boards that guide NorthWestern's electricity supply planning and procurement actions and the Commission's review of NorthWestern's biennial plans and actual procurement activities.

In the case of "a decision by a utility regarding the acquisition of an equity interest in an electricity generating plant," the Rules also require that such an acquisition should be "thoroughly evaluated against available market-based alternatives" (ARM 38.5.8212(4)). NorthWestern's 2011 Plan primarily focused on replacement of existing electricity supply contracts providing baseload power with new market-based supply contracts and/or utility-owned

natural gas-fired generation. The 2013 Electricity Supply Resource Procurement Plan includes a third replacement option, purchase of the Hydros.

Additionally, a key provision of the Rules is ARM 38.5.8219 - Risk Management and Mitigation, which focuses on "evaluating, managing, and mitigating risks associated with the inherent uncertainty of wholesale electricity markets and customer load."

There was a lot of hard work by the highly experienced and knowledgeable NorthWestern team that contributed to our assessment of the benefits and risks of the Hydros. We prepared the following two tables in an attempt to collectively quantify the various activities that inherently went into considering the benefits and risks of the Hydros. These tables attempt to visually rate the capability of the Hydros to meet these Goals and Objectives and satisfy the Risk Management and Mitigation requirements of the Rules. The tables also compare the ratings of the Hydros to the planned resource alternatives:

Electricity Supply Resource Planning and Procurement *Goals and Objectives* – ARMs 38.5.8203/38.5.8204 (Meets Goals and Objectives: 1 is Best and 3 is Worst)	Hydros	Market-Based Contracts	Natural Gas-Fired Generation
Facilitate Adequate & Reliable Supply Service	1	3	2
Provide Customers Stable and Reasonable Prices at Lowest Long-term Total Cost	1	3	2
Promote Economic Efficiency	1	2	3
Assemble and Maintain a Balanced Environmentally Responsible Portfolio	1	3	2
Facilitate Utility Financial Health	1	3	2
Maintain an Optimal Mix of Electricity Supply Resources	1	3	2
Cost Effectively Manage and Mitigate Risk	1	3	2

Electricity Supply Resource Planning and Procurement *Risk Management and Mitigation* – ARM 38.5.8219 (Mitigates and Manages Risk: 1 is Best and 3 is Worst)	Hydros	Market-Based Contracts	Natural Gas-Fired Generation
Fuel Prices and Price Volatility	1	3	2
Environmental Regulations and Taxes	1	3	2
Retail Supply Rates (Long-term)	1	3	2
Transmission Constraints	1	2	2
Supplier Capabilities/Creditworthiness	1	3	2
Construction Costs	1	1	3

Others could certainly rank the three alternatives differently on various specific attributes. It is difficult to imagine a Montanan who lived through the experience of electric supply deregulation reaching a different ultimate conclusion.

1 **Q. Does NorthWestern believe its acquisition of the Hydros is "in the**
2 **public interest" and that this procurement is consistent with the**
3 **requirements listed in the objectives of § 69-8-419, MCA, and**
4 **Commission Rules?**
5 **A.** Yes. After collectively evaluating and weighing the benefits and risks listed
6 above, NorthWestern believes that the acquisition is clearly in the public
7 interest and the benefits of the acquisition undoubtedly outweigh the risks.
8
9 **Q. What is your view of the determination that the Commission needs to**
10 **make under § 69-3-109, MCA, Ascertaining Property Values?**
11 **A.** As set out in the Application for this filing, the Commission has broad
12 authority under Montana law and its administrative rules to review and
13 approve NorthWestern's request to purchase and rate base the Hydros at the
14 purchase price of $900 million. The primary focus of the Commission's
15 regulatory standard of review is whether or not NorthWestern's purchase is in
16 the public interest and that this purchase results in rates that are "reasonable
17 and just."
18
19 The regulatory history of the Hydros in this docket is unique. These assets
20 were originally dedicated to public service by MPC as they were built. They
21 were later removed from public service as mandated by then-current law
22 and a series of Commission implementing orders adopted pursuant to that
23 law in Docket Nos. D97.7.90 and D2001.1.5, as part of MPC's Transition

Plan for deregulating its electric utility supply service at that time. Now, NorthWestern proposes to purchase the assets from PPLM and dedicate them to public service once again. It is hard to imagine a future Legislature forgetting the lessons we have learned and again reversing course. It is also hard to imagine another opportunity for current policymakers to secure resources of this kind and quality for countless future generations.

As described in the Kliewer Direct Testimony, NorthWestern is required to account for the purchase of the Hydros in accordance with the FERC Uniform System of Accounts, which requires Electric Plant purchases to be charged to Account 102 – Electric Plant Purchased or Sold at the original cost of the plant, with any remaining amount greater than the original cost charged to Account 114 – Electric Plant Acquisition Adjustments. Accordingly, NorthWestern would account for this purchase in the aggregate as follows:

Account 102 – Electric Plant Purchased or Sold	$553
Account 114 – Electric Plant Acquisition Adjustments	$347
Total ($= millions)	$900

This FERC accounting requirement is guided by Definition No. 23, which reads as follows:

> *Original cost,* as applied to electric plant, means the cost of such property to the person first devoting it to public service.

Therefore, NorthWestern recognizes that there is an acquisition accounting adjustment on this basis. And while there may be intervenors in the docket who challenge the purchase on these grounds, in order to acquire the Hydros for the long-term future benefits of Montana and NorthWestern's electric utility customers, a market-based purchase price was required, as described in the Bird Direct Testimony.

Pre-Filing Communications

Q. Provide a description of all pre-filing communications between NorthWestern, its Technical Advisory Committee, the Montana Consumer Counsel ("MCC"), Commission Staff and other stakeholders, after NorthWestern filed its Notice of Intent to File with the Commission.

A. The following provides a list of the NorthWestern pre-filing communications since it submitted its Notice of Intent to File this filing:

1. 10/18/13 - Montana Public Service Commission Informational Meeting on NorthWestern's PPL Montana Hydro Acquisition, which included the Commission's Staff, the MCC and various other stakeholders;
2. 10/18/13 – NorthWestern's Technical Advisory Committee Discussion on NorthWestern's PPL Montana Hydro Acquisition;
3. 11/13/13 – NorthWestern's Technical Advisory Committee Discussion on NorthWestern's resource modeling and the Hydros;

4. 11/8/13 – Montana Legislature – Energy and Telecommunications Interim Committee Report on NorthWestern Energy's Purchase of the PPL Dams; and
5. 10/22/13 – NorthWestern Energy's Great Falls Board of Directors community meeting, which was held in conjunction with our October Board of Directors meeting, included a presentation of the acquisition of the Hydros along with a broader discussion of the company.

Supporting documents for these pre-filing communications are attached to the Application as Exhibit__(APP-5).

Introduction of other NorthWestern Witnesses

Q. Please identify the other witnesses who will testify on behalf of NorthWestern in this proceeding, and the general subject of their testimony.

A. The additional individuals testifying in support of NorthWestern's application in this proceeding are:

Mr. Brian B. Bird, Vice President, Chief Financial Officer, provides the history and process of the Hydros transaction; a high level discussion of the valuation and property value analyses; the potential purchase price adjustments that could occur; the importance of the Commission valuing the Hydros at market value; the capitalization, cost of debt, and cost of equity; and the financial benefits of the transaction.

Mr. John D. Hines, Vice President, Supply, discusses owning the Hydros from an Energy Supply functional view; the Energy Supply role in the acquisition process evaluation; how the Electricity Supply Resource Procurement Plans provide the framework for considering and evaluating the acquisition; and how this Application meets the Commission's regulatory standard of review.

Mr. Travis E. Meyer, Director of Investor Relations and Corporate Planning, supports and explains NorthWestern's Long-term 30-year Revenue Requirement Model used in the evaluation of the acquisition.

Mr. Joseph M. Stimatz, Manager of Asset Optimization in the Energy Supply Market Operations group, testifies regarding the market-based discounted cash flow valuation analysis performed in support of the acquisition; the electricity market price forecast used in the valuation; the market conditions NorthWestern is encountering in Montana and the Pacific Northwest; and the fit of the Hydros in NorthWestern's supply portfolio.

Mr. William T. Rhoads, General Manager, Generation, demonstrates that the generating facilities and storage reservoir are long-lived, reliable assets that are well operated and maintained, upgraded through investment of significant capital, and compliant with environmental

regulations. He provides an overview of the due diligence process employed and describes how this process led to the conclusion that these facilities and reservoir have the capability, the reliability, and the longevity to serve NorthWestern's customers well into the future.

Mr. Ahmad Masud, Credit Suisse's Americas Power and Utilities Investment-Banking Group, describes among other things, other comparable generation transactions used to assist NorthWestern in its decision to acquire the Hydros.

Mr. Allen Otto, Blackstone Advisory Partners, LP, describes NorthWestern's Board of Directors' engagement of Blackstone to provide an opinion on whether the aggregate consideration in cash of $900 million for the purchase of the Hydros was fair from a financial perspective.

Mr. Kendall G. Kliewer, Vice President and Controller, discusses NorthWestern's obligations with respect to transferred employees; the calculation of original cost for the Hydros; the determination of depreciation expense; the calculation of working capital associated with the gross cash requirement; and the determination of production tax credits, deferred income taxes, accelerated tax depreciation, current income taxes and property tax expense.

Mr. Patrick J. DiFronzo, Manager, Regulatory Affairs, presents the development of the test period Generation Assets Cost of Service or revenue requirement associated with the purchase of the Hydros; describes the derivation of rates and rate impact computations; describes his involvement in the valuation process; and discusses the recovery of future Hydros' costs.

Q. Does this conclude your testimony?

A. Yes, it does.

Department of Public Service Regulation
Montana Public Service Commission
Docket No. D2013.12.85
PPLM Hydro Assets Purchase
NorthWestern Energy

PREFILED DIRECT TESTIMONY OF

BRIAN B. BIRD

ON BEHALF OF NORTHWESTERN ENERGY

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Exhibits

Mustang Bid Letter 1/7/13	Exhibit__(BBB-1)
Mustang Bid Letter 7/1/13	Exhibit__(BBB-2)
Valuation Schedule	Exhibit__(BBB-3)
Electric vs. Gas ROE Schedule	Exhibit__(BBB-4)
Avera ROE Exhibit	Exhibit__(BBB-5)
NorthWestern Credit Rating History	Exhibit__(BBB-6)
Credit Rating Agency Views on Hydros	Exhibit__(BBB-7)
Sell Side Equity Analyst Views on Hydros	Exhibit__(BBB-8)

Witness Information

Q. Please state your name and business address.

A. My name is Brian B. Bird, and my business address is 3010 W. 69th Street, Sioux Falls, South Dakota 57108.

Q. By whom are you employed and in what capacity?

A. I am employed by NorthWestern Energy ("NorthWestern") as the Chief Financial Officer ("CFO").

Q. How long have you been employed in your current position?

A. I have been the CFO since December 2003.

Q. What are your responsibilities and duties in your current position?

A. I am responsible for the areas of Accounting, Treasury, Tax, Financial Planning, Investor Relations, Internal Audit, and Business Technology.

Q. Please state your educational background and experience.

A. I have 27 years of experience within the fields of corporate finance, treasury, tax, audit and accounting. I have an MBA – Finance from University of Minnesota. I have a BBA from the University of Wisconsin – Eau Claire with a double major in Accounting and Finance. I also have my CPA certificate.

Purpose of Testimony

Q. What is the purpose of your testimony?

A. My testimony addresses:

1) The history and process of the hydro asset transaction, which includes NorthWestern's purchase of 11 hydroelectric generating facilities and related assets (the "Hydros") from PPL Montana, LLC ("PPLM"), up to signing the Purchase and Sale Agreement ("PSA");
2) At a high level, the valuation analysis that was conducted to provide a bid value for the Hydros;
3) The potential purchase price adjustments that could occur;
4) The importance of the Montana Public Service Commission ("Commission") valuing the Hydros at market value;
5) Hydro financing, including the capitalization, cost of debt, cost of equity and the rate of return requested by NorthWestern for financing the Hydros acquisition; and
6) The financial benefits of the transaction for NorthWestern, our customers and other stakeholders.

Hydros Acquisition History and Process

Q. How long have you been considering buying the Hydros from PPL?

A. We first entertained the possibility of a purchase when the Montana Legislature passed House Bill 25 in 2007 which allowed NorthWestern to own electric generation again. However, it was not until 2009 that

1 NorthWestern gave serious consideration to acquiring the assets as part
2 of its generation fleet. At that time NorthWestern was on stronger financial
3 footing and believed that it could raise the capital necessary to acquire
4 these assets on commercially reasonable terms. Also during this period,
5 NorthWestern observed that PPL Corporation ("PPL") was selling certain
6 facilities that it considered "non-core" to its merchant generation business
7 and buying more regulated utility assets. As a result, NorthWestern
8 thought it was possible that PPL may consider selling PPLM or its
9 generating assets.
10
11 **Q. How did you value the assets initially?**
12 **A.** As one might expect, investment bankers were more than happy to share
13 their opinions on the worth of the Hydros. In fact, a number of bankers
14 provided preliminary value indications from early 2009 right up until the
15 time the assets came up for sale. Thus, NorthWestern had a pretty good
16 idea how they would be valued in the marketplace. NorthWestern
17 ultimately chose Credit Suisse to be its financial advisor.
18
19 **Q. How would investment banks know the value of these assets?**
20 **A.** The banks primarily look at comparable transactions, perform discounted
21 cash flow analyses, and use other valuation techniques to determine a
22 sales price of assets. At first, NorthWestern used information from a
23 number of these banks to determine a range of value for the Hydros. After

1 the initiation of the sales process NorthWestern received a great deal of
2 additional information which allowed thorough due diligence to be
3 conducted. As part of this process, NorthWestern worked with our
4 financial advisor to develop a more complete valuation as a basis for a
5 bid.
6
7 **Q. Did you reach out to PPL to determine its interest in selling the**
8 **Hydros?**
9 **A.** NorthWestern reached out in 2009 and at various other times from 2009
10 until PPL officially put the Hydros up for sale in September of 2012. In
11 fact, I had separate meetings with PPL's head of business development
12 and CFO in early 2009. On May 15, 2009, Bob Rowe, Dave Gates and I
13 travelled to Allentown, Pennsylvania to express NorthWestern's interest in
14 the PPLM assets, particularly the Hydros, to its Chief Executive Officer,
15 Chief Operating Officer, and CFO.
16
17 **Q. What was PPL's reaction at these meetings?**
18 **A.** PPL noted at these meetings and over the next several years that the
19 assets of PPLM were core to its business. Though we had conversations
20 about the PPLM assets periodically, it wasn't until May 21, 2012 (three
21 years after we met in Allentown), when Paul Farr and Jeremy McGuire
22 (PPL's CFO and PPL's head of business development, respectively) met
23 with Pat Corcoran, John Hines and me in Minneapolis to discuss a

1 potential sale of PPLM. It was noted at that time that PPL wanted to sell
2 all of its generation assets in Montana; if it was going to get out of
3 Montana, it wanted to get out entirely. In addition, PPL said it was likely
4 that the sale would have to be part of a competitive process to ensure it
5 was getting a fair price for the assets. The rest of the meeting included
6 questions from PPL regarding the process and timing of regulatory
7 approval in Montana.
8
9 **Q. Did the assets come up for sale after that meeting?**
10 **A.** Yes, but four months later. On September 25, 2012, NorthWestern
11 learned that PPL's process would include a sale of all its generation
12 assets in Montana to one buyer through a competitive process. To protect
13 confidentiality, the sales process was referred to by PPL and its advising
14 bank, UBS, as "Mustang."
15
16 **Q. Did NorthWestern bid on all the assets during that process?**
17 **A.** Yes. In fact, though it was quite clear PPL was only interested in selling
18 the Hydros and the thermal assets as a package through the sale of
19 PPLM, NorthWestern also submitted a non-conforming bid for just the
20 Hydros, which we referred to internally as our "Preferred Bid."
21
22 **Q. Was NorthWestern interested in all the assets at that time?**

1 **A.** Its preference has always been to own just the Hydros. From
2 NorthWestern's perspective, it only needed about half the megawatts
3 ("MW") that PPL was selling, and the Hydros are a clean generation
4 source that would provide diversity to NorthWestern's fleet. However,
5 knowing that PPL wanted to sell all the Montana assets, NorthWestern
6 considered partnering with another entity that would split the asset
7 purchase with us. When NorthWestern approached PPL with that idea,
8 PPL made clear to NorthWestern that it wanted to sell to one party.
9 NorthWestern also considered buying all the assets and either crediting
10 the excess power sales to customers or selling the excess assets
11 (primarily thermal) to others.
12
13 **Q. What did NorthWestern bid for the assets?**
14 **A.** On January 7, 2013, NorthWestern bid $400 million for all of PPLM in a
15 conforming bid and $740 million for the Hydros through a non-conforming
16 bid. The bid letter is attached as Exhibit__(BBB-1).
17
18 **Q. Why did NorthWestern bid more for the Hydros on a stand-alone**
19 **basis than for the assets as a whole?**
20 **A.** NorthWestern bid more for just the Hydros because it assessed a negative
21 value to the coal assets due to environmental concerns and a restrictive

sale leaseback structure used to finance PPLM's[1] acquisition of The Montana Power Company ("MPC") generating facilities in 1999. Due to recent Environmental Protection Agency ("EPA") actions and uncertainty around the viability of coal-fired assets in the future, particularly the older units (Corette and Colstrip Units 1&2), NorthWestern was concerned that not only would it be required to shut the assets down, but that it would be responsible for remediating the sites as well. As a result, we priced remediation costs into our model. Also, the Colstrip assets were subject to a sale leaseback that included terms NorthWestern considered difficult to meet in an uncertain future and that would potentially involve additional costs to buy out.

Q. What was PPL's reaction to NorthWestern's bid?

A. First, PPL informed NorthWestern that it was not considering any non-conforming bids, but if it did, NorthWestern's non-conforming bid for only the Hydros was way too low. Second, from PPL's perspective NorthWestern's bid for the assets as a package was too low and the protections NorthWestern sought in the draft PSA agreement were too onerous.

Q. Was NorthWestern removed from the process based upon PPL's response?

[1] On October 31, 1998 MPC sold the Hydros to PP&L Global, Inc. ("PPL Global") pursuant to the terms of the Asset Purchase Agreement ("APA"). PPL Global assigned the APA to PP&L Montana, LLC on December 17, 1999. PP&L Montana, LLC later changed its name to PPL Montana, LLC.

1 **A.** No. PPL noted that if NorthWestern increased the offer price on the all-
2 asset bid and could resolve differences in NorthWestern's and PPL's
3 positions on the terms of the PSA, a deal was possible.
4
5 **Q. Did NorthWestern comply with PPL's request?**
6 **A.** NorthWestern tried but was unable to bridge the gap on either the price or
7 the terms. Again, the sale leaseback became a large impediment to the
8 deal.
9
10 **Q. Did that end NorthWestern's involvement in the process?**
11 **A.** On February 3, 2013, PPL advised us that it was no longer interested in
12 negotiating with NorthWestern as the parties were too far apart.
13 Therefore, from NorthWestern's perspective, the process ended.
14
15 **Q. Did PPL subsequently initiate a second process?**
16 **A.** Yes. The second process commenced about three months later and was
17 quite different. On May 6, 2013, NorthWestern learned that PPL was
18 going to run two processes. First, it intended to market the coal-fired
19 assets separately and if there was sufficient progress on that sale, it would
20 later market the Hydros under a separate process.
21
22 **Q. Did NorthWestern participate in the coal-fired asset sale process?**

1 **A.** No. Although PPL noted that the sale leaseback would be bought out
2 prior to execution of the sale, NorthWestern was not interested in the coal-
3 fired assets. Based on NorthWestern's due diligence in the previous
4 process and concerns about existing and potentially new EPA regulations
5 affecting coal, NorthWestern decided to stay focused on the Hydros.
6 NorthWestern informed PPL that it would not bid on the coal-fired assets
7 and planned to participate in the Hydros-only process, if it occurred.
8
9 **Q. Did NorthWestern participate in the Hydros-only sale process?**
10 **A.** Not exactly. As I noted earlier, it was NorthWestern's understanding that
11 PPL was not going to start the process for selling the Hydros until the
12 coal-fired sale process was well underway. Instead, UBS (PPL's financial
13 advisor) approached NorthWestern to determine its interest in negotiating
14 a bilateral arrangement to again acquire all of PPLM. PPL noted that if
15 NorthWestern did not enter into a bilateral arrangement for all of PPLM, it
16 would likely move forward with the Hydros-only process and continue to
17 work the coal-fired asset sale process simultaneously. NorthWestern
18 understood that when it agreed to enter into bilateral negotiations, PPL
19 stopped its outside marketing effort to sell the Hydros.
20
21 **Q. If NorthWestern was interested in only the Hydros, why did it**
22 **participate in negotiations of a bilateral agreement for all of PPLM**
23 **instead of participating in the Hydros-only sales process?**

1 **A.** NorthWestern was very concerned about competition for the Hydros. It
2 believed that the Hydros would attract top dollar from financial buyers or
3 infrastructure funds, or potentially even from other utilities. For instance,
4 Brookfield Infrastructure had recently paid more than $2,000/kilowatt for
5 other hydro assets and NorthWestern was concerned that it and other
6 parties would be very interested in these quality assets. Since these
7 assets were built to serve NorthWestern's transmission and distribution
8 ("T&D") customers, NorthWestern was the logical strategic buyer.
9 However, as when PPL purchased these assets, other market participants
10 could certainly come in and buy these assets to realize a future profit
11 when market prices recovered.
12
13 **Q. Did NorthWestern provide PPL a bid for all of PPLM through this**
14 **process?**
15 **A.** No. NorthWestern worked very hard to find a way to acquire all of PPLM
16 at a price and on terms acceptable to PPL that would also make sense for
17 NorthWestern and its customers. Elimination of the sale leaseback did
18 help, but at the end of the day, NorthWestern could only provide real value
19 and have confidence in the non-price terms it proposed for the Hydros.
20 Therefore, about a month after the start of bilateral negotiations,
21 NorthWestern determined that the best course for it and for its customers
22 was to rebid on just the Hydros. Concerned that PPL would restart the
23 Hydros-only sales process after receipt of NorthWestern's bid,

NorthWestern worked to provide a reasonable offer that might negate PPL's need to restart the Hydros-only sale process, while also considering the impact to customer bills. On July 1, NorthWestern submitted a $900 million bid for the Hydros. Though disappointed that it was not able to sell all of PPLM to NorthWestern, PPL was intrigued enough to continue negotiations. Three months later, NorthWestern and PPLM agreed to a price and terms, and signed the PSA. NorthWestern's bid letter is included as Exhibit__(BBB-2).

Q. Since this was a bilateral negotiation, is it fair to say the PSA resulted from a non-competitive process?

A. No. PPL was certainly willing to sell its coal assets and the Hydros in separate competitive processes and had started those processes. However, it was always PPL's desire to sell the assets together to one buyer. With that as a backdrop, PPL reached out to NorthWestern to accomplish just that. Though NorthWestern ultimately agreed to terms in a bilateral arrangement, it was clear that if NorthWestern did not buy the Hydros someone else would through the competitive process. NorthWestern was very concerned that had the Hydros-only process gone as PPL had originally planned, NorthWestern would have to pay more than $900 million with a larger bill impact to customers or the assets would have been sold to someone else at a price higher than $900 million and/or

1 to a party whose purchase would require fewer regulatory approvals and a
2 shorter timeline to completion.
3
4 **Q. Did NorthWestern try to run a competitive solicitation for the Hydros,**
5 **which is the Commission's preferred approach per ARM**
6 **38.5.8212(2)?**
7 **A.** No. When a non-regulated entity is selling assets, it is not going to subject
8 itself to the extra work, time, or risk required to comply with the
9 Commission's administrative rules on a competitive solicitation process, all
10 in order to accommodate one prospective purchaser. PPL owns the
11 assets and it was going to part with them under its terms. In addition,
12 NorthWestern, as the regulated buyer, has a longer approval process than
13 would a financial buyer. NorthWestern was concerned enough with the
14 fact that PPL may not sell to NorthWestern due to the more stringent
15 approval process, the time required to complete it, and the regulatory
16 uncertainty associated with it, without trying to persuade PPL to participate
17 in any competitive solicitation process that NorthWestern might conduct.
18
19 **Q. As a result of the time required to obtain regulatory approval, and the**
20 **related uncertainty, was NorthWestern at a competitive disadvantage**
21 **as a bidder?**
22 **A.** Yes. We believed we were at a competitive disadvantage because of the
23 time required to obtain regulatory approval and the risk of the Commission

not approving the transaction or effectively killing it through the imposition of unfavorable terms and conditions. To PPL, a deal with a financial buyer did not present these same risks and prolonged regulatory approval process. And, it was clear from PPL's financial advisor, UBS, that a financial buyer did not present these same risks and our regulatory risks put NorthWestern at a competitive disadvantage. NorthWestern needed to ensure it made a competitive bid for the Hydros to overcome this concern.

Hydros Market Valuation

Q. How did NorthWestern determine a value for the Hydros?

A. It immediately determined that there were two competing factors that needed to be considered in the analysis. First, the price had to be sufficient to entice PPL to sell the Hydros to NorthWestern. Second, NorthWestern considered the impact on customers' bills, which maintained pressure to ensure that the price we bid was not too high.

With that as a backdrop, NorthWestern developed three models to ultimately help determine a price and its impact on customer bills. First, Energy Supply performed a discounted cash flow ("DCF") analysis (the DCF Analysis Model) taking into consideration all the costs of operating the Hydros and the revenues that a merchant power producer would expect based upon market price curves, and discounting those cash flows

back determined a price. Second, Finance ran a 30-year revenue requirements model (the Long-Term 30-Year Revenue Requirement Model), which utilized some of those same inputs, as well as others, to determine what this acquisition would cost customers in total. Third, Regulatory Affairs ran the revenue requirement information from the long-term model through a cost of service or standard test period revenue requirement model (the First-Year Rate Impact Model) to determine the initial impact on customers' bills. More detail on these models is presented in the Prefiled Direct Testimonies of Joseph M. Stimatz, Travis E. Meyer, and Patrick J. DiFronzo, (respectively the "Stimatz", "Meyer" or "DiFronzo Direct Testimony"). NorthWestern also engaged a financial advisor, Credit Suisse, in September of 2012 to help with this analysis.

Q. Why would NorthWestern's DCF Analysis Model attempt to calculate revenues for a merchant power producer?

A. In order to assess what a competing bidder might pay for these assets, NorthWestern needed to run a model that would show how such bidders would value them. As I noted earlier, NorthWestern viewed itself as a clear strategic buyer, but determined that its strongest competition would be financial buyers (hedge funds or infrastructure funds). In other words, NorthWestern needed to know what it would take to compete for the Hydros and adjust its analysis accordingly.

Q. Did all of NorthWestern's assumptions in the DCF Analysis Model mirror those of a financial buyer?

A. No. From a revenue and operating cost perspective, NorthWestern believes its inputs are very close to what a financial buyer's would be, but not in regard to financing assumptions. Hedge funds and infrastructure funds would likely carry a much higher level of debt in their capital structures than NorthWestern. They will carry higher debt in order to keep their overall cost of capital down and their returns on equity up. It is those entities' resulting lower costs of capital, willingness to be non-investment grade, and indifference to what customers pay (as long as it is a market price), that gave NorthWestern concern that it might be outbid in a competitive Hydros-only sales process. This concern was on top of the concern of our longer, more uncertain regulatory approval process that put us at a disadvantage from a bidding perspective.

Q. How did NorthWestern value the Hydros prior to submission of a bid?

A. The initial valuation based on the DCF Analysis Model was $826 million. This was based on a DCF value for the Hydros of $896 million less the net present value ("NPV") of allocated general and administrative costs to the plants of $70 million. In the DCF analysis, NorthWestern used its planned rate of return ("ROR") of 7.14% as the discount rate, which is near the middle of the discount rate guidance range (6.5% to 7.5%) that was

received from NorthWestern's financial advisor, Credit Suisse. It is important to remember that the lower the discount rate, the higher the resulting NPV of discounted cash flows. In order to compute the terminal value, NorthWestern used an EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) multiple of 7.5X, which was at the bottom of the EBITDA multiple range provided by Credit Suisse of 7.5X to 8.5X. The higher the EBITDA multiple used to compute the terminal value of cash flows, the higher the NPV of discounted cash flows. Use of the middle of Credit Suisse's ranges, or an 8X EBITDA multiple and a 7% discount rate, results in a valuation of $859 million. Use of the most conservative figures of each of those ranges results in a valuation of $790 million. Use of the most aggressive figures in each of those ranges results in a valuation of $935 million. This analysis is summarized on Exhibit__(BBB-3).

Credit Suisse's review of NorthWestern's bid model indicated the model was overly conservative for the following reasons: First, it discounted cash flows using a year-end convention versus the more acceptable mid-year convention. That change increased the valuation by $29 million. Second, the modeled cash flows assumed a year-end 2013 closing. Using a June 30, 2014 closing, or even the more likely September 30, 2014 closing, caused the DCF values to increase incrementally by $18 million and $10 million, respectively. When those changes are

1 considered, the initial valuation goes from $826 million to $883 million
2 (826 + 29 + 18 + 10). Using the most conservative and most aggressive
3 figures from the ranges recommended by Credit Suisse for the EBITDA
4 multiple and discount rate, and taking into consideration the adjusted initial
5 bid price of $883 million, results in valuations of $848 million and $994
6 million, respectively. This is also summarized on Exhibit__(BBB-3).
7
8 **Q. What other analysis was performed to determine asset valuation?**
9 **A.** Credit Suisse provided other valuation analyses to help NorthWestern
10 determine a price. For instance, it also performed its own DCF analysis
11 for both a regulated and unregulated buyer. In addition, it provided
12 comparable asset analysis to show what others paid for assets of this
13 type. Finally, it compared the cost of this purchase with the cost of new
14 build opportunities.
15
16 In addition to the analysis provided by Credit Suisse, NorthWestern's
17 Board of Directors requested an independent fairness opinion of the price
18 paid for the assets. Blackstone Advisory Partners, LLC ("Blackstone")
19 was chosen to provide that opinion. They performed a similar analysis to
20 that prepared by Credit Suisse and provided an assessment on whether
21 the purchase price was fair based upon this analysis.
22
23 **Q. Why did the Board of Directors need a fairness opinion?**

1 **A.** Credit Suisse will be paid based on the success of the transaction and
2 thus the Board wanted an opinion from a neutral party that could provide
3 an independent analysis on the fairness of the price. Blackstone is paid
4 regardless of the conclusion of its fairness opinion.
5
6 **Q Was the payment to be made to Credit Suisse based upon the**
7 **amount of the purchase price?**
8 **A.** No. Though that is a typical structure, NorthWestern negotiated a
9 success-based fee structure in September 2012 with Credit Suisse that
10 had no bearing on the price paid for the assets, but was structured instead
11 to pay the highest fee if NorthWestern successfully purchased exactly the
12 assets it wanted (the Hydros). The fee scale declined from there.
13 Typically, a success fee of 1% of the purchase price is paid to a financial
14 advisor and would only be paid if a successful closing of the transaction
15 occurs. Thus, a $900 million deal would typically require a payment of $9
16 million for a success fee. Instead, NorthWestern's highest fee is $5
17 million.
18
19 The other benefit of a success fee structure is it provides the proper
20 incentive to our financial advisor to not encourage us to bid too much
21 since they are not going to be paid if the project is not approved by the
22 Commission and ultimately closed. The fee paid to Credit Suisse is not

included for consideration in this application. Rather, it will be paid for by NorthWestern's shareholders.

Q. What was the outcome of the valuation analyses by Credit Suisse?

A. Credit Suisse's analysis showed that a $900 million price generally fell within each of the ranges of values for both its DCF and comparable company/acquisition analyses for both unregulated and regulated companies. To be more specific, $900 million was in the high end of the ranges for the unregulated companies' analyses and at the low end of the ranges for the regulated companies' analyses with one notable exception. First, the $900 million fell below the low end of the $929 million to $1.268 billion range for the comparable acquisition analysis for regulated companies. In addition, Credit Suisse performed an analysis comparing the levelized unit price of the Hydros' production based on $900 million, or $60 per megawatt hour ("MWh"), to ranges of costs for new build alternatives published by the U.S. Energy Information Administration. The alternatives include gas-fired, coal, wind, and hydroelectric generation. The $60/MWh price for the Hydros falls below the low end of the range for each alternative except for hydroelectric generation for which the low end of the range is $58 per MWh and the high end of the range is $149 per MWh. The Credit Suisse analysis provided to NorthWestern's Board of Directors is provided in the Prefiled Direct Testimony of Ahmad Masud.

1 **Q. What was the outcome of Blackstone's fairness opinion?**

2 **A.** As noted above, Blackstone performed similar analyses to those
3 conducted by Credit Suisse. Generally, the $900 million was within the
4 valuation ranges for both the DCF analyses (unregulated and regulated)
5 and again in the high end of the ranges for the unregulated companies,
6 but at the low end for the regulated companies' analyses. However, the
7 $900 million was below the comparable companies and acquisitions
8 (identified as precedent transactions by Blackstone) analyses for both the
9 unregulated companies' and regulated companies' analyses results.
10 Based upon its analysis, Blackstone deemed the $900 million a fair price
11 to pay for the Hydros. This analysis is explained in more detail in the
12 Prefiled Direct Testimony of Allen Otto.

13

14 **Potential Purchase Price Adjustments**

15 **Q. Is the price paid for the Hydros acquisition fixed at $900 million?**

16 **A.** The base purchase price is $900 million. However, in accordance with
17 certain provisions in the PSA, this price is subject to certain adjustments
18 (either increases or decreases) at or following closing.

19

20 **Q. What are those potential adjustments?**

21 **A.** There are several potential adjustments that may affect the base purchase
22 price of $900 million. Each of these potential adjustments is described
23 below:

1 ***Capital Expenditures Adjustment (Section 2.2a of PSA)***

2 One potential adjustment is the difference between the actual capital
3 expenditures and budgeted capital expenditures during the interim period.
4 The budget is $15.3 million in capital expenditures from date of signing
5 through September 30, 2014. If capital expenditures are higher (or lower)
6 than the capital expenditures budget, the purchase price will be increased
7 (or decreased) by the difference between what was actually spent and the
8 budgeted amount.

9

10 ***Acquired Assets Proration (Section 2.4 of the PSA)***

11 Another potential adjustment relates to certain revenues and expenses for
12 the Hydros that are either (i) paid or received by PPLM and relate to post-
13 closing periods, or (ii) paid or received by NorthWestern and relate to pre-
14 closing periods. This adjustment is intended to ensure that PPLM is
15 responsible for (or receives the benefit of) such items for pre-closing
16 periods, and that NorthWestern is responsible for (or receives the benefit
17 of) such items for post-closing periods. Examples of these items would
18 include property taxes, rental payments to the Federal Energy Regulatory
19 Commission ("FERC") and the Confederated Salish and Kootenai Tribes
20 ("CSKT"), and headwater benefits payments.

21

1 ***Kerr True-Up (Section 5.18 of PSA)***

2 A third potential adjustment relates to the difference between the
3 conveyance price for Kerr that is ultimately determined between PPLM
4 and CSKT and the $30 million reference amount set forth in the PSA
5 ("Kerr True-Up Amount"). If this Kerr True-Up Amount is positive,
6 NorthWestern will pay the difference to PPLM when Kerr is conveyed to
7 CSKT; if the Kerr True-Up Amount is negative, PPLM will pay
8 NorthWestern. As a result of these negotiated terms in the PSA,
9 NorthWestern and its customers are indifferent to the outcome of the
10 dispute between PPLM and CSKT regarding the conveyance price.

11

12 ***Power Purchase Adjustment (Section 2.2b of PSA)***

13 NorthWestern is currently acquiring power from PPLM's affiliate, PPL
14 EnergyPlus, LLC ("PPL Eplus") through index and fixed-price contracts.
15 These contracts, if they extend beyond the closing, represent value to PPL
16 Eplus. This adjustment will reflect the value of those contracts and is a
17 function of many factors. For fixed-price contracts these factors include:
18 the forward market curve for the duration of the contract, the quantity of
19 remaining power obligated to be delivered, and the basis discount. For
20 index-based contracts these factors include: the quantity of remaining
21 power obligated to be delivered and the basis discount.

Assuming that the closing takes place during the third quarter of 2014, only a portion of the following contract will result in a purchase price adjustment at closing:

- A six-month 200 MW heavy load contract ending December 31, 2014. At closing this contract will be terminated and a purchase price adjustment will be made. This is a market index contract with a net price basis discount of $0.60 per MWh or about $50,000 per month for each month the contract is terminated prematurely.

Per Table 1 below if the closing is in the third quarter of 2014, the purchase price adjustment would range between $147,109 and $293,119.

Table 1

Estimated Termination Amount
With Various Closing Dates

Closing Date	Estimated Termination Amount
6/30/2014	$ 293,119
7/31/2014	$ 243,932
8/31/2014	$ 194,622
9/30/2014	$ 147,109
10/31/2014	$ 95,636
11/30/2014	$ 49,796

1 **Q. Can you provide a reasonable estimate of the magnitude of the**
2 **potential purchase price adjustments associated with the other three**
3 **purchase price adjustments discussed above?**
4 **A.** No. That is not possible at this time. If it were possible the adjustments
5 would not be necessary.
6
7 **Q. Would these adjustments to the purchase price occur after the**
8 **Commission issues a final order in this proceeding?**
9 **A.** Yes. Closing would occur after the Commission issues its order. The bulk
10 of the adjustments will occur at closing, which would be expected within
11 weeks after a favorable Commission decision. Certain adjustments will
12 still be estimated at that time and will not be finalized as actual for up to
13 several months post closing. Finally, the potential adjustment to revenue
14 requirement associated with the Kerr transfer to CSKT would occur in
15 September 2015, at the earliest.
16
17 **Q. How does NorthWestern propose to address the purchase price**
18 **adjustments?**
19 **A.** NorthWestern proposes to true-up the purchase price to reflect the
20 purchase price adjustments in a final compliance filing that would be made
21 in 2015, after the Kerr conveyance.
22

Authorization of Hydros at Market Value

Q. Though NorthWestern will pay a market price for these assets, how will the $900 million purchase price be accounted for in its financial statements?

A. As described in the Application and as discussed in the Prefiled Direct Testimonies of Robert C. Rowe and Kendall G. Kliewer, the Hydros purchase price of $900 million is broken into two components for FERC accounting purposes: an original cost amount of $579 million and an acquisition adjustment of $321 million.

Q. Is it your understanding that the Commission can approve the full market value of $900 million for inclusion in rate base?

A. Yes. Focusing on the $900 million market-based price for the Hydros, § 69-3-109, MCA, Ascertaining Property Values, states that:

> The commission may, in its discretion, investigate and ascertain the value of the property of each public utility actually used and useful for the convenience of the public. The commission is not bound to accept or use any particular value in determining rates. However, if any value is used, the value may not exceed the original cost of the property, except that the commission may include all or some of an acquisition adjustment for certain property purchased by a public utility in the purchasing utility's rate base if the transfer of the property to the purchasing utility is in the public interest. In making the investigation, the commission may avail itself of all information contained in the assessment rolls of various counties or in the public records of the various branches of the state government or of any other information obtainable, and the commission may at any time on its own initiative make a revaluation of the property.

As described in my testimony above, given that the Hydros were available only as a market-based transaction, the Commission clearly has the authority to establish the value of the Hydros based on their market value.

At the end of the day, the primary determination for the Commission to make is whether purchasing the Hydros for $900 million is in "the Public Interest," under the provisions of both § 69-3-109, MCA, Ascertaining Property Values, and § 69-8-421, MCA, Approval of Electricity Supply Resources.

Q. What if the Commission only allows NorthWestern to recover a portion of the $900 million asset purchase?

A. NorthWestern is not interested in acquiring the Hydros if the result is a negative financial impact to NorthWestern. Our financial strength is essential to our ongoing ability to meet our obligations to our customers, employees, and debt and equity owners. A Commission order granting advanced approval of the Hydros purchase at less than $900 million could cause a negative impact.

Q. Would NorthWestern not consummate the transaction if it received a regulatory approval that it deemed would have a significant negative impact on its financial condition?

1 **A.** Under the PSA, NorthWestern has the option to terminate the agreement
2 to purchase the Hydros absent a reasonably satisfactory regulatory
3 outcome.
4
5 If the Commission were to decide not to allow full recovery of the
6 purchase of the Hydros and such decision has a significant negative
7 impact on NorthWestern's financial condition, NorthWestern will exercise
8 this option to terminate.
9
10 **Asset Financing**
11 ***Capitalization***
12 **Q. Please explain the capital structure recommended in this case.**
13 **A.** NorthWestern proposes a capital structure of 52% debt and 48% equity.
14 This proposed capital structure is consistent with the 52% debt and 48%
15 equity included in the NorthWestern and Montana Consumer Counsel
16 ("MCC") November 14, 2011 settlement in Docket No. D2011.5.41 (the
17 Application of NWE for Approval to Purchase and Operate the Spion Kop
18 Wind Project), which the Commission approved in Final Order No.
19 7159l. In addition, NorthWestern's proposed capital structure is very
20 similar to the 52.35% debt and 47.65% equity capital structure authorized
21 for the Montana T&D operations in NorthWestern's most recent general
22 natural gas rate case (Docket No. D2012.9.94, Final Order No.
23 7249e). Finally, though less recent, NorthWestern's proposed capital

structure is consistent with the 52% debt and 48% equity capital structure authorized for the Montana T&D operations in its general electric and natural gas rate case (Docket No. D2009.9.129, Final Order No. 7046h), which was also a product of a settlement with the MCC. As a result, 52% debt and 48% equity is a reasonable capital structure to assume for the financing of this project.

Q. How does NorthWestern propose to finance the Hydros acquisition?

A. To assure funds are available at closing, NorthWestern entered into a new fully committed $900,000,000 364-day Senior Unsecured Bridge Credit Facility ("Bridge Facility"). The commitment termination is consistent with the time allowed for closing under the PSA of 12 months plus an automatic six-month extension for regulatory purposes. The Bridge Facility is only necessary if, for some reason, the capital markets are unavailable or too costly to utilize. While, in our view, it is highly unlikely that we will need to draw on the Bridge Facility to finance the purchase, it provides important insurance that we will be able to close on a timely basis following all regulatory approvals.

In order to provide for a more cost-effective financing, upon Commission approval, NorthWestern intends to close the Hydros acquisition directly into a permanent financing, and not draw on the bridge financing at all. NorthWestern intends to finance the Hydros acquisition through a

combination of long-term first mortgage bond financing, available discretionary cash flows, and proceeds from an equity offering. This permanent financing strategy has been designed to maintain the existing conservative leverage structure for NorthWestern and continue to provide NorthWestern with a strong credit position.

The specific financial modeling assumptions include a pro forma 52% debt and 48% equity capital structure. That financing strategy maintains the credit statistics of NorthWestern in a very similar position to the 'stand-alone' projected credit statistics.

Q. How might the Commission's processing and eventual decision in this matter affect financing and the financial community's response to this transaction?

A. There could be several effects. As is always the case, because NorthWestern is a fully regulated utility, and because most of its operations are under the Commission's jurisdiction, this Commission's decisions are a primary factor affecting the company's overall financial soundness and ability to invest in serving its customers. In this case specifically, first, an earlier decision would allow NorthWestern to take a more orderly approach to arranging permanent financing. Second, an earlier decision would more likely occur while both debt and equity prices are relatively attractive. Third, and most importantly, this Commission's

decision will be the ultimate determinate of how credit ratings agencies, equity analysts, and investors view the transaction. Therefore, the substance of the decision will affect how costly debt (low price is good) and equity (high share price is good) eventually are.

Q. How will rating agencies view the capital structure proposed by NorthWestern and the transaction, as a whole, from a financial point of view?

A. Generally, the responses have been positive. Fitch moved our ratings from "Positive Outlook" to "Watch Positive", which indicates that an upgrade is now more imminent subject to a favorable regulatory outcome on the acquisition. Moody's described the transaction as "credit positive" primarily due to the expectation that NorthWestern would increase its size substantially with environmentally favorable generation assets. Standard & Poor's ("S&P") affirmed our ratings with the expectation that NorthWestern will finance the acquisition in a manner that would preserve its current financial position.

Q. When does NorthWestern intend to obtain the financing for this project?

A. The PSA allows us 20 business days after a final order from the Commission to close into our financing.

1 *Cost of Debt*

2 **Q. How did NorthWestern determine the cost of debt?**

3 **A.** Because NorthWestern plans to issue a combination of 10-year first
4 mortgage bonds and 30-year mortgage bonds, the cost of debt was
5 estimated by using the appropriate forward 10-year and 30-year United
6 States ("U.S.") Treasury bonds rate and then adding a credit spread to
7 those treasury rates.

8

9 **Q. As of December 13, or a week prior to the time of this filing, what are**
10 **the current interest rates for 10-year U.S. Treasury and 30-year U.S.**
11 **Treasury bonds?**

12 **A.** The current rate on the 10-year U.S. Treasury bonds is 2.88% and the
13 current rate on the 30-year U.S. Treasury bonds is 3.88%.

14

15 **Q. What is the current estimate for the 10-year U.S. Treasury and 30-**
16 **year U.S. Treasury rates for September 30, 2014?**

17 **A.** At the time of this filing, the estimated rate for a 10-year U.S. Treasury as
18 of September 30, 2014 is 3.35%, and for a 30-year U.S. Treasury as of
19 September 30, 2014 is 4.25% (Source: Credit Suisse).

20

21 **Q. What is the current credit spread for single "A" rated utility bonds,**
22 **which is NorthWestern's current bond rating?**

1 **A.** In working with several of the banks with which NorthWestern does
2 business, it determined that the estimated credit spread for both 10-year
3 and 30-year, single "A" rated utility bonds is currently in the 0.95% to
4 1.20% range.
5
6 **Q. Given the information above, what would be the expected cost of**
7 **debt if NorthWestern issued a 50/50 combination of 10-year first**
8 **mortgage bonds and 30-year first mortgage bonds between now and**
9 **the September 2014 time period?**
10 **A.** Given the current rates and expected rates for 10-year U.S. Treasury and
11 30-year U.S. Treasury bonds and the current credit spread available for
12 single "A" rated utilities, NorthWestern expects it could issue a 50/50
13 combination of 10-year first mortgage bonds and 30-year first mortgage
14 bonds in the range of 4.33% and 5.00%. Including issuance costs,
15 NorthWestern's all-in cost of debt would be in the range of 4.38% and
16 5.05%, assuming the issuance costs are amortized at a rate of 0.05% per
17 year (1% issuance costs amortized over 20 years).
18
19 **Q. What cost of debt is NorthWestern recommending for this filing?**
20 **A.** NorthWestern recommends a cost of debt of 4.50% for this filing, which is
21 within the range of the cost of debt determined above. This rate is used in
22 modeling and in the calculation of the revenue requirement presented in
23 the DiFronzo Direct Testimony.

1 **Q. How certain is NorthWestern that it will be able to issue debt within**
2 **this range at the closing of the Hydros acquisition?**
3 **A.** While it is true that U.S. Treasury rates and credit spreads are subject to
4 change based on market conditions and NorthWestern's credit profile,
5 these estimates are based on currently available information. Though we
6 are fairly confident that we can achieve the interest rate modeled, we
7 cannot predict future interest rates, and they could be substantially
8 different by the time we receive a decision from the Commission.
9 Nonetheless, the quicker we can obtain approval and close the
10 transaction, the less we will be exposed to rising interest rates and
11 potential impacts on our stock price. Furthermore, NorthWestern does not
12 expect its credit ratings to change significantly in the next 12 months. If
13 they do change, it is likely due to rating improvement as a result of
14 Commission approval of the Hydros transaction.
15
16 **Q. What does NorthWestern propose if the actual cost of the debt**
17 **issued is higher or lower than the 4.50% included in this filing?**
18 **A.** If the actual cost of debt turns out to be higher or lower than the 4.50%
19 included in this filing, NorthWestern proposes to include the updated cost
20 of debt, whether higher or lower, in its compliance filing implementing
21 rates pursuant to the Commission's final order similar to what has been
22 done in past pre-approval dockets.
23

1 *Cost of Equity*

2 **Q. How did NorthWestern determine the cost of equity?**

3 **A.** NorthWestern used 10.00%. In order to determine the appropriate return
4 on equity ("ROE"), NorthWestern first looked at its recently approved
5 ROEs for both its electric and natural gas operations in Montana. The
6 10% ROE is consistent with the November 14, 2011 settlement between
7 NorthWestern and the MCC in Docket No. D2011.5.41 (the Application of
8 NorthWestern for Approval to Purchase and Operate the Spion Kop Wind
9 Project), which the Commission approved in Final Order No. 7159l. The
10 Spion Kop asset is the most recent electric generation asset placed into
11 rate base.

12

13 Also, NorthWestern's current natural gas delivery services ROE of 9.8%
14 was authorized in Docket No. D2012.9.94, Final Order No. 7249e
15 (NorthWestern's Application for Approval for Authority to Establish
16 Increased Natural Gas Delivery Service Rates) pursuant to a stipulation
17 among NorthWestern, the MCC and the Large Customer Group, and it is
18 approximately 20 basis points lower than the requested cost of equity for
19 the Hydros.

20

21 Finally, though not as recent, NorthWestern's proposed cost of equity is
22 25 basis points less than the 10.25% ROE authorized for the Montana
23 T&D operations in its general electric and natural gas rate case, Docket

No. D2009.9.129, Final Order No. 7046h. The cost of equity approved in this docket reflected a stipulation between NorthWestern and the MCC.

NorthWestern also looked at national data to determine the appropriate ROE. SNL Financial, a national provider of financial news, financial data and expert analysis on the energy industry, compiles an electronic database of various analytics, including proprietary regulatory research reports by Regulatory Research Associates ("RRA"). RRA's most recent quarterly report dated October 8, 2013 shows that for the period 2010 through the 3rd quarter 2013, electric ROEs have exceeded natural gas ROEs by an average of 36 basis points. For the first three quarters of 2013, electric ROEs have exceeded natural gas ROEs by 58 basis points. More importantly than the spread between gas and electric ROEs is the fact that at no time for the period shown below or for any year included in the report did the average annual authorized electric ROEs fall below 10.09%, which again stresses our view that the electric ROE we are proposing is reasonable and more than fair. The table below summarizes information from the report, and RRA's full report is included as Exhibit__(BBB-4).

	Full Year *2010*	*Full Year* *2011*	*Full Year* *2012*	*Q1 - Q3* *2013*	*Q1 '10 - Q3 '13* *Average*
Authorized ROEs: Electric	10.34%	10.29%	10.17%	10.09%	10.22%
Authorized ROEs: Natural Gas	10.08%	9.92%	9.94%	9.51%	9.86%
Electric > Natural Gas	**0.26%**	**0.37%**	**0.23%**	**0.58%**	**0.36%**

Data source: Regulatory Research Associates (Regulatory Focus) dated October 8, 2013

This information demonstrates that, nationally, regulatory commissions believe that the electric utility is modestly more risky than the natural gas utility business. Whether one uses 36 or 58 basis points as an adder to NorthWestern's currently authorized natural gas utility ROE of 9.8%, the result is greater than 10%.

NorthWestern also looked at the current interest rates and found that they have risen since the conclusion of Docket No. D2012.9.94. On the day the Commission issued Final Order 7249e in that docket (April 23, 2013), the 10-year U.S. Treasury rate was 1.66%. The current rate on 10-year U.S. Treasury bonds is 2.88%. Treasury rates are more than 120 basis points higher today. As interest rates increase, the expected difference between the equity rate and the 'risk free' rate increases accordingly. Though a 120-basis-point increase in interest rates does not necessarily correspond to a 120-basis-point increase in ROE, increased interest rates put upward pressure on the ROE, which is additional support for a 10% ROE in this case.

Finally, though we have not used an external cost of capital witness in our three prior pre-approval electric generation filings, NorthWestern engaged Mr. Bill Avera, President of FINCAP, Inc., a firm providing financial, economic, and policy consulting services to business and government, to complete an analysis of what our ROE range would be for the Hydros

transaction. Bill Avera is a witness we have used in the past regarding cost of capital matters in Montana and South Dakota rate filings. His current ROE range for NorthWestern is 9.64% to 11.14% with a midpoint ROE of 10.39%. A summary of his analysis can be found in Exhibit__(BBB-5).

NorthWestern believes its electric operations merit a higher cost of equity than its natural gas operations and that 10% is conservative. In fact, in light of the facts noted above, an ROE above 10% is easily justified. The 10% ROE NorthWestern believes is appropriate in this case is at the lower end of an ROE range that it would derive for this asset and its business in general. As discussed above, NorthWestern received ROEs for its electric and natural gas assets at or near 10% in recent dockets. NorthWestern stipulated to those ROEs within the context of more broad-based settlements, and they do not necessarily reflect NorthWestern's view of an otherwise appropriate ROE for NorthWestern. NorthWestern is proposing 10% in this filing as a conservative yet reasonable ROE.

Q. Is the equity risk associated with the Hydros acquisition similar to the equity risk for electric T&D assets and electric generation assets in Montana?

A. Yes. Given that the output of the Hydros would become part of the electricity supply portfolio serving NorthWestern's Montana retail T&D

customers, there is no reason to believe that the equity risk associated with the Hydros acquisition would be any different from that of the electric T&D assets in Montana. It also would have a similar risk to the electric generation assets put into Montana rate base (Colstrip Unit 4, Dave Gates Generating Station, and Spion Kop). Those assets had ROEs of 10%, 10.25%, and 10%, respectively.

Rate of Return

Q. How did NorthWestern determine the overall rate of return required for the Hydros acquisition?

A. The overall rate of return required for the Hydros acquisition is simply the cost of debt and cost of equity weighted by the percentage of debt and equity financing. The resulting rate of return is 7.14% and the calculation is shown below.

	Allocation		Cost / Return		Weighted Cost
Debt Capital	52.0%	x	4.5%	=	2.34%
Equity Capital	48.0%	x	10.0%	=	4.80%
			Rate of Return		**7.14%**

Commission Financing Authorization

Q. Is NorthWestern requesting financing authorization from the Commission in line with the financing described in your testimony?

A. Yes.

1 **Financial Benefits of the Transaction**

2 **Q. What are the financial benefits of the transaction for**
3 **NorthWestern?**

4 **A.** This transaction will provide financial benefits for NorthWestern in many
5 ways, including:

6 1. Because we are a pure utility, this will support our ability to invest on
7 favorable terms in all parts of our utility business, to serve all of our
8 utility customers.

9 2. It will improve the earnings of NorthWestern, which will continue to
10 attract quality long-term utility equity holders who support
11 NorthWestern's decision to invest in the utility for the long term.

12 3. Equity (common stock shares) that is issued to help finance the
13 transaction will move NorthWestern into a mid-cap company (market
14 cap greater than $2 billion) that will then widen the group of utility
15 investors, again improving NorthWestern's ability to attract capital to
16 finance its needs.

17 4. The transaction will increase NorthWestern's cash flow. This will
18 improve NorthWestern's financial ratios, which are important to the
19 ratings agencies.

20 5. Additional generation supply will reduce reliance on Power Purchase
21 Agreements, which are viewed as quasi-debt by the ratings agencies.
22 As a result, credit quality will improve.

6. Additional investments in the generation fleet, particularly in clean, diverse, long-lived resources, will be perceived positively by the ratings agencies.
7. An investment of this magnitude increases NorthWestern's size and scale, which is also important to the ratings agencies since it allows NorthWestern to better weather material disruptions to its business and financial results.

Q. How do the financial benefits for NorthWestern noted above help customers?

A. These financial benefits all have a favorable impact on customers as evidenced by the following:

1. Higher demand for NorthWestern's debt and equity reduces the cost of that debt and equity.
2. Improved credit ratings result in lower credit spreads added to treasury yields to determine the debt coupon. NorthWestern has demonstrated over the last eight years that an improving credit rating coupled with lower treasury yields result in lower debt costs for customers. In fact, NorthWestern has lowered its debt costs by over 100 basis points or 1 full percentage point during that time period. On $1 billion of debt this means $10 million of savings. Exhibit__(BBB-6) demonstrates how improved credit ratings have reduced debt costs. Equally important, NorthWestern was able to issue this debt with longer tenors than it has

in the past. Its last debt offerings took advantage of 30- and 40-year maturities, which allowed future generations of customers to benefit from that lower cost debt.

3. With its stronger financial profile and thus higher credit ratings, NorthWestern can carry slightly higher leverage (debt percentage) in its capital structure than some other utilities. This means that customers have a higher percentage of lower-cost debt in their bills versus higher-cost equity, again lowering costs for customers.
4. Improved cash flow from the Hydros acquisition will allow NorthWestern more financial capacity to cover its capital needs for all of its utility operations for the benefit of customers.
5. NorthWestern, with the help of good decision-making by the Commission, has done a great job of attracting quality utility stock investors. These investors are interested in dividends and a sound utility. The Hydros acquisition allows NorthWestern to continue to attract and expand its quality investors. This in turn will provide stability for the utility and its customers. Though the current Commission was not present when NorthWestern was owned substantially by hedge funds, it was evident that some of those investors pressed for the sale of the company to maximize returns. In fact, that is what took place in the Babcock & Brown Inc. sale process that occurred nearly seven years ago.

1 **Q. You mentioned the importance of this transaction to NorthWestern's**
2 **credit ratings. What do the credit rating agencies think about the**
3 **Hydros acquisition?**
4 **A.** As described above, all three ratings agencies view the transaction
5 positively. Each wrote brief pieces on the transaction that included their
6 thoughts on the impact of the transaction on NorthWestern's credit ratings.
7 A summary of the rating agency commentary plus the actual reports are
8 included in Exhibit__(BBB-7).
9
10 In summary, Fitch moved our rating to watch positive after the
11 announcement and stated: "Fitch believes that pro-forma for the
12 acquisition, NWE's credit profile would be marginally incrementally
13 stronger than its current credit profile which is already strong for the
14 rating."
15
16 Moody's noted: "The acquisition, if approved by the Montana Public
17 Service Commission (MPSC) is credit positive for NWE, whose size and
18 scale will increase with low-cost and environmentally favorable power
19 generation assets."
20
21 And finally, S&P noted: "We are affirming the ratings, including the 'BBB'
22 corporate credit and A-2 short-term rating...The acquisition appears to be

1 consistent with a strategy of adding generating assets to the rate base to
2 mitigate the risks associated with purchased power."
3
4 NorthWestern believes that acquisition of these assets will be credit
5 positive and will result in an upgrade from at least one of the credit rating
6 agencies and will certainly result in improvements in the views of all the
7 agencies, which it hopes will ultimately lead to further credit upgrades.
8
9 It should also be noted that Moody's and S&P's ratings criteria puts
10 tremendous weight on the regulatory environment a utility operates in and
11 the credit supportiveness of the commissions that regulate it. A negative
12 decision here may have negative implications on NorthWestern's credit
13 ratings.
14
15 **Q. You noted that equity investors approve of this transaction. What**
16 **has been the feedback from the sell-side equity analysts who cover**
17 **NorthWestern?**
18 **A.** Four of our five existing sell-side analysts wrote on the transaction, and
19 their pieces are included in Exhibit__(BBB-8). All were very positive and
20 believe it will be accretive and beneficial to investors as a whole.
21
22 **Q. What other stakeholders will benefit from the transaction?**

1 **A.** The state of Montana will benefit from this transaction. First, the certainty
2 of stable electricity prices will help attract businesses and jobs, benefitting
3 Montana's economy. In the alternative, volatile energy prices may
4 encourage businesses to move to other states. Second, NorthWestern is
5 the largest property taxpayer in the state and one of the largest
6 employers; what is good for NorthWestern is good for Montana. Thus,
7 NorthWestern works hard to enhance economic development, encourage
8 employee volunteer efforts, provide resources to support community
9 needs, and invest in the state.
10
11 **Q. What would be the negative consequences of not receiving approval**
12 **on the Hydros from the Commission?**
13 **A.** There would be numerous negative consequences if the transaction is not
14 approved and therefore not executed, including the following:
15 1. The many benefits for the variety of stakeholders enumerated above
16 would not be captured.
17
18 2. If NorthWestern doesn't own the Hydros another entity will. This entity
19 will have no interest in the prices paid by NorthWestern's customers,
20 and indeed have no obligation to make the power available to serve
21 Montana's customers. It should also be noted that with NorthWestern
22 ownership, the Commission has greater control over the prices

charged for power from the Hydros. If the assets are owned by someone else, the Commission has no control over prices.

3. As a potential customer of the Hydros if NorthWestern does not own them, credit may be required from NorthWestern, which is likely to negatively affect its cash position, liquidity and its credit ratings. As a supplier of transmission to the Hydros if NorthWestern is not the owner, may also expose NorthWestern to credit risk.

4. Customers would be more exposed to market price uncertainty going forward. Though it is true that market prices are low today, in fact, current market prices are below historical levels and market curves can and do change. When the economy recovers it is likely demand for power will increase and that could increase power prices. In addition, as a result of environmental regulation, coal-fired assets will likely either become more expensive or be shut down, and in either case that will likely result in higher market prices. The difference is that by owning the Hydros, NorthWestern will be able to provide greater price stability for its customers with assets that will provide service for generations to come at returns regulated by the Commission.

5. If this asset purchase is not approved or is approved with onerous terms, it will send a strong message that the Commission does not

support continued investment in NorthWestern-owned energy (natural gas and electric) supply assets and thus, NorthWestern's financial prospects will dim along with its stock price and credit ratings. This will impact the cost of capital and thus customer costs, too.

Q. Does this conclude your testimony?

A. Yes, it does.

NorthWestern® Energy

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January 7, 2013

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Re: *PPL Corporation Sale of the Montana Portfolio*

Dear Paul and Alan:

In response to your final proposal instruction letter dated December 7, 2012, NorthWestern Corporation ("*NorthWestern*") is pleased to submit two definitive acquisition proposals (collectively, the "*Final Proposals*").

- A Conforming Final Proposal for NorthWestern to acquire 100% of the membership interests in PPL Montana Holdings, LLC ("*PPL Montana Holdings*"), which indirectly owns or leases a fleet of 11 hydroelectric and two coal-fired generating facilities located in the state of Montana (the "*Facilities*"), and the portfolio of wholesale and retail contracts and transmission rights associated with the Facilities (the "*Book,*" and collectively with PPL Montana Holdings, the "*Montana Portfolio*"), from PPL Corporation ("*PPL*"). The Conforming Final Proposal also includes a transfer, simultaneous with closing of the acquisition, of non-Colstrip assets from PPL Montana, LLC, to NorthWestern, a sublease by NorthWestern of Colstrip pursuant to the Colstrip lease documents as described in paragraph 3 below, and a power sales agreement as described in paragraph 7 below.

- A Non-Conforming Final Proposal for NorthWestern to directly acquire only the hydroelectric facilities of PPL Montana, LLC, and associated contracts, permits, and operating personnel. Subject to the confirming diligence described in paragraph 6 below, no part of the Book is expected to be acquired as part of the Non-Conforming Final Proposal.

We are very excited about this opportunity and are prepared to move quickly to execute a final definitive purchase and sale agreement (together with any accompanying closing documentation, the "*Acquisition Agreement*"). We have received management and Board approval to submit both of these Final Proposals and have obtained committed bank financing to support this acquisition. Moreover, we

are substantially complete with our due diligence process subject to only confirmatory due diligence around certain issues as outlined below.

As you know, press reports have caused discussion and questions about a possible sale of PPL's assets in Montana. On appropriate terms, we believe a sale to NorthWestern would be very well-received, and would allow PPL to exit all or part of its Montana operations on a very positive note. We hope that PPL will consider this as a significant additional benefit of a transaction involving NorthWestern.

These Final Proposals are submitted by NorthWestern with the understanding that this letter and its contents will be maintained in strict confidence by PPL and its respective affiliates and agents, including (without limitation) its financial and legal advisors. Moreover, it is expressly understood that any legal rights and obligations between NorthWestern and PPL will come into existence only upon the authorization, execution, and delivery of the Acquisition Agreement by all parties thereto, and then only in accordance with the terms and conditions of the Acquisition Agreement.

1. Identity

The acquiring entity will be NorthWestern Corporation. NorthWestern Corporation, doing business as NorthWestern Energy, was incorporated in Delaware in 1923. Our principal place of business and corporate support office is in Sioux Falls, South Dakota. NorthWestern is an integrated utility that provides electricity and natural gas to approximately 668,300 customers in Montana, South Dakota, and Nebraska. The value of our rate base is approximately $1.9 billion. In Montana, our utility history, through The Montana Power Company ("*Montana Power*"), extends over 100 years and involves most of the assets that are part of the Montana Portfolio. Montana Power originally constructed or owned nearly all of the Montana Portfolio hydroelectric and thermal facilities, and our ownership interest in Colstrip Unit 4 ("*CU4*") provides us with a close familiarity with the thermal assets that are part of the acquisition. We also have extensive experience as co-owner of other thermal facilities throughout the Midwest.

We are listed on the New York Stock Exchange (NYSE: NWE) and have a current market capitalization of approximately $1.3 billion and an enterprise value of $2.4 billion. As of February 27, 2012, no single individual or institutional investor held more than 9.2% of our common stock. NorthWestern is supported by a strong balance sheet and possesses a Long Term Rating of 'Baa1' and Senior Secured Debt Rating of 'A2' from Moody's and an Issuer Rating of 'BBB' and Senior Secured Rating of 'A-' from Standard & Poor's ("*S&P*"). Based on our discussions (with your consent) with S&P, we have received confirmation from S&P through its ratings evaluation services process that this transaction (under either of the Final Proposals) will maintain the credit rating of NorthWestern.

Within the Northwest sub-region of WECC, NorthWestern has net ownership, or control, of a variety of generation assets, including interests or rights in CU4, the Dave Gates Generating Station, the Basin Creek power plant, and the Spion Kop wind project. In addition, NorthWestern owns an electric transmission system in Montana which comprises approximately 7,000 miles of transmission line (ranging from 50 to 500 kV), 283 circuit segments, and approximately 125,000 transmission poles with associated transformation and terminal facilities. Our 500-kV transmission system, which is jointly owned, transfers electricity generated from the Colstrip generation facility to markets within Montana and to the West. All transmission assets are located within the WECC.

2. Purchase Price

Under the Conforming Final Proposal, NorthWestern will pursue a Section 338(h)(10) election, and the Base Purchase Price reflects this assumption. The Section 338(h)(10) election is not germane in the context of the Non-Conforming Final Proposal, which is limited to an asset purchase and sale.

Subject to required regulatory approvals and closing conditions set out in the Acquisition Agreement, NorthWestern is willing to offer Base Purchase Prices of:

- Conforming Final Proposal, to acquire the Montana Portfolio: $400 million; or
- Non-Conforming Final Proposal, to directly acquire only the hydroelectric facilities owned by PPL Montana, LLC, and associated facilities, contracts, and personnel necessary for operation and maintenance of such facilities: $740 million.

The Base Purchase Price would be subject to the adjustments and other provisions of the Acquisition Agreement. In preparing these Final Proposals, we have relied on internal assumptions on forward curves, dispatch, costs, regulatory adjustments, and capital expenditures. In the context of our Conforming Final Proposal, we have placed limited incremental value on the Book and would be willing to discuss alternative arrangements with respect to the Book. To the extent practicable, we also have followed the assumptions set forth in the indicative bid instruction letter and Evaluation Materials.

3. Lease Considerations

If the Conforming Final Proposal is selected, NorthWestern will satisfy the requirement to obtain ratings confirmation of the Colstrip sale-leaseback debt by entering into a sublease with PPL Montana, LLC, consistent with the requirements of the Colstrip leases, effectively making the lease payment and operational obligations a corporate obligation of NorthWestern. Based on our discussions (with your consent) with S&P, we have received confirmation from S&P through its ratings evaluation services process that such a transaction will maintain the credit rating of the Colstrip debt.

In the Non-Conforming Final Proposal, which includes acquisition only of PPL Montana, LLC's hydroelectric assets, PPL would retain ownership of PPL Montana Holdings and the Colstrip lease obligations, as well as Corette and, subject to confirmatory diligence, the Book.

4. Purchase and Sale Agreement

NorthWestern has prepared mark-ups of the Acquisition Agreement and related disclosure schedules, consistent with the Conforming Final Proposal and the Non-Conforming Final Proposal, copies of which are attached as Exhibits 1 and 2. For your convenience, we provide a comparison of the Acquisition Agreement for each of the Final Proposals as Exhibit 3. As requested, we also have provided a short summary of certain key changes contained in the mark-ups which is attached as Exhibit 4.

5. Financing

NorthWestern's Conforming and Non-Conforming Final Proposals are not subject to financing contingencies. NorthWestern is prepared to pay 100% cash consideration under both the Conforming and Non-Conforming Final Proposals. NorthWestern has obtained committed bank financing from

Credit Suisse and Bank of America Merrill Lynch for the full amount of the respective Base Purchase Prices. This committed bank financing will be designed to mirror the terms of the definitive Acquisition Agreement.

We have attached as Exhibit 5 the financing commitment letter executed by Credit Suisse and Bank of America Merrill Lynch and as Exhibit 6 contact information for Credit Suisse and Bank of America Merrill Lynch.

6. Due Diligence

NorthWestern's Conforming Final Proposal and Non-Conforming Final Proposal are not subject to further substantive due diligence. However, we will need to complete confirmatory due diligence related to the Book and diligence materials recently added to the data room or otherwise recently provided by PPL. We anticipate that such confirmatory due diligence would be completed while finalizing the Acquisition Agreement and do not anticipate that it will delay executing the final documentation.

7. Required Approvals

NorthWestern's senior management and Board have approved the submission of the Final Proposals, subject to final approval of our Board upon finalization of the Acquisition Agreement. Shareholder approval of the transaction is not required. There are no other corporate approvals required.

As a condition precedent to closing, NorthWestern will require approvals, in form and substance satisfactory to NorthWestern in its sole discretion, from the Montana Public Service Commission. We believe this transaction is in the best interest of Montana ratepayers and is structured in a manner to expedite successful approvals of the transaction.

In addition, the transaction will require approvals and clearance, in form and substance satisfactory to NorthWestern in its sole discretion, from (a) the Federal Energy Regulatory Commission under the Federal Power Act, and (b) the Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. Based on the market power study conducted by our consultant, we do not anticipate market concentration issues to be an impediment to the acquisition as contemplated by either the Conforming Final Proposal or the Non-Conforming Final Proposal; however, under the Conforming Final Proposal, for market-based rate authority purposes, a power sales agreement with PPL or a third party will be required for at least approximately 250 MW and, subject to the Book, up to 450 MW of the capacity associated with the acquired assets.

We do not believe that regulatory approval will be required from either the South Dakota Public Utilities Commission or the Nebraska Public Service Commission. In an abundance of caution, we would anticipate discussing this acquisition with them consistent with our obligations under the Confidentiality Agreement. Even if approval from either Commission were required, we do not believe that the process for obtaining approval would delay or impede this transaction's progress.

We also will require waivers of certain covenants contained in our revolving credit facility.

Additional approvals and contract counter-party consents will be required as are typically associated with the transfer of contracts and permits, such as the Book and the contracts, permits, and licenses associated with the Facilities.

8. Employees

Under the Conforming Final Proposal, NorthWestern expects to retain all or most of the Montana-based PPL employees as part of the transaction. Under the Non-Conforming Final Proposal, NorthWestern expects to retain all or most of the employees directly related to the hydroelectric facilities. We intend to work with the retained employees to ensure a seamless transition into our organization. In addition, each retained employee will be eligible for our benefits program as of the closing. NorthWestern is committed to providing a comprehensive benefits program that is competitive throughout our industry.

9. Timing

We are prepared to move promptly to negotiate and execute an Acquisition Agreement. We are prepared to commit all necessary resources to consummate this transaction, and are prepared to make immediately available all appropriate representatives of NorthWestern to finalize and execute the Acquisition Agreement. We estimate that we could obtain required regulatory approvals concerning our Final Conforming Proposal within 9–12 months from filing our regulatory approval applications, and potentially sooner with respect to our Final Non-Conforming Proposal.

10. Contacts

NorthWestern has assembled an experienced external advisory team to support it in connection with this transaction. We have retained Credit Suisse Securities and Bank of America Merrill Lynch as our financial advisors. Our legal counsel is Skadden, and Dorsey & Whitney is acting as our legal counsel on environmental issues. NorthWestern has retained Shaw Power Group as its independent engineer. Davis Polk is legal counsel for our financing commitment lenders. Exhibit 6 to this Final Proposal letter contains the contact information for the advisors.

11. Confidentiality

NorthWestern acknowledges and confirms that we are aware of the terms of the Confidentiality Agreement between NorthWestern and PPL and that our Final Proposals are subject to the terms of the Confidentiality Agreement.

12. Transition Services Agreement

At this stage, NorthWestern has not reached a conclusion concerning the need for transition services from PPL, or the type of such services required, but anticipates that it can reach such decisions within a reasonable period following PPL's decision concerning the Conforming Final Proposal and Non-Conforming Final Proposal. We expect such transition services, if any, to be of a limited nature in both scope and duration.

13. Duration of Final Proposal

Subject to the fourth paragraph of this letter, our Final Proposals will remain open through 12:00 p.m. Eastern Standard Time on January 31, 2013, unless rejected in writing by PPL prior to that time.

Conclusion

NorthWestern is prepared to move quickly to execute an Acquisition Agreement for either the Conforming Final Proposal or the Non-Conforming Proposal. Moreover, as stated above, we have obtained all required internal approvals to submit these proposals and have obtained committed financing from our financial advisors.

If you have any questions regarding the Final Proposals, please contact our financial advisors identified in the exhibit to this letter or one of our team members listed below:

Brian Bird
Vice President and CFO
3010 West 69th Street
Sioux Falls, South Dakota 57108

Office: (605) 978-2909
brian.bird@northwestern.com

Dan Rausch
Treasurer
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Office: (605) 978-2902
daniel.rausch@northwestern.com

Sincerely,

NorthWestern Corporation

By: Brian Bird
Title: Vice President and CFO

NorthWestern® Energy

Brian B. Bird
Vice President and CFO
Direct: (605) 978-2909
brian.bird@northwestern.com

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d/b/a NorthWestern Energy
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www.northwesternenergy.com

CONFIDENTIAL

July 1, 2013

By Electronic Mail

Mr. Paul McNutt
Managing Director
UBS Securities LLC
Global Power & Utilities Group
299 Park Avenue
New York, NY 10017
paul.mcnutt@ubs.com

Mr. Alan Felder
Managing Director
UBS Securities LLC
Mergers & Acquisitions Group
299 Park Avenue
New York, NY 10017
alan.felder@ubs.com

Re: *PPL Corporation Sale of the Montana Portfolio*

Dear Paul and Alan:

NorthWestern Corporation ("*NorthWestern*") is pleased to submit a proposal (the "*Final Proposal*") for NorthWestern to directly acquire the hydroelectric facilities of PPL Montana, LLC, and associated contracts, permits, and operating personnel.

We believe PPL Corporation will find our Final Proposal to be very attractive in numerous ways as it provides PPL Corporation:

- A price that reflects the full value of the hydro units without dilution by the thermal units;
- Significant cash proceeds at an attractive valuation consistent with recent comparable transactions;
- A means for timely selling the hydroelectric assets, which complements PPL's existing process for selling its thermal assets;
- A commercially reasonable purchase and sale agreement, without the need for the indemnifications required for a transaction involving the thermal units; and
- A higher level of regulatory and closing certainty versus the alternative of NorthWestern's purchase of all of PPLM's Montana assets.

We are very excited about this opportunity and are prepared to move quickly to execute a final definitive purchase and sale agreement (together with any accompanying closing documentation, the "*Acquisition Agreement*"). We have received management and Board approval to submit the Final Proposal. Moreover, we are substantially complete with our due diligence process subject to only confirmatory due diligence.

The Final Proposal is submitted by NorthWestern with the understanding that this letter and its contents will be maintained in strict confidence by PPL and its respective affiliates and agents, including (without limitation) its financial and legal advisors. Moreover, it is expressly understood that any legal rights and obligations between NorthWestern and PPL will come into existence only upon the authorization, execution, and delivery of the Acquisition Agreement by all parties thereto, and then only in accordance with the terms and conditions of the Acquisition Agreement.

1. Identity

The acquiring entity will be NorthWestern Corporation. NorthWestern Corporation, doing business as NorthWestern Energy, was incorporated in Delaware in 1923. Our principal place of business and corporate support office is in Sioux Falls, South Dakota. NorthWestern is an integrated utility that provides electricity and natural gas to approximately 673,200 customers in Montana, South Dakota, and Nebraska. The value of our rate base is approximately $1.9 billion. In Montana, our utility history, through The Montana Power Company ("*Montana Power*"), extends over 100 years and involves most of the assets that are part of the Montana Portfolio. Montana Power originally constructed, owned and operated nearly all of the hydroelectric facilities that are part of the transaction.

We are listed on the New York Stock Exchange (NYSE: NWE) and have a current market capitalization of approximately $1.5 billion and an enterprise value of approximately $2.5 billion. As of March 31, 2013, no single individual or institutional investor held more than 10.8% of our common stock. NorthWestern is supported by a strong balance sheet and possesses a Long Term Rating of 'Baa1' and Senior Secured Debt Rating of 'A2' from Moody's and an Issuer Rating of 'BBB' and Senior Secured Rating of 'A-' from Standard & Poor's ("*S&P*"). Based on our previous discussions (with your consent) with S&P, we previously received confirmation from S&P through its ratings evaluation services process that this transaction will maintain the credit rating of NorthWestern.

Within the Northwest sub-region of WECC, NorthWestern has net ownership, or control, of a variety of generation assets, including interests or rights in Colstrip Unit 4, the Dave Gates Generating Station, the Basin Creek power plant, and the Spion Kop wind project. In addition, NorthWestern owns an electric transmission system in Montana which comprises approximately 7,000 miles of transmission line (ranging from 50 to 500 kV), 283 circuit segments, and approximately 125,000 transmission poles with associated transformation and terminal facilities. Our 500-kV transmission system, which is jointly owned, transfers electricity generated from the Colstrip generation facility to markets within Montana and to the West. All transmission assets are located within the WECC.

We submit the Final Proposal as principal for our own account.

2. Purchase Price

NorthWestern is willing to offer a Base Purchase Price of $900 million to directly acquire only the hydroelectric facilities owned by PPL Montana, LLC, and associated facilities, permits, licenses, contracts, and personnel necessary for operation and maintenance of such facilities, as well as an additional amount equal to, at the time of closing, the fair market value of the power contracts with NorthWestern to be terminated.

The Base Purchase Price and the value of the terminated power purchase agreements would be subject to the adjustments and other provisions of the Acquisition Agreement and subject to required regulatory approvals and closing conditions set out in the Acquisition Agreement. In preparing the Final Proposal, we have relied on internal assumptions on forward curves, dispatch, costs, regulatory adjustments, and

capital expenditures. To the extent practicable, we also have followed the assumptions set forth in the indicative bid instruction letter and other evaluation materials provided by you.

3. Lease Considerations

Under the Final Proposal, PPL would retain ownership of PPL Montana Holdings and any Colstrip lease obligations.

4. Purchase and Sale Agreement

NorthWestern has prepared an Acquisition Agreement and related disclosure schedules, a copy of which is attached as Exhibit 1.

The Acquisition Agreement contemplates an asset purchase rather than an equity purchase because, as you know, NorthWestern must own the assets directly and not through a subsidiary. NorthWestern is aware that the confidential information memorandum for the hydroelectric generating facilities summarizes an equity sale process involving the acquisition of the equity in a special purpose entity into which PPL would transfer the hydroelectric assets to facilitate the transaction. NorthWestern is willing to pursue the acquisition in such fashion if that is PPL's desire. Acquiring the assets as contemplated in the mark-up of the Acquisition Agreement may simplify the transaction and avoid the need for PPL to establish the special purpose entity or transfer into it the hydroelectric assets and related licenses, permits and contracts. Further, the acquisition will need to be conditioned on the assets being held directly by NorthWestern upon consummation of the steps of the transaction.

5. Financing

NorthWestern's Final Proposal is not subject to financing contingencies. NorthWestern is prepared to pay 100% cash consideration under the Final Proposal. If the seller requires a bridge facility, we intend to use a fully committed bridge financing package to be provided by our financing sources, Credit Suisse and Bank of America, as co-lead arrangers and NorthWestern's existing credit facilities to fund the transaction. If a bridge facility is not required by the seller, we believe we could access the capital markets for a timely closing of the transaction.

6. Due Diligence

NorthWestern's Final Proposal is not subject to further substantive due diligence. However, we will need to complete confirmatory due diligence in order to finalize the Acquisition Agreement. We also are awaiting PPL's response to certain diligence questions. We anticipate that such confirmatory due diligence would be completed while finalizing the Acquisition Agreement and do not anticipate that it will delay executing the final documentation.

7. Required Approvals

NorthWestern's senior management and Board have approved the submission of the Final Proposal, subject to final approval of the transaction by our Board upon finalization of the Acquisition Agreement. Shareholder approval of the transaction is not required. There are no other corporate approvals required.

As a condition precedent to closing, NorthWestern will require approvals from the Montana Public Service Commission. We believe this transaction is in the best interest of Montana customers and is structured in a manner to expedite successful approvals of the transaction.

In addition, the transaction will require approvals and clearance from (a) the Federal Energy Regulatory Commission under the Federal Power Act, and (b) the Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. Based on the preliminary market power study conducted by our consultant, we do not anticipate market concentration issues to be an impediment to the acquisition as contemplated by the Final Proposal; however, the Final Proposal contemplates that any existing power sales agreements between PPL and NorthWestern will be terminated upon closing of the Acquisition Agreement.

We do not believe that regulatory approval will be required from either the South Dakota Public Utilities Commission or the Nebraska Public Service Commission.

Additional approvals and contract counter-party consents will be required as are typically associated with the transfer of contracts and permits, such as the contracts, permits, and licenses associated with the hydroelectric facilities.

8. Employees

Under the Final Proposal, NorthWestern expects to retain all or most of the employees directly related to the operation of the hydroelectric facilities. We intend to work with the retained employees to ensure a seamless transition into our organization. In addition, each retained employee will be eligible for our benefits program as of the closing. NorthWestern is committed to providing a comprehensive benefits program that is competitive throughout our industry.

9. Timing

We are prepared to move promptly to negotiate and execute an Acquisition Agreement. We are prepared to commit all necessary resources to consummate this transaction, and are prepared to make immediately available all appropriate representatives of NorthWestern to finalize and execute the Acquisition Agreement. We estimate that we could obtain required regulatory approvals concerning the Final Proposal within 9–12 months from filing our regulatory approval application.

10. Contacts

NorthWestern has assembled an experienced external advisory team to support it in connection with this transaction. We have retained Credit Suisse Securities and Bank of America Merrill Lynch as our financial advisors. Our legal counsel is Skadden, and Dorsey & Whitney is acting as our legal counsel on environmental issues. NorthWestern has retained CB&I (formerly the Shaw Power Group) as its independent engineer. Appendix A to this Final Proposal letter contains the contact information for the advisors.

11. Confidentiality

NorthWestern acknowledges and confirms that we are aware of the terms of the Confidentiality Agreement between NorthWestern and PPL and that our Final Proposal is subject to the terms of the Confidentiality Agreement.

12. Transition Services Agreement

At this stage, NorthWestern has not reached a conclusion concerning the need for transition services from PPL, or the type of such services required, but anticipates that it can reach such decisions within a

reasonable period following PPL's decision concerning the Final Proposal. We expect such transition services, if any, to be of a limited nature in both scope and duration.

13. Duration of Final Proposal

We hereby confirm that our Final Proposal will remain open through 12:00 p.m. Eastern Standard Time on August 1, 2013, unless rejected in writing by PPL prior to that time.

If you have any questions regarding the Final Proposal, please contact our financial advisors identified in the exhibit to this letter or one of our team members listed below:

Brian Bird
Vice President and CFO
3010 West 69th Street
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brian.bird@northwestern.com

Dan Rausch
Treasurer
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Office: (605) 978-2902
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Sincerely,

NorthWestern Corporation

By: Brian Bird
Title: Vice President and CFO

Appendix A – Advisors' Contact Information

Credit Suisse Securities

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Eleven Madison Avenue
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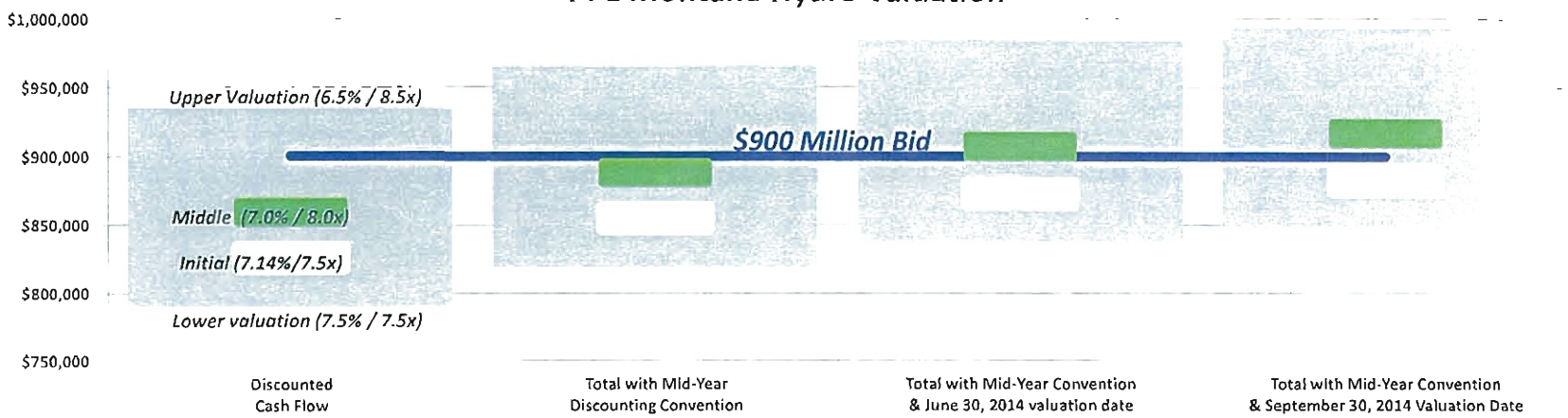
NorthWestern Energy
November 7, 2013
($thousands)

PPL Montana Hydro Valuation



	Pre A&G DCF	Discounted Cash Flow	Mid-Year Convention of NPV rather than Year End Convention	Total with Mid-Year Discounting Convention	June 30, 2014 rather than December 31, 2013 Valuation Date	Total with Mid-Year Convention & June 30, 2014 valuation date	September 30, 2014 rather than June 30, 2014 Valuation Date	Total with Mid-Year Convention & September 30, 2014 Valuation Date
Upper DCF Valuation 6.5% Discount Rate 8.5x EBITDA Terminal Value	$1,009,217	$935,164	$29,914	$965,078	$19,364	$984,442	$9,912	$994,354
Mustang Bid		$900,000		$900,000		$900,000		$900,000
Middle DCF Valuation 7.0% Discount Rate 8.0x EBITDA Terminal Value	$929,714	$858,781	$29,549	$888,330	$19,045	$907,375	$9,765	$917,140
Initial DCF Valuation 7.14% Discount Rate 7.5x EBITDA Terminal Value	$895,974	$825,879	$28,976	$854,855	$18,468	$873,322	$9,474	$882,797
Lower DCF Valuation 7.5% Discount Rate 7.5x EBITDA Terminal Value	$858,311	$790,305	$29,101	$819,406	$18,638	$838,044	$9,573	$847,618

Because it is copyright-protected, Exhibit__(BBB-4) has not been efiled. A paper copy has been provided under the Fair Use Doctrine for purposes of this docket only.

ROE ANALYSES

SUMMARY OF RESULTS

DCF	Average	Midpoint
Value Line	9.5%	11.2%
IBES	9.7%	9.6%
Zacks	9.1%	9.7%
Internal br + sv	8.5%	8.8%
Empirical CAPM - 2013 Yield		
Unadjusted	10.8%	10.8%
Size Adjusted	11.8%	11.5%
Empirical CAPM - Projected Yield		
Unadjusted	11.0%	10.9%
Size Adjusted	12.0%	11.6%
Utility Risk Premium		
Current Bond Yields	10.3%	
Projected Bond Yields	11.3%	
Cost of Equity Recommendation		
Cost of Equity Range	9.5% --	11.0%
Flotation Cost Adjustment		
Dividend Yield	4.0%	
Flotation Cost Percentage	3.6%	
Adjustment	0.14%	
ROE Range	9.64%	11.14%
Midpoint	10.39%	

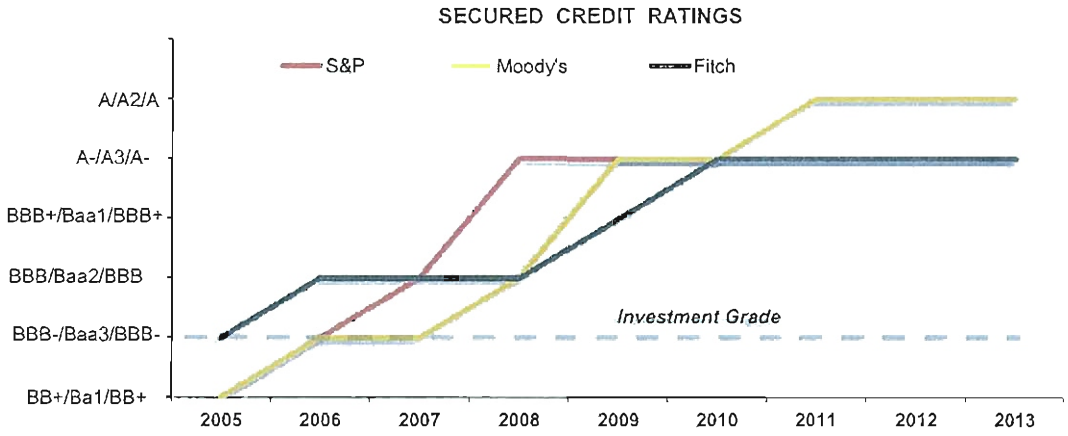
ROE ANALYSES

CHECKS OF REASONABLENESS

	Average	Midpoint
CAPM - 2013 Bond Yield		
Unadjusted	10.2%	10.1%
Size Adjusted	11.2%	10.8%
CAPM - Projected Bond Yield		
Unadjusted	10.4%	10.4%
Size Adjusted	11.5%	11.1%
Expected Earnings		
Industry	10.3%	
Proxy Group	9.8%	10.8%
Non-Utility DCF		
Value Line	11.4%	11.5%
IBES	11.3%	11.6%
Zacks	11.4%	11.7%

NORTHWESTERN ENERGY

Credit Rating and Debt Coupon History



Wtd. Avg. Long-Term Debt Coupon	6.32%	5.71%	5.95%	5.63%	5.84%	5.62%	5.62%	5.39%	5.39%

Because it is copyright-protected, Exhibit__(BBB-7) has not been efiled. A paper copy has been provided under the Fair Use Doctrine for purposes of this docket only.

Because it is copyright-protected, Exhibit__(BBB-8) has not been efiled. A paper copy has been provided under the Fair Use Doctrine for purposes of this docket only.

Department of Public Service Regulation
Montana Public Service Commission
Docket No. D2013.12.85
PPLM Hydro Assets Purchase
NorthWestern Energy

PREFILED DIRECT TESTIMONY OF

JOHN D. HINES

ON BEHALF OF NORTHWESTERN ENERGY

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Witness Information

Q. Please state your name and business address.

A. My name is John D. Hines. My business address is 40 East Broadway, Butte, Montana 59701.

1 **Q. By whom are you employed and in what capacity?**

2 **A.** I am employed by NorthWestern Energy ("NorthWestern") as Vice
3 President – Supply.

4

5 **Q. Please outline your areas of responsibility.**

6 **A.** I am the NorthWestern officer responsible for overseeing the functional
7 areas of electric and natural gas planning, generation and energy
8 marketing. I have also recently assumed responsibility for the lands and
9 permitting, and the environmental compliance functions for NorthWestern.

10

11 **Q. Please summarize your educational and employment history.**

12 **A.** I earned a B.A. and a Master's Degree in Economics from the University
13 of Montana. I have over 25 years' experience in the energy sector
14 including working as a consultant to public interest groups on energy
15 issues and as an economist for the Northwest Planning and Conservation
16 Council ("Council").

17

18 In 2002, Governor Judy Martz appointed me to serve as one of Montana's
19 two representatives to the Council. I served on the Council's Executive
20 Committee and Power Committee and was closely involved in the
21 development of the Council's 5th Power Plan, which was completed in
22 December 2004.

23

I joined NorthWestern in January 2005 as Director of Energy Supply Planning, became the Chief Energy Supply Officer in January 2008, and have served as Vice President - Supply since May 2011.

Purpose of Testimony

Q. Please discuss the purpose of your testimony in this docket.

A. My testimony focuses on NorthWestern's purchase of PPL Montana, LLC's ("PPLM") 11 hydroelectric generating facilities and related assets ("Hydros") from an Energy Supply policy perspective and discusses:

1. Owning the Hydros from a NorthWestern Energy Supply functional view;
2. The Energy Supply Team's role in the process to evaluate and ultimately acquire the Hydros;
3. How NorthWestern's recent Electricity Supply Resource Procurement Plans (the "2011 Plan" and the "2013 Plan") provide the framework for considering and evaluating the acquisition of the Hydros; and
4. How NorthWestern's Hydros Application and testimony meets the Montana Public Service Commission's ("Commission") regulatory standard of review for acquisitions like the Hydros and in particular the Minimum Filing Requirements for Utility Applications for Approval of Electricity Supply Resources established by the Commission's rules.

Owning the Montana Hydroelectric Generating Facilities
(from an Energy Supply View)

Q. Briefly describe the hydroelectric generating facilities.

A. The Hydros are comprised of 11 hydroelectric generating facilities (Thompson Falls, Kerr, Madison, Hauser, Holter, Black Eagle, Rainbow, Cochrane, Ryan, Morony, and Mystic), a water storage reservoir facility (Hebgen), and other related assets. These 12 facilities are operated under four Federal Energy Regulatory Commission ("FERC") licenses. Thompson Falls, Mystic, and Kerr each have a separate license. The remaining facilities are included in the Missouri-Madison Project license.

Q. Why is NorthWestern assuming a limited duration for owning the Kerr asset?

A. Under a provision in the Kerr FERC license agreement, the Confederated Salish and Kootenai Tribes ("CSKT") has the right to purchase the Kerr facility as early as September 2015 (approximately one year after the sale between PPLM and NorthWestern is expected to close). NorthWestern does not have discretion as to whether the Kerr facility is sold to CSKT or its sale price. NorthWestern has assumed that CSKT will exercise this purchase option as soon as permissible, in September 2015. Accordingly, projected generation from the Hydros does not include Kerr generation beyond the beginning of September 2015. From closing until the Kerr facility transfers to CSKT, the estimated output from the Hydros is projected to be 3,572 gigawatt hours ("GWh") on an annualized basis.

This output is reduced to an estimated 2,487 GWh per year after the sale of the Kerr facility to CSKT. As a reference, NorthWestern estimates a load-serving requirement of 6,562 GWh in 2016.

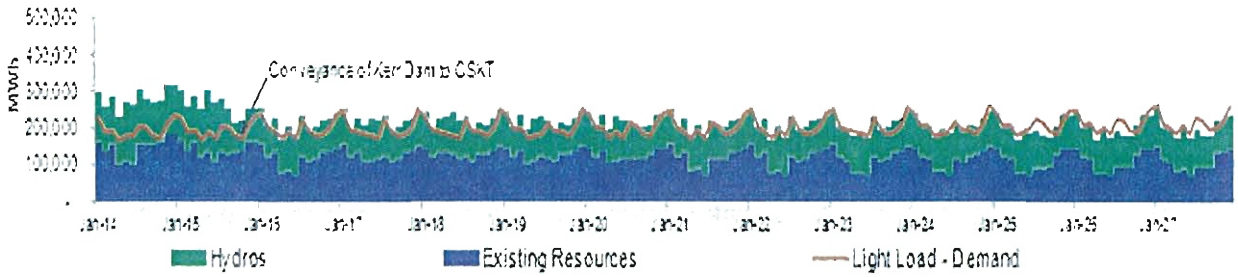
Q. Please describe the opportunity of owning the Hydros from an Energy Supply viewpoint.

A. In my opinion, this opportunity was a very welcome surprise. I knew there was an opportunity to buy the entire portfolio of PPLM generation assets (both the Hydro and thermal assets) but I was not very confident NorthWestern would be able to buy just the Hydros, although for the reasons described in this filing that was our clear preference. That said, this spring after much deliberation Northwestern submitted a $900 million bid to purchase only the Hydros. We made this particular offer, in part, because of increasing concern regarding the risks associated with a purchase consisting of both the Hydros and the thermal generation in Montana. Key risks from the supply perspective were the amount of excess power that the portfolio would have for an extended period (and thus exposure to market and revenue credit volatility) and greater exposure to environmental regulation related to the PPLM coal assets.

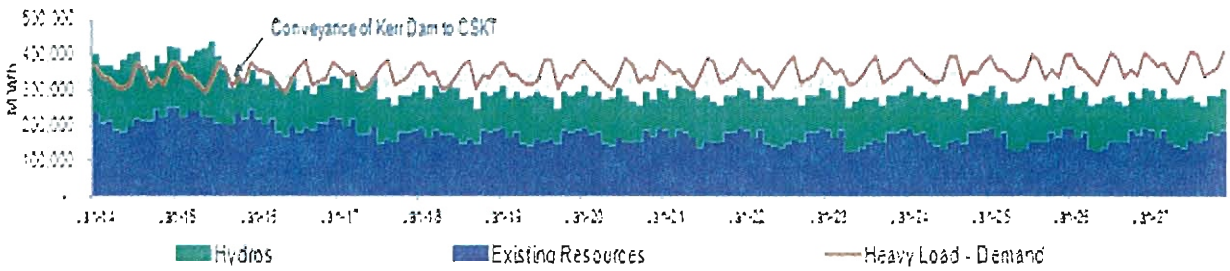
Q. How will the Hydros help address the portfolio's resource supply needs?

A. As discussed in the Prefiled Direct Testimony of Joseph M. Stimatz ("Stimatz Direct Testimony"), the Hydros, together with the portfolio's existing supply resources, will go a long way in addressing our future electricity supply needs. As illustrated in Graph 1, once Kerr Dam is conveyed, on an annual basis the portfolio in light load hours is estimated to be just slightly long (supply slightly greater than demand). Graph 2 provides the similar information only showing the Hydros' effect on helping address heavy load demand. For heavy load hours, NorthWestern will continue to be short (demand is greater than supply) but at a level that can be managed much easier and with less risk to our customers.

Graph 1.



Graph 2.



Q. Please discuss steps NorthWestern took after it made its Hydros bid.

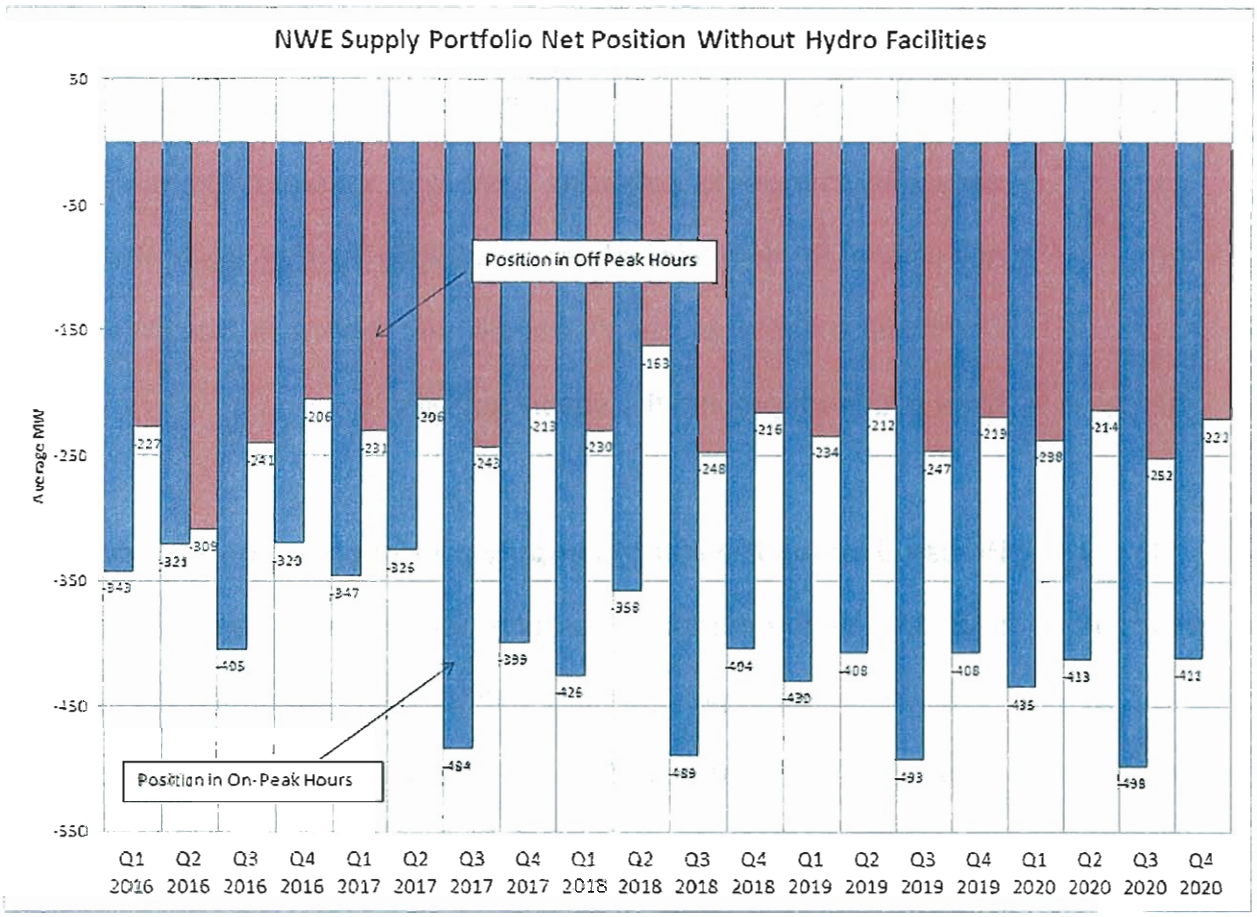
A. After the submittal of our bid and then learning our bid price was accepted by PPLM as the basis for further negotiations, NorthWestern worked hard on a variety of tasks prior to being comfortable with signing the purchase and sale agreement ("PSA") in September 2013. These tasks included: conducting confirmatory due diligence, modeling of costs and risks, and negotiating the PSA. The Prefiled Direct Testimony of Brian B. Bird ("Bird Direct Testimony") further describes this process. These tasks were necessary in order to get to the point that we were able to sign the PSA and move to the next phase – making a regulatory filing with the Commission for approval to include the Hydros in NorthWestern's rate base and therefore into the supply portfolio.

Q. Please discuss the electric supply portfolio's resource requirements.

A. I will discuss the portfolio's resource requirements from two perspectives: (1) an electricity supply portfolio without the Hydros; and (2) an electricity supply portfolio that includes the Hydros. Chart 1 below reflects the electricity supply portfolio without the addition of the Hydros, by quarter, from 2016 through 2020. NorthWestern has significant resource needs for meeting both off-peak and on-peak requirements, which continues to grow slightly over time as market contracts expire and load growth occurs. Note that these charts assume the Kerr project has been purchased by CSKT and thus its output is no longer part of NorthWestern.

Absent any additional acquisitions or purchases, the average on-peak deficit is 405 average Megawatts ("aMW"). This deficit would likely be filled with market purchases at least until 2018, the earliest a new gas plant could be built and operational.

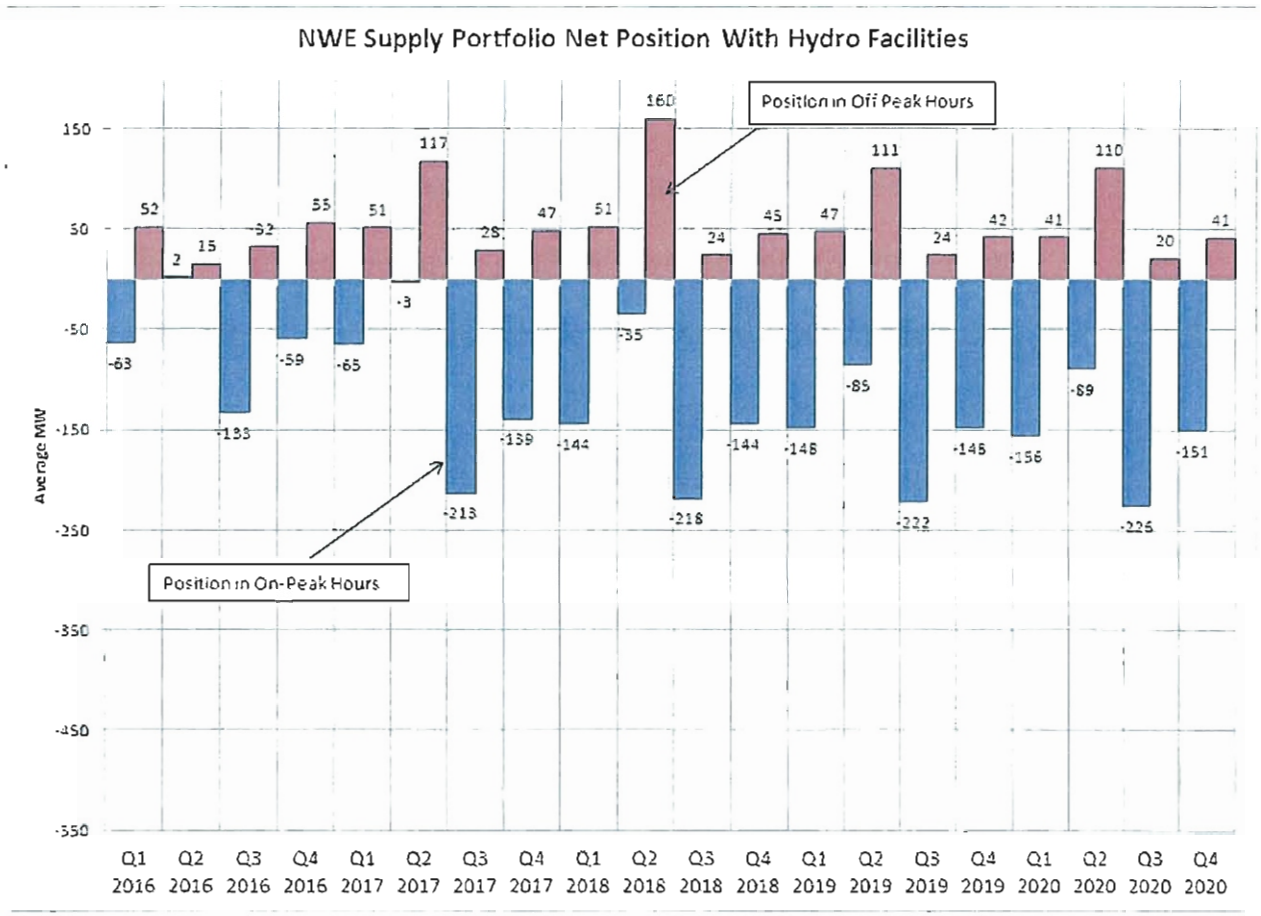
Chart 1.



As illustrated in Chart 2, the Hydros (without Kerr) significantly help address off-peak and on-peak resource requirements and greatly reduce the overall short position of the electricity supply portfolio. For the time period illustrated, the average off-peak long position is about 55 aMW.

The estimated on-peak short position is reduced to 121 aMW. Therefore, this acquisition will significantly reduce reliance on market purchases (from an average 405 aMW to 121 aMW) and thus reduces market risk.

Chart 2.



Q. Please explain what you mean by market risk.

A. As used in NorthWestern's Testimony and Application, market risk applies to three areas: physical reliability, short-term market price volatility, and long-term upward trends in market prices. Market risk causes NorthWestern to question the viability of relying too heavily upon market

purchases for meeting the supply portfolio's resource requirements. This information is presented in more detail in the Stimatz Direct Testimony.

Q. Chart 2 indicates the supply portfolio will be long for small quantities of supply during off-peak hours. Does this present greater risk for NorthWestern's customers?

A. No, because the magnitude of the portfolio's long position is much smaller than the short position without the Hydros, and is very manageable. From an overall risk perspective, the long off-peak position offsets, to a degree, the short position in on-peak hours. In other words, the mixed position of being long in off-peak hours and short in on-peak hours carries significantly less market risk than a position that is short in all hours. To manage the off-peak long position, NorthWestern will flatten the position through a combination of spot and term market sales (from hourly to 18 months).

Q. Please discuss "opportunistic resources."

A. "Opportunistic resources" are part of the 2011 and 2013 Plans. This term applies to existing generating assets that become available for acquisition by NorthWestern outside of the normal planning and procurement process which is typically directed at new resource alternatives. From a planning point of view, it is impossible to predict specifically what or when opportunistic resources will become available, but NorthWestern

recognizes that it is important to evaluate these opportunities when they occur. The 2011 Plan described the potential benefit of pursuing opportunistic resources, in part because there is no development risk, no need for additional infrastructure (electric and/or natural gas), and they would come at a cost that is based upon their market value rather than new build costs. In addition, acquiring existing generation with a valuation based upon today's relatively low electricity commodity price results in a lower total valuation and therefore is a better value for our customers.

Q. How does the concept of opportunistic resources apply to the Hydros?

A. Since the 2011 Plan was developed, NorthWestern kept the concept of opportunity resources, applicable to PPLM's assets, in mind. However, from a planning perspective, when the 2011 Plan was under development, the PPLM assets were not available and we could not, therefore, rely on the availability of any of the PPLM assets as a viable supply option. We were faced with the need to replace the PPL Energy Plus, LLC ("PPL Eplus") seven-year supply contract, which expires in mid-2014. Using our 2011 Plan as a reference, we were focused on three approaches to address the electricity supply portfolio's short position. These approaches were as follows: evaluating opportunistic resources if they became available, making new market contract purchases, and developing a combined cycle combustion turbine ("CCCT") generation facility. In early

2013, we began making market purchases to fill the portfolio's short position. In addition, we started the formal process of locating potential sites for a natural-gas-fired plant and identifying potential technologies.

Then, as discussed in the Bird Direct Testimony, the PPLM generation assets did become a viable option. From an energy supply standpoint we were presented with a rare opportunity – an opportunity to acquire predictable baseload power from hydroelectric generation. We knew that the Hydros could provide the electricity supply portfolio with substantial long-term benefits including: lower supply market risk; greater resource adequacy and reliability; and a more diversified portfolio featuring these more environmentally responsible, lower fuel risk, supply resources.

With our success in reaching an agreement to acquire the Hydros, NorthWestern and our customers now have the opportunity to realize these benefits, subject to satisfactory Commission approval. NorthWestern's analyses demonstrate that acquiring the Hydros creates long-term value and lowers risks for our customers. From a supply perspective, this is why we enthusiastically pursued and ultimately entered into the transaction.

Q. Please discuss in more detail the long-term benefits that owning the Hydros will provide to NorthWestern's electricity supply portfolio and its customers.

A. The long-term benefits fall into the following four general categories, which also reflect many of the "Goals and Objectives" of the Commission's Administrative Rules pertaining to NorthWestern's Electricity Supply Resources Planning and Procurement:

- lower electricity supply market risk;
- greater resource adequacy and reliability;
- stable and reasonable prices and customer rates; and
- a diversified portfolio of environmentally responsible resources.

Q. Please discuss how the Hydros contribute to a portfolio with lower electricity supply market risk.

A. NorthWestern is concerned about a continued heavy reliance on market purchases for its future baseload resource and related capacity needs. Since the development of the 2011 Plan, our concern about market purchase risk has increased. Including the Hydros as part of our electricity portfolio significantly reduces the quantity of market purchases necessary to reliably meet our load-serving obligations and therefore lowers the amount of market risk in the portfolio.

As discussed in the Stimatz Direct Testimony, NorthWestern recognizes the potential for increased short-term volatility and upward movement of electricity prices during a time when a variety of aggravating factors appear to be converging, including: the widespread development of variable resources in the region (diminishing the flexibility of the existing northwest power system); the closing of large thermal generation in the region, including the mothballing of the 150 MW Corette coal plant in Montana; the strong likelihood of additional environmental regulations leading to higher operating costs, potential additional closures, and more limited new generation opportunities; and the recent commercialization of the Montana Alberta Tie Line. Taken as a whole, these factors are likely to increase the portfolio risk associated with market transactions and the more market purchases NorthWestern makes, the greater the portfolio risk.

Q. Why, in your view, is the risk associated with additional environmental regulations increasing?

A. I will speak specifically about why NorthWestern believes the risk of greenhouse gas emissions regulations is increasing. The Environmental Protection Agency's ("EPA"), authority to regulate greenhouse gas emissions was bolstered by a 2007 Supreme Court decision holding that EPA already has authority under the Clean Air Act to regulate greenhouse gas emissions. On June 25, 2013, the Obama Administration issued its

Climate Change Action Plan, which has among its goals the reduction of greenhouse gas emissions from both new and existing fossil fuel-fired power plants. Pursuant to the Climate Change Action Plan, EPA issued proposed new source performance standards on September 20, 2013 setting aggressive greenhouse gas emission standards for new fossil fuel-fired power plants. These standards are expected to be finalized in mid-2014. EPA is also presently holding listening sessions regarding, and is preparing to publish, proposed emission guidelines for existing power plants by June 2014, with final guidelines for such facilities expected by June 2015. According to the Climate Change Action Plan and the Clean Air Act, the individual states must then submit plans to implement those guidelines for existing plants by July 2016.

It is clear that the level of attention being given to domestic emissions of greenhouse gases has been growing at the federal, regional, and state levels. Regardless of a person's view regarding the science of climate change, for the foreseeable future the prospect is for increasing regulation of emitters of greenhouse gases. The Hydros do not combust fossil fuels and, therefore, do not produce the greenhouse gases that EPA proposes to regulate. As a result, acquisition of the Hydros eliminates the risks and costs associated with the regulation of carbon for the 38% of the portfolio that NorthWestern estimates the Hydros will serve.

Q. How do the Hydros contribute to Greater Resource Adequacy and Reliability?

A. A critical obligation of NorthWestern is its management of the electricity supply portfolio to ensure an adequate and reliable portfolio. Electricity market purchases in 2012 accounted for about 55% of the total energy in the electricity supply portfolio. For comparison purposes, the Hydros will generate an estimated 284 average annual megawatts (after the transfer of the Kerr Dam to CSKT) and will meet approximately 38% of NorthWestern's current 740 average annual megawatts of load.

In 2016, if NorthWestern is unable to close on the Hydros, about 48% of the total electricity supply portfolio will need to be filled from market purchases. This is compared to only requiring about 10% of the overall portfolio needs from market purchases with the addition of the Hydros. From my perspective, the benefits are clear: The Hydros enhance the portfolio by replacing substantial market risk; they create long-term value; and they help insulate the portfolio from numerous supply and demand variables that influence market prices and are clearly beyond the control of NorthWestern, the Commission, and the state of Montana.

Given the uncertainty surrounding the availability, reliability, and cost of future electricity market purchases, owning and controlling the Hydros will allow NorthWestern to have a greater degree of certainty regarding

resource adequacy and reliability. The Hydros, even without the Kerr generation, allow NorthWestern to significantly reduce the level of market exposure and replace market risk with long-term, stably priced, renewable generation.

Q. How do the Hydros contribute to providing stable and reasonable prices and customer rates?

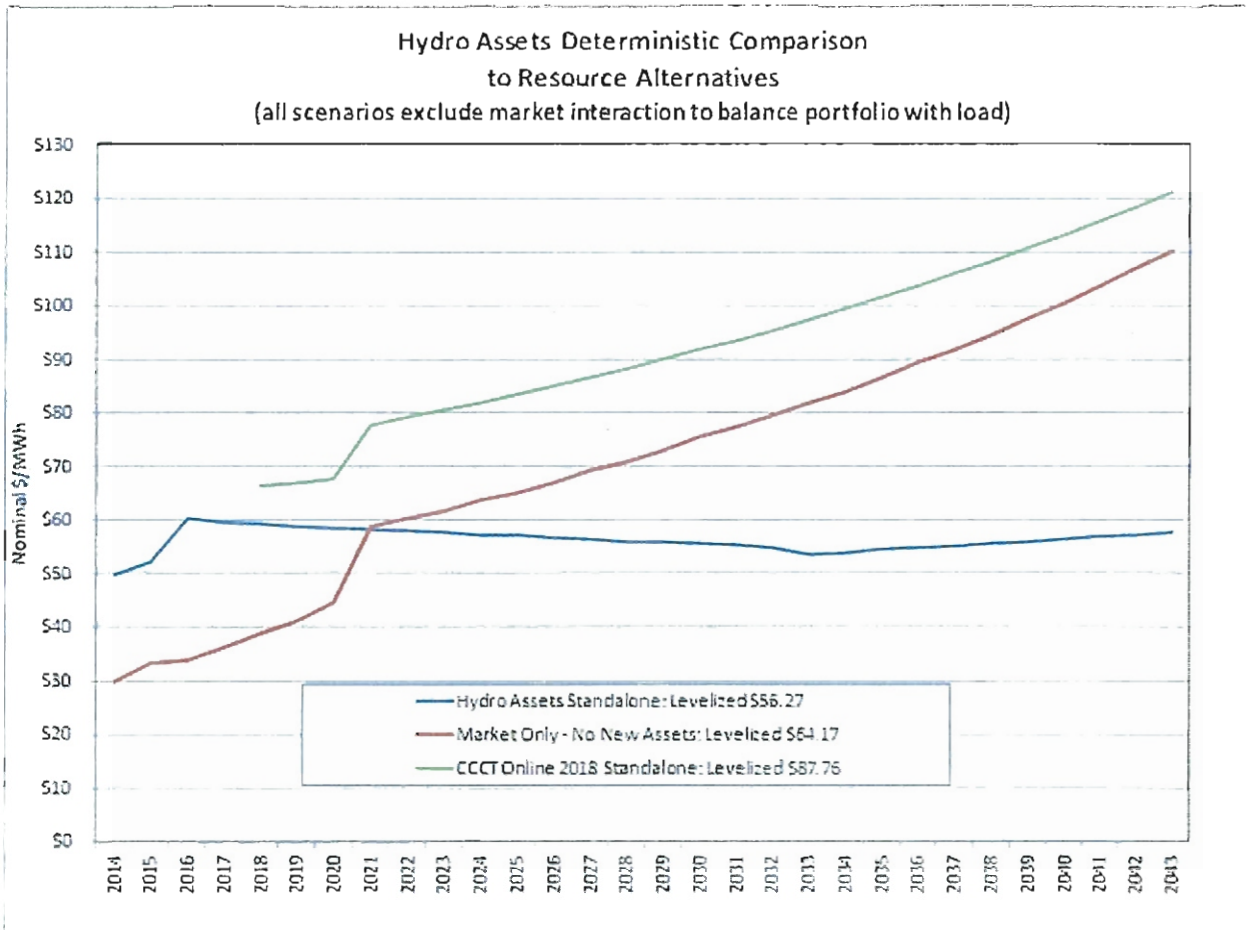
A. As noted earlier in my testimony, the 2011 Plan discussed three primary approaches to meeting resource adequacy – market purchases, a CCCT, and opportunistic resources. The Hydros would contribute significantly to more stable and predictable customer rates compared to a CCCT facility or market purchases.

Reliance on the market, by its nature, leaves customers exposed to the volatility of market prices. The greater the amount of market purchases that make up the portfolio, the greater amount of volatility the portfolio will likely have and therefore the less stable the rates will then be. The addition of a CCCT to the portfolio will partially address this risk issue, but the electricity market risk would be replaced to a large degree by the risk associated with fuel price volatility. A portfolio that includes the Hydros will decrease the amount of market or fuel price risk and therefore provide much more stable customer rates.

Acquisition of the Hydros will result in an estimated rate increase in the first year of about 4.22%. This is described in the Prefiled Direct Testimony of Patrick J. DiFronzo ("DiFronzo Direct Testimony"). After the initial short-term increase, supply costs are forecast to be lower with the addition of the Hydros than they would be with the addition of a CCCT or market purchases. The costs and risks of the three alternative supply portfolios are discussed later in my testimony and in the Stimatz Direct Testimony.

The cost of the Hydros compared to the costs of the other two resource alternatives is readily discernible if one looks at each of their respective costs graphically. A comparison of the long-term stand-alone annual and levelized costs on a per-megawatt-hour ("MWh") basis for the three resource alternatives is presented in Graph 3 below. While the costs of the CCCT and the Market Only alternatives increase over time, the cost of the Hydros is forecast to remain stable. The value of the Hydros from a price stability perspective is clear. Since the Hydros will comprise about 38% of the portfolio's needs, they will provide a significant contribution to the provision of a stably priced electricity portfolio. The Prefiled Direct Testimony of Travis E. Meyer ("Meyer Direct Testimony") provides the basis for this graph.

Graph 3.



Q. **Please explain how the Hydros contribute to a diversified portfolio of environmentally responsible resources.**

A. Owning the Hydros diversifies NorthWestern's electricity supply portfolio in two ways. First, the Hydros provide a significant amount of generator diversity with 11 separate hydroelectric generating facilities. Individually, the Hydros include multiple generating units, are situated in two river basins covering both sides of the Continental Divide, and are dependable, with a history of strong and reliable operating performance, low variable

operating costs, and favorable environmental qualities. See the Prefiled Direct Testimony of William T. Rhoads ("Rhoads Direct Testimony") and the Stimatz Direct Testimony for more detail.

Second, they will create a diverse portfolio of more environmentally responsible electricity supply resources. Since the Hydros produce zero carbon emissions, the portfolio's exposure to carbon regulation is diminished. As shown in Table 1 below, the supply portfolio, with the inclusion of the Hydros, is expected to be comprised of about 50% renewable or non-thermal generation. The renewable component is made up of the Hydros, other hydro generators under power purchase agreements, and wind (both owned and contracted, including Qualifying Facility contracts). The result is a diversified electricity supply portfolio well suited to address future environmental regulatory challenges and meet our customers' electricity needs for generations to come.

Table 1.

NorthWestern Energy
Electricity Supply Resource Types

Coal (Colstrip)	26%
Pet Coke & Waste Coal (QF Contracts)	12%
Natural Gas	1%
Market Purchases*	10%
Wind	12%
Hydro	39%
Total	100%

*Unallocated to coal/hydro

Q. Can the entirety of the benefits that the Hydros will provide the electricity portfolio come from any of the other resources NorthWestern identified in its 2011 or 2013 Plans?

A. No. These benefits, taken as a whole, are explicitly related to owning and controlling large-scale hydroelectric generation facilities already built and fully integrated within our service territory. Given the virtual certainty that no new large-scale hydro generation will be developed in Montana, or indeed in the region, the ability of our electricity portfolio to realize these benefits can only come about from the acquisition of the Hydros. This is almost certainly a true once-in-a-lifetime opportunity which NorthWestern supports very strongly and hopes that the Commission will also support.

Energy Supply's Evaluation Process for Hydros Acquisition

Q. Please describe how the Energy Supply Team at NorthWestern participated in the evaluation of the Hydros.

A. NorthWestern's Energy Supply Team was responsible for performing key tasks that were integral to the evaluation of the Hydros – both pre- and post-bid submittal. I will discuss these tasks in more detail. Energy Supply:

1. Conducted due diligence which included site inspections at each of the Hydros facilities;
2. Performed a market-based Discounted Cash Flow ("DCF") Analysis to assist in determining a value for the Hydros; and

3. Evaluated electricity supply-related economic metrics associated with purchasing the Hydros and including them in the supply portfolio.

Energy Supply Due Diligence

Q. Please describe the overall approach Energy Supply took in conducting its due diligence on the Hydros.

A. In order to calculate a valuation, NorthWestern first needed to understand the condition of the hydroelectric generation assets, identify risks, and incorporate pertinent costs into its valuation models. At the beginning of its due diligence, NorthWestern reviewed a substantial amount of data including information on plant operations, maintenance, and engineering activities. Starting with PPLM's Confidential Information Memorandum ("CIM"), NorthWestern also reviewed for reasonableness historical and forecast capital expenditures and O&M budgets. Much of this due diligence took place prior to the submittal of NorthWestern's bid but also continued throughout the summer of 2013, up until the finalization of the PSA. This post- bid due diligence was very helpful in confirming our bid value and identifying issues to address in the PSA. See the Rhoads and Stimatz Direct Testimonies for more detail.

Energy Supply is very fortunate to have talented employees with extensive experience with these Hydros from their time with The Montana Power Company ("MPC") and in one instance with PPLM. We also have an

employee who helped lead the FERC relicensing process for many of the generation facilities for MPC. This level of internal hydro experience (in marketing, engineering, operations, and licenses) provided NorthWestern with a significant body of knowledge that allowed us to efficiently conduct due diligence including being able to evaluate the information from PPLM's CIM with a critical eye. In addition to our internal team, NorthWestern also assembled consultants to provide expertise, experience, and analysis concerning legal, engineering, and environmental subjects.

Q. What conclusions did NorthWestern reach after completing its due diligence on the Hydros?

A. The due diligence provided NorthWestern with the basis for developing the $900 million bid which was based upon a reasonable set of assumptions that included: longevity of the hydroelectric generation assets, estimates of operating expenses, expected capital investment, and safety of the facilities. As I noted previously, due diligence continued throughout the summer and resulted in NorthWestern gaining further confirmation of the valuation assumptions. Specifically, Northwestern concluded:

- PPLM has made significant operational, maintenance, and capital investment in the hydroelectric generation assets;

- The environmental programs are effectively managed and budgeted under the terms and requirements of the FERC licenses; and
- The $900 million purchase price was deemed fair and consistent with other valuation methodologies.

The Rhoads Direct Testimony, which provides greater detail on the due diligence, best sums up Energy Supply's conclusions: These Hydro Assets have the capability, the reliability, and the longevity to serve NorthWestern's customers well into the future.

DCF Model

Q. Please describe the process Energy Supply undertook in developing a valuation of the Hydros.

A. The Bird Direct Testimony discusses the framework that led to a bid of $900 million, including a description of the three models that were used to ultimately help NorthWestern determine a bid. Energy Supply was responsible for developing the DCF model. This DCF analysis provided the basis for two subsequent models – the Long-Term 30-Year Revenue Requirement Model and the First-Year Rate Impact Model which are referenced and further described in the Meyer and DiFronzo Direct Testimonies. The Stimatz Direct Testimony provides the detail of the DCF model. In his testimony Mr. Stimatz notes that there are four important categories for estimating future cash flows: revenues, operating and administrative expenses, capital expenditures, and terminal value.

1 **Q. Why did NorthWestern use a DCF model to help value the Hydros?**

2 **A.** NorthWestern used this approach because it provided a reflection of the
3 value a third party would place on the Hydros. The DCF analysis allowed
4 NorthWestern to gain an appreciation of the value PPLM and potential
5 bidders would associate with the Hydros. However, while it was
6 necessary to model the value of the Hydros in a way that was consistent
7 with how others would value them, it was also critical to understand the
8 effect on the portfolio's costs compared to other viable portfolio's costs.
9 This analysis was necessary in order to determine whether the acquisition
10 of the Hydros at $900 million was the best alternative for customers. The
11 effect this transaction would have on the electricity portfolio, compared to
12 other realistic portfolio alternatives, was always at the forefront of our
13 internal discussions. The Meyer, DiFronzo, and Stimatz Direct
14 Testimonies discuss these issues in more detail.

15

16 **Q. How were the operating and administrative expenses, and the capital**
17 **expenditures, determined?**

18 **A.** The seller's CIM provided the base assumptions. NorthWestern's due
19 diligence, which I discussed earlier in my testimony, reviewed these
20 assumptions.

21

22 **Q. How were the revenues estimated?**

A. The Stimatz Direct Testimony provides detail on the derivation of the market price, with a future price adjustment for carbon, and the market price basis differential between the Mid C market and NorthWestern's purchase price, that was used in the calculation. Historical averages were used in calculating the generating production for the Hydros, coupled with an adjustment of Rainbow and Cochrane output to reflect the Rainbow redevelopment project. Finally, Kerr output and costs were excluded after the assumed conveyance date in early September 2015.

Q. NorthWestern included a terminal value to estimate long-term value of the Hydros beyond the 20-year DCF model. Please discuss why NorthWestern believes that the longevity of these assets supports this terminal value.

A. The Rhoads Direct Testimony provides detailed discussion on the estimated longevity of these assets. In summary, he notes that past and planned future investment in the assets supports operations well into the future and beyond the 40-year depreciable asset life used to compute the revenue requirement model in this filing. NorthWestern and its consultant expect the forecast capital and maintenance budgets to be sufficient to adequately fund plant operations and maintain the facilities well into the future. The due diligence assessment also concludes that the FERC regulatory process will help ensure long-term structural adequacy, as it has to date, and that the current operational condition of the projects'

generation and auxiliary systems are sound and will effectively be supported by the planned investment levels forecast for the next 30 years.

Q. Did Energy Supply attribute any additional value to the Hydros beyond the revenues discussed above?

A. No, not when it developed its bid last spring. NorthWestern's conservative approach did not attribute any explicit additional value beyond the direct contribution that the output from the Hydros provides. However, as discussed in the Stimatz Direct Testimony, NorthWestern has since determined that these facilities will be able to self-provide spinning reserves. This is estimated to contribute about a $2 million reduction in the first year revenue requirement. See the Meyer and Stimatz Direct Testimonies for more detail.

Moreover, while NorthWestern did not attribute any other incremental value, we believe over time there likely will be additional value to the portfolio from the Hydros that has not been identified or estimated at this time. In part to identify this value, NorthWestern will be further developing its resource optimization function and will seek additional economic efficiencies through optimizing its entire portfolio. The greater number of physical assets the supply function controls, such as the hydro assets, the greater the potential to extract efficiencies for the entire supply portfolio.

Q. Did NorthWestern explicitly incorporate PPLM's hydro employees and their costs in its evaluation? If so, how?

A. Yes it did. PPLM's hydroelectric employees are skilled and dedicated and are very important to the successful transition and future operations of these facilities. NorthWestern's O&M and administrative and general overhead expense estimates reflect the transfer of identified PPLM employees at wages and benefits comparable to what they now earn. The Prefiled Direct Testimony of Kendall G. Kliewer provides additional discussion on compensation for these PPLM employees.

Electricity Supply-Related Economic Metrics for Evaluating the Hydros

Q. Please discuss the metrics NorthWestern used in evaluating the purchase of the Hydros.

A. There are several metrics, in addition to the bill impact that is presented in the DiFronzo Direct Testimony, NorthWestern used in reviewing the Hydros. NorthWestern evaluated:

- A total portfolio cost comparison with three distinct portfolio alternatives: (1) existing supply resources plus all market purchases needed to meet load requirements (the "Current" portfolio); (2) existing supply resources plus the addition of a CCCT and all necessary market transactions ("Current plus CC" portfolio); and (3) existing supply resources plus the Hydros and all necessary market transactions ("Current plus Hydro" portfolio); and

portfolio); and (3) existing supply resources plus the Hydros and all necessary market transactions ("Current plus Hydro" portfolio); and

- A stand-alone resource cost comparison which looks at the levelized cost of:
    - the Hydros, on a per-MWh basis,
    - a CCCT (239 MW effective and economically dispatched) on a per-MWh basis, and
    - market purchases sufficient to meet portfolio requirements.

These metrics can be modeled and considered both without explicitly incorporating risk and with incorporating risk (deterministic and stochastic analyses respectively).[1]

Q. Did NorthWestern employ a stochastic analysis at the time of the initial valuation?

A. No. While risk was modeled in past electric procurement plans and in the Spion Kop evaluation using the GenTrader model, NorthWestern did not have a stochastic model available in June 2013. In 2012 NorthWestern began investigating alternative stochastic models and eventually purchased Ascend Analytics' PowerSimm model to support our planning and acquisition processes. However, before we could use the PowerSimm model we had to input extensive amounts of data and also conduct output validation tests. For the initial bid analysis NorthWestern

[1] Deterministic analysis refers to the lack of randomness in the modeling. Conversely, stochastic analysis refers to the application of probabilities to certain key variables that results in the identification and valuation of risks.

1 favorably with the Current plus CC and market purchases alternatives
2 even using the more conservative evaluation methodology.
3
4 **Q. Why is deterministic analysis more conservative than stochastic**
5 **analysis?**
6 **A.** As discussed earlier in my testimony, one of the benefits of the Hydros
7 acquisition is that it removes a large amount of market price or fuel price
8 risk from the supply portfolio. The deterministic analysis treats forward
9 market and fuel prices as though they are fixed and certain. This has the
10 effect of undervaluing the Hydros relative to the Current portfolio and the
11 Current plus CC portfolio, which retain significantly more market price or
12 fuel price risk.
13
14 **Q. Why did NorthWestern discontinue using the GenTrader model?**
15 **A.** This change in risk evaluation models was partially in response to
16 Commission comments on the 2011 Plan. See Docket No. N2011.12.96,
17 Written Comments, ¶¶ 15-16. Specifically, the Commission requested that
18 NorthWestern look at an alternative resource planning and risk evaluation
19 model. NorthWestern recognized some of the limitations of the
20 GenTrader software and was interested in a model that allowed for
21 expanded capabilities including the ability to define and associate more
22 variables in the modeling environment. Fortunately, the selection of
23 Ascend Analytics' PowerSimm included improved capability to model the

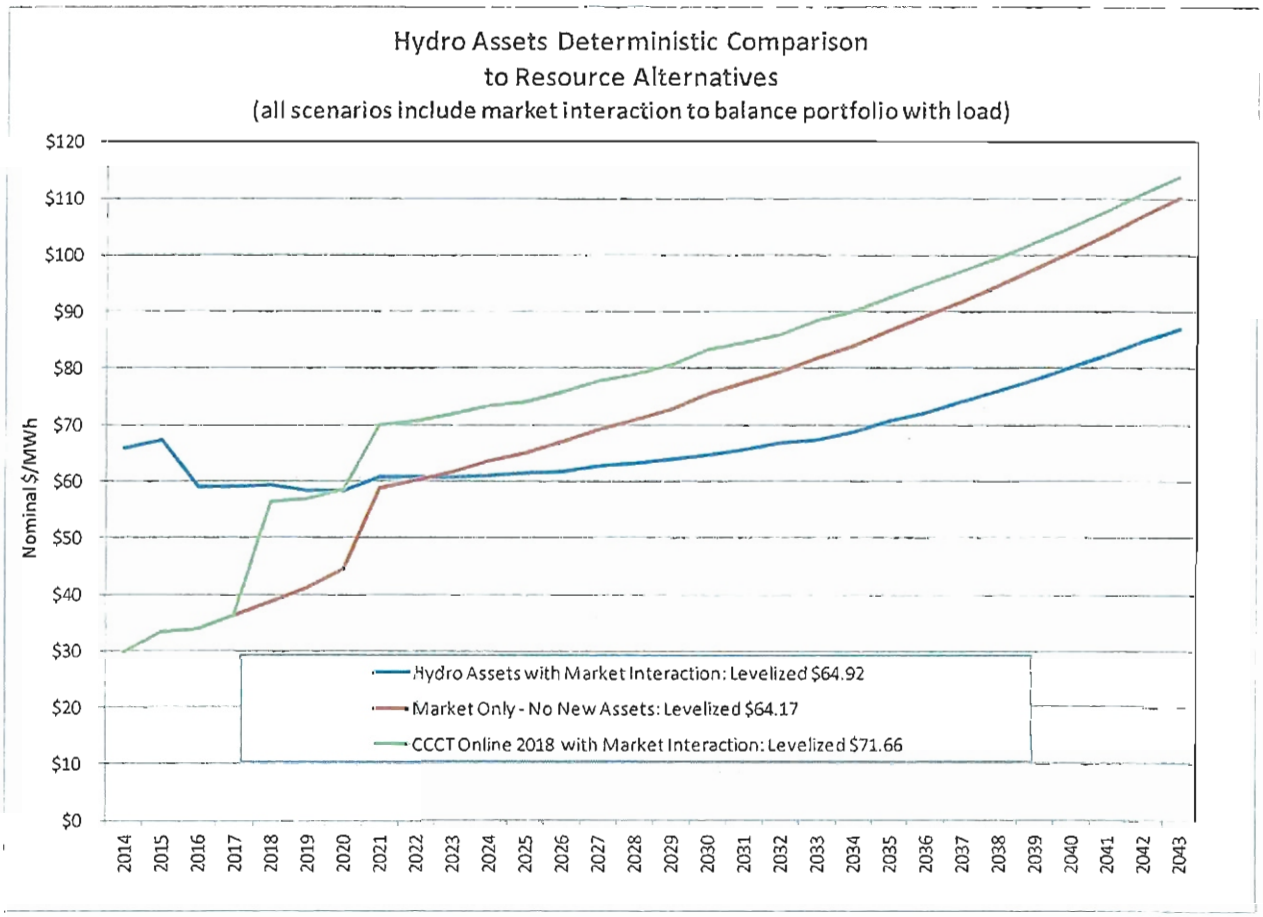
1 characteristics of hydroelectric generation as well as weather – both of
2 which are important factors. Unfortunately, the transition to PowerSimm
3 was underway when the Hydros acquisition process was initiated by
4 PPLM.
5
6 **Q. Did NorthWestern consider portfolio risks during the period that the**
7 **valuation was developed?**
8 **A.** Yes. NorthWestern evaluated relative risks of the three alternatives
9 described above, just not in a formal modeling environment. Our
10 subjective assessment of the relative risks, described in the Prefiled Direct
11 Testimony of Robert C. Rowe ("Rowe Direct Testimony"), clearly ranks the
12 Hydros, using a variety of different measures, as the lowest-risk resource
13 alternative.
14
15 **Q. What are the results of the stand-alone deterministic modeling?**
16 **A.** The deterministic analysis shows that on a stand-alone basis, the Hydros
17 are significantly less expensive than the CCCT alternative. The 30-year
18 levelized cost of the Hydros was estimated to be $56.27/ MWh, while the
19 30-year levelized cost of the CCCT was estimated to be $87.76/MWh.
20 Although NorthWestern does not view reliance on the market for all future
21 needs as a viable alternative, for comparison purposes we calculated the
22 cost of the market purchase alternative. The 30-year levelized cost of
23 market purchases was estimated to be $64.17/MWh. See the Stimatz

Direct Testimony for a discussion regarding the viability of the market alternative. Graph 3, previously presented; illustrates the expected costs over time for each of these stand-alone resource alternatives.

Q. What were the results of the deterministic analysis that considered the Hydros within the context of the electricity supply portfolio in load resource balance?

A. From a portfolio perspective, the Hydros also compared favorably. On a 30-year levelized basis, the cost of the portfolio including the Hydros combined with all market interactions (buying and selling power) necessary to meet load was estimated to be $64.92/MWh. The 30-year levelized cost of the portfolio which included a CCCT combined with all market transactions necessary to meet load was estimated to be $71.66/MWh. The market scenario cost for the portfolio scenario is the same as in the stand-alone scenario – $64.17/MWh or $0.75/MWh lower cost compared to the Hydros. Graph 4 below shows the costs over time of each of the three scenarios from a portfolio perspective.

Graph 4.



Q. Did NorthWestern consider relying on short-term market purchases and then buying the Hydros at a later date when market prices increased?

A. No, because it was not a realistic option. NorthWestern was confronted with a simple choice – either bid on the Hydros at this time or forego this opportunity. If NorthWestern had either chosen not to attempt to purchase them or had not developed a successful bid, or if the Commission does not approve this application, these assets will likely be sold to another entity. If the Commission does not approve NorthWestern's Application,

we will remain a price taker – that is purchasing significant quantities of electricity supply at the prevailing market price. In addition, even if the assets were available for sale at a time when market prices were higher, the price NorthWestern would have paid to acquire the assets would also be correspondingly higher.

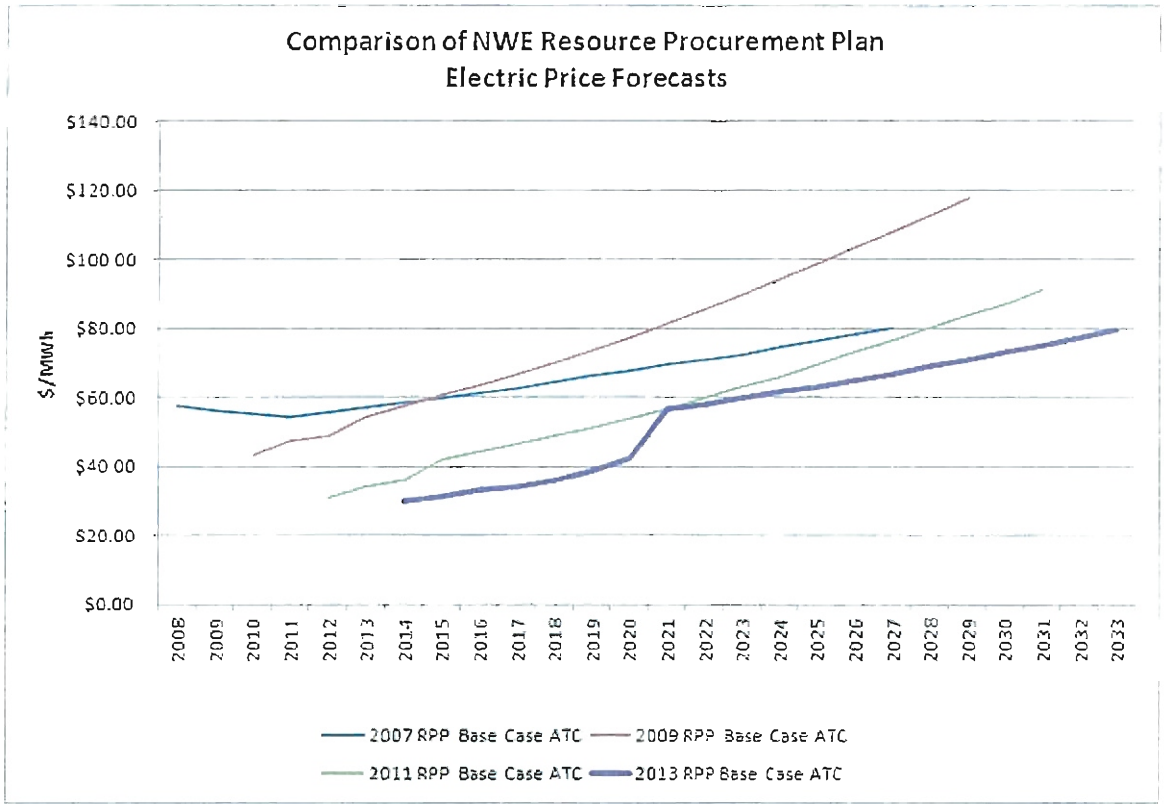
NorthWestern's Hydros valuation reflects the currently lower market prices. NorthWestern was able to value these assets at a comparatively low price because the current and forecast market price is currently at a relatively low level, compared to recent years. Historical market forecasts are presented in Graph 5 below. The June 7 market curve, upon which NorthWestern's Hydro bid valuation is based, is the same curve used in the 2013 RPP Base case. The other forecasts presented below were used in past electric procurement plans. The 2013 curve is lower than any of the previous curves.

Q. Did NorthWestern explicitly model risk (stochastic) and evaluate the effects on the portfolio using the same resource alternatives?

A. Yes. Once the PowerSimm model became operational, we assessed the alternatives from a risk-adjusted perspective which is consistent with the approach taken in the 2011 and the 2013 Plans as well as in previous planning cycles. The results from the stochastic modeling are consistent with NorthWestern's initial valuation of risks – the Hydros provide strong

value because of their lower risks as well as their relative lower long-term costs.

Graph 5.



Q. Please summarize the risk adjusted or stochastic modeling results of the three resource alternatives.

A. Simulations of portfolio performance from both a cost and risk perspective, using the same three resource alternatives, demonstrate that the Hydros alternative lowers both the portfolio's cost and risk when compared to the other portfolios. Total portfolio costs are lower because the volume of energy generated from the Hydros replaces market purchases and the

portfolio; therefore, the Hydros alternative has lower market risk, fuel price volatility, and carbon costs – all factors which affect the market and CCCT alternatives. NorthWestern also modeled the variability of hydro generation from year to year and month to month in its stochastic analysis. The Stimatz Direct Testimony provides discussion of the portfolio simulations that incorporate numerical representations of risk associated with the three scenarios.

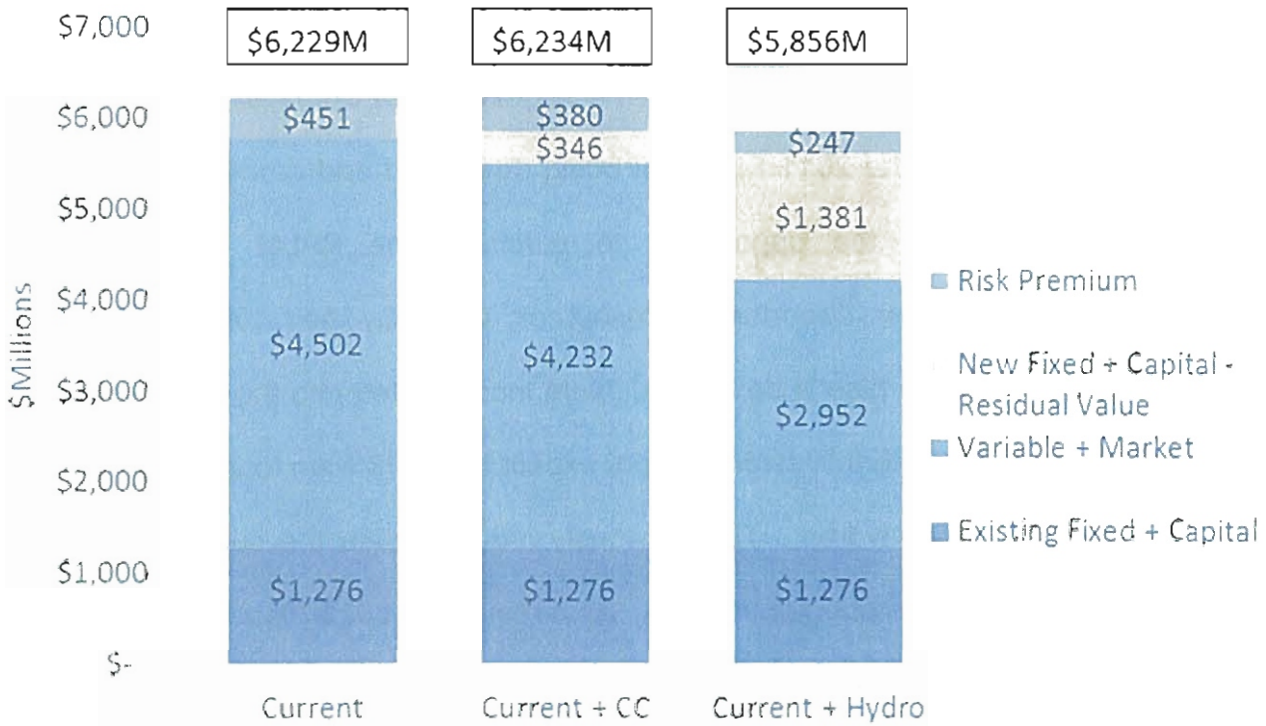
Table 2 below demonstrates the 30-year net present value ("NPV") of the three alternative resource portfolios and calculates the costs of these portfolios with the inclusion of risk premiums produced from the PowerSimm model. Costs are shown by current portfolio components and variable operating costs, including market purchases, with capital expenses and fixed operating costs added for the combined cycle and hydro resources. The risk premium is significantly smaller for the hydro portfolio than the other two portfolios. The results from the stochastic analysis show the Hydros alternative has lower costs and risks compared to the other two portfolios.

Q. What conclusions did NorthWestern reach after reviewing the stochastic analysis?

A. There were several. First, the stochastic analysis confirms the subjective evaluation of risks NorthWestern performed at the time the bid was

submitted to acquire the Hydros and discussed in the Rowe Direct Testimony. Second, while the costs of purchasing from the market are forecast to be less in the short term, over the long term the Hydros on a risk-adjusted basis provide significantly greater value – estimated to be $373 million ($6,229M less $5,856M). And third, acquiring the Hydros at the $900 million purchase price compared to the two resource alternatives is the best way to meet NorthWestern's customers' needs, over the long term, at the lowest total risk-adjusted cost.

Table 2. 30-Year NPV Total Portfolio Costs, Risk Adjusted



Q. Please discuss the risk premium differentials.

A. There is $204 million of risk reduction ($451 – $247 = $204) associated with the Current plus Hydro scenario compared to the Current (base case) scenario. This is a function of the difference in the volume of market purchases and the associated price uncertainty of those purchases. In the Current plus CC scenario, although the market risk exposure is reduced because of the CCCT's displacement of market purchases, fuel risk is now incorporated. See the Stimatz Direct Testimony for a more detailed description of the stochastic modeling process and results.

Electricity Supply Resource Procurement Plans' Guidance

Q. How did the existence of NorthWestern's 2011 Plan and 2013 Plan help guide NorthWestern's acquisition of the Hydros?

A. While the 2011 Plan was being developed and processed, NorthWestern viewed the opportunity to purchase the PPLM assets as unlikely. However, opportunistic resources, which by their definition are unknown when a plan is developed, were incorporated into the 2011 Plan. In early 2013, NorthWestern did not expect the 2013 Plan to include consideration of the Hydros. This obviously changed with the successful negotiation and execution of the PSA. As a result, the 2013 Plan does incorporate the Hydros and compares this scenario with both the market purchase and CCCT portfolios. The lowest risk-adjusted portfolio cost contains the Hydros.

NorthWestern submitted the Hydros bid to PPLM on July 1, 2013. The 2011 Plan, along with Commission comments, are relevant to that time period. The 2011 Plan provided the framework for an orderly rebuilding of the vertically integrated utility and identified market purchases, opportunity resources, and a CCCT as the likely alternatives to replacing the PPL Eplus seven-year agreement scheduled to end in mid-2014. The 2011 Plan provided the risk inputs, resource needs, and the framework for evaluating the potential effects of the Hydros on the portfolio. The 2011 Plan identified key risks affecting NorthWestern's electricity supply portfolio, which included market price volatility, environmental regulations (primarily related to greenhouse gas), and fuel price risk. The 2013 Plan updates the risk inputs.

Q. Is the acquisition of the Hydros consistent with NorthWestern's 2011 Plan?

A. Yes. The acquisition of the Hydros helps address the resource needs identified in the 2011 Plan, provides a greater diversity in the portfolio as called for in the 2011 Plan, and provides mitigation of risks identified in this Plan. I am therefore comfortable stating that the Hydros acquisition is consistent with the 2011 Plan.

Q. Are there any differences between the 2011 Plan and the 2013 Plan that affect your comparison of the Hydros with the other supply resource scenarios?

A. There are. The first difference is the increased urgency in the 2013 Plan to acquire supply to address the termination of the PPLM seven-year contract in mid -2014. Absent the acquisition of the Hydros, NorthWestern must, at least in the short- to medium-term, acquire additional supply through market purchases. The second difference is that NorthWestern views a long-term reliance on substantial quantities of market purchases as a great deal more risky in the 2013 Plan. Market purchases, especially over the long term and in the quantities necessary to meet the portfolio's needs, create greater portfolio risk and cost. In other words, there is a significant change in the amount of risk that ongoing reliance on large quantities of market purchases presents to the supply portfolio.

Q. Did NorthWestern evaluate reliance on market purchases to address the portfolio need identified in the 2013 Plan?

A. Yes. Even though NorthWestern questions the long-term viability of this alternative, exclusive reliance on market purchases is modeled as one of the three portfolio scenarios. The CCCT scenario also includes market purchases through 2017 when a gas plant is assumed to be operational by 2018.

Q. One of the purposes of NorthWestern's resource planning requirements under the Commission's administrative rules is described in ARM 38.5.8219 - Risk Management and Mitigation. Please explain how the acquisition of the Hydros helps manage and mitigate the risks to NorthWestern's electricity supply portfolio, and ultimately to its electricity customers.

A. I think of risk management and mitigation as the reduction of uncertainty while addressing the supply needs of the portfolio. NorthWestern is charged with providing retail electricity customers in Montana with both a low-cost and low-risk portfolio. These two goals are often mutually exclusive and in competition with one another. Therefore, NorthWestern must consider how to balance cost and risk while recognizing that minimizing the impact of one factor usually comes at the expense of increasing the impact of the other.

NorthWestern, in acquiring the Hydros, has struck an appropriate balance between minimizing the short-term cost of the portfolio and minimizing the portfolio's long-term cost and risks. NorthWestern, after considering the three alternatives for addressing the portfolio's requirements, strongly believes that acquiring the Hydros is the best alternative for balancing costs and risks.

Regulatory Standard of Review

Q. NorthWestern is requesting the Commission approve this PPLM Hydro Assets Purchase Application in its entirety. What are the relevant standards that NorthWestern must address in this Application?

A. In order to approve NorthWestern's Application, § 69-8-421(6)(c), MCA, provides that the Commission must find that the approval of the Application is: (1) in the public interest; (2) consistent with the requirement that utilities provide adequate service at just and reasonable rates, as provided in § 69-3-201, MCA; (3) consistent with the resource planning and procurement guidelines and objectives of § 69-8-419, MCA; and (4) consistent with applicable Commission rules implementing § 69-8-419, MCA through § 69-8-421, MCA.

Q. Has NorthWestern met the statutory and regulatory requirements necessary for the approval sought by this Application?

A. Yes. My testimony discusses the relevant requirements and how NorthWestern has met them.

Q. Let's turn to the first of these four requirements. Please explain why the Hydros purchase is in the public interest.

A. While "public interest' is not a defined term in statute or rule, NorthWestern has presented through this Application and its testimony,

substantial evidence that acquisition of the Hydros is in the public interest. In Docket No. D2011.5.41, Order No. 71591, the Commission found that for the acquisition of a resource under § 69-8-421, MCA, the public interest threshold is met "if the benefits outweigh the risks to [customers]." As discussed throughout this testimony, and in the Rowe Direct Testimony, the benefits from acquiring the Hydros include:

- The Hydros are a proven and reliable source of non-carbon emitting physical generation located within NorthWestern's service territory. Further, this is a rare opportunity to own and operate this generation.
- Because the Hydros are already constructed, with no current need for additional transmission infrastructure, there is no development risk.
- NorthWestern will be a good steward of the Hydros and will continue the environmental, recreation, and fisheries obligations as set forth by the hydro licenses.
- NorthWestern will provide comparable pay and benefits to the current PPLM Hydro employees, maintaining economic stability to Montana.
- The Hydros will substantially reduce reliance upon market purchases from 48% to about 10% of the portfolio and will therefore lessen the portfolio's exposure to market risk.
- The Hydros will diversify the electric supply portfolio with respect to: (1) generating technology; (2) reduced carbon emissions; (3) fuel source; and (4) amount of market purchases which is presented earlier

in this testimony. Table 1 provides a breakout of resource type showing:

- The portfolio will be over 50% renewable;
- Less than 50% of the portfolio will have exposure to fuel price volatility; and
- Exposure to potential carbon regulation is significantly diminished.

- NorthWestern's financial health will be enhanced which, as discussed in the Bird Direct Testimony, will reduce the cost of capital for NorthWestern to the benefit of customers.
- The addition of the Hydros to NorthWestern's rate base will provide a lower long-term risk-adjusted portfolio cost and greater rate stability compared to market purchases or a CCCT.
- Finally, acquiring the Hydros will help advance Montana's public policy of encouraging the presence of more renewable generation in electricity supply portfolios, and, specifically, will support the State Legislature's policy finding that: "(3) increased use of renewable energy will enhance Montana's energy self-efficiency and independence;". § 69-3-2002(3), MCA.

Q. Will the Hydros qualify as a renewable resource under Montana's Renewable Portfolio Standard ("RPS")?

1 **A.** No. While the Hydros are renewable, they do not meet the definition of a
2 qualifying eligible renewable resource under the RPS statute. The Hydros
3 are renewable in the sense that they do not consume fossil fuel or emit
4 carbon, and as such they insulate customers from the risk of future carbon
5 regulation and fuel price risk.

6

7 **Q. Let's turn to the second requirement. Please explain why acquisition**
8 **of the Hydros is consistent with the requirement that NorthWestern**
9 **provide adequate service at just and reasonable rates, as provided**
10 **for in § 69-3-201, MCA.**

11 **A.** Section 69-3-201, MCA, consists of two requirements: (1) that every
12 public utility furnish "reasonably adequate service and facilities," and (2)
13 that the resulting charge to customers be "reasonable and just." The due
14 diligence performed on the hydroelectric generation assets and discussed
15 in the Rhoads Direct Testimony supports NorthWestern's conclusion that
16 these assets will be operating well into the future. The hydroelectric
17 generation assets are a proven technology with a long operating history,
18 maintained and operated in accordance with applicable regulatory and
19 industry standards. Therefore acquisition of the Hydros is entirely
20 consistent with providing reasonably adequate service and facilities to
21 NorthWestern's customers.

22

Similarly, the resulting rates will be just and reasonable. As already discussed, NorthWestern's portfolio will be substantially short of supply and resources must be acquired to achieve portfolio balance. NorthWestern compared the Hydros to the two resource alternatives identified in the 2013 Plan that address the portfolio's need. On a risk-adjusted basis, the Hydros are the lowest cost alternative.

Q. Now let's turn to the third requirement. Please discuss how the acquisition of the Hydros is consistent with the resource planning and procurement guidelines and objectives found in § 69-8-419, MCA.

A. Section 69-8-419(1), MCA, directs NorthWestern to: (a) plan for future electricity supply resource needs; (b) manage a portfolio of electricity supply resources; and (c) procure new electricity supply resources when needed. In carrying out these fundamental responsibilities, § 69-8-419(2) MCA, contains five objectives NorthWestern must pursue in planning, managing, and procuring electricity resources, four of which are relevant to this Application. The other objective relates to the utility using an open, fair, and competitive procurement process whenever possible. As discussed below, this last objective is not applicable.

The first objective directs the utility to provide "adequate and reliable electricity supply service at the lowest long-term total cost." Section 69-8-

419(2)(a), MCA. I have previously addressed how the Hydros result in adequate and reliable service. In looking at the likely universe of resource alternatives identified in the 2011 and 2013 Plans, the Hydros provide, on a risk-adjusted basis, the lowest long-term total cost portfolio and are also the lowest cost alternative when evaluated using a deterministic stand-alone resource analysis.

Second, the utility must "conduct an efficient electricity supply resource planning and procurement process that evaluates the full range of cost-effective electricity supply and demand-side management options." Section 69-8-419(2)(b), MCA. Both the 2011 and the 2013 Plans include cost-effective demand-side management options which are incorporated as supply resources. These Plans also considered and evaluated resources that could reasonably address the portfolio's current and forecast supply requirements. The 2013 Plan provides an evaluation of baseload resource alternatives and includes them in stochastic portfolio analyses.

Third, the utility should manage and mitigate risks. Section 69-8-419(2)(c), MCA. Risks associated with the electricity supply portfolio and resource alternatives are identified in both the 2011 and 2013 Plans. Increasing market uncertainty and environmental changes are key risks in the Plans. The Hydros will help mitigate both of these risks. As discussed previously,

the Hydros also provide a more diversified portfolio, no exposure to fuel price volatility, and are located at multiple generation facilities. All of these factors will contribute to a lower level of risk within the portfolio.

Fourth, a utility must provide electricity supply service at just and reasonable rates. Section 69-8-419(2)(e), MCA. How the acquisition of the Hydros meets this objective has already been discussed.

In summary, the four relevant objectives are met. NorthWestern has ensured adequate and reliable electricity supply service at the lowest long-term total cost by evaluating the forecast costs of market purchases and a CCCT, included appropriate risks in the evaluation, and found the Hydros to be the best alternative to meet the identified needs of the portfolio. The acquisition of the Hydros is an opportunity resource as described in the 2011 and 2013 Plans and mitigates key risks as set forth in both plans.

Q. The Commission's rules include a strong preference for using competitive solicitations in resource acquisitions. Please provide justification for not using a competitive solicitation for acquisition of the Hydros.

A. As my earlier testimony states, and as further described in the Bird Direct Testimony, NorthWestern was not in charge of the Hydros sale process. NorthWestern was only able to provide a bid within the sale framework

developed by PPLM. The context of the relevant Commission rules assumes that NorthWestern is running competitive solicitations to acquire new sources of supply. Since NorthWestern was a respondent to the seller's process, this requirement found in § 69-8-419(2)(d), MCA, and all corresponding rules are not applicable.

Q. Did NorthWestern test its valuation through an alternative competitive solicitation process? Please explain.

A. No, for several reasons: First, there was no time to run a competitive solicitation; second, as noted earlier in my testimony, there is no way to build new hydroelectric generation of this size in Montana; and third, a solicitation for "theoretical" generation results in bids with very limited validity.

Q. Now let's turn to the final requirement for advanced approval. Please describe how the acquisition of the Hydros is consistent with applicable Commission rules.

A. This requirement depends on which Commission rules are "applicable" to this Application. There are many Commission rules but, in NorthWestern's opinion, not all are applicable to this Application. In Docket No. D2011.5.41, Order No. 7159l, ¶ 111, the Commission lists the particular administrative rules that are applicable to the determination of whether to approve acquisition of a resource. Specifically the Commission

notes: ARM 38.5.8204; 38.5.8210; 38.5.8212; 38.5.8213; 38.5.8219; and 38.5.8220.

Q. Did NorthWestern comply with these requirements? Please explain.

A. Yes, NorthWestern met the requirements in each of the administrative rules identified by the Commission in Order No. 7159l. I will discuss each of these rules below.

Q. Please discuss ARM 38.5.8204.

A. This rule sets forth objectives NorthWestern should follow in satisfying its service responsibilities in assembling and managing an electricity supply portfolio. I have already discussed how NorthWestern has met objective subsection (a), which relates to providing adequate and reliable electricity supply services, stably and reasonably priced, at the lowest long-term total cost.

Regarding subsection (b): NorthWestern's energy supply rates are a composite of various unbundled supply rate components (i.e., Colstrip Unit 4, Dave Gates Generating Station, Spion Kop, and Electricity Supply Costs), and therefore addressing this objective can only be achieved as part of a consolidated proceeding including all electricity supply service rate components.

Regarding subsection (c), this rule requires the utility to assemble and maintain a balanced, environmentally responsible portfolio that is economically efficient. I have testified as to how the Hydros would lead to a more balanced and diversified supply portfolio, reduce the total amount of carbon emissions associated with the portfolio, and therefore result in a more environmentally responsible portfolio. Given that the Hydros also provide a portfolio with the lowest risk-adjusted long-term cost portfolio, it is also economically efficient.

Q. Please discuss ARM 38.5.8210, Resource Needs Assessment.

A. This rule pertains to assessing resource need prior to acquiring multi-year resources. Both the 2011 and 2013 Plans include a detailed description and assessment of portfolio needs, assess plausible types of resources including wholesale products, and include a discussion of risks, resource diversity, and market conditions. The resource needs assessment relies heavily on historical information and the experience gained from resource planning, procurement and market operations. These functions have been evolving for over a decade wherein NorthWestern has performed the duties necessary to determine and then meet all of the obligations of the retail load-serving entity.

Q. Please discuss ARM 38.5.8212, Resource Acquisition.

1 **A.** ARM 38.5.8212 has five subsections, only three of which are relevant to
2 this Application. Subsection (1) begins by noting that although the
3 Commission cannot prescribe standard procurement practices because
4 such practices depend on context and circumstances, that, generally, an
5 acceptable approach to resource procurement should take into account
6 certain basic steps.
7
8 **Q. Did NorthWestern consider each of the steps in Subsection (1) as**
9 **part of its procurement process?**
10 **A.** Yes. NorthWestern executed the steps in the procurement process that
11 were applicable or would not violate the related confidentiality agreement
12 it entered with PPL Corporation. For example, because of the
13 confidentiality agreement, NorthWestern was not able to discuss the
14 proposed acquisition with its Electric Technical Advisory Committee
15 ("ETAC") until after it had publicly announced the signing of the PSA.
16
17 **Q. Subsection (2) of ARM 38.5.8212 describes nine principles**
18 **associated with employing a competitive solicitation process to**
19 **procure resources. Did NorthWestern utilize these principles?**
20 **A.** Since NorthWestern did not issue a competitive resource solicitation, this
21 subsection is not directly applicable. However, the acquisition of the
22 Hydros, as previously discussed, is consistent with the 2011 and 2013

planning and acquisition objectives including helping address a clearly defined resource need.

Q. Please address subsection (3) of ARM 38.5.8212.

A. This subsection requires NorthWestern to document the use of its judgment in not using a competitive solicitation. I have previously testified as to why NorthWestern did not use a competitive solicitation process.

Q. With respect to ARM 38.5.8212, subsection (4) which provides that "[a] decision by a utility regarding the acquisition of an equity interest in an electricity generating plant or equipment or the construction of such a resource on its own should be thoroughly evaluated against available market-based alternatives." Did NorthWestern conduct such an evaluation in this case?

A. Yes. This evaluation is described in my testimony and further addressed in the Bird, Stimatz, and Meyer Direct Testimonies. The Hydros were compared on a market stand-alone and portfolio basis using both a deterministic and stochastic analysis, with and without risk. The Hydros were also viewed in relationship to recent hydroelectric transactions that have occurred (see Bird Direct Testimony) and found the Hydros to be consistently priced.

Q. Please address subsection (5) of ARM 38.5.8212.

A. This subsection applies to NorthWestern's demand-side resources which is not applicable to this Application.

Q. Please discuss ARM 38.5.8213, Modeling and Analysis.

A. NorthWestern uses a number of models and modeling techniques for resource planning and procurement. Models range from simple spreadsheet applications to more complex simulations. The selection of the appropriate model is a function of the information available for modeling, the complexity of the modeling problem, and the application of the model output. NorthWestern uses internally developed models including spreadsheet applications for load forecasting, discounted cash flow models and revenue requirements models.

Portfolio risk assessment involves large amounts of data, numerous variables, a complex array of calculations, and data management and manipulation capabilities. NorthWestern contracted with Ascend Analytics in 2013 to provide consulting services and software to support resource planning and procurement and to improve NorthWestern's modeling approach and capabilities. Ascend's PowerSimm software was used to model the supply portfolio to assess costs and risks over a 30-year horizon. PowerSimm is proprietary software that has been developed specifically for long-term resource planning assessments with direct application in utility electric resource cost and risk evaluations.

1 **Q. Please discuss ARM 38.5.8219, Risk Management and Mitigation.**

2 **A.** This rule sets forth a variety of risks that prudent utility planning and
3 acquisition are expected to consider. As presented in NorthWestern's
4 Application and supporting testimony, acquiring the Hydros mitigates
5 numerous risks including: fuel prices and price volatility, environmental
6 regulations, market prices, transmission constraints, supplier capabilities
7 and creditworthiness, and construction costs.

8

9 **Q. Please discuss ARM 38.5.8220, Transparency and Documentation.**

10 **A.** NorthWestern has complied with this rule. In making such a judgment
11 NorthWestern believes it is appropriate to consider the tremendous
12 amount of documentation it has prepared including: the 2011 and 2013
13 Plans, NorthWestern's Prefiled Direct Testimonies and its Application, and
14 public communications. This body of work documents NorthWestern's
15 process from planning to evaluation to submittal of this Application. This
16 documentation also justifies why the acquisition of the Hydros is
17 consistent with applicable rules and statutes.

18

19 **Q. Would you like to discuss other Administrative Rules that may be**
20 **applicable?**

21 **A.** Yes. ARM 38.5.8228(1) provides that: "If a utility intends to file an
22 application for approval of a electricity supply resource that is not yet
23 procured, it must notify the commission and the Montana Consumer

Counsel ("MCC") far enough in advance of filing to accommodate adequate pre-filing communication." NorthWestern submitted a letter to the Commission with a copy to the MCC on October 11, 2013, included with the Application, indicating that we would be filing an application for approval of the Hydros by December 24.

Q. Please describe the regulatory requirements contained in ARM 38.5.8228(2).

A. ARM 38.5.8228(2) provides that an advanced approval application must include a list of materials "as applicable." This Application addresses the relevant filing requirements and therefore meets this rule's requirement.

Q. Have you addressed in this Application all of the matters in ARM 38.5.8228(2) that are "applicable" to this Application? Please explain.

A. Yes. Subsection (a) of ARM 38.5.8228(2) requires the applicant to provide a "complete and thorough explanation and justification of all changes to the utility's most recent long-term resource plan and three year action plan, including how the utility has responded to all commission written comments." NorthWestern's most recent long-term resource plan is the 2013 Electricity Supply Resource Procurement Plan, which was filed in conjunction with the submittal of this Application. For a complete description of the changes, please refer to the 2013 Plan, attached to this

Application. At a high level, NorthWestern made the following changes from the 2011 Plan to the 2013 Plan:

- NorthWestern employed new resource modeling software (PowerSimm) and the consulting services of Ascend Analytics to assess portfolio costs and risk;
- The PPLM hydroelectric resources were confirmed as an opportunity resource and determined to be the preferred resource in the Plan. The PSA has shifted the resource acquisition focus from gas-fired combined cycle technology to hydroelectric resources based on the availability of these resources and their superior attributes; and
- The addition of the hydroelectric assets fundamentally changes supply risk from a CCCT resource and market-based set of risks to a portfolio that is primarily asset-based.

Subsection (b) requires a "statement explaining whether the application pertains to a power purchase agreement with an existing generating resource, a lease or acquisition of an equity interest in a new or existing generating resource, or a power purchase agreement for which approval will result in construction of a new generating resource." In this case, it is the intention of the parties to the PSA that NorthWestern acquire 100% of the Hydros.

Subsection (c) requires the "testimony and supporting work papers describing the resource and stating the facts (not conclusory statements) that show that acquiring the resource is in the public interest and is consistent with the requirements in § 69-3-201, MCA, and § 69-8-419, MCA, the utility's most recent long-term resource plan (as modified by (2)(a)), and these rules." I have explained already why approval of the Hydros is in the public interest, why it is consistent with § 69-3-201, MCA, (requiring public utilities to furnish reasonably adequate service and facilities at rates that are reasonable and just), and why it is consistent with § 69-8-419, MCA, (regarding electric supply resource planning and procurement). The Rowe, Bird, Stimatz, Meyer, Rhoads, and DiFronzo Direct Testimonies also support one or more of these conclusions. Therefore, this subsection has been satisfied.

Subsection (d) requires that the applicant submit "testimony and supporting work papers demonstrating the utility's estimates of the cost of the resource compared to the cost of each alternative resource the utility considered and all relevant functional differences between each alternative." As discussed in my testimony, and in much more detail in the Stimatz, Bird, and Meyer Direct Testimonies, the cost of the Hydros has been evaluated and compared:

- on a cost-and risk-adjusted basis to a theoretical 30-year market alternative;

- on a cost- and risk-adjusted basis to a new build natural gas combustion turbine;
- to alternative new build generation; and
- to recent market-based hydro transactions.

Subsections (e) and (f) are inapplicable to this application because they relate to projects fueled primarily by natural gas, synthetic gas, or coal.

Subsection (g) requires the submittal of a copy of the PSA, including all appendices and attachments. The PSA is attached to the Application.

Subsection (h) requires submittal of a copy of any request for proposals issued in connection with acquisition of the electricity supply resource. As discussed previously, NorthWestern did not issue a request for proposal.

Subsection (i) requires submittal of "testimony and supporting work papers comparing all bids received in connection with any request for proposals with respect to price and non-price factors." Because NorthWestern did not run a competitive solicitation, this subsection is not applicable.

Subsection (j) requires submittal of "testimony and work papers describing all due diligence and bid evaluation in connection with any request for proposals, including the ranking of bids and reliance on management

judgment." For the same reason just discussed, this subsection is not applicable.

Subsection (k) requires a thorough explanation and justification for any terms, other than price, quantity, and contract duration, in a power purchase agreement for which the utility is requesting approval. Given that this Application does not include a power purchase agreement, this subsection is not applicable.

Subsection (l) requires a complete description of each aspect of the resource for which the utility requests approval. In addition to my testimony, the Rhoads Direct Testimony describes all aspects of the Hydros resource.

Subsection (m) requires submittal of testimony and supporting documentation describing all pre-filing communication. On October 11, 2013, NorthWestern provided written notice to the Commission and the MCC of its intent to file an advanced approval application for the Hydros in December. In this notice, NorthWestern stated that it would be available to discuss the proposed filing if the parties wished to do so. On October 18, 2013, NorthWestern attended a public meeting hosted by the Commission and attended by many government agencies, and members of the public. NorthWestern provided a high-level overview of the

1 proposed acquisition and answered questions regarding it. A document

2 listing prefiling communications is attached to the Application.

3

4 **Q. Does this conclude your testimony?**

5 **A.** Yes, it does.

Department of Public Service Regulation
Montana Public Service Commission
Docket No. D2013.12.85
PPLM Hydro Assets Purchase
NorthWestern Energy

PREFILED DIRECT TESTIMONY OF

TRAVIS E. MEYER

ON BEHALF OF NORTHWESTERN ENERGY

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Exhibits

LT Rev Req Model	Exhibit__(TEM-1)
LT Rev Req Model Update	Exhibit__(TEM-2)

Witness Information

Q. Please state your name and business address.

A. My name is Travis E. Meyer. My business address is 3010 West 69th Street, Sioux Falls, South Dakota 57108.

Q. By whom are you employed and in what capacity?

A. I am employed by NorthWestern Energy ("NorthWestern") as the Director of Investor Relations and Corporate Planning. In my Investor Relations role I am largely responsible for communicating the strategic direction of NorthWestern to its equity investor community within the confines of Regulation Fair Disclosure. My Corporate Planning duties include oversight of the five-year financial planning model and related analysis as well as analysis and evaluation of certain projects on a case-by-case basis.

Q. Please summarize your educational and employment history.

A. I earned a Bachelor of Science Degree in Business Administration from North Dakota State University. I have spent most of my professional career employed by NorthWestern starting in November of 2002 as an analyst for a non-utility division (Blue Dot). I was then hired by the utility in September of 2003 as a Manager of Financial Planning and Analysis and promoted to my current director role in December of 2012.

Prior to joining NorthWestern, I was employed as a Financial Consultant for Merrill Lynch from 2000 to 2002.

Purpose of Testimony

Q. What is the purpose of your testimony?

A. My testimony supports and explains NorthWestern's Long-term 30-year Revenue Requirement Model ("LT Rev Req Model") utilized in the evaluation of the proposed acquisition of 11 hydroelectric generating facilities and related assets (the "Hydros") from PPL Montana, LLC ("PPLM"). More specifically, the model was used to estimate and evaluate the annual cost, or revenue requirement, for a 30-year period resulting from the acquisition of the Hydros as compared to purchasing those same megawatt-hours ("MWh") at the then-current forward market prices. As discussed in more detail in the Prefiled Direct Testimony of Brian B. Bird ("Bird Direct Testimony"), the LT Rev Req Model was one of several data points NorthWestern management used in arriving at a conclusion to make a contingent offer, subject to the approval of the Montana Public Service Commission ("Commission"), to purchase the Hydros from PPLM.

Q. Please provide a brief overview of your testimony.

A. My testimony will review in more specificity how the LT Rev Req Model was used in conjunction with the Discounted Cash Flow Analysis Model ("DCF Analysis Model") which is addressed in the Prefiled Direct Testimony of

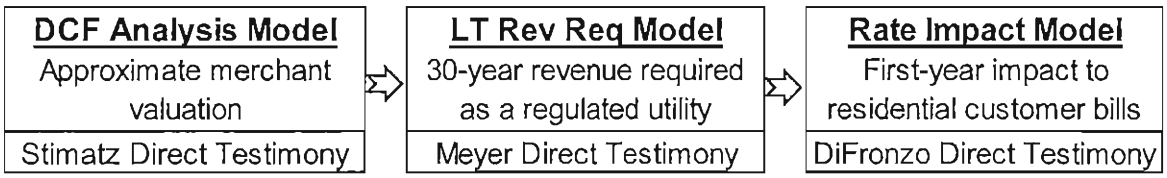
Joseph M. Stimatz ("Stimatz Direct Testimony"), and the First-Year Rate Impact Model ("Rate Impact Model") addressed in the Prefiled Direct Testimony of Patrick J. DiFronzo ("DiFronzo Direct Testimony"). The Rate Impact Model, as the name implies, was utilized during the evaluation to estimate the impact of the Hydros transaction on a typical residential electric customer bill. The DiFronzo Direct Testimony also discusses the Cost of Service or Standard Test Period Revenue Requirement Model ("Cost of Service Model"), which supports the test period Revenue Requirement in this filing. The Cost of Service Model was not used in the initial analysis of the acquisition of the Hydros, but was prepared at a later date to support this filing. The LT Rev Req Model as prepared at the time of NorthWestern's offer to acquire the Hydros is provided as Exhibit__(TEM-1). My testimony provides a line-by-line explanation of the inputs and assumptions utilized to develop the 30-year revenue requirement estimates in this model. The LT Rev Req Model included in Exhibit__(TEM-1) produced a higher revenue requirement in 2014 than the test period Revenue Requirement produced by the Cost of Service Model. My testimony also discusses the primary differences in inputs that result in that disparity.

Purpose of the LT Rev Req Model

Q. How does the LT Rev Req Model fit into the overall analysis of the acquisition of the Hydros?

1 **A.** As discussed in more detail in the Bird Direct Testimony, NorthWestern
2 utilized several internal and external data points to arrive at the agreed-upon
3 $900 million purchase price in the acquisition of the Hydros. As described
4 above, internally NorthWestern developed three primary financial models for
5 the evaluation. Some inputs, such as revenues, expenses and capital
6 investments, are more easily quantified and can be utilized as inputs into the
7 financial models. While certainly no less important, other factors, such as the
8 potential impact of future federal environmental regulation necessitating
9 thermal plant retirements or the impact of new transmission lines exporting
10 energy out of Montana, are less quantifiable and as such are not included in
11 the three internal evaluation models. The less quantifiable changing market
12 dynamics are more fully discussed in the Stimatz Direct Testimony and in the
13 Prefiled Direct Testimony of John D. Hines ("Hines Direct Testimony").
14
15 The items that are more easily quantified and estimated are included in the
16 three primary models developed at the time of the bid: the DCF Analysis
17 Model, the LT Rev Req Model, and the Rate Impact Model.
18
19 As explained in the Stimatz Direct Testimony, the DCF Analysis Model, based
20 on estimated merchant energy sales revenue, expenses, capital
21 expenditures, and a terminal value, was used to develop one estimate of the
22 approximate, mid-range value that other parties might attribute to the Hydros
23 based upon a 20-year DCF analysis. Most of the expense and capital inputs

into the DCF Analysis Model were also used as inputs into the LT Rev Req Model to calculate the total revenue requirement necessary to own and operate the Hydros as regulated utility assets over a period of 30 years. The first year (2014) calculation from the LT Rev Req Model was then used to develop a preliminary first-year customer rate impact as included in the Rate Impact Model provided in the DiFronzo Direct Testimony. A simple illustration is provided below to summarize the three primary evaluation models.



LT Rev Req Model Inputs

Q. What are the primary inputs used to estimate the annual revenue requirements in the LT Rev Req Model?

A. The LT Rev Req Model as included in Exhibit__(TEM-1) has eight primary inputs, listed and explained below, that were used to estimate the annual revenue requirement:

- Rate of Return ("ROR") is comprised of the estimated cost of debt, cost of equity and capital structure. A 7.14% ROR based on a capital structure of 52% debt at a cost of 4.5%, and 48% equity at a cost of 10.0% was used. This ROR was held constant throughout the 30-year period evaluated in the LT Rev Req Model. The Bird Direct Testimony supports the use of this ROR.

- Average rate base was calculated using a simple average of the beginning and ending rate base estimates for each year of the calculation. For the first year, the $900 million purchase price is used as the beginning rate base value. As illustrated below, this is increased throughout the year for capital expenditures and decreased for depreciation and accumulated deferred taxes, resulting in the ending rate base of $886.9 million with the average beginning and ending rate base of $893.5 million. The same methodology was used annually throughout the 30-year period evaluated in Exhibit__(TEM-1).

Average Rate Base Calculation as included in Exhibit__(TEM-1)

(millions)		***2014***
Beginning rate base		$900.0
Capital expenditures	+	12.8
Depreciation	+	(21.9)
Accelerated depreciation: def. tax liability	+	(4.0)
Ending Rate Base	=	$886.9
Average beginning / ending rate base		$893.5

Average

- Operating expenses, including property taxes, are largely the same as those utilized in the DCF Analysis Model and explained in the Stimatz Direct Testimony. Several inputs into both the DCF Analysis Model and the LT Rev Req Model are based on the Sellers Confidential Information Memorandum ("CIM") dated June 2013 published by PPL Corporation. The schedule below shows the source of each expense building up to the $64.9 million of first-year Total Operating Expense included in the LT Rev Req Model and also describes any deviation from those sources.

Source of Operating Expenses as included in Exhibit__(TEM-1)				
(millions)		*2014*	*2014-2033 Source*	*2034-2043 Assumption*
Fixed O&M expense		$24.1	DCF Analysis Model	2.5% Annual Escalation
Rent payments (Kerr)	+	19.9	DCF Analysis Model / CIM[1]	(N/A - 2015 conveyance)
Property taxes	+	14.6	DCF Analysis Model / CIM[1]	1.5% Annual Escalation
Subtotal		**58.6**		
PPLM direct expense		5.4	CIM[1]	2.5% Annual Escalation
Marketing expense	+	2.4	CIM[2]	2.5% Annual Escalation
Marketing synergies	+	(1.9)	Estimated savings[3]	2.5% Annual Escalation
Subtotal		**5.8**		
MCC / MPSC tax	+	0.4	Calculated as 0.3% of retail revenues	
Total Op. Expense	=	**$64.9**		

1. Seller's Financial Model as used for the Hydro Facilities Confidential Information Memorandum dated June 2013.
2. Seller's Financial Model included total annual expense for the Western Power Marketing group. We allocated the expense based upon hydro and thermal megawatts (633 hydro MW / 1316 total PPLM MW = 48%).
3. Savings based upon the assumption we will not need a ratable share of the Western Power Marketing group resources.

- Effective income tax rate included in the model is the federal plus Montana statutory combined rate of 39.3875%. However, when the benefit of accelerated tax depreciation is flowed through for state tax purposes, the effective tax rate averages 38.67% over the 30-year period.

- Capital expenditures included in the LT Rev Req Model for 2014 - 2033 are the same as those utilized in the DCF Analysis Model and explained in the Stimatz Direct Testimony. For the remaining 10-year period that is not included in the DCF Analysis Model, the LT Rev Req Model assumes an annual 2.5% escalation rate each year from 2034 to 2043.

- Depreciable life of assets for book purposes was modeled to be 40 years straight-line for both the initial purchase and incremental maintenance capital expenditures. The 40-year life is addressed in the Prefiled Direct Testimony of Kendall G. Kliewer. For tax purposes the purchase of the Hydros, and incremental maintenance capital expenditures, are depreciated using the 20-Year Modified Accelerated Cost Recovery System. The accumulated difference between book depreciation expense and tax depreciation expense, multiplied by the federal statutory rate of 35%, creates the deferred income tax liability that is forecasted to be a net reduction to rate base for the first 21 years of ownership.

- Generating capacity and the resulting MWh of electricity are the same as those utilized in the DCF Analysis Model and explained in the Stimatz Direct Testimony. For the remaining 10-year period from 2034 – 2043 that is not included in the DCF Analysis Model, the LT Rev Req Model assumes production remains flat at the 2033 level of approximately 2.5 million MWh annually.

- Revenue credits are calculated assuming that all excess production available in the supply portfolio after meeting retail customer needs is sold at the forward market prices with the proceeds used as a revenue credit in the model. An illustration of the calculation used for the first year revenue credit in the LT Rev Req Model is included below. While the illustration is

shown on an annual basis, the actual calculation utilized monthly excess production and forward market prices. See the Stimatz Direct Testimony for additional information regarding the calculation and treatment of revenue credits in this filing.

2014 Revenue credit calculation as included in Exhibit__(TEM-1)

(Million MWh)	*Existing Resources[1]*		*Hydro With Kerr*		*Market Purchases[2]*		*Resources with Hydro*
On Peak (heavy load)	2.492	+	2.003	+	0.004	=	4.499
Off Peak (light load)	1.821	+	1.570	+	-	=	3.391
	4.313	+	3.572	+	0.004	=	7.890

(Million MWh)	*Resources with Hydro*		*El. Supply Load*		*Excess Supply*
On Peak (heavy load)	4.499	-	4.086	=	0.412
Off Peak (light load)	3.391	-	2.387	=	1.003
	7.890	-	6.474	=	1.416

(Millions except "per MWh")	*Excess Supply*		*Est. Price per MWh*		*Revenue Credit*
On Peak (heavy load)	0.412	x	$31.95	=	$13.2
Off Peak (light load)	1.003	x	$23.86	=	$23.9
	1.416	x	$26.22	=	$37.1

1. Owned and contracted resources

2. Portfolio is estimated to be 4,357 MWh short during heavy loads in August 2014.

This concludes my discussion of the eight primary inputs used to estimate the annual revenue requirements.

Q. The discussion and illustration of operating expenses above includes $1.9 million of "synergies." Please explain.

A. The Seller's Financial Model included $4.9 million of total annual expense in 2014 for the Western Power Marketing group activities for both the hydro and

thermal assets. NorthWestern allocated the total marketing expense based upon the pro rata share of hydro-related megawatts ("MW") as a percentage of total thermal and hydro MW (633 MW of hydro is 48% of the 1,316 total PPLM MW). This resulted in a $2.4 million allocation of the Western Power Marketing group expenses to the Hydros. After further evaluation it was determined that the activities of the Western Power Marketing group were largely duplicated by activities within NorthWestern's existing Energy Supply group. We estimated $1.9 million to be representative of the annual resulting synergies, or savings.

Q. Other than the adjustment for $1.9 million of reduced marketing expenses, are there any other expense reductions or synergies?

A. Yes. Although not included in the CIM expenses, PPL Corporation had been allocating approximately $3 million of indirect corporate and indirect marketing expense annually to the Hydros. NorthWestern believes we can integrate the Hydros into our existing business without this incremental corporate overhead.

LT Rev Req Model Results

Q. Is the annual revenue requirement calculation utilized in the LT Rev Req Model the same as NorthWestern's standard revenue requirement computation as calculated in the Cost of Service Model described in the DiFronzo Direct Testimony?

A. Yes. However, considering the LT Rev Req Model is designed to estimate revenue requirements over a 30-year period, the calculation methodology is a slightly simplified version of the more detailed Cost of Service Model as included in the DiFronzo Direct Testimony. A "bottom-up" illustration of the calculation utilized in the LT Rev Req Model is provided below.

"Bottom-up" Revenue Requirement in Exhibit__(TEM-1)

(millions)		***2014***
Beginning rate base		$900.0
Capital expenditures	+	12.8
Depreciation	+	(21.9)
Accelerated depreciation: def. tax liability	+	(4.0)
Ending Rate Base	=	$886.9
Average beginning / ending rate base		$893.5
Equity capital	x	48.0%
Authorized return on equity	x	10.0%
Net Income	**=**	**$42.9**
Average beginning / ending rate base		$893.5
Debt capital	x	52.0%
Authorized cost of debt	x	4.5%
Interest expense	**=**	**$20.9**
Net Income		$42.9
Income tax expense	+	27.0
Interest expense	+	20.9
Depreciation	+	21.9
O&M expense	+	24.1
A&G / marketing expense, net of synergies	+	5.8
Property taxes	+	14.6
Rent payments (Kerr)	+	19.9
MCC / MPSC tax	+	0.4
Generation tax	+	0.7
Subtotal (prior to revenue credit)	=	178.3
Revenue credit for excess power	+	(37.1)
Exhibit__(TEM-1) First Year Rev. Req.	=	**$141.2**

Average

1 **Q. The $141.2 million total revenue requirement shown above is the same**
2 **as you have provided for 2014 in Exhibit__(TEM-1). Please explain why**
3 **a different presentation of the calculation is presented above.**
4 **A.** Exhibit__(TEM-1) presents the same information but in a traditional income
5 statement format used for modeling purposes. The presentation above is
6 intended to facilitate understanding of the manner in which the total revenue
7 requirement calculation is performed in the LT Rev Req Model.
8
9 **Q. What is the source and date of the forward market price curve utilized in**
10 **the evaluation?**
11 **A.** The forward market prices utilized in the evaluation are based upon monthly
12 Mid-Columbia pricing quotes as of June 7, 2013. The same forward price
13 curve was utilized for both the DCF Analysis Model and the LT Rev Req
14 Model. See the Stimatz Direct Testimony for a more detailed description of
15 the forward price curve utilized in the evaluation.
16
17 **Q. How was the forward market price curve used in the LT Rev Req Model?**
18 **A.** The forward market price curve was used to calculate the estimated revenue
19 credits from excess power generation included in the model as well as
20 provide a proxy for comparison of the resulting revenue requirement of
21 owning the Hydros.
22

Q. How does the revenue requirement from the purchase of the Hydros compare to purchasing the same MWh at the June 7, 2013 forward market prices?

A. Based upon estimates from the LT Rev Req Model, the 30-year net present value of the total revenue requirement for the roughly 72.4 million MWh (net of excess power sales) expected to be provided to the supply portfolio from the Hydros is approximately $1.715 billion with a 30-year levelized price of $59.58 per MWh. If the possibility existed to purchase the same quantity of MWh that are generated and utilized from the Hydros at the annual average around-the-clock ("ATC"), market price through a purchase power agreement over the next 30 years at the June 7, 2013 forward market prices, the 30-year net present value of that total revenue requirement would be approximately $1.579 billion with a 30-year levelized cost of $54.85 per MWh. While the results suggest that the market option is approximately 8% lower, it should be noted the simple comparison included in the LT Rev Req Model is <u>not</u> risk-adjusted. The Stimatz and Hines Direct Testimonies explain the difficulty, risk and uncertainty surrounding the changing power market dynamics that make the addition of the Hydros the lowest, long-term cost to customers on a risk-adjusted basis.

1 **Updated LT Rev Req Model**

2 **Q. The LT Rev Req Model computes a 2014 revenue requirement of**
3 **$141.2 million but the Cost of Service Model attached to the DiFronzo**
4 **Direct Testimony shows a first-year Revenue Requirement of**
5 **$128.4 million. Please explain the $12.8 million decrease.**

6 **A.** The testimony addressing the LT Rev Req Model provided above is based
7 upon NorthWestern's best estimates at the time the offer was made to
8 acquire the Hydros on July 1, 2013. The nearly six month passage of time
9 since then, and final negotiations of the Purchase and Sale Agreement
10 ("PSA"), have provided the opportunity to further refine several inputs. The
11 DiFronzo Direct Testimony incorporates these updates as follows:

12 • Revenue credits increased by approximately $6.2 million. This increase is
13 primarily due to two factors. First, approximately $3.5 million is related to
14 a 25 MW on-peak contract with PPL Eplus that was initially assumed to be
15 terminated upon closing of the transaction. However, the contract was not
16 terminated through the final PSA negotiations and will end at the original
17 contractual date of June 2017. The continuation of this contract
18 necessitates additional excess energy sales above what was originally
19 contemplated until the Kerr Dam conveyance in September of 2015.
20 Secondly, the LT Rev Req Model calculates the revenue credit based
21 upon calendar year 2014. Alternatively, the Cost of Service Model
22 calculates revenue credits that are $2.7 million higher during the 12-month
23 period beginning October 1, 2014 through September 30, 2015. This

alternative 12-month period was utilized to calculate revenue credits in the Cost of Service Model as it would potentially more accurately reflect the timing of the first year of ownership of the Hydros.

- Expenses were reduced by approximately $2.6 million primarily due to NorthWestern's assessment of cost savings for self-providing spinning reserves and a slight reduction in estimated property tax expense.

- Revenue requirement was reduced by approximately $2.0 million due to a lower first year average rate base. This is largely driven by simplified calculations in the LT Rev Req Model, as discussed above, that did not incorporate reductions to rate base for a net operating loss deferred tax liability and gross cash requirements adjustments that are included in the more detailed Cost of Service Model. In addition, the LT Rev Req Model included the first-year average capital expenditures as an increase to the average rate base calculation. First-year capital expenditures are excluded from the Cost of Service Model.

- Revenue requirement was reduced by $2.0 million to reflect lower income tax expense as a result of the inclusion of the Production Tax Credit ("PTC") and the tax impact of the other changes discussed above. It was determined through the post bid due diligence process that four hydro facilities (Kerr, Ryan, Cochrane and Mystic Lake) have been and will

continue to receive the PTC for varying 10-year periods of time though 2023. The PTC's benefit is estimated to be approximately $0.8 million in 2014.

Q. Have you incorporated the updates discussed above into an updated LT Rev Req Model?

A. Yes. The updates resulting in the $12.8 million difference in the first year revenue requirement as identified above have been incorporated into an updated version of the LT Rev Req Model. This is attached as Exhibit__(TEM-2). It should be noted the first-year revenue requirement in Exhibit__(TEM-2) is still $2.7 million higher than the $128.4 million as included in the Cost of Service Model. This is due to the different revenue credit calculation periods as discussed above (calendar year 2014 versus October 1, 2014 to September 30, 2015).

Q. Other than updates identified above, are there any other changes to the LT Rev Req Model as provided in Exhibit__(TEM-2) you wish to discuss?

A. Yes. Two items are noteworthy. The first item has a negligible impact to the first-year revenue requirement but has a more pronounced impact over the 30-year analysis period. The LT Rev Req Model in Exhibit__(TEM-2) was updated to allocate $30 million of the total $900 million purchase price to Kerr Dam as included in the PSA. This was updated from a $25 million allocation

as included in Exhibit__(TEM-1). The update results in a benefit to customers as a result of $5 million less remaining rate base post-Kerr conveyance ($900 million less $30 million as compared to $900 million less $25 million).

The second update relates only to the market price curve used for comparison purposes in Exhibit__(TEM-2). Two refinements were made to the forward price curve. First, the market price curve reflected in Exhibit__(TEM-2) uses the same basis adjustment as was used in the DCF Analysis Model. The version used in Exhibit__(TEM-1) used a larger basis adjustment. See the Stimatz Direct Testimony for a description of the market price curve and basis adjustment. Second, Exhibit__(TEM-1) used annual prices calculated using a simple average of the ATC 12-month prices. Exhibit__(TEM-2) uses monthly on-peak and off-peak prices weighted by the production forecasted to be utilized from the Hydros. The refinement of forward prices and the production weighted price calculation provide a more accurate comparison of the market purchases we expect to displace.

Q. What is the result of the updated LT Rev Req Model and how does this compare to the market option?

A. The following table provides a comparison of 30-year outputs from the original and updated LT Rev Req Models. The impact of the changes discussed above suggests the market option, on a <u>non risk-adjusted</u> basis, is approximately 2% lower than owning the Hydros. As discussed above, the

1 Stimatz and Hines Direct Testimonies explain the difficulty, risks and
2 uncertainty surrounding the changing power market dynamics that make the
3 addition of the Hydros the lowest, long-term cost to customers on a risk-
4 adjusted basis.

Exhibit__(TEM-1)			
	Owned Hydro Facilities	6/7/13 Forward market prices	Implied benefit of forward market (non risk-adjusted)
30 Year NPV of rev req ($Millions)	$1,715	$1,579	-7.9%
30 levelized price ($ per MWh)	$59.58	$54.85	-7.9%

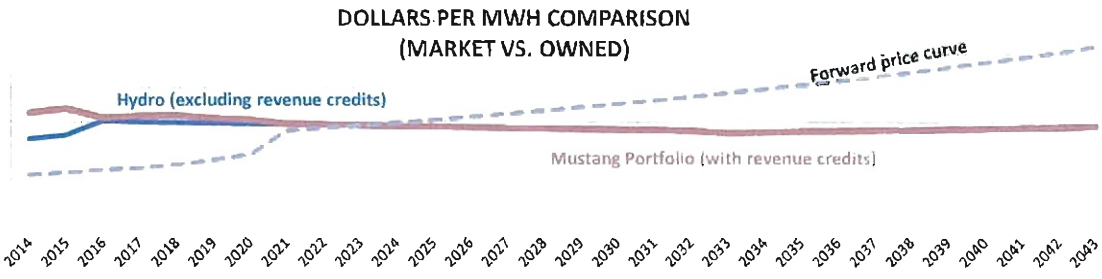
Exhibit__(TEM-2)			
	Owned Hydro Facilities	6/7/13 Forward market prices	Implied benefit of forward market (non risk-adjusted)
30 Year NPV of rev req ($Millions)	$1,658	$1,627	-1.9%
30 levelized price ($ per MWh)	$58.04	$56.96	-1.9%

5 **Q. Does this conclude your testimony?**

6 **A.** Yes, it does.

Exhibit__(TEM-1)

Hydro Financials



Price per kW	$ 1,422		
Ownership			
MW's	633		
Capacity Factor			
Depreciation: Book & Tax (Years)	40.0	20.0	
Return on Equity	10.00%		
Cost of Debt	4.50%		
Debt / Interest (Regulated or Bullet)	Regulated	RoR	
Equity Capitalization	48.00%	7.14%	
Escalation Rate (expense & capital)	2.50%		
Tax Rate	39.38%		
Dividend Payout (% of Net Income)	0.00%		
Estimated Purchase Price ($000's)	$ 900,000		

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Rate Base (Beginning Balance)	900,000	886,959	859,933	808,418	785,854	760,823	737,034	714,398	692,829	671,380	649,868	628,297	606,635	584,898
Capex	12,831	9,964	(15,805)	11,991	8,500	8,713	8,930	9,154	9,382	9,617	9,875	10,104	10,365	10,615
Depreciation	(21,875)	(22,196)	(22,445)	(22,675)	(22,975)	(23,187)	(23,405)	(23,628)	(23,857)	(24,091)	(24,332)	(24,579)	(24,831)	(25,091)
Deferred Taxes	(3,997)	(14,795)	(13,265)	(11,881)	(10,556)	(9,315)	(8,161)	(7,095)	(6,974)	(7,038)	(7,113)	(7,188)	(7,271)	(7,350)
Rate Base (Ending Balance)	886,959	859,933	808,418	785,854	760,823	737,034	714,398	692,829	671,380	649,868	628,297	606,635	584,898	563,072
Average Balance	893,480	873,446	834,175	797,136	773,338	748,928	725,716	703,614	682,105	660,624	639,083	617,466	595,766	573,985
MWs	633	633	571	439	439	439	439	439	439	439	439	439	439	439
Total MWh's	2,156,735	2,043,616	2,344,043	2,249,552	2,214,292	2,267,357	2,285,734	2,376,881	2,391,291	2,419,338	2,442,174	2,461,608	2,467,162	2,468,338
Revenue Requirement ($000 Annual)	$141,165	$138,862	$146,288	$142,932	$141,385	$140,922	$139,755	$140,013	$139,593	$140,169	$140,192	$140,933	$140,170	$139,523
Revenue Requirement ($'s per MWh)	$65.45	$67.95	$62.41	$63.54	$63.86	$62.15	$61.14	$58.91	$58.38	$57.94	$57.40	$57.25	$56.81	$56.53
5 / 10 / 20 / 30 Year Level Price - Owned	$64.66	$62.57	$60.29	$59.58										
Procure at Market ($000 Annual)	$61,016	$61,055	$73,573	$72,835	$76,283	$84,232	$92,336	$129,862	$134,316	$139,738	$145,081	$150,427	$155,093	$159,640
Market Curve ($'s per MWh)	$28.28	$29.88	$31.39	$32.38	$34.45	$37.15	$40.40	$54.64	$56.17	$57.76	$59.41	$61.11	$62.86	$64.68
5 / 10 / 20 / 30 Year Level Price - Market	$31.12	$38.66	$48.61	$54.85										

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue Requirement	141,165	138,862	146,288	142,932	141,385	140,922	139,755	140,013	139,593	140,169	140,192	140,933	140,170	139,523
Revenue Credit	37,115	30,189	4,497	5,579	6,459	6,021	6,313	5,466	5,029	3,660	2,809	1,535	1,237	1,169
Cost of Sales	714	649	499	497	497	497	499	497	497	497	499	497	497	497
Gross Margin	177,565	168,402	150,286	148,013	147,347	146,448	145,570	144,982	144,124	143,332	142,502	141,970	140,909	140,195
Fixed Operating & Maint Expense	24,127	25,081	24,739	25,402	26,030	26,788	27,456	28,175	28,871	29,652	30,391	31,171	31,920	32,760
PPLM Direct Expense (Corporate Expense)	5,369	5,503	5,641	5,782	5,926	6,076	6,228	6,382	6,542	6,706	6,873	7,045	7,221	7,401
A&G/Marketing Synergies	(1,924)	(1,989)	(1,906)	(1,954)	(2,932)	(3,006)	(3,081)	(3,158)	(3,237)	(3,318)	(3,401)	(3,486)	(3,573)	(3,662)
Supply Contingencies	0	0	0	0	0	0	0	125	125	125	125	374	125	125
Lease/Rent Payments (Kerr)	19,877	13,796	0	0	0	0	0	0	0	0	0	0	0	0
Property Taxes	14,617	14,407	13,752	13,968	14,168	14,380	14,598	14,815	15,037	15,262	15,491	15,724	15,960	16,199
MCC / MPSC Tax	423	417	439	429	424	423	419	420	419	421	421	423	421	419
Marketing Expense	2,363	2,442	2,341	2,399	3,601	3,691	3,784	3,878	3,975	4,075	4,176	4,281	4,388	4,498
Operating Expense	64,853	59,658	45,005	46,017	47,217	48,352	49,400	50,636	51,731	52,922	54,076	55,531	56,461	57,739
EBITDA	112,712	108,744	105,281	101,997	100,129	98,094	96,169	94,345	92,393	90,410	88,425	86,439	84,448	82,456
Depreciation	21,875	22,196	22,445	22,675	22,975	23,187	23,405	23,628	23,857	24,091	24,332	24,579	24,831	25,091
Operating Income	90,837	86,548	82,836	79,322	77,155	74,907	72,765	70,717	68,536	66,319	64,093	61,860	59,617	57,366
Interest Expense	(20,907)	(20,439)	(19,520)	(18,653)	(18,096)	(17,525)	(16,982)	(16,465)	(15,961)	(15,459)	(14,955)	(14,449)	(13,941)	(13,431)
Non-Cash Interest Expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Income before tax	69,930	66,110	63,316	60,669	59,059	57,382	55,783	54,253	52,575	50,860	49,139	47,412	45,676	43,935
Current Taxes	(23,046)	(9,390)	(10,011)	(10,526)	(11,382)	(12,118)	(12,788)	(13,384)	(12,860)	(12,112)	(11,350)	(10,586)	(9,808)	(9,033)
Deferred Taxes	(3,997)	(14,795)	(13,265)	(11,881)	(10,556)	(9,315)	(8,161)	(7,095)	(6,974)	(7,038)	(7,113)	(7,188)	(7,271)	(7,350)
Income Tax Expense	(27,042)	(24,184)	(23,276)	(22,407)	(21,938)	(21,434)	(20,948)	(20,479)	(19,834)	(19,150)	(18,463)	(17,773)	(17,079)	(16,383)
Net Income	42,887	41,925	40,040	38,263	37,120	35,949	34,834	33,773	32,741	31,710	30,676	29,638	28,597	27,551
ETR	-38.6711%	-36.5821%	-36.7812%	-36.9376%	-37.1468%	-37.3526%	-37.5536%	-37.7480%	-37.7247%	-37.6528%	-37.5728%	-37.4871%	-37.3920%	-37.2903%
Regulated ROE	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%

	A	R	S	T	U	V	W	X	Y	Z	AA	AB	AC	AD	AE	AF	AG
1	**Exhibit__(TEM-1)**																
2	**Hydro Financials**																
3																	
4																	
5	Price per kW																
6	Ownership																
7	MW's																
8	Capacity Factor																
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10	Depreciation: Book & Tax (Years)																
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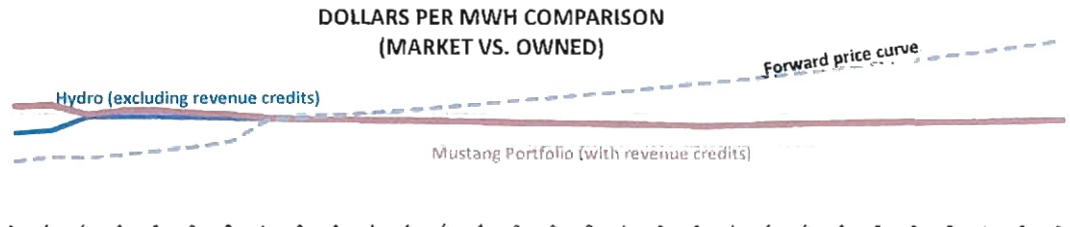
14	Equity Capitalization																
15	Escalation Rate (expense & capital)																
16	Tax Rate																
17	Dividend Payout (% of Net Income)																
18	Estimated Purchase Price ($000's)																
19		2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
20	Rate Base (Beginning Balance)	563,072	541,159	519,181	497,092	474,916	452,643	430,278	414,744	406,121	397,544	389,027	380,562	372,121	363,704	355,312	346,945
21	Capex	10,881	11,171	11,432	11,717	12,010	12,310	12,618	12,934	13,257	13,588	13,928	14,276	14,633	14,999	15,374	15,758
22	Depreciation	(25,356)	(25,628)	(25,907)	(26,193)	(26,486)	(28,786)	(27,094)	(27,409)	(27,733)	(28,064)	(28,404)	(28,752)	(29,109)	(29,475)	(29,850)	(30,234)
23	Deferred Taxes	(7,438)	(7,521)	(7,613)	(7,701)	(7,787)	(7,890)	(1,058)	5,852	5,899	5,959	6,011	6,035	6,059	6,084	6,109	6,135
24	Rate Base (Ending Balance)	541,159	519,181	497,092	474,916	452,643	430,278	414,744	406,121	397,544	389,027	380,562	372,121	363,704	355,312	346,945	338,605
25	Average Balance	552,116	530,170	508,136	486,004	463,779	441,460	422,511	410,432	401,832	393,285	384,795	376,342	367,913	359,508	351,129	342,775
26																	
27	MWs	439	439	439	439	439	439	439	439	439	439	439	439	439	439	439	439
28																	
29																	
30	Total MWh's	2,480,472	2,473,519	2,460,921	2,470,529	2,493,733	2,493,733	2,493,733	2,493,733	2,493,733	2,493,733	2,493,733	2,493,733	2,493,733	2,493,733	2,493,733	2,493,733
31	Revenue Requirement ($000 Annual)	$139,089	$138,312	$136,723	$136,593	$137,160	$133,425	$134,349	$136,033	$136,688	$137,639	$138,638	$139,679	$140,767	$141,905	$143,092	$144,331
32	Revenue Requirement ($'s per MWh)	$56.07	$55.92	$55.56	$55.29	$55.00	$53.50	$53.87	$54.55	$54.81	$55.19	$55.58	$56.01	$56.45	$56.90	$57.38	$57.88
33	5 / 10 / 20 / 30 Year Level Price - Owned																
34																	
35	Procure at Market ($000 Annual)	$166,083	$169,449	$173,532	$179,338	$186,401	$191,985	$197,754	$203,706	$209,898	$216,322	$222,984	$229,877	$237,021	$244,467	$252,183	$260,168
36	Market Curve ($'s per MWh)	$66.55	$68.50	$70.52	$72.59	$74.75	$76.99	$79.30	$81.69	$84.17	$86.75	$89.42	$92.18	$95.05	$98.03	$101.13	$104.32
37	5 / 10 / 20 / 30 Year Level Price - Market																
38																	
39	[redacted]	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
40	Revenue Requirement	139,089	138,312	136,723	136,593	137,160	133,425	134,349	136,033	136,688	137,639	138,638	139,679	140,767	141,905	143,092	144,331
41	Revenue Credit	872	918	1,818	1,188	0	0	0	0	0	0	0	0	0	0	0	0
42	Cost of Sales	499	497	497	497	499	499	499	499	499	499	499	499	499	499	499	499
43	Gross Margin	139,463	138,733	138,044	137,283	136,661	132,926	133,850	135,534	136,189	137,141	138,139	139,180	140,268	141,406	142,593	143,832
44																	
45	Fixed Operating & Maint Expense	33,576	34,387	35,237	36,129	37,027	36,680	37,587	38,515	39,487	40,453	41,465	42,501	43,564	44,653	45,769	46,913
46	PPLM Direct Expense (Corporate Expense)	7,586	7,776	7,970	8,170	8,374	8,583	8,798	9,018	9,243	9,474	9,711	9,954	10,203	10,458	10,719	10,987
47	A&G/Marketing Synergies	(3,754)	(3,848)	(3,944)	(4,042)	(4,143)	(4,247)	(4,353)	(4,462)	(4,573)	(4,688)	(4,805)	(4,925)	(5,048)	(5,174)	(5,304)	(5,436)
48	Supply Contingencies	125	125	125	0	0	0	0	0	0	0	0	0	0	0	0	0
49	Lease/Rent Payments (Kerr)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
50	Property Taxes	16,442	16,689	16,939	17,193	17,451	15,849	15,849	15,849	15,849	16,086	16,328	16,573	16,821	17,074	17,330	17,590
51	MCC / MPSC Tax	417	415	410	410	411	400	403	408	410	413	416	419	422	426	429	433
52	Marketing Expense	4,610	4,725	4,843	4,964	5,089	5,216	5,346	5,480	5,617	5,757	5,901	6,049	6,200	6,355	6,514	6,677
53	Operating Expense	59,003	60,269	61,661	62,823	64,208	62,481	63,629	64,807	66,012	67,496	69,015	70,570	72,162	73,790	75,457	77,163
54																	
55	EBITDA	80,460	78,463	76,463	74,460	72,453	70,445	70,221	70,727	70,177	69,644	69,124	68,610	68,107	67,615	67,136	66,669
56																	
57	Depreciation	25,356	25,628	25,907	26,193	26,486	26,786	27,094	27,409	27,733	28,064	28,404	28,752	29,109	29,475	29,850	30,234
58																	
59	Operating Income	55,104	52,835	50,556	48,267	45,967	43,658	43,127	43,317	42,445	41,580	40,720	39,858	38,998	38,141	37,286	36,435
60																	
61	Interest Expense	(12,920)	(12,406)	(11,890)	(11,372)	(10,852)	(10,330)	(9,887)	(9,604)	(9,403)	(9,203)	(9,004)	(8,806)	(8,609)	(8,412)	(8,216)	(8,021)
62	Non-Cash Interest Expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
63																	
64	Income before tax	42,185	40,429	38,666	36,895	35,115	33,328	33,241	33,713	33,042	32,377	31,716	31,051	30,388	29,728	29,070	28,414
65																	
66	Current Taxes	(8,245)	(7,460)	(6,862)	(5,866)	(5,056)	(4,249)	(11,802)	(19,865)	(19,653)	(19,459)	(19,255)	(19,021)	(18,788)	(18,555)	(18,325)	(18,096)
67	Deferred Taxes	(7,438)	(7,521)	(7,613)	(7,701)	(7,787)	(7,890)	(1,058)	5,852	5,899	5,959	6,011	6,035	6,059	6,084	6,109	6,135
68	Income Tax Expense	(15,683)	(14,981)	(14,275)	(13,567)	(12,853)	(12,138)	(12,960)	(14,012)	(13,754)	(13,500)	(13,246)	(12,987)	(12,729)	(12,472)	(12,216)	(11,961)
69																	
70	Net Income	26,502	25,448	24,391	23,328	22,261	21,190	20,281	19,701	19,288	18,878	18,470	18,064	17,660	17,256	16,854	16,453
71	ETR	-37.1773%	-37.0554%	-36.8192%	-36.7710%	-36.6039%	-36.4200%	-38.9886%	-41.5636%	-41.6255%	-41.6948%	-41.7633%	-41.8237%	-41.8868%	-41.9528%	-42.0219%	-42.0942%
72	Regulated ROE	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%

Exhibit__(TEM-2)
Hydro Financials



5	Price per kW	$ 1,422	
6	Ownership		
7	MWs	633	
8	Capacity Factor		
9			
10	Depreciation Book & Tax (Years)	40.2	20.0
11	Return on Equity	10.00%	
12	Cost of Debt	4.50%	
13	Debt / Interest (Regulated or Bullet)	Regulated	RoR
14	Equity Capitalization	48.00%	7.14%
15	Escalation Rate (expense & capital)	2.50%	
16	Tax Rate	39.39%	
17	Dividend Payout (% of Net Income)	0.00%	
18	Estimated Purchase Price ($000's)	$ 900,000	

			2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
20	Rate Base (Beginning Balance)		900,000	865,247	801,173	804,227	781,939	757,178	733,652	711,274	689,956	668,759	647,499	626,181	604,773	583,291
21	Capex		12,831	(20,038)	9,195	11,991	8,500	8,713	8,930	9,154	9,382	9,617	9,875	10,104	10,365	10,615
22	Depreciation		(21,620)	(21,939)	(22,187)	(22,415)	(22,713)	(22,924)	(23,141)	(23,363)	(23,590)	(23,824)	(24,063)	(24,308)	(24,559)	(24,817)
23	Net Operating Loss Adjustment		(21,943)	(7,341)	29,284	0	0	0	0	0	0	0	0	0	0	0
24	Deferred Taxes		(4,020)	(14,758)	(13,238)	(11,864)	(10,548)	(9,314)	(8,168)	(7,108)	(6,989)	(7,054)	(7,129)	(7,204)	(7,288)	(7,368)
25	Rate Base (Ending Balance)	900,000	865,247	801,173	804,227	781,939	757,178	733,652	711,274	689,956	668,759	647,499	626,181	604,773	583,291	561,722
26	Gross Cash Requirements		(10,339)	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)
27	Capex Adj. (eliminates first year average capex)		(6,415)	0	0	0	0	0	0	0	0	0	0	0	0	0
28	Average Balance		865,869	826,037	795,527	785,910	762,386	738,242	715,290	693,442	672,184	650,956	629,667	608,304	586,859	565,333
29																
30	MWs		633	571	439	438	439	439	439	438	439	439	439	439	439	439
31																
32																
33	Total MWh's		2,018,292	1,960,804	2,330,973	2,243,581	2,214,292	2,267,357	2,285,734	2,376,861	2,391,291	2,419,338	2,442,174	2,461,608	2,467,162	2,468,338
34	Revenue Requirement ($000 Annual)	NPV 30 $1,857,784	$131,056	$128,666	$139,434	$139,158	$137,868	$137,242	$136,020	$136,043	$135,557	$136,194	$136,539	$137,186	$136,356	$135,643
35	Revenue Requirement ($'s per MWh)		$64.93	$65.63	$59.82	$62.02	$62.26	$60.53	$59.51	$57.24	$56.69	$56.29	$55.91	$55.72	$55.27	$54.95
36	5 / 10 / 20 / 30 Year Level Price - Owned		$62.92	$60.84	$58.61	$58.04										
37																
38	Procure at Market ($000 Annual)	NPV 30 $1,026,869	$61,826	$65,044	$76,003	$77,657	$82,177	$80,495	$97,672	$133,683	$137,987	$143,331	$148,827	$153,995	$158,727	$163,372
39	Market Curve ($'s per MWh)		$30.63	$33.17	$32.61	$34.61	$37.11	$39.47	$42.73	$56.24	$57.70	$59.24	$60.94	$62.56	$64.34	$66.19
40	5 / 10 / 20 / 30 Year Level Price - Market		$33.49	$40.93	$50.70	$56.96										
41																
42	[redacted]		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
43	Revenue Requirement		$131,056	$128,666	$139,434	$139,158	$137,868	$137,242	$136,020	$136,043	$135,557	$136,194	$136,539	$137,186	$136,356	$135,643
44	Revenue Credit		40,628	31,985	4,582	5,378	6,027	5,659	5,959	5,255	4,641	3,524	2,703	1,480	1,193	1,128
45	Cost of Sales (EPLT & WET Taxes)		948	841	523	534	538	530	530	514	512	508	506	501	500	500
46	Gross Margin		$170,737	$159,830	$143,493	$144,002	$143,357	$142,371	$141,449	$140,784	$139,686	$139,211	$138,735	$138,145	$137,049	$136,270
47																
48	Fixed Operating & Maint Expense		21,939	22,973	23,084	23,661	24,253	24,923	25,546	26,185	26,840	27,538	28,227	28,933	29,635	30,387
49	PPLM Direct Expense (Corporate Expense)		5,369	5,503	5,641	5,782	5,926	6,075	6,226	6,382	6,542	6,705	6,873	7,045	7,221	7,401
50	A&G/Marketing Synergies		(1,924)	(1,989)	(1,905)	(1,954)	(2,932)	(3,006)	(3,081)	(3,158)	(3,237)	(3,318)	(3,401)	(3,486)	(3,573)	(3,662)
51	Supply Contingencies		-	-	-	-	-	-	-	125	125	125	125	374	125	125
52	Lease/Rent Payments (Kerr)		19,877	13,798	-	-	-	-	-	-	-	-	-	-	-	-
53	Property Taxes		14,050	13,881	13,160	13,357	13,558	13,761	13,968	14,177	14,390	14,606	14,825	15,047	15,273	15,502
54	MCC / MPSC Tax		695	682	739	738	731	727	721	721	718	722	724	727	723	719
55	Marketing Expense		2,363	2,442	2,341	2,399	3,601	3,691	3,784	3,878	3,975	4,075	4,176	4,281	4,388	4,498
56	Operating Expense		62,369	57,289	43,059	43,984	45,137	46,172	47,164	48,310	49,352	50,452	51,548	52,920	53,791	54,970
57																
58	EBITDA		108,368	102,541	100,434	100,019	98,220	96,199	94,285	92,474	90,533	88,758	87,187	85,225	83,258	81,291
59																
60	Depreciation		21,620	21,939	22,187	22,415	22,713	22,924	23,141	23,363	23,590	23,824	24,063	24,308	24,559	24,817
61																
62	Operating Income		86,748	80,602	78,247	77,604	75,507	73,274	71,144	69,111	66,943	64,935	63,124	60,917	58,699	56,475
63																
64	Interest Expense		(20,261)	(19,329)	(18,815)	(18,390)	(17,840)	(17,275)	(16,738)	(16,227)	(15,729)	(15,232)	(14,734)	(14,234)	(13,732)	(13,229)
65	Non-Cash Interest Expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-
66																
67	Income before tax		66,487	81,273	59,632	59,213	57,667	56,000	54,406	52,884	51,214	49,702	48,390	46,683	44,967	43,246
68																
69	Current Taxes		(21,663)	(7,526)	(8,590)	(9,972)	(10,844)	(11,575)	(12,238)	(12,830)	(12,307)	(11,838)	(11,037)	(10,280)	(9,509)	(8,742)
70	Deferred Taxes		(4,020)	(14,758)	(13,238)	(11,864)	(10,548)	(9,314)	(8,168)	(7,108)	(6,989)	(7,054)	(7,129)	(7,204)	(7,288)	(7,368)
71	Production Tax Credits		759	661	381	346	319	325	333	339	347	236	-	-	-	-
72	Income Tax Expense		(24,925)	(21,623)	(21,447)	(21,490)	(21,073)	(20,564)	(20,072)	(19,599)	(18,949)	(18,458)	(18,166)	(17,484)	(16,798)	(16,110)
73																
74	Net Income		$ 41,562	$ 39,650	$ 38,185	$ 37,724	$ 36,596	$ 35,436	$ 34,334	$ 33,285	$ 32,265	$ 31,246	$ 30,224	$ 29,199	$ 28,169	$ 27,136
75	ETR		-37.4886%	-35.2894%	-35.9652%	-36.2918%	-36.5420%	-36.7217%	-36.8932%	-37.0604%	-36.9996%	-37.1338%	-37.5407%	-37.4526%	-37.3557%	-37.2517%
76	Regulated ROE		10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%

	A	R	S	T	U	V	W	X	Y	Z	AA	AB	AC	AD	AE	AF	AG
1	**Exhibit__(TEM-2)**																
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11	Return on Equity																
12	Cost of Debt																
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14	Equity Capitalization																
15	Escalation Rate (expense & capital)																
16	Tax Rate																
17	Dividend Payout (% of Net Income)																
18	Estimated Purchase Price ($000's)																
19		2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
20	Rate Base (Beginning Balance)	561,722	540,066	518,345	496,516	474,600	452,589	430,486	416,177	406,741	398,352	390,025	381,751	373,503	365,279	357,082	348,912
21	Capex	10,881	11,171	11,432	11,717	12,010	12,310	12,618	12,934	13,257	13,588	13,928	14,276	14 633	14,999	15,374	15,758
22	Depreciation	(25,080)	(25,351)	(25,628)	(25,912)	(26,204)	(26,502)	(26,808)	(27,122)	(27,443)	(27,773)	(28,110)	(28,458)	(28,811)	(29,175)	(29,547)	(29,930)
23	Net Operating Loss Adjustment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
24	Deferred Taxes	(7,456)	(7,540)	(7,633)	(7,721)	(7,818)	(7,911)	(1,119)	5,752	5,798	5,857	5,908	5,931	5,955	5,979	6,003	6,029
25	Rate Base (Ending Balance)	540,066	518,346	496,516	474,600	452,589	430,486	416,177	406,741	398,352	390,025	381,751	373,503	365,279	357,082	348,912	340,769
26	Gross Cash Requirements	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)	(7,173)
27	Capex Adj. (eliminates first year average capex)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
28	Average Balance	543,721	522,032	500,257	478,385	456,421	434,364	416,658	403,786	395,373	387,016	378,715	370,454	362,218	354,007	345,824	337,667
29																	
30	MWs	439	439	439	439	439	439	439	439	439	439	439	439	439	439	439	439
31																	
32																	
33	Total MWh's	2,480,472	2,473,518	2,460,921	2,470,529	2,493,733	2,493,733	2,493,733	2,493,733	2,493,733	2,493,733	2,493,733	2,493,733	2,493,733	2,493,733	2,493,733	2,493,733
34	Revenue Requirement ($000 Annual)	$135,153	$134,321	$132,723	$132,511	$132,988	$131,075	$132,214	$134,114	$134,991	$135,917	$136,889	$137,902	$138,962	$140,069	$141,225	$142,431
35	Revenue Requirement ($'s per MWh)	$54.49	$54.30	$53.93	$53.64	$53.33	$52.56	$53.02	$53.78	$54.13	$54.50	$54.89	$55.30	$55.72	$56.17	$56.63	$57.12
36	5 / 10 / 20 / 30 Year Level Price - Owned																
37																	
38	Procure at Market ($000 Annual)	$168,809	$173,236	$177,489	$183,382	$190,510	$196,178	$202,036	$208,075	$214,354	$220,872	$227,639	$234,615	$241,856	$249,401	$257,219	$265,297
39	Market Curve ($'s per MWh)	$68.08	$70.04	$72.12	$74.22	$76.40	$78.67	$81.02	$83 44	$85.96	$88.57	$91.28	$94.08	$96.99	$100.01	$103.15	$106.39
40	5 / 10 / 20 / 30 Year Level Price - Market																
41																	
42	[redacted]	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
43	Revenue Requirement	$135,153	$134,321	$132,723	$132,511	$132,988	$131,075	$132,214	$134,114	$134,991	$135,917	$136,889	$137,902	$138,962	$140,069	$141,225	$142,431
44	Revenue Credit	842	886	1,756	1,147	0	0	0	0	0	0	0	0	0	0	0	0
45	Cost of Sales (EPLT & WET Taxes)	501	499	501	500	499	499	499	499	499	499	499	499	499	499	499	499
46	Gross Margin	$135,495	$134,708	$133,978	$133,158	$132,489	$130,576	$131,716	$133,615	$134,492	$135,418	$136,391	$137,404	$138,463	$139,570	$140,726	$141,932
47																	
48	Fixed Operating & Maint Expense	31,157	31,900	32,698	33,517	34,353	33,951	34,800	35,670	36,561	37,475	38,412	39,373	40,357	41,366	42,400	43,460
49	PPLM Direct Expense (Corporate Expense)	7,588	7,778	7,970	8,170	8,374	8,583	8,798	9,018	9,243	9,474	9,711	9,954	10,203	10,458	10,719	10,987
50	A&G/Marketing Synergies	(3,754)	(3,846)	(3,944)	(4,042)	(4,143)	(4,247)	(4,353)	(4,462)	(4,573)	(4,688)	(4,805)	(4,925)	(5,048)	(5,174)	(5,304)	(5,438)
51	Supply Contingencies	125	125	125	-	-	-	-	-	-	-	-	-	-	-	-	-
52	Lease/Rent Payments (Kerr)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
53	Property Taxes	15,734	15,970	16,210	16,453	16,700	16,950	17,205	17,463	17,725	17,991	18,260	18,534	18,812	19,094	19,381	19,672
54	MCC / MPSC Tax	716	712	703	702	705	695	701	711	715	720	726	731	736	742	748	755
55	Marketing Expense	4,610	4,725	4,843	4,964	5,089	5,216	5,346	5,480	5,617	5,757	5,901	6,049	6,200	6,355	6,514	6,677
56	Operating Expense	56,175	57,381	58,605	59,764	61,077	61,148	62,496	63,879	65,288	66,730	68,205	69,715	71,260	72,841	74,459	76,114
57																	
58	EBITDA	79,320	77,347	75,372	73,394	71,412	69,428	69,220	69,736	69,204	68,688	68,185	67,686	67,203	66,729	66,268	65,818
59																	
60	Depreciation	25,080	25,351	25,628	25,912	26,204	26,502	26,808	27,122	27,443	27,773	28,110	28,456	28,811	29,175	29,547	29,930
61																	
62	Operating Income	54,239	51,997	49,744	47,481	45,208	42,926	42,412	42,615	41,761	40,916	40,075	39,232	38,392	37,555	36,720	35,888
63																	
64	Interest Expense	(12,723)	(12,216)	(11,706)	(11,184)	(10,660)	(10,164)	(9,728)	(9,449)	(9,252)	(9,056)	(8,862)	(8,669)	(8,476)	(8,284)	(8,092)	(7,901)
65	Non-Cash Interest Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
66																	
67	Income before tax	41,516	39,781	38,038	36,287	34,528	32,762	32,685	33,166	32,509	31,860	31,213	30,563	29,916	29,271	28,628	27,987
68																	
69	Current Taxes	(7,961)	(7,183)	(6,393)	(5,604)	(4,802)	(4,002)	(11 815)	(19,536)	(19,329)	(19,140)	(18,943)	(18,713)	(18,484)	(18,257)	(18,032)	(17,808)
70	Deferred Taxes	(7,456)	(7,540)	(7,633)	(7,721)	(7,818)	(7,911)	(1,119)	5,752	5,798	5,857	5,908	5,931	5,955	5,979	6,003	6,029
71	Production Tax Credits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
72	Income Tax Expense	(15,417)	(14,724)	(14,025)	(13,325)	(12,620)	(11,912)	(12,734)	(13,784)	(13,531)	(13,283)	(13,035)	(12,782)	(12,530)	(12,278)	(12,028)	(11,779)
73																	
74	Net Income	$ 26,099	$ 25,058	$ 24,012	$ 22,962	$ 21,908	$ 20,849	$ 19,952	$ 19,382	$ 18,978	$ 18,577	$ 18,178	$ 17,782	$ 17,386	$ 16,992	$ 16,600	$ 16,208
75	ETR	-37.1361%	-37.0114%	-36.8721%	-36.7202%	-36.5491%	-36.3606%	-38.9584%	-41.5614%	-41.6231%	-41.6820%	-41.7603%	-41.8201%	-41.8826%	-41.0479%	-42.0162%	-42.0877%
76	Regulated ROE	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%

Department of Public Service Regulation
Montana Public Service Commission
Docket No. D2013.12.85
PPLM Hydro Assets Purchase
NorthWestern Energy

PREFILED DIRECT TESTIMONY OF

JOSEPH M. STIMATZ

ON BEHALF OF NORTHWESTERN ENERGY

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Exhibits

Discounted Cash Flow Analysis Model	Exhibit__(JMS-1)
Forward Price Curves	Exhibit__(JMS-2)
Revenue Credits Calculation	Exhibit__(JMS-3)

Witness Information

Q. Please state your name and business address.

A. My name is Joseph (Joe) M. Stimatz. My business address is 40 East Broadway, Butte, Montana 59701.

Q. By whom are you employed and in what capacity?

A. I am employed by NorthWestern Energy ("NorthWestern") as the Manager of Asset Optimization in the Energy Supply Market Operations group.

Q. Please state your educational background and experience.

A. I graduated from Gonzaga University in Spokane, Washington in 1993 with a Bachelor's Degree in Finance, and from the University of Montana in 2009 with a Master's Degree in Business Administration. I earned the Chartered Financial Analyst designation in 1999. In 1998, I began working for the Montana Power Trading & Marketing Company as a Financial Engineer supporting both natural gas and electricity trading and marketing. In 1999, I began work with PPL EnergyPlus, LLC ("PPL Eplus") in Butte, where I held several positions, including Portfolio Manager. My responsibilities included developing electric forward price curves, valuation of power plants, and the pricing of wholesale and end-use electricity transactions in Montana and the Northwest. I left PPL Eplus in 2006 and co-founded Highland Energy, an energy trading firm that participated in electricity markets throughout the Western Electric

Coordinating Council ("WECC") region. Between 2009 and 2011, I was a principal at Great Divide Energy Consulting, where I consulted on energy market issues for clients including utilities, energy marketers, and developers.

I joined NorthWestern in March of 2011. My responsibilities include analysis and negotiation of power purchase agreements ("PPAs"), development of hedging strategies, and management of NorthWestern's supply portfolio. I work closely with NorthWestern's Energy Supply Planning group to ensure that their efforts and the efforts of the Market Operations group are well coordinated.

Purpose of Testimony

Q. What is the purpose of your testimony?

A. I address:

1. The market-based discounted cash flow ("DCF") valuation analysis performed in support of NorthWestern's bid for the 11 PPL Montana, LLC ("PPLM") hydroelectric generating facilities and related assets ("Hydros");
2. The electricity market price forecast used in the valuation;
3. The market conditions NorthWestern is encountering in Montana and the Pacific Northwest; and
4. The fit of the Hydros in NorthWestern's supply portfolio.

Market-Based Discounted Cash Flow Analysis

Q. Did NorthWestern perform a DCF analysis in support of its efforts to acquire the Hydros from PPLM?

A. Yes. The DCF Analysis Model is provided as Exhibit__(JMS-1).

Q. Is Exhibit__(JMS-1) the model that was used in the process of developing NorthWestern's bid?

A. Exhibit__(JMS-1) is a version of the model that is focused only on the Hydros. The model used during the decision process included analysis of other assets owned by PPLM. NorthWestern ultimately declined to bid on the other assets. Exhibit__(JMS-1) contains only the information relevant to the Hydros. The assumptions and results in Exhibit__(JMS-1) are the same as those related to the Hydros that were in the original model.

Q. What was the purpose of the DCF analysis?

A. The purpose of the analysis was to develop one estimate of the approximate, mid-range value that other potential bidders might attribute to the Hydros. The DCF valuation was one of many pieces of information available to NorthWestern's executive team to aid their decisions regarding the ultimate bid. See the Prefiled Direct Testimony of Brian B. Bird ("Bird Direct Testimony") for further discussion of this information.

Q. What is meant by "other potential bidders"?

1 **A.** NorthWestern's goal was to develop an estimate of the value of the
2 Hydros from a third-party, merchant point of view rather than from
3 NorthWestern's particular point of view. The DCF analysis did not
4 consider the other resources in NorthWestern's supply portfolio or how the
5 output from the Hydros fits with NorthWestern's customers' load. (I
6 address those considerations in my testimony below.) The purpose of the
7 DCF analysis was to estimate what NorthWestern's competitors in the
8 bidding process might, on average, see as the value of the Hydros so that
9 we could then evaluate whether there were better alternatives for our
10 customers.
11
12 **Q. What is meant by "mid-range" value?**
13 **A.** The intent was to estimate the value using assumptions that were neither
14 overly aggressive nor overly conservative. The aim was to estimate a
15 value that would be near the middle of the range of potential bids from
16 other parties.
17
18 **Q. You indicate that the DCF analysis provides one estimate of the**
19 **value of the Hydros. Are there other valuation methods that lead to**
20 **other estimates?**
21 **A.** Yes. Other valuation estimates that NorthWestern considered are
22 described in the Bird Direct Testimony.
23

Q. Please describe how DCF analysis is performed.

A. DCF analysis, which is sometimes referred to as Net Present Value or NPV analysis, is performed by estimating the future cash flows from an investment and adjusting them to present value by discounting them at an appropriate rate. The estimated cash flows are the amounts available to the facilities' owners after expenses and investments to maintain the facilities. The cash flows are discounted to present value terms at the weighted average cost of capital ("WACC") and then summed to determine the approximate value of the assets.

Q. What are some of the important elements needed to estimate future cash flows for the DCF analysis?

A. The important elements fall into four major categories: revenues, expenses, capital expenditures, and terminal value.

<u>Revenues</u>

Q. What are the revenues that are relevant to the DCF analysis?

A. Revenues for hydroelectric plants are driven by the volume of energy produced and the price at which that energy can be sold. In the DCF analysis, which, again, is from a third-party point of view, revenues represent the market value of the energy produced by the Hydros. The output from hydroelectric plants varies from year to year and from month to month based on river flows. Market prices for electricity respond to

supply and demand factors over time and can also vary significantly from month to month and year to year. These generation and price "shapes" should be reflected in estimation of revenues. The assumptions for generation output are described below. The market price assumptions are described in the next section of my testimony.

Q. Please describe how NorthWestern estimated future generation to be produced by the Hydros.

A. PPLM provided a Confidential Information Memorandum ("CIM") that included a set of historical information and projections as part of its efforts to sell the Hydros and other generating assets in Montana. In addition, PPLM provided access to an electronic data room that contained documents supporting the information in the CIM and other information needed for NorthWestern's due diligence. Among this information was historical generation data and forecasts for generation in future years. The generation forecast used in the DCF analysis was equal to the forecast provided in the CIM.

Q. Are there changes that cause expected future generation to differ from past generation?

A. Yes, there are two changes. The first is that Kerr Dam is expected to be transferred to the Confederated Salish and Kootenai Tribes ("CSKT") as early as September of 2015. The second is that PPLM has recently

completed the Rainbow redevelopment project, which increased the capacity at the Rainbow and Cochrane dams. Rainbow capacity was increased from 36 megawatts ("MW") to 60 MW and Cochrane capacity increased from 64 MW to 69 MW.

Q. How did NorthWestern account for these known changes in the DCF analysis?

A. These changes were reflected in PPLM's projections. Expected volumes from Kerr were included in the analysis only through August of 2015. Expected output from Rainbow and Cochrane were scaled up to reflect the increased capacity at those plants. The increased capacity was assumed to be in place for the entire valuation period.

Q. Why did you use PPLM's forecast generation rather than developing your own?

A. I independently analyzed the historical generation output and determined that PPLM's forecasts were consistent with my findings. PPLM indicated that its projections were based on the average output of the Hydros over the previous five years, increased by the expected additional output from the Rainbow redevelopment project. These projections are slightly lower than the estimates that I independently developed based on a 5-year historical average as well as a 20-year historical average. Given that, and

the goal of valuing the assets from a third-party perspective, I used PPLM's projections for annual generation in the DCF analysis.

The projected annual volumes and the volumes that I calculated are summarized below.

Historical Generation Output (MWh)				
	With Kerr		Without Kerr	
Term	Historical Average	Adjusted for Rainbow Redevelopment	Historical Average	Adjusted for Rainbow Redevelopment
NWE's Estimate Using 5 Years of History	3,485,739	3,670,828	2,393,099	2,578,188
NWE's Estimate Using 20 Years of History	3,402,758	3,583,482	2,331,585	2,512,309
PPL Estimate (Used in DCF Model)		3,572,451		2,487,074

Q. How were the projected generation volumes used to estimate revenues for the DCF analysis?

A. The expected volumes derived from the historical generation information were allocated into monthly on-peak and off-peak periods. These on-peak and off-peak monthly volumes were multiplied by the forecasted on-peak and off-peak market price for each month of the valuation period and then summarized by calendar year. This represents the estimated revenue that a third party would receive for selling the output of the dams for that year. The estimated revenues for 2014 totaled $104.8 million.

Q. Did PPLM estimate future revenues in the information it provided?

A. Yes. PPLM engaged a consultant, PA Consulting, to develop a price forecast for power and gas markets in the Northwest. The forward price

1 projections were used by PPLM to estimate revenues for the Hydros, and
2 these revenue estimates were provided in the CIM.
3
4 **Q. Did you use these forecast revenues in the DCF analysis?**
5 **A.** No. The prices forecasted by PA Consulting and used in the revenue
6 forecasts PPLM supplied were much higher than NorthWestern's internal
7 forecasts. (See below for a description of NorthWestern's forward price
8 curves.) NorthWestern's approach resulted in a forecast that we deemed
9 to be a more appropriate estimate, and more reflective of what other
10 potential bidders were likely to use.
11
12 **Q. What would have been the result of using PPLM's forecast revenues**
13 **in the DCF analysis?**
14 **A.** PPLM's revenue estimates result in a valuation that is about $250 million
15 higher than the valuation using NorthWestern's revenue estimates.
16
17 Expenses
18 **Q. Please describe the expenses that were considered in the analysis.**
19 **A.** Expenses can be broadly categorized into operating expenses, which are
20 directly related to the operation of the Hydros, and administrative
21 expenses, which are related to support functions. Operating expenses are
22 sometimes called Operations and Maintenance expenses or "O&M";

administrative expenses are sometimes called General and Administrative expenses or "G&A."

Fixed O&M costs are operating costs directly related to the operation of the Hydros that do not vary with generation output. These expenses include the salaries and wages of the engineers and operations employees, the costs of maintaining and making routine repairs to the physical plants, costs related to North American Electric Reliability Council ("NERC") and Federal Energy Regulatory Commission ("FERC") compliance, and other costs of operating the Hydros. The estimates for the DCF analysis were based on information in the CIM and verified by NorthWestern in the due diligence process. Estimated fixed O&M costs total approximately $19.8 million for 2014.

Another major expense category relates to Kerr Dam. As part of the FERC license for the facility, PPLM, and subsequently, the purchaser of PPLM's ownership in the facility, is obligated to make annual rent payments to CSKT until the facility is conveyed to CSKT. This rent expense was estimated to be $19.9 million for 2014. In addition, there is an obligation for expenses related to the mitigation of impacts on fish and wildlife at the Kerr facility. This expense is estimated to be $2.1 million in 2014.

Other fixed costs included in the analysis were property taxes, which were estimated at $14.6 million, and operating reserves, which at the time of the analysis were estimated at $2.2 million. NorthWestern subsequently received information indicating that the Hydros will be able to self-provide sufficient operating reserves to cover the need specific to them, so the Revenue Requirement and bill impact computations in the Prefiled Direct Testimony of Travis E. Meyer ("Meyer Direct Testimony") and the Prefiled Direct Testimony of Patrick J. DiFronzo ("DiFronzo Direct Testimony") do not include this expense. The DCF analysis using the $2.2 million expense is conservative in this regard.

Total fixed costs for 2014, not including G&A expenses, were estimated to be $58.6 million.

Variable costs – those that depend on the generation output of the facilities – are very low for hydro plants. For purposes of the DCF analysis, the only variable cost included was a generation tax, also known as the Electrical Energy Producer's License Tax, of $0.20 per megawatt-hour ("MWh"). See the Prefiled Direct Testimony of Kendall G. Kliewer for more information on this tax. Based on the estimated generation of 3.6 million MWh for 2014, this amounts to approximately $0.7 million.

1 G&A expenses were also included in the analysis. These expenses are
2 typically viewed as support services rather than plant level expenses.
3 G&A includes costs related to support functions such as information
4 technology, accounting, finance, legal, and human resources. PPLM
5 provided estimates of G&A expenses in the CIM that were used in the
6 DCF analysis. G&A expenses related to the Hydros were estimated at
7 approximately $9.1 million in 2014.
8
9 **Q. Is the $9.1 million estimate consistent with the incremental G&A**
10 **expenses NorthWestern expects to incur with the addition of the**
11 **Hydros?**
12 **A.** No, NorthWestern expects much lower G&A costs. As explained in the
13 Meyer Direct Testimony, NorthWestern expects about $5.8 million in G&A
14 expenses in the first year. The DCF analysis is conservative in using the
15 higher G&A expense.
16
17 **Q. Were other expenses considered in the DCF analysis?**
18 **A.** Yes. Depreciation expense is another item that was considered.
19 Depreciation is a non-cash expense, meaning that it affects an entity's
20 reported income, but it does not require an actual cash outlay. However,
21 because it affects income, it also affects income taxes, which are a cash
22 item. Depreciation was modeled according to the Modified Accelerated

1 Cost Recovery System. Income taxes were included at a rate of 39.4%.
2 Income tax expense for 2014 was estimated to be $4.5 million.
3
4 Capital Expenditures
5 **Q. Please describe the assumptions regarding capital expenditures.**
6 **A.** Capital expenditures are investments made to maintain or improve the
7 assets. PPLM provided estimates for future capital expenditures in the
8 CIM. NorthWestern verified recent historical capital investment
9 expenditures by PPLM at the facilities and developed capital expenditure
10 estimates for each year of the DCF analysis through the due diligence
11 process. Capital expenditures are estimated to be $12.8 million for 2014.
12
13 Terminal Value
14 **Q. What is terminal value and how is it included in the analysis?**
15 **A.** A DCF valuation includes the value of all future cash flows. However,
16 rather than using explicit estimates of all future cash flows for all periods
17 into the future, DCF analysis typically uses explicit estimates of cash flows
18 for some finite period plus a terminal value in the last year of the analysis
19 that represents cash flows in all periods beyond that point. In this case,
20 revenues, expenses, and capital expenditures were explicitly estimated for
21 20 years (2014-2033). The terminal value represents the value of the
22 assets in 2033 and is then discounted back to present value in the same

way as the other cash flows. In this context, "terminal" refers to the end of the analysis period, not the end of the useful life of the Hydros.

Q. How was the terminal value of the Hydros estimated?

A. As is typical in DCF analyses, the terminal value was estimated through the use of a market multiple. In this case, the terminal value of the Hydros was estimated using the projected Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA") in 2033 multiplied by a market multiple. As described in the Bird Direct Testimony, Credit Suisse provided estimates of an appropriate market multiple of 7.5 to 8.5. NorthWestern used a conservative multiple of 7.5 in this valuation.

Q. What terminal value was derived from those parameters?

A. Using the methodology described above, the terminal value of the Hydros was estimated to be $1.1 billion in 2033, which is approximately $290 million discounted to 2013.

Q. The terminal value is higher than the purchase price of the Hydros. Does it make sense that the Hydros will appreciate in value over the next 20 years?

A. Yes. As described in Prefiled Direct Testimony of William T. Rhoads, the Hydro facilities are very long-lived assets. The physical plant and equipment is expected to last well beyond 20 years with appropriate

maintenance and capital expenditures. In addition, ownership of the Hydros includes the right to generate electricity at those locations. These rights are extremely valuable, particularly against a backdrop of increasing environmental regulation.

Q. How was the conveyance of Kerr to CSKT treated in the DCF analysis?

A. The DCF analysis assumed that NorthWestern would receive a net amount of $25 million upon the conveyance of Kerr to CSKT in September of 2015. As discussed in more detail below, because of the ongoing dispute between PPLM and CSKT regarding the conveyance price, NorthWestern structured its proposal such that PPLM would retain responsibility for the outcome of the pending arbitration to the extent the outcome was higher or lower than a specified reference price. In its bid for the Hydros, NorthWestern revised the reference price from $25 million to $30 million to be closer to the approximate mid-point between PPLM's and CSKT's respective positions in the dispute. As noted below, this reference price does not reflect NorthWestern's view of the actual conveyance price or its expectation of the arbitration outcome, but rather was intended to simplify the Purchase and Sale Agreement ("PSA") negotiations.

1 **Q. Why is the amount assumed for Kerr so low compared with the price**
2 **being paid by NorthWestern for the other Hydros?**
3 **A.** The terms of the 1985 Kerr Project FERC hydro license give CSKT the
4 option to purchase Kerr Dam at a price determined by a formula specified
5 in the FERC license. This formula works out to approximately the net
6 book value of the project, as calculated in accordance with FERC's
7 Uniform System of Accounts. In 2012, PPLM estimated the conveyance
8 price pursuant to the license formula to be $51.6 million, and CSKT has
9 disputed the calculation. PPLM and CSKT are currently in arbitration to
10 resolve this dispute, which Northwestern did not want to interfere with in
11 the context of this transaction. NorthWestern's strategy in structuring the
12 transaction was to let PPLM retain responsibility for the outcome of the
13 arbitration by choosing a reference price somewhere in the middle of the
14 range of possible outcomes, and allowing PPLM to either harvest the gain
15 or make up the loss if the arbitration outcome comes out above or below
16 the reference price. Because PPLM is retaining control over the
17 arbitration and NorthWestern has no ability to influence its outcome,
18 NorthWestern chose a $30 million reference price, which is close to the
19 mid-point between the respective positions of PPLM and CSKT regarding
20 the conveyance price. As with the initial $25 million amount used in the
21 DCF analysis, the $30 million value assigned by NorthWestern does not
22 represent NorthWestern's view of what the conveyance price should be or
23 how it should be calculated, nor does it represent any expectation by

NorthWestern as to the actual outcome of the arbitration. Establishing a fixed value for Kerr simplified the PSA negotiations by providing NorthWestern certainty regarding the amount it will ultimately receive upon conveyance of Kerr to CSKT, while the risk of the arbitration outcome was retained by PPLM.

Q. How does NorthWestern's approach keep the risk associated with the conveyance price dispute with PPLM?

A. CSKT will ultimately pay the conveyance price to NorthWestern. The PSA provides that if the conveyance price is determined to be higher than $30 million, NorthWestern will pay the difference to PPLM; conversely if the conveyance price is determined to be less than $30 million, PPLM will pay the difference to NorthWestern. This payment by NorthWestern or PPLM, as applicable, will be paid upon CSKT's payment of the actual conveyance price to NorthWestern. Thus, regardless of the outcome of the arbitration, NorthWestern will ultimately receive $30 million upon conveyance of the Kerr project to CSKT, and NorthWestern customers bear no risk in regard to the conveyance price.

<u>Discount Rate</u>

Q. Are any other assumptions necessary for the DCF analysis?

1 **A.** Yes. The final assumption that is necessary is an estimate of the WACC
2 for the buyer of the assets. The WACC is used to discount future cash
3 flows to present day value.
4
5 **Q. How is the WACC determined?**
6 **A.** WACC is determined by estimating the rate of return a buyer would have
7 to pay on the capital used to purchase the assets. The WACC includes
8 the cost of equity and the cost of debt, each weighted by the proportion
9 that would be expected to be used in financing the purchase. As
10 discussed in the Bird Direct Testimony, the range of possible WACCs for
11 third-party buyers was estimated by Credit Suisse to be 6.5% to 7.5%.
12
13 **Q. What WACC was used in the analysis?**
14 **A.** NorthWestern used a WACC of 7.14% in the DCF valuation, which is near
15 the mid-point of the range provided by Credit Suisse as discussed in the
16 Bird Direct Testimony.
17
18 Value
19 **Q. Using the assumptions described above, what value did the DCF**
20 **estimate for the Hydros?**
21 **A.** Using those assumptions, I estimated the third-party, mid-range value to
22 be about $826 million.
23

Q. Were sensitivities estimated around that mid-range value?

A. Yes. I looked at high and low sensitivity cases around two factors, the WACC and the EBITDA multiplier for terminal value. The table below summarizes the calculated values for high and low cases as well as the mid-range case.

Valuation Results			
Case	WACC	EBITDA Multiplier	Value (millions)
Mid-Range	**7.14%**	**7.5**	**$ 826**
Low	7.50%	7.5	$ 790
High	6.50%	8.5	$ 935

Electricity Market Price Forecast

Q. Please describe the price forecast that was used in the analysis of NorthWestern's bid for the Hydros.

A. The development of the price forecast used to value the Hydros employed the same fundamental principles used in NorthWestern's other supply planning activities, including the 2011 Electricity Supply Resource Procurement Plan ("2011 Plan") and the subsequent 2013 Plan that was being developed in parallel with this analysis. The 2013 Plan is attached to this Application. There are three components to the price forecast: 1) market quotes at Mid-Columbia ("Mid-C") for the intermediate term with an escalation rate based on inflation expectations for the period after which market quotes are available; 2) a basis adjustment from Mid-C to

Montana; and 3) an adjustment for the price of carbon under potential future regulation. (The carbon price adjustment also requires a forecasted natural gas price curve as described later in my testimony.)

Q. Please describe how the market quotes were used.

A. The price forecast begins with the forward market at Mid-C. Mid-C is the most liquid trading location in the region, with many buyers and sellers participating. Forward prices at Mid-C are quoted by brokers for several years forward, and settlement prices for forward periods are published by the Intercontinental Exchange ("ICE").

For this analysis, NorthWestern used a price curve based on forward market quotes on June 7, 2013. Broker quotes and ICE settlements from that day were used to construct Mid-C forward curves by month for on-peak and off-peak periods. Market quotes were available through 2020. For periods beyond 2020, Mid-C prices were escalated at an annual rate of 2.10%.

Q. What is a basis adjustment?

A. A basis adjustment is an estimate of the difference in price between a liquid trading location such as Mid-C and a location such as Montana.

Q. How was an appropriate basis adjustment determined for this analysis?

A. NorthWestern has historically been able to procure energy in Montana at a discount, or negative basis, to the Mid-C price. The primary reason for a negative basis is that during most periods there is more energy generated in Montana than there is load in Montana. Some of the energy generated in state must be "wheeled" or transmitted out of state, with an associated cost for the transmission. Energy generated in Montana typically crosses two transmission systems – NorthWestern's and Bonneville Power Administration's ("BPA") – in order to get to the Mid-C market. Parties with generation in Montana are incented to sell at a discount to the Mid-C price because their alternative is to pay the full transmission costs to get that power to market.

Parties serving load in Montana could purchase at Mid-C and transmit the power to Montana, resulting in a total price higher than the Mid-C price. The lower-priced alternative is to purchase from generators in Montana at a discount to the Mid-C price.

These market dynamics have typically led to transactions in Montana at a negative basis to the Mid-C price. NorthWestern's recent experience indicates that a basis adjustment of -$3.00/MWh is representative of the market for around-the-clock deliveries in the near term.

Q. Did the DCF Analysis Model use a fixed basis for the entire term?

A. No. The discount tends to be higher when price levels are higher and lower when price levels are lower, so a formula-based approach was used to estimate the basis. The formula used a proportion of the total transmission wheeling cost (including losses) on NorthWestern's system and on BPA's system. The percentage used – 30% – was selected to calibrate the calculated basis to NorthWestern's recent experience of approximately -$3.00/MWh.

The calculation of basis is best illustrated with an example. If the forward price for on-peak delivery at Mid-C in January of 2014 is $38.55, the basis would be calculated as follows: Assuming that transmission tariff costs (excluding losses) are $4.42/MWh on NorthWestern's system and $3.82/MWh on BPA's system, the total transmission tariff charge would be $8.24/MWh. In addition, the party transmitting the energy would be responsible for losses of 4% on NorthWestern's system and 2% on BPA's system for a total of 6% losses. In a $38.55 market, the approximate cost of the losses would be $2.31/MWh ($38.55 x 6%). The total wheeling cost would be $10.55/MWh (tariff charge of $8.24 + losses of $2.31). Multiplying that amount by 30% yields a basis estimate of $3.17/MWh. Subtracting the basis estimate from the Mid-C price results in a total price on NorthWestern's system of $35.38.

The table below summarizes the basis calculation for 2014. The basis calculation for all periods in the DCF analysis is shown in Exhibit__(JMS-2).

	Mid-C Forward Curves							NWE System Basis			NWE System Price		
Month	Mid-C Peak	Mid-C Off Peak	Mid-C Flat	NWE Transmission Cost	NWE Transmission Losses	BPA Transmission Cost	BPA Transmission Losses	On Peak Basis	Off Peak Basis	Flat Basis	On Peak Price	Off Peak Price	Flat Price
Jan-14	$ 38.55	$ 33.98	$ 36.54	$ 4.42	4.00%	$ 3.82	2.00%	$ (3.17)	$ (3.08)	$ (3.13)	$ 35.39	$ 30.89	$ 33.41
Feb-14	$ 36.69	$ 32.67	$ 34.92	$ 4.42	4.00%	$ 3.82	2.00%	$ (3.13)	$ (3.06)	$ (3.10)	$ 33.56	$ 29.61	$ 31.82
Mar-14	$ 34.43	$ 30.41	$ 32.66	$ 4.42	4.00%	$ 3.82	2.00%	$ (3.09)	$ (3.02)	$ (3.06)	$ 31.34	$ 27.39	$ 29.60
Apr-14	$ 28.89	$ 13.77	$ 22.24	$ 4.42	4.00%	$ 3.82	2.00%	$ (2.99)	$ (2.72)	$ (2.87)	$ 25.90	$ 11.05	$ 19.36
May-14	$ 28.89	$ 13.77	$ 22.24	$ 4.42	4.00%	$ 3.82	2.00%	$ (2.99)	$ (2.72)	$ (2.87)	$ 25.90	$ 11.05	$ 19.36
Jun-14	$ 28.49	$ 13.36	$ 21.83	$ 4.42	4.00%	$ 3.82	2.00%	$ (2.98)	$ (2.71)	$ (2.87)	$ 25.50	$ 10.65	$ 18.97
Jul-14	$ 41.80	$ 29.30	$ 36.30	$ 4.42	4.00%	$ 3.82	2.00%	$ (3.22)	$ (3.00)	$ (3.13)	$ 38.58	$ 26.30	$ 33.17
Aug-14	$ 41.80	$ 29.30	$ 36.30	$ 4.42	4.00%	$ 3.82	2.00%	$ (3.22)	$ (3.00)	$ (3.13)	$ 38.58	$ 26.30	$ 33.17
Sep-14	$ 41.80	$ 29.30	$ 36.30	$ 4.42	4.00%	$ 3.82	2.00%	$ (3.22)	$ (3.00)	$ (3.13)	$ 38.58	$ 26.30	$ 33.17
Oct-14	$ 39.85	$ 34.10	$ 37.32	$ 4.42	4.00%	$ 3.82	2.00%	$ (3.19)	$ (3.09)	$ (3.14)	$ 36.66	$ 31.01	$ 34.18
Nov-14	$ 40.00	$ 34.25	$ 37.47	$ 4.42	4.00%	$ 3.82	2.00%	$ (3.19)	$ (3.09)	$ (3.15)	$ 36.81	$ 31.16	$ 34.32
Dec-14	$ 43.05	$ 37.30	$ 40.52	$ 4.42	4.00%	$ 3.82	2.00%	$ (3.25)	$ (3.14)	$ (3.20)	$ 39.80	$ 34.16	$ 37.32

NWE System Basis uses 30% of NorthWestern and Bonneville Transmission costs including losses.
Transmission costs were forecast to rise 2.1% annually from 2013 levels. Loss rates were held constant over the term.

Q. Did NorthWestern include an adjustment to the market price for potential future regulation of carbon?

A. Yes.

Q. Why is it appropriate to include a carbon price in the DCF analysis?

A. NorthWestern has included a price for carbon in its supply planning and acquisition activities since the 2007 Plan, and the Commission has supported this approach. In its comments to the 2011 Plan, the Commission states:

"NWE's base case assumes that, sometime in the future, carbon dioxide emissions will be priced under federal law or rules promulgated by the Environmental Protection Agency. This is a possibility over which the Commission and the utility have little or no power, and it is correct practice to analyze the planning impacts of carbon regulation. The base case's 2015 carbon price implementation date is increasingly unrealistic in light of

the delays associated with such regulations as the Mercury and Air Toxics Standard and the various state Regional Haze Rules. NWE should revisit the timing of potential future carbon prices in its 2013 Plan."

Written Comments Identifying Concerns Regarding NorthWestern Energy's Compliance with ARM 38.5.8201-8229, Docket No. N2011.12.96, ¶ 18 (September 28, 2012). As described below, NorthWestern used 2021 as the date of implementation of a carbon price.

Q. How was potential carbon regulation incorporated into the analysis?

A. Carbon regulation was addressed in a manner consistent with NorthWestern's other recent planning activities and resource acquisitions. The 2013 Plan uses a carbon price adjustment adapted from the Energy Information Administration's ("EIA") 2013 Annual Energy Outlook ("AEO"). The EIA presented cases based on three different carbon price scenarios: GHG10, GHG15, and GHG25. These scenarios priced carbon at $10 per metric ton, $15 per metric ton, and $25 per metric ton, respectively, beginning in 2014 and increasing at 5% per year.

Both the 2013 Plan and the DCF analysis use the EIA's GHG15 case, adjusted for a delayed implementation. NorthWestern's 2013 Plan and the DCF analysis adjusted the GHG15 case to introduce the carbon price in 2021 at $21.11 per metric ton, the same rate that would have been in effect that year had the carbon price been introduced in 2014 and

escalated at 5% per year. There is no carbon price adjustment assumed in the analysis for 2014-2020.

Q. How is the carbon price applied in the analysis?

A. The market price forecast was adjusted for each period by applying the forecasted carbon price. The determination of the forecasted carbon price on a dollars-per-MWh basis is explained below.

The market heat rate was computed for each monthly on- and off-peak period using the forecasted "no-carbon" Mid-C price and the forecasted AECO natural gas price. This market heat rate represents the heat rate for the marginal or highest cost unit needed to meet load in the region for that period. For example, if the on-peak power price (without carbon) for a month is $50.00/MWh and the natural gas price for that month is $5.00/MMBtu, the market heat rate is 10.0 MMBtu/MWh. The market heat rate for the marginal unit was then used to estimate the price of carbon per MWh. A 7.0 heat rate combined cycle natural gas plant is estimated to emit 0.429 tons of carbon per MWh of electricity produced. For the period in this example, the marginal unit emits 0.613 tons of carbon per MWh (10.0/7.0 x 0.429 = 0.613). Multiplying 0.613 tons/MWh times the carbon price per ton yields the carbon price for that period in dollars per MWh. If the price per ton of carbon is $15 for that period, the carbon

adjustment to the power price would be $9.20/MWh (0.613 tons/MWh x $15/ton = $9.20/MWh).

The carbon prices resulting from this application method are summarized in the table below.

Application of Carbon Price to Market Price of Power								
Year	AECO	Mid-C On-Peak Price (No Carbon)	Mid-C Off-Peak Price (No Carbon)	Carbon Price	On-Peak Market Heat Rate	Off-Peak Market Heat Rate	On-Peak Carbon Price	Off-Peak Carbon Price
	$/MMBtu	$/MWh	$/MWh	$/Ton	MMBtu/MWh	MMBtu/MWh	$/MWh	$/MWh
2014	$ 3.57	$ 37.02	$ 27.63	NA	10.38	7.74	NA	NA
2015	$ 3.71	$ 39.00	$ 28.99	NA	10.53	7.82	NA	NA
2016	$ 3.83	$ 40.91	$ 30.26	NA	10.69	7.91	NA	NA
2017	$ 4.04	$ 42.53	$ 30.71	NA	10.52	7.60	NA	NA
2018	$ 4.13	$ 44.88	$ 32.76	NA	10.88	7.94	NA	NA
2019	$ 4.21	$ 48.01	$ 35.28	NA	11.40	8.38	NA	NA
2020	$ 4.30	$ 51.39	$ 38.76	NA	11.95	9.01	NA	NA
2021	$ 4.39	$ 52.47	$ 39.58	$ 21.11	11.95	9.01	$ 15.45	$ 11.66
2022	$ 4.49	$ 53.57	$ 40.41	$ 22.16	11.94	9.01	$ 16.22	$ 12.24
2023	$ 4.58	$ 54.69	$ 41.26	$ 23.27	11.94	9.01	$ 17.03	$ 12.85
2024	$ 4.67	$ 55.84	$ 42.12	$ 24.43	11.95	9.01	$ 17.89	$ 13.50
2025	$ 4.77	$ 57.02	$ 43.01	$ 25.66	11.95	9.02	$ 18.79	$ 14.18
2026	$ 4.87	$ 58.21	$ 43.92	$ 26.94	11.95	9.01	$ 19.73	$ 14.88
2027	$ 4.98	$ 59.44	$ 44.84	$ 28.28	11.95	9.01	$ 20.71	$ 15.62
2028	$ 5.08	$ 60.68	$ 45.78	$ 29.70	11.95	9.01	$ 21.75	$ 16.41
2029	$ 5.18	$ 61.96	$ 46.74	$ 31.18	11.95	9.02	$ 22.84	$ 17.23
2030	$ 5.29	$ 63.26	$ 47.73	$ 32.74	11.95	9.02	$ 23.98	$ 18.09
2031	$ 5.41	$ 64.59	$ 48.73	$ 34.38	11.95	9.01	$ 25.17	$ 18.99
2032	$ 5.52	$ 65.94	$ 49.75	$ 36.10	11.94	9.01	$ 26.43	$ 19.94
2033	$ 5.64	$ 67.33	$ 50.80	$ 37.90	11.95	9.01	$ 27.75	$ 20.94
Assumes that a 7.0 heat rate combined cycle plant emits 0.429 tons of carbon per MWh								

Q. You indicated that this price forecasting methodology was also used in the 2013 Plan. Is it also consistent with past supply plans and with other acquisition activity by NorthWestern?

1 **A.** Yes. NorthWestern's approach was similar in the 2011 Plan and in the
2 Spion Kop Wind Generation Facility acquisition. Some details, such as
3 the methodology for estimating basis, the year in which an escalation
4 factor is applied, and the source and application of the carbon price have
5 been modified, but the basic approach is the same.
6
7 **Availability of Electricity Supply in Montana**
8 **Q. Why was it important for NorthWestern to secure generating assets**
9 **in Montana?**
10 **A.** Since 1999, when MPC sold its generating assets to PPLM[1] ratepayers
11 have been largely dependent on the wholesale market for electricity
12 supply. Some of the supply needs have been met through long-term
13 contracts, but a large portion of the supply portfolio has been exposed to
14 the short- and intermediate-term wholesale markets. This is an inherently
15 risky position from two perspectives. First, customers are exposed to
16 market price risk. This is true whether the portfolio is managed to be more
17 heavily weighted toward exposure to the spot (daily and shorter) or term
18 (monthly and greater) markets.
19
20 Second, reliance on the electricity market means that customers are
21 exposed to delivery risk. There is a risk that under certain market and

[1] On October 31, 1998, MPC sold the Hydros to PP&L Global, Inc ("PPL Global") pursuant to the terms of the Asset Purchase Agreement ("APA"). PPL Global assigned the APA to PP&L Montana, LLC on December 17, 1999. PP&L Montana, LLC later changed its name to PPL Montana, LLC.

transmission conditions, there may not be electricity available in the market to meet the load requirement. In addition, PPAs for large volumes of electricity such as those needed by NorthWestern carry large exposure to credit risk. While sound credit policy including credit assurance from sellers can protect customers from financial harm in the event of default by a supplier, these policies do not ensure physical delivery of the electricity when it is needed. NorthWestern has effectively managed these risks, but there are a number of factors that, taken together, have reduced the viability of a market-centered approach to the supply portfolio going forward.

Q. What are some of these factors?

A. There are several market dynamics related to Montana and the Northwest that are changing in ways that challenge the wisdom of continued reliance on the wholesale markets.

First, the impacts of the widespread development of variable resources such as wind and solar are increasing. In some ways, the development of these new generation resources has benefitted NorthWestern's customers. The increase in wind power in the Northwest has contributed to lower market prices, which have in turn benefitted customers. However, the increased variable generation has required increased use of the flexibility of other resources, including hydro assets in the Northwest.

Utilities with high reliance on wind power also have increased need for flexibility, so when wind generation is unexpectedly low, flexible resources such as the Columbia River dams are needed to make up the difference. Since many of the Northwest utilities have wind generation in the Columbia Gorge, multiple utilities often experience low wind events at the same time, meaning that many of NorthWestern's trading partners that typically have excess capacity are often out of the market at the same time.

Second, uncertainty regarding the future of coal-fired generating assets could reduce the amount of baseload generation available in the market to serve NorthWestern's load. Two large coal-fired plants – the Centralia plant in Washington and the Boardman plant in Oregon – are expected to shut down within the next decade or so. PPLM has announced that the Corette plant will be mothballed in 2015. There is risk that increased regulation could lead to further shutdowns, possibly some in Montana. These shutdowns could have an influence on both market prices and, to the extent that they serve NorthWestern's load, reliability.

Third, the Montana Alberta Tie Line has recently entered commercial operation. This transmission line provides a path between Montana and Alberta for approximately 300 MW. While there will certainly be times when electricity flows from Alberta to Montana, average prices in Alberta

are much higher than average prices in Montana or at the Mid-C, so NorthWestern expects power to flow from Montana to Alberta the majority of the time. Effectively, this is similar to adding a 300 MW load on NorthWestern's system in Montana that competes for supply in the market.

Q. What are the implications of these changing dynamics?

A. Taken together, the changing market dynamics highlight the strategic importance of controlling resources in Montana on a long-term basis. Traditionally, utilities have owned or otherwise controlled enough generation to cover their peak load plus a capacity margin to ensure reliability. For over a decade, NorthWestern has been relying on the capacity margin of other utilities, plus the availability of power from independent power producers such as PPLM and TransAlta, the owner of Centralia. NorthWestern is concerned that the viability of relying on other entities' capacity is now in doubt.

Electric Supply Portfolio

Q. How was the acquisition of the Hydros considered in the context of the electric supply portfolio?

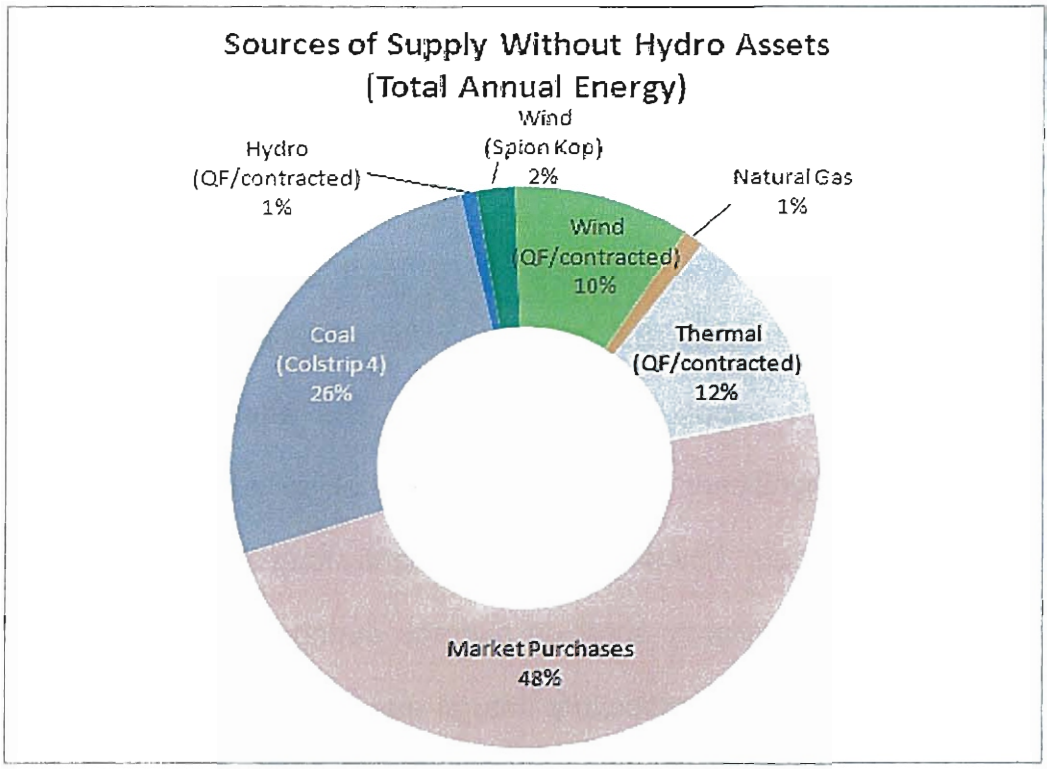
A. NorthWestern considered the addition of the Hydros in a number of contexts and found the acquisition to be an excellent fit from many perspectives. First, the Hydros are a proven, reliable source of non-

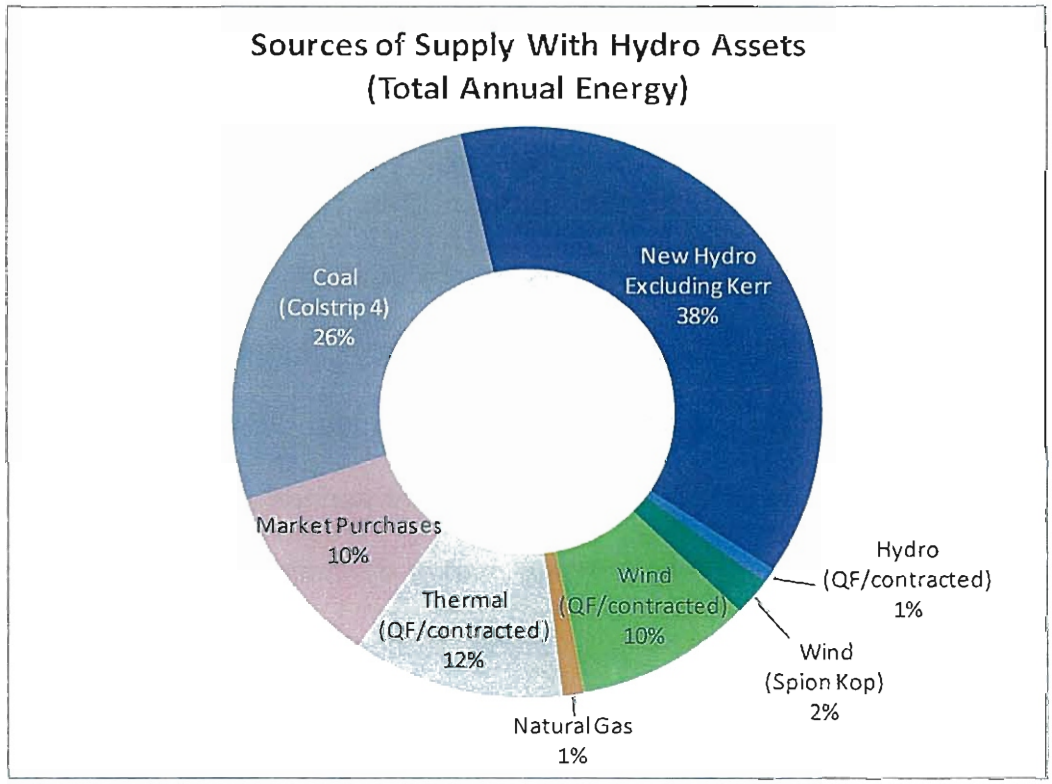
carbon emitting baseload energy supply in NorthWestern's service territory. This may be the one opportunity that arises to acquire such resources for customers. Existing resources are attractive because they are not subject to development risk. Siting and building any kind of generating asset and the related electric transmission and fuel delivery infrastructure can be a long and expensive process. Acquiring the Hydros allows NorthWestern and its customers to avoid that significant challenge and potential cost. And while the Hydros do not meet the criteria to qualify for Montana's Renewable Portfolio Standard, they truly are renewable resources in the sense that they do not consume fossil fuel or emit carbon, and as such they insulate customers from the risk of future carbon regulation. Other types of baseload generation such as gas-fired plants have exposure to carbon regulation risk as well as commodity market risk for their fuel supply. Further, acquiring generation assets in Montana allows customers to avoid the added expense of procuring transmission to NorthWestern's system.

Second, the addition of the Hydros provides diversity and balance to the supply portfolio. In 2016, about 39% of the energy used to serve load will be generated from hydro projects. Another 38% will be from Colstrip and Qualifying Facility thermal generation, with the remainder coming from wind and natural gas generators and market purchases. The charts below

1 depict NorthWestern's sources of energy supply for 2016 with and without

2 the Hydros.





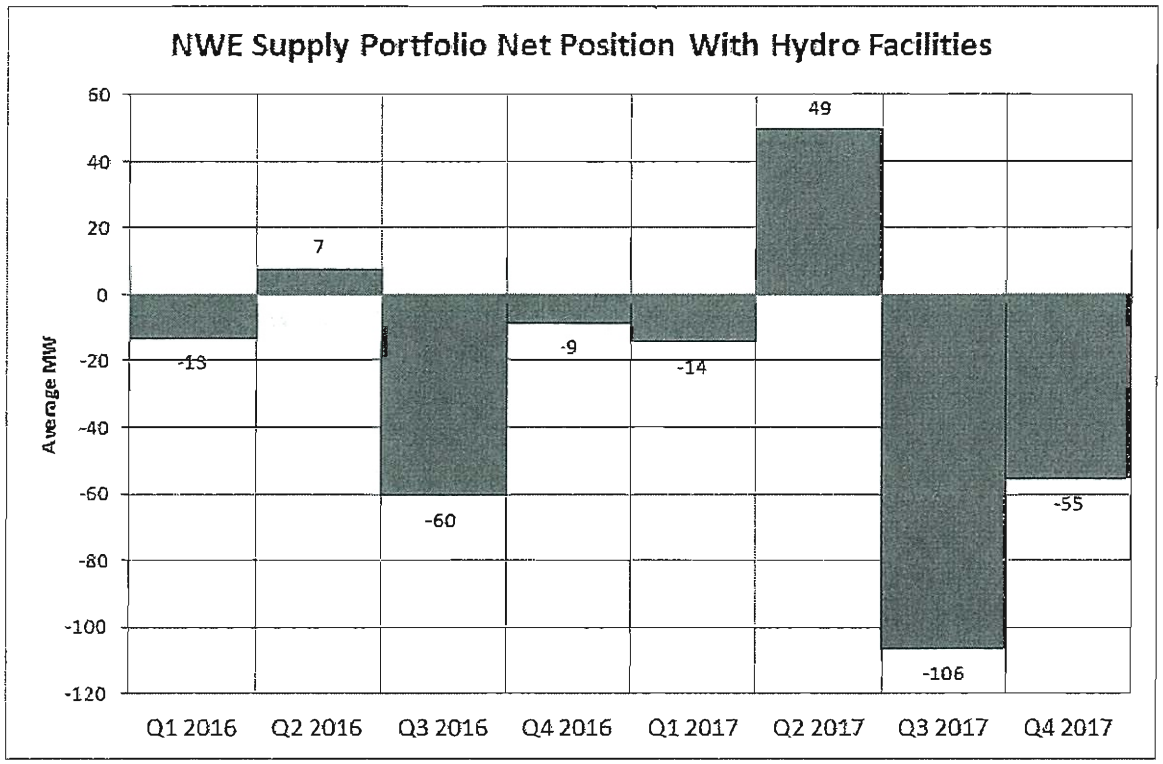
In addition, there is diversity within the portfolio of Hydros. The acquisition includes 11 generating facilities comprised of over 40 generating units. This benefits customers by avoiding dependence on a single large generator, or on several large generators at a single location.

Third, the size is right. After Kerr is conveyed to CSKT, the Hydros will provide approximately 2.5 million MWh annually, or about 38% of NorthWestern's supply needs in 2016. The addition of the Hydros removes a significant amount of market risk to which customers are currently exposed. The portfolio will be slightly long on average during off-peak hours and slightly short on average during on-peak hours. Other types of generators, particularly natural gas-fired plants, carry significant exposure to markets for fuel supply. The risk-reduction aspect is discussed later in this section.

Q. Will the acquisition of the Hydros give NorthWestern all of the capacity it needs to meet its customers' loads?

A. No. Even with the acquisition of the Hydros, NorthWestern will still be short of controlling the capacity it needs to meet peak loads, and in fact the portfolio will be short on average in most periods after the conveyance of Kerr. Considering the changing market dynamics and uncertainty, the acquisition of the Hydros is a critical strategic step for NorthWestern's customers, but not the only step. The chart below summarizes

NorthWestern's supply portfolio net position for the period of 2016-2017, after Kerr is conveyed to the CSKT.



Q. What is the short-term effect of adding the Hydros to the supply portfolio?

A. As already discussed, Kerr is expected to be in the supply portfolio until September of 2015 when it will be conveyed to CSKT. Prior to that point, the portfolio will provide more energy than is needed to meet customers' loads. NorthWestern will manage the long position through a combination of on-system and off-system wholesale transactions. In the one-year period from October 2014 through September 2015, these sales are estimated to provide approximately $43 million of revenue credits to the

supply portfolio. See Exhibit__(JMS-3) for the details of the revenue credit calculation.

Q. Were the revenue credits considered in the DCF valuation analysis?

A. No. Because the DCF analysis was intended to estimate value from a third-party perspective, revenue credits were not part of the valuation analysis. However, the revenue credits were estimated using the same price curve and were considered by NorthWestern in developing the Revenue Requirement proposed in this filing and estimating the associated impact to customers' bills. Also, as described in the Bird Direct Testimony, the PSA provides for the termination of certain PPAs between PPL Eplus and NorthWestern. If the closing of the acquisition occurs between July and December of 2014, this would include the termination of a single PPA, a 200-MW on-peak index price transaction. The termination of this contract was considered in the estimated supply costs used in the computation of illustrative rates described in the DiFronzo Direct Testimony.

Q. How does NorthWestern propose to track the revenue credits related to the Hydros?

A. NorthWestern proposes to track revenue credits on a portfolio basis rather than on a resource-by-resource basis. The revenue credits would be passed through to customers through the Electric Supply Tracker.

Q. Why should revenue credits be tracked on a portfolio basis?

A. The estimated revenue credit amount was based on: 1) the forecast of what each component of the supply portfolio, including the Hydros, will produce on a monthly on-peak and off peak basis; 2) the monthly on-peak and off-peak loads; and 3) monthly on-peak and off-peak market prices, all for the period of October 2014 through September 2015. All of those elements are likely to vary somewhat from the forecast. Some of these variations will offset each other and some will not, but ultimately the amount of revenue credits is a function of the portfolio as a whole, not of any individual resource or load in that portfolio.

Q. How does the acquisition of the Hydros compare to other alternatives NorthWestern has considered to meet its long-term supply portfolio needs?

A. The acquisition of the Hydros is the most attractive alternative available. In prior supply plans, the addition of a combined cycle combustion turbine ("CCCT") natural gas plant has emerged as a preferred resource in the least-cost, least-risk portfolios. Prior to providing its bid to PPLM NorthWestern analyzed the costs of a combined cycle plant and valued such a plant on a deterministic basis using the same price curves that were used in the DCF analysis of the Hydros. The CCCT, the Hydros were each evaluated on a stand-alone basis as well as combined with the existing supply portfolio, with market purchases to fill in the gaps where

the resources were not sufficient to meet load and market sales during periods when the resources produced more energy than necessary to meet load. For comparison purposes, NorthWestern also calculated the cost of market purchases alone to meet the load requirement. The results of that analysis are summarized below.

30-Year Levelized Price ($/MWh)	Standalone Basis	With Market Purchases and Sales to Meet Load
Hydro Facilities	$56.27	$64.92
270 MW Nominal CCCT	$87.76	$71.66
Market Only	$64.17	$64.17

Q. The Meyer Direct Testimony presents 30-year levelized costs that are different from those you provide above. Please explain.

A. The Meyer Direct Testimony and Exhibit__(TEM-1) present levelized costs calculated from the same generation output and cost assumptions, but from a slightly different perspective. The standalone cost of $56.27 presented above is the levelized cost for all of the output of the Hydros without including the effects of revenue credits or additional purchases needed to meet portfolio load requirements. The $64.92/MWh levelized cost shown above includes the effects of both revenue credits and additional market purchases to meet load. The levelized cost for the Hydros presented in the Meyer Direct Testimony includes the impact of the revenue credits but not the cost of market purchases.

Q. Did NorthWestern use other modeling to evaluate the Hydros?

A. Yes. NorthWestern also evaluated the addition of the Hydros using stochastic methodology similar to what it uses in the development of the supply plan. NorthWestern engaged Ascend Analytics ("Ascend") to perform the modeling requirements of the 2013 Plan as well as the evaluation of the addition of the Hydros to the supply portfolio through the use of its proprietary model PowerSimm. The Ascend modeling results demonstrate that the Hydros are superior from both a cost and a risk perspective to other alternatives including the development of a CCCT.

Q. Please describe the approach that Ascend uses in its modeling.

A. Ascend values the costs and risk of energy supply portfolios through rigorously developing Monte Carlo simulations of various future states and optimizing generation dispatch to these future conditions. The simulation process probabilistically captures a broad set of potential future conditions of weather, load, hydro flows, and market prices. By allowing for random variation, the simulation of future conditions produces a broader set of potential outcomes than a deterministic model such as the DCF model used in the valuation. These simulations are structured to introduce "meaningful" uncertainty that satisfies a rigorous set of validation criteria. This simulation approach allows NorthWestern to simultaneously evaluate both the costs and the risks of its supply portfolio decisions over a broad

range of potential future outcomes. Please see the 2013 Plan for a complete description of the PowerSimm model and validations.

Q. How does the concept of risk factor into the decisions made in regard to the energy supply portfolio?

A. NorthWestern provides reliable and reasonably priced electric service to customers, while actively mitigating the most significant sources of uncertainty or risk that may impact the cost to customers. In the context of the supply portfolio, one of the primary areas of uncertainty is market price risk. If it is left unmitigated, market price risk can result in rate shock or significant and sustained rate increases. Through the modeling associated with the supply plan, NorthWestern evaluates energy supply alternatives and the risks associated with those alternatives. The alternatives are assessed in the context of both their cost and their associated risk.

Q. What are the factors that drive risk in energy supply costs?

A. Some of the key risk factors that drive supply cost uncertainty are weather, load, fuel prices, electricity prices, and in the case of the Hydros, output variability driven by stream flows. Ascend's stochastic modeling approach utilizes a unified simulation framework that enables the joint modeling of all of these factors to determine the performance of different portfolios across multiple simulated future states.

Q. How is risk quantified in Ascend's approach?

A. Ascend uses the concept of risk premium to "monetize" or quantify the risk of a portfolio. The risk premium is defined as the integral of cost distribution above the mean or expected value. The approach is similar to that taken by insurance companies in determining a premium. The risk premium can be added to the expected cost of a portfolio to approximate the full distribution of potential costs. Please refer to the 2013 Plan for a complete description of the PowerSimm model.

Q. What were the supply portfolio alternatives that Ascend modeled in regard to the hydro acquisition?

A. At NorthWestern's direction, Ascend modeled three cases: 1) existing resources in the supply portfolio plus market purchases to meet load requirements (the "Current" portfolio); 2) existing resources plus the addition of an effectively sized 239 MW (270 MW nominal capacity, adjusted for elevation in Montana) combined cycle plant (as defined in the 2013 Plan) dispatched economically and supplemented with market purchases ("Current Plus CC"); and 3) existing resources plus the Hydros, supplemented with market purchases ("Current Plus Hydro").

Q. Why were these portfolios selected for this modeling?

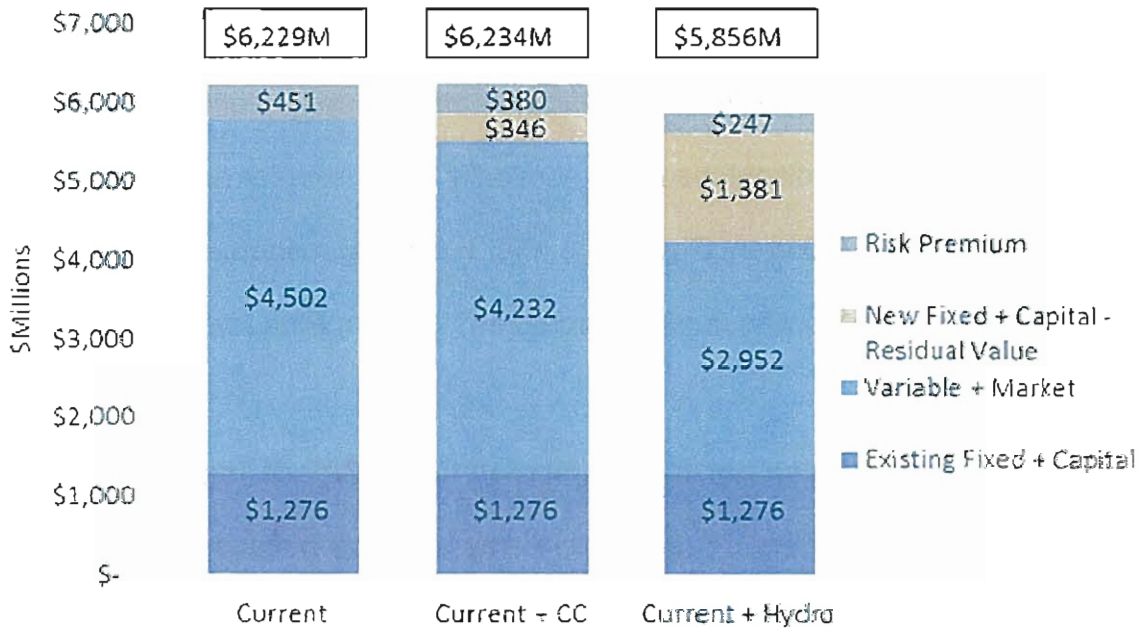
A. The Current Plus CC alternative was selected because similar portfolios have emerged in previous supply plans as the most attractive alternatives.

(Opportunistic acquisitions, such as this acquisition of the Hydros, were not specifically defined in previous plans because by their nature, such opportunities are not predictable.) The Current portfolio was chosen to provide a comparison of the other portfolios with a portfolio that does not include additional asset acquisition or development by NorthWestern, though, as I described above, NorthWestern does not view continued reliance solely on the market as a viable alternative.

Q. Please describe the results of the stochastic modeling.

A. The Current Plus Hydro portfolio significantly outperformed both of the other alternative portfolios. The chart below presents the results of the modeling on an NPV basis.

Net Present Value of Portfolio Costs, 2015-2043



In the chart, the three columns represent the three portfolio alternatives: the Current portfolio, Current Plus CC, and Current Plus Hydro. The "Existing Fixed + Capital" segment represents the fixed costs and capital costs of the resources currently in the supply portfolio. The "Variable + Market" segment of each column represents the variable costs of existing resources in the supply portfolio, plus the variable costs of new additions to the portfolio, plus the cost of market purchases. The "New Fixed + Capital – Residual Value" segment represents the fixed costs and capital investments of the new addition (the CCCT or the Hydros, depending on the portfolio), minus the NPV of the residual value of the new resource at the end of the evaluation period. Residual value is analogous to the terminal value used in the DCF analysis. The "Risk Premium" segment represents the quantification of the market price risk for each portfolio.

The total NPV of the costs is the sum of the segments for each portfolio. The total NPV of costs for the Current portfolio is $6.229 billion; for the Current Plus CC portfolio it is $6.234 billion; and for the Current Plus Hydro portfolio it is $5.856 billion. Thus, on a risk-adjusted NPV basis, the portfolio with the Hydros has costs $373 million lower than the portfolio that includes only market purchases and $378 million lower than the portfolio that includes the CCCT.

It should also be noted that the expected cost of the Current Plus Hydro portfolio is lower than the expected cost of the Current Plus CC portfolio and the expected cost of the Current portfolio even before accounting for the differences in risk.

Q. What conclusions do you draw from the stochastic modeling?

A. The stochastic modeling supports the deterministic analysis conducted at the time of the bid as well as the subjective risk analysis performed at that time. In fact, the stochastic modeling shows to an even greater degree the value that the Hydros provide to NorthWestern's customers. The addition of these resources provides lower expected costs and lower risk than the alternatives.

Q. Does this conclude your testimony?

A. Yes, it does.

	A	B	C	D	E	F	G	H	I	J	K
1	**Project Mustang Valuation**										
2	Assumptions										
3	Weighted Average Cost of Capital	7.14%									
4	Tax Rate	39.40%									
5	After Tax Terminal Value (Multiplier x EBITDA)	7.5									
6	Value for Depreciation Calcs	$ 896,000,000									
7	Kerr Conveyance Price	$ 25,000,000									
8											
9	Results										
10	Hydro Assets Net Present Value	$895,974,194									
11	G&A and Contingencies Net Present Value	($70,095,083)									
12	Total Value	$825,879,110									
13											
14											
15											
16		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
17											
18	Revenue	$ 104,804,565	$ 98,987,683	$ 80,842,567	$ 83,414,381	$ 88,636,526	$ 95,515,944	$ 103,985,505	$ 139,149,045	$ 143,016,271	$ 146,990,925
19	Generation Tax	$ (714,490)	$ (648,700)	$ (498,747)	$ (497,415)	$ (497,415)	$ (497,415)	$ (498,747)	$ (497,415)	$ (497,415)	$ (497,415)
20	Fixed Costs (Includes Kerr Rent)	$ (58,621,707)	$ (53,284,154)	$ (38,490,691)	$ (39,360,176)	$ (40,197,748)	$ (41,168,525)	$ (42,051,611)	$ (42,989,303)	$ (43,907,950)	$ (44,914,904)
21	EBITDA	$ 45,468,368	$ 45,054,829	$ 41,853,130	$ 43,556,789	$ 47,941,363	$ 53,850,004	$ 61,435,148	$ 95,662,328	$ 98,610,906	$ 101,578,605
22											
23	Tax Depreciation	$ (34,081,151)	$ (65,982,143)	$ (61,746,744)	$ (57,917,226)	$ (54,335,320)	$ (50,909,908)	$ (47,747,640)	$ (44,850,099)	$ (44,718,475)	$ (45,137,189)
24											
25	Income Taxes	$ (4,486,563)	$ 8,245,362	$ 7,838,084	$ 5,658,012	$ 2,519,219	$ (1,158,398)	$ (5,392,878)	$ (20,020,018)	$ (21,233,618)	$ (22,237,918)
26											
27	After Tax Cash Flow	$ 40,981,805	$ 53,300,191	$ 49,691,214	$ 49,214,802	$ 50,460,582	$ 52,691,606	$ 56,042,270	$ 75,642,310	$ 77,377,288	$ 79,340,687
28											
29	Capital Expenditures	$ (12,830,700)	$ (9,964,120)	$ (9,194,900)	$ (11,991,200)	$ (8,500,000)	$ (8,712,500)	$ (8,930,400)	$ (9,153,500)	$ (9,382,400)	$ (9,616,900)
30											
31	Terminal Value (Includes Kerr Conveyance)	$ -	$ 25,000,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
32											
33	Asset Cash Flow	$ 28,151,105	$ 68,336,071	$ 40,496,314	$ 37,223,602	$ 41,960,582	$ 43,979,106	$ 47,111,870	$ 66,488,810	$ 67,994,888	$ 69,723,787
34											
35	After Tax G&A Expenses	$ (5,489,714)	$ (5,626,957)	$ (5,767,631)	$ (5,911,821)	$ (6,059,617)	$ (6,211,107)	$ (6,366,385)	$ (6,525,545)	$ (6,688,683)	$ (6,855,900)
36	After Tax Contingency Items	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (113,625)	$ (113,625)	$ (113,625)
37											
38	Total Cash Flow	$ 22,661,391	$ 62,709,114	$ 34,728,683	$ 31,311,780	$ 35,900,965	$ 37,767,999	$ 40,745,485	$ 59,849,640	$ 61,192,580	$ 62,754,262

	A	L	M	N	O	P	Q	R	S	T	U
1	Project Mustang Valuation										
2	Assumptions										
3	Weighted Average Cost of Capital										
4	Tax Rate										
5	After Tax Terminal Value (Multiplier x EBITDA)										
6	Value for Depreciation Calcs										
7	Kerr Conveyance Price										
8											
9	Results										
10	Hydro Assets Net Present Value										
11	G&A and Contingencies Net Present Value										
12	Total Value										
13											
14											
15											
16		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
17											
18	Revenue	$ 151,635,251	$ 155,530,214	$ 159,963,516	$ 164,541,175	$ 169,681,414	$ 174,154,029	$ 179,307,508	$ 184,549,520	$ 190,510,292	$ 196,146,428
19	Generation Tax	$ (498,747)	$ (497,415)	$ (497,415)	$ (497,415)	$ (498,747)	$ (497,415)	$ (497,415)	$ (497,415)	$ (498,747)	$ (498,747)
20	Fixed Costs (Includes Kerr Rent)	$ (45,882,445)	$ (46,894,644)	$ (47,879,884)	$ (48,958,851)	$ (50,018,100)	$ (51,075,976)	$ (52,175,898)	$ (53,321,587)	$ (54,477,571)	$ (52,529,079)
21	EBITDA	$ 105,254,059	$ 108,138,155	$ 111,586,217	$ 115,084,909	$ 119,164,568	$ 122,580,638	$ 126,634,195	$ 130,730,519	$ 135,533,974	$ 143,118,603
22											
23	Tax Depreciation	$ (45,591,585)	$ (46,051,320)	$ (46,542,727)	$ (47,028,165)	$ (47,543,609)	$ (48,054,393)	$ (48,596,127)	$ (49,132,455)	$ (49,700,480)	$ (50,264,493)
24											
25	Income Taxes	$ (23,507,015)	$ (24,462,213)	$ (25,627,135)	$ (26,814,357)	$ (28,218,658)	$ (29,363,341)	$ (30,746,999)	$ (32,149,637)	$ (33,818,396)	$ (36,584,519)
26											
27	After Tax Cash Flow	$ 81,747,045	$ 83,675,942	$ 85,959,082	$ 88,270,552	$ 90,945,910	$ 93,217,297	$ 95,887,196	$ 98,580,882	$ 101,715,578	$ 106,534,084
28											
29	Capital Expenditures	$ (9,874,500)	$ (10,103,800)	$ (10,365,400)	$ (10,615,300)	$ (10,880,700)	$ (11,170,600)	$ (11,431,700)	$ (11,717,400)	$ (12,010,200)	$ (12,310,455)
30											
31	Terminal Value (Includes Kerr Conveyance)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,073,389,520
32											
33	Asset Cash Flow	$ 71,872,545	$ 73,572,142	$ 75,593,682	$ 77,655,252	$ 80,065,210	$ 82,046,697	$ 84,455,496	$ 86,863,482	$ 89,705,378	$ 1,167,613,148
34											
35	After Tax G&A Expenses	$ (7,027,298)	$ (7,202,980)	$ (7,383,055)	$ (7,567,631)	$ (7,756,822)	$ (7,950,742)	$ (8,149,511)	$ (8,353,249)	$ (8,562,080)	$ (8,776,132)
36	After Tax Contingency Items	$ (113,625)	$ (340,875)	$ (113,625)	$ (113,625)	$ (113,625)	$ (113,625)	$ (113,625)	$ -	$ -	$ -
37											
38	Total Cash Flow	$ 64,731,622	$ 66,028,287	$ 68,097,002	$ 69,973,995	$ 72,194,763	$ 73,982,330	$ 76,192,360	$ 78,510,233	$ 81,143,297	$ 1,158,837,016

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U
1	Escalation:	2.10%																			
2	On System Basis %	30%																			
3	As of:	6/7/2013																			
4																					
5																					
6																					
7																					
8			Mid-C No Carbon			Carbon Adder			Mid-C With Carbon							NWE System Basis			NWE System Price		
9		AECO	Mid-C Peak	Mid-C Off Peak	Mid-C Flat	Peak	Off Peak	Flat	Mid-C Peak	Mid-C Off Peak	Mid-C Flat	NWE Transmission	NWE Losses	BPA Transmission	BPA Losses	On Peak Basis	Off Peak Basis	Flat Basis	On Peak Price	Off Peak Price	Flat Price
10	Jan-13											$ 4.33	4.00%	$ 3.74	2.00%	$ (2.94)	$ (2.86)	$ (2.91)	$ 25.94	$ 21.55	$ 24.01
11	Feb-13											$ 4.33	4.00%	$ 3.74	2.00%	$ (2.92)	$ (2.84)	$ (2.88)	$ 24.75	$ 20.17	$ 22.74
12	Mar-13											$ 4.33	4.00%	$ 3.74	2.00%	$ (2.87)	$ (2.76)	$ (2.82)	$ 22.05	$ 15.95	$ 19.36
13	Apr-13											$ 4.33	4.00%	$ 3.74	2.00%	$ (2.84)	$ (2.58)	$ (2.72)	$ 20.31	$ 6.16	$ 14.08
14	May-13											$ 4.33	4.00%	$ 3.74	2.00%	$ (2.78)	$ (2.56)	$ (2.68)	$ 17.22	$ 4.99	$ 11.84
15	Jun-13											$ 4.33	4.00%	$ 3.74	2.00%	$ (2.72)	$ (2.54)	$ (2.64)	$ 14.08	$ 3.81	$ 9.56
16	Jul-13	$ 3.218	$ 40.70	$ 28.54	$ 35.35	$ -	$ -	$ -	$ 40.70	$ 28.54	$ 35.35	$ 4.33	4.00%	$ 3.74	2.00%	$ (2.98)	$ (2.78)	$ (2.89)	$ 27.92	$ 17.09	$ 23.15
17	Aug-13	$ 3.225	$ 45.28	$ 33.13	$ 39.93	$ -	$ -	$ -	$ 45.28	$ 33.13	$ 39.93	$ 4.33	4.00%	$ 3.74	2.00%	$ (3.09)	$ (2.85)	$ (2.98)	$ 33.86	$ 20.91	$ 28.16
18	Sep-13	$ 3.238	$ 39.70	$ 33.16	$ 36.82	$ -	$ -	$ -	$ 39.70	$ 33.16	$ 36.82	$ 4.33	4.00%	$ 3.74	2.00%	$ (3.05)	$ (2.83)	$ (2.95)	$ 32.05	$ 19.74	$ 26.63
19	Oct-13	$ 3.293	$ 36.10	$ 31.55	$ 34.10	$ -	$ -	$ -	$ 36.10	$ 31.55	$ 34.10	$ 4.33	4.00%	$ 3.74	2.00%	$ (3.01)	$ (2.92)	$ (2.97)	$ 29.98	$ 24.81	$ 27.70
20	Nov-13	$ 3.490	$ 37.50	$ 32.25	$ 35.19	$ -	$ -	$ -	$ 37.50	$ 32.25	$ 35.19	$ 4.33	4.00%	$ 3.74	2.00%	$ (3.05)	$ (2.95)	$ (3.01)	$ 32.05	$ 26.55	$ 29.63
21	Dec-13	$ 3.615	$ 40.70	$ 35.25	$ 38.30	$ -	$ -	$ -	$ 40.70	$ 35.25	$ 38.30	$ 4.33	4.00%	$ 3.74	2.00%	$ (3.12)	$ (3.01)	$ (3.07)	$ 35.88	$ 29.77	$ 33.19
22	Jan-14	$ 3.613	$ 38.55	$ 33.98	$ 36.54	$ -	$ -	$ -	$ 38.55	$ 33.98	$ 36.54	$ 4.42	4.00%	$ 3.82	2.00%	$ (3.17)	$ (3.08)	$ (3.13)	$ 35.39	$ 30.89	$ 33.41
23	Feb-14	$ 3.610	$ 36.69	$ 32.67	$ 34.92	$ -	$ -	$ -	$ 36.69	$ 32.67	$ 34.92	$ 4.42	4.00%	$ 3.82	2.00%	$ (3.13)	$ (3.06)	$ (3.10)	$ 33.56	$ 29.61	$ 31.82
24	Mar-14	$ 3.593	$ 34.43	$ 30.41	$ 32.66	$ -	$ -	$ -	$ 34.43	$ 30.41	$ 32.66	$ 4.42	4.00%	$ 3.82	2.00%	$ (3.09)	$ (3.02)	$ (3.06)	$ 31.34	$ 27.39	$ 29.60
25	Apr-14	$ 3.465	$ 28.89	$ 13.77	$ 22.24	$ -	$ -	$ -	$ 28.89	$ 13.77	$ 22.24	$ 4.42	4.00%	$ 3.82	2.00%	$ (2.99)	$ (2.72)	$ (2.87)	$ 25.90	$ 11.05	$ 19.36
26	May-14	$ 3.450	$ 28.89	$ 13.77	$ 22.24	$ -	$ -	$ -	$ 28.89	$ 13.77	$ 22.24	$ 4.42	4.00%	$ 3.82	2.00%	$ (2.99)	$ (2.72)	$ (2.87)	$ 25.90	$ 11.05	$ 19.36
27	Jun-14	$ 3.473	$ 28.49	$ 13.36	$ 21.83	$ -	$ -	$ -	$ 28.49	$ 13.36	$ 21.83	$ 4.42	4.00%	$ 3.82	2.00%	$ (2.98)	$ (2.71)	$ (2.87)	$ 25.50	$ 10.65	$ 18.97
28	Jul-14	$ 3.493	$ 41.80	$ 29.30	$ 36.30	$ -	$ -	$ -	$ 41.80	$ 29.30	$ 36.30	$ 4.42	4.00%	$ 3.82	2.00%	$ (3.22)	$ (3.00)	$ (3.13)	$ 38.58	$ 26.30	$ 33.17
29	Aug-14	$ 3.510	$ 41.80	$ 29.30	$ 36.30	$ -	$ -	$ -	$ 41.80	$ 29.30	$ 36.30	$ 4.42	4.00%	$ 3.82	2.00%	$ (3.22)	$ (3.00)	$ (3.13)	$ 38.58	$ 26.30	$ 33.17
30	Sep-14	$ 3.523	$ 41.80	$ 29.30	$ 36.30	$ -	$ -	$ -	$ 41.80	$ 29.30	$ 36.30	$ 4.42	4.00%	$ 3.82	2.00%	$ (3.22)	$ (3.00)	$ (3.13)	$ 38.58	$ 26.30	$ 33.17
31	Oct-14	$ 3.585	$ 39.85	$ 34.10	$ 37.32	$ -	$ -	$ -	$ 39.85	$ 34.10	$ 37.32	$ 4.42	4.00%	$ 3.82	2.00%	$ (3.19)	$ (3.09)	$ (3.14)	$ 36.66	$ 31.01	$ 34.18
32	Nov-14	$ 3.675	$ 40.00	$ 34.25	$ 37.47	$ -	$ -	$ -	$ 40.00	$ 34.25	$ 37.47	$ 4.42	4.00%	$ 3.82	2.00%	$ (3.19)	$ (3.09)	$ (3.15)	$ 36.81	$ 31.16	$ 34.32
33	Dec-14	$ 3.828	$ 43.05	$ 37.30	$ 40.52	$ -	$ -	$ -	$ 43.05	$ 37.30	$ 40.52	$ 4.42	4.00%	$ 3.82	2.00%	$ (3.25)	$ (3.14)	$ (3.20)	$ 39.80	$ 34.16	$ 37.32
34	Jan-15	$ 3.885	$ 42.81	$ 36.65	$ 40.10	$ -	$ -	$ -	$ 42.81	$ 36.65	$ 40.10	$ 4.51	4.00%	$ 3.90	2.00%	$ (3.29)	$ (3.18)	$ (3.24)	$ 39.52	$ 33.46	$ 36.86
35	Feb-15	$ 3.873	$ 40.75	$ 34.88	$ 38.17	$ -	$ -	$ -	$ 40.75	$ 34.88	$ 38.17	$ 4.51	4.00%	$ 3.90	2.00%	$ (3.26)	$ (3.15)	$ (3.21)	$ 37.49	$ 31.73	$ 34.96
36	Mar-15	$ 3.805	$ 38.24	$ 32.73	$ 35.81	$ -	$ -	$ -	$ 38.24	$ 32.73	$ 35.81	$ 4.51	4.00%	$ 3.90	2.00%	$ (3.21)	$ (3.11)	$ (3.17)	$ 35.03	$ 29.62	$ 32.65
37	Apr-15	$ 3.568	$ 30.19	$ 16.38	$ 24.11	$ -	$ -	$ -	$ 30.19	$ 16.38	$ 24.11	$ 4.51	4.00%	$ 3.90	2.00%	$ (3.07)	$ (2.82)	$ (2.96)	$ 27.12	$ 13.56	$ 21.16
38	May-15	$ 3.580	$ 30.19	$ 16.38	$ 24.11	$ -	$ -	$ -	$ 30.19	$ 16.38	$ 24.11	$ 4.51	4.00%	$ 3.90	2.00%	$ (3.07)	$ (2.82)	$ (2.96)	$ 27.12	$ 13.56	$ 21.16
39	Jun-15	$ 3.568	$ 29.77	$ 16.15	$ 23.78	$ -	$ -	$ -	$ 29.77	$ 16.15	$ 23.78	$ 4.51	4.00%	$ 3.90	2.00%	$ (3.06)	$ (2.81)	$ (2.95)	$ 26.71	$ 13.33	$ 20.82
40	Jul-15	$ 3.588	$ 43.35	$ 29.95	$ 37.45	$ -	$ -	$ -	$ 43.35	$ 29.95	$ 37.45	$ 4.51	4.00%	$ 3.90	2.00%	$ (3.30)	$ (3.06)	$ (3.20)	$ 40.05	$ 26.89	$ 34.26
41	Aug-15	$ 3.608	$ 43.35	$ 29.95	$ 37.45	$ -	$ -	$ -	$ 43.35	$ 29.95	$ 37.45	$ 4.51	4.00%	$ 3.90	2.00%	$ (3.30)	$ (3.06)	$ (3.20)	$ 40.05	$ 26.89	$ 34.26
42	Sep-15	$ 3.628	$ 43.35	$ 29.95	$ 37.45	$ -	$ -	$ -	$ 43.35	$ 29.95	$ 37.45	$ 4.51	4.00%	$ 3.90	2.00%	$ (3.30)	$ (3.06)	$ (3.20)	$ 40.05	$ 26.89	$ 34.26
43	Oct-15	$ 3.653	$ 40.86	$ 34.00	$ 37.84	$ -	$ -	$ -	$ 40.86	$ 34.00	$ 37.84	$ 4.51	4.00%	$ 3.90	2.00%	$ (3.26)	$ (3.13)	$ (3.20)	$ 37.60	$ 30.86	$ 34.63
44	Nov-15	$ 3.763	$ 41.01	$ 34.13	$ 37.98	$ -	$ -	$ -	$ 41.01	$ 34.13	$ 37.98	$ 4.51	4.00%	$ 3.90	2.00%	$ (3.26)	$ (3.14)	$ (3.21)	$ 37.75	$ 30.99	$ 34.77
45	Dec-15	$ 3.945	$ 44.14	$ 36.73	$ 40.88	$ -	$ -	$ -	$ 44.14	$ 36.73	$ 40.88	$ 4.51	4.00%	$ 3.90	2.00%	$ (3.32)	$ (3.18)	$ (3.26)	$ 40.82	$ 33.54	$ 37.62
46	Jan-16	$ 4.020	$ 45.56	$ 38.39	$ 42.40	$ -	$ -	$ -	$ 45.56	$ 38.39	$ 42.40	$ 4.60	4.00%	$ 3.98	2.00%	$ (3.39)	$ (3.26)	$ (3.34)	$ 42.16	$ 35.12	$ 39.06
47	Feb-16	$ 4.003	$ 43.36	$ 36.53	$ 40.36	$ -	$ -	$ -	$ 43.36	$ 36.53	$ 40.36	$ 4.60	4.00%	$ 3.98	2.00%	$ (3.35)	$ (3.23)	$ (3.30)	$ 40.00	$ 33.30	$ 37.06
48	Mar-16	$ 3.935	$ 40.69	$ 34.28	$ 37.87	$ -	$ -	$ -	$ 40.69	$ 34.28	$ 37.87	$ 4.60	4.00%	$ 3.98	2.00%	$ (3.31)	$ (3.19)	$ (3.26)	$ 37.38	$ 31.09	$ 34.61
49	Apr-16	$ 3.700	$ 29.44	$ 14.37	$ 22.81	$ -	$ -	$ -	$ 29.44	$ 14.37	$ 22.81	$ 4.60	4.00%	$ 3.98	2.00%	$ (3.10)	$ (2.83)	$ (2.98)	$ 26.33	$ 11.53	$ 19.82
50	May-16	$ 3.670	$ 29.44	$ 14.37	$ 22.81	$ -	$ -	$ -	$ 29.44	$ 14.37	$ 22.81	$ 4.60	4.00%	$ 3.98	2.00%	$ (3.10)	$ (2.83)	$ (2.98)	$ 26.33	$ 11.53	$ 19.82
51	Jun-16	$ 3.668	$ 29.03	$ 14.17	$ 22.49	$ -	$ -	$ -	$ 29.03	$ 14.17	$ 22.49	$ 4.60	4.00%	$ 3.98	2.00%	$ (3.10)	$ (2.83)	$ (2.98)	$ 25.93	$ 11.34	$ 19.51
52	Jul-16	$ 3.690	$ 46.45	$ 32.60	$ 40.36	$ -	$ -	$ -	$ 46.45	$ 32.60	$ 40.36	$ 4.60	4.00%	$ 3.98	2.00%	$ (3.41)	$ (3.16)	$ (3.30)	$ 43.04	$ 29.44	$ 37.06
53	Aug-16	$ 3.690	$ 46.45	$ 32.60	$ 40.36	$ -	$ -	$ -	$ 46.45	$ 32.60	$ 40.36	$ 4.60	4.00%	$ 3.98	2.00%	$ (3.41)	$ (3.16)	$ (3.30)	$ 43.04	$ 29.44	$ 37.06
54	Sep-16	$ 3.725	$ 46.45	$ 32.60	$ 40.36	$ -	$ -	$ -	$ 46.45	$ 32.60	$ 40.36	$ 4.60	4.00%	$ 3.98	2.00%	$ (3.41)	$ (3.16)	$ (3.30)	$ 43.04	$ 29.44	$ 37.06
55	Oct-16	$ 3.770	$ 43.48	$ 36.72	$ 40.51	$ -	$ -	$ -	$ 43.48	$ 36.72	$ 40.51	$ 4.60	4.00%	$ 3.98	2.00%	$ (3.36)	$ (3.23)	$ (3.30)	$ 40.12	$ 33.49	$ 37.20
56	Nov-16	$ 3.930	$ 43.65	$ 36.86	$ 40.66	$ -	$ -	$ -	$ 43.65	$ 36.86	$ 40.66	$ 4.60	4.00%	$ 3.98	2.00%	$ (3.36)	$ (3.24)	$ (3.31)	$ 40.29	$ 33.62	$ 37.35
57	Dec-16	$ 4.125	$ 46.97	$ 39.67	$ 43.76	$ -	$ -	$ -	$ 46.97	$ 39.67	$ 43.76	$ 4.60	4.00%	$ 3.98	2.00%	$ (3.42)	$ (3.29)	$ (3.36)	$ 43.55	$ 36.38	$ 40.40
58	Jan-17	$ 4.225	$ 46.24	$ 37.38	$ 42.34	$ -	$ -	$ -	$ 46.24	$ 37.38	$ 42.34	$ 4.70	4.00%	$ 4.06	2.00%	$ (3.46)	$ (3.30)	$ (3.39)	$ 42.78	$ 34.08	$ 38.95
59	Feb-17	$ 4.205	$ 44.01	$ 35.58	$ 40.30	$ -	$ -	$ -	$ 44.01	$ 35.58	$ 40.30	$ 4.70	4.00%	$ 4.06	2.00%	$ (3.42)	$ (3.27)	$ (3.35)	$ 40.59	$ 32.31	$ 36.95
60	Mar-17	$ 4.120	$ 41.30	$ 33.39	$ 37.82	$ -	$ -	$ -	$ 41.30	$ 33.39	$ 37.82	$ 4.70	4.00%	$ 4.06	2.00%	$ (3.37)	$ (3.23)	$ (3.31)	$ 37.93	$ 30.16	$ 34.51
61	Apr-17	$ 3.925	$ 33.05	$ 17.78	$ 26.33	$ -	$ -	$ -	$ 33.05	$ 17.78	$ 26.33	$ 4.70	4.00%	$ 4.06	2.00%	$ (3.22)	$ (2.95)	$ (3.10)	$ 29.83	$ 14.83	$ 23.23
62	May-17	$ 3.880	$ 33.05	$ 17.78	$ 26.33	$ -	$ -	$ -	$ 33.05	$ 17.78	$ 26.33	$ 4.70	4.00%	$ 4.06	2.00%	$ (3.22)	$ (2.95)	$ (3.10)	$ 29.83	$ 14.83	$ 23.23
63	Jun-17	$ 3.900	$ 32.59	$ 17.53	$ 25.97	$ -	$ -	$ -	$ 32.59	$ 17.53	$ 25.97	$ 4.70	4.00%	$ 4.06	2.00%	$ (3.21)	$ (2.94)	$ (3.10)	$ 29.38	$ 14.59	$ 22.87
64	Jul-17	$ 3.890	$ 47.80	$ 33.80	$ 41.64	$ -	$ -	$ -	$ 47.80	$ 33.80	$ 41.64	$ 4.70	4.00%	$ 4.06	2.00%	$ (3.49)	$ (3.24)	$ (3.38)	$ 44.31	$ 30.56	$ 38.26
65	Aug-17	$ 3.903	$ 47.80	$ 33.80	$ 41.64	$ -	$ -	$ -	$ 47.80	$ 33.80	$ 41.64	$ 4.70	4.00%	$ 4.06	2.00%	$ (3.49)	$ (3.24)	$ (3.38)	$ 44.31	$ 30.56	$ 38.26
66	Sep-17	$ 3.930	$ 47.80	$ 33.80	$ 41.64	$ -	$ -	$ -	$ 47.80	$ 33.80	$ 41.64	$ 4.70	4.00%	$ 4.06	2.00%	$ (3.49)	$ (3.24)	$ (3.38)	$ 44.31	$ 30.56	$ 38.26
67	Oct-17	$ 3.968	$ 44.31	$ 34.92	$ 40.18	$ -	$ -	$ -	$ 44.31	$ 34.92	$ 40.18	$ 4.70	4.00%	$ 4.06	2.00%	$ (3.43)	$ (3.26)	$ (3.35)	$ 40.88	$ 31.66	$ 36.83
68	Nov-17	$ 4.183	$ 44.48	$ 35.05	$ 40.33	$ -	$ -	$ -	$ 44.48	$ 35.05	$ 40.33	$ 4.70	4.00%	$ 4.06	2.00%	$ (3.43)	$ (3.26)	$ (3.35)	$ 41.05	$ 31.79	$ 36.98
69	Dec-17	$ 4.378	$ 47.87	$ 37.73	$ 43.40	$ -	$ -	$ -	$ 47.87	$ 37.73	$ 43.40	$ 4.70	4.00%	$ 4.06	2.00%	$ (3.49)	$ (3.31)	$ (3.41)	$ 44.38	$ 34.42	$ 40.00
70	Jan-18	$ 4.310	$ 48.30	$ 39.86	$ 44.59	$ -	$ -	$ -	$ 48.30	$ 39.86	$ 44.59	$ 4.80	4.00%	$ 4.15	2.00%	$ (3.55)	$ (3.40)	$ (3.49)	$ 44.74	$ 36.46	$ 41.10
71	Feb-18	$ 4.290	$ 45.97	$ 37.94	$ 42.44	$ -	$ -	$ -	$ 45.97	$ 37.94	$ 42.44	$ 4.80	4.00%	$ 4.15	2.00%	$ (3.51)	$ (3.37)	$ (3.45)	$ 42.46	$ 34.57	$ 38.99
72	Mar-18	$ 4.210	$ 43.13	$ 35.60	$ 39.82	$ -	$ -	$ -	$ 43.13	$ 35.60	$ 39.82	$ 4.80	4.00%	$ 4.15	2.00%	$ (3.46)	$ (3.33)	$ (3.40)	$ 39.67	$ 32.27	$ 36.42
73	Apr-18	$ 4.010	$ 35.01	$ 19.04	$ 27.98	$ -	$ -	$ -	$ 35.01	$ 19.04	$ 27.98	$ 4.80	4.00%	$ 4.15	2.00%	$ (3.32)	$ (3.03)	$ (3.19)	$ 31.70	$ 16.01	$ 24.80
74	May-18	$ 3.960	$ 35.01	$ 19.04	$ 27.98	$ -	$ -	$ -	$ 35.01	$ 19.04	$ 27.98	$ 4.80	4.00%	$ 4.15	2.00%	$ (3.32)	$ (3.03)	$ (3.19)	$ 31.70	$ 16.01	$ 24.80
75	Jun-18	$ 3.980	$ 34.52	$ 18.77	$ 27.59	$ -	$ -	$ -	$ 34.52	$ 18.77	$ 27.59	$ 4.80	4.00%	$ 4.15	2.00%	$ (3.31)	$ (3.02)	$ (3.18)	$ 31.22	$ 15.75	$ 24.41
76	Jul-18	$ 3.970	$ 50.40	$ 35.95	$ 44.04	$ -	$ -	$ -	$ 50.40	$ 35.95	$ 44.04	$ 4.80	4.00%	$ 4.15	2.00%	$ (3.59)	$ (3.33)	$ (3.48)	$ 46.81	$ 32.62	$ 40.56
77	Aug-18	$ 3.980	$ 50.40	$ 35.95	$ 44.04	$ -	$ -	$ -	$ 50.40	$ 35.95	$ 44.04	$ 4.80	4.00%	$ 4.15	2.00%	$ (3.59)	$ (3.33)	$ (3.48)	$ 46.81	$ 32.62	$ 40.56
78	Sep-18	$ 4.010	$ 50.40	$ 35.95	$ 44.04	$ -	$ -	$ -	$ 50.40	$ 35.95	$ 44.04	$ 4.80	4.00%	$ 4.15	2.00%	$ (3.59)	$ (3.33)	$ (3.48)	$ 46.81	$ 32.62	$ 40.56
79	Oct-18	$ 4.050	$ 47.13	$ 37.30	$ 42.81	$ -	$ -	$ -	$ 47.13	$ 37.30	$ 42.81	$ 4.80	4.00%	$ 4.15	2.00%	$ (3.53)	$ (3.36)	$ (3.46)	$ 43.60	$ 33.95	$ 39.35
80	Nov-18	$ 4.270	$ 47.31	$ 37.45	$ 42.97	$ -	$ -	$ -	$ 47.31	$ 37.45	$ 42.97	$ 4.80	4.00%	$ 4.15	2.00%	$ (3.54)	$ (3.36)	$ (3.46)	$ 43.77	$ 34.09	$ 39.51
81	Dec-18	$ 4.470	$ 50.91	$ 40.30	$ 46.24	$ -	$ -	$ -	$ 50.91	$ 40.30	$ 46.24	$ 4.80	4.00%	$ 4.15	2.00%	$ (3.60)	$ (3.41)	$ (3.52)	$ 47.31	$ 36.89	$ 42.73
82	Jan-19	$ 4.400	$ 51.36	$ 42.39	$ 47.41	$ -	$ -	$ -	$ 51.36	$ 42.39	$ 47.41	$ 4.90	4.00%	$ 4.24	2.00%	$ (3.67)	$ (3.51)	$ (3.60)	$ 47.69	$ 38.89	$ 43.82
83	Feb-19	$ 4.380	$ 48.88	$ 40.35	$ 45.12	$ -	$ -	$ -	$ 48.88	$ 40.35	$ 45.12	$ 4.90	4.00%	$ 4.24	2.00%	$ (3.62)	$ (3.47)	$ (3.55)	$ 45.26	$ 36.88	$ 41.57
84	Mar-19	$ 4.300	$ 45.87	$ 37.86	$ 42.34	$ -	$ -	$ -	$ 45.87	$ 37.86	$ 42.34	$ 4.90	4.00%	$ 4.24	2.00%	$ (3.57)	$ (3.42)	$ (3.50)	$ 42.30	$ 34.44	$ 38.84
85	Apr-19	$ 4.090	$ 38.18	$ 21.50	$ 30.84	$ -	$ -	$ -	$ 38.18	$ 21.50	$ 30.84	$ 4.90	4.00%	$ 4.24	2.00%	$ (3.43)	$ (3.13)	$ (3.30)	$ 34.75	$ 18.37	$ 27.54
86	May-19	$ 4.040	$ 38.18	$ 21.50	$ 30.84	$ -	$ -	$ -	$ 38.18	$ 21.50	$ 30.84	$ 4.90	4.00%	$ 4.24	2.00%	$ (3.43)	$ (3.13)	$ (3.30)	$ 34.75	$ 18.37	$ 27.54
87	Jun-19	$ 4.060	$ 37.64	$ 21.20	$ 30.41	$ -	$ -	$ -	$ 37.64	$ 21.20	$ 30.41	$ 4.90	4.00%	$ 4.24	2.00%	$ (3.42)	$ (3.12)	$ (3.29)	$ 34.23	$ 18.03	$ 27.12
88	Jul-19	$ 4.050	$ 54.30	$ 38.20	$ 47.22	$ -	$ -	$ -	$ 54.30	$ 38.20	$ 47.22	$ 4.90	4.00%	$ 4.24	2.00%	$ (3.72)	$ (3.43)	$ (3.59)	$ 50.58	$ 34.77	$ 43.62
89	Aug-19	$ 4.060	$ 54.30	$ 38.20	$ 47.22	$ -	$ -	$ -	$ 54.30	$ 38.20	$ 47.22	$ 4.90	4.00%	$ 4.24	2.00%	$ (3.72)	$ (3.43)	$ (3.59)	$ 50.58	$ 34.77	$ 43.62
90	Sep-19	$ 4.090	$ 54.30	$ 38.20	$ 47.22	$ -	$ -	$ -	$ 54.30	$ 38.20	$ 47.22	$ 4.90	4.00%	$ 4.24	2.00%	$ (3.72)	$ (3.43)	$ (3.59)	$ 50.58	$ 34.77	$ 43.62
91	Oct-19	$ 4.140	$ 49.66	$ 40.17	$ 45.49	$ -	$ -	$ -	$ 49.66	$ 40.17	$ 45.49	$ 4.90	4.00%	$ 4.24	2.00%	$ (3.64)	$ (3.47)	$ (3.56)	$ 46.02	$ 36.71	$ 41.92
92	Nov-19	$ 4.350	$ 49.85	$ 40.33	$ 45.66	$ -	$ -	$ -	$ 49.85	$ 40.33	$ 45.66	$ 4.90	4.00%	$ 4.24	2.00%	$ (3.64)	$ (3.47)	$ (3.56)	$ 46.21	$ 36.86	$ 42.09
93	Dec-19	$ 4.560	$ 53.65	$ 43.40	$ 49.14	$ -	$ -	$ -	$ 53.65	$ 43.40	$ 49.14	$ 4.90	4.00%	$ 4.24	2.00%	$ (3.71)	$ (3.52)	$ (3.63)	$ 49.94	$ 39.88	$ 45.51
94	Jan-20	$ 4.490	$ 54.31	$ 45.98	$ 50.64	$ -	$ -	$ -	$ 54.31	$ 45.98	$ 50.64	$ 5.00	4.00%	$ 4.33	2.00%	$ (3.78)	$ (3.63)	$ (3.71)	$ 50.53	$ 42.35	$ 46.93
95	Feb-20	$ 4.470	$ 51.69	$ 43.76	$ 48.20	$ -	$ -	$ -	$ 51.69	$ 43.76	$ 48.20	$ 5.00	4.00%	$ 4.33	2.00%	$ (3.73)	$ (3.59)	$ (3.67)	$ 47.96	$ 40.17	$ 44.53
96	Mar-20	$ 4.390	$ 48.50	$ 41.06	$ 45.23	$ -	$ -	$ -	$ 48.50	$ 41.06	$ 45.23	$ 5.00	4.00%	$ 4.33	2.00%	$ (3.67)	$ (3.54)	$ (3.61)	$ 44.83	$ 37.52	$ 41.62
97	Apr-20	$ 4.180	$ 40.89	$ 25.22	$ 33.99	$ -	$ -	$ -	$ 40.89	$ 25.22	$ 33.99	$ 5.00	4.00%	$ 4.33	2.00%	$ (3.54)	$ (3.25)	$ (3.41)	$ 37.36	$ 21.96	$ 30.58
98	May-20	$ 4.120	$ 40.89	$ 25.22	$ 33.99	$ -	$ -	$ -	$ 40.89	$ 25.22	$ 33.99	$ 5.00	4.00%	$ 4.33	2.00%	$ (3.54)	$ (3.25)	$ (3.41)	$ 37.36	$ 21.96	$ 30.58
99	Jun-20	$ 4.150	$ 40.32	$ 24.87	$ 33.52	$ -	$ -	$ -	$ 40.32	$ 24.87	$ 33.52	$ 5.00	4.00%	$ 4.33	2.00%	$ (3.52)	$ (3.25)	$ (3.40)	$ 36.79	$ 21.62	$ 30.12
100	Jul-20	$ 4.140	$ 59.05	$ 41.45	$ 51.31	$ -	$ -	$ -	$ 59.05	$ 41.45	$ 51.31	$ 5.00	4.00%	$ 4.33	2.00%	$ (3.86)	$ (3.55)	$ (3.72)	$ 55.19	$ 37.90	$ 47.58
101	Aug-20	$ 4.150	$ 59.05	$ 41.45	$ 51.31	$ -	$ -	$ -	$ 59.05	$ 41.45	$ 51.31	$ 5.00	4.00%	$ 4.33	2.00%	$ (3.86)	$ (3.55)	$ (3.72)	$ 55.19	$ 37.90	$ 47.58
102	Sep-20	$ 4.180	$ 59.05	$ 41.45	$ 51.31	$ -	$ -	$ -	$ 59.05	$ 41.45	$ 51.31	$ 5.00	4.00%	$ 4.33	2.00%	$ (3.86)	$ (3.55)	$ (3.72)	$ 55.19	$ 37.90	$ 47.58
103	Oct-20	$ 4.230	$ 52.82	$ 43.68	$ 48.80	$ -	$ -	$ -	$ 52.82	$ 43.68	$ 48.80	$ 5.00	4.00%	$ 4.33	2.00%	$ (3.75)	$ (3.59)	$ (3.68)	$ 49.07	$ 40.09	$ 45.12
104	Nov-20	$ 4.450	$ 53.02	$ 43.84	$ 48.98	$ -	$ -	$ -	$ 53.02	$ 43.84	$ 48.98	$ 5.00	4.00%	$ 4.33	2.00%	$ (3.75)	$ (3.59)	$ (3.68)	$ 49.27	$ 40.25	$ 45.30
105	Dec-20	$ 4.660	$ 57.06	$ 47.18	$ 52.72	$ -	$ -	$ -	$ 57.06	$ 47.18	$ 52.72	$ 5.00	4.00%	$ 4.33	2.00%	$ (3.83)	$ (3.65)	$ (3.75)	$ 53.24	$ 43.54	$ 48.97
106	Jan-21	$ 4.580	$ 55.45	$ 46.94	$ 51.71	$ 15.66	$ 13.26	$ 14.60	$ 71.11	$ 60.20	$ 66.31	$ 5.11	4.00%	$ 4.42	2.00%	$ (4.14)	$ (3.94)	$ (4.05)	$ 66.97	$ 56.25	$ 62.26
107	Feb-21	$ 4.560	$ 52.77	$ 44.68	$ 49.21	$ 14.97	$ 12.67	$ 13.96	$ 67.74	$ 57.35	$ 63.17	$ 5.11	4.00%	$ 4.42	2.00%	$ (4.08)	$ (3.89)	$ (4.00)	$ 63.66	$ 53.46	$ 59.17
108	Mar-21	$ 4.480	$ 49.52	$ 41.92	$ 46.18	$ 14.30	$ 12.10	$ 13.33	$ 63.82	$ 54.02	$ 59.51	$ 5.11	4.00%	$ 4.42	2.00%	$ (4.01)	$ (3.83)	$ (3.93)	$ 59.81	$ 50.19	$ 55.58
109	Apr-21	$ 4.270	$ 41.75	$ 25.75	$ 34.71	$ 12.65	$ 7.80	$ 10.51	$ 54.40	$ 33.55	$ 45.22	$ 5.11	4.00%	$ 4.42	2.00%	$ (3.84)	$ (3.46)	$ (3.67)	$ 50.56	$ 30.09	$ 41.55
110	May-21	$ 4.210	$ 41.75	$ 25.75	$ 34.71	$ 12.83	$ 7.91	$ 10.66	$ 54.58	$ 33.66	$ 45.37	$ 5.11	4.00%	$ 4.42	2.00%	$ (3.84)	$ (3.46)	$ (3.68)	$ 50.74	$ 30.20	$ 41.70
111	Jun-21	$ 4.240	$ 41.17	$ 25.39	$ 34.23	$ 12.56	$ 7.75	$ 10.44	$ 53.73	$ 33.14	$ 44.67	$ 5.11	4.00%	$ 4.42	2.00%	$ (3.83)	$ (3.46)	$ (3.66)	$ 49.90	$ 29.68	$ 41.01
112	Jul-21	$ 4.230	$ 60.29	$ 42.32	$ 52.38	$ 18.44	$ 12.94	$ 16.02	$ 78.73	$ 55.26	$ 68.40	$ 5.11	4.00%	$ 4.42	2.00%	$ (4.28)	$ (3.85)	$ (4.09)	$ 74.45	$ 51.41	$ 64.31
113	Aug-21	$ 4.240	$ 60.29	$ 42.32	$ 52.38	$ 18.39	$ 12.91	$ 15.98	$ 78.68	$ 55.23	$ 68.36	$ 5.11	4.00%	$ 4.42	2.00%	$ (4.28)	$ (3.85)	$ (4.09)	$ 74.41	$ 51.38	$ 64.27
114	Sep-21	$ 4.270	$ 60.29	$ 42.32	$ 52.38	$ 18.26	$ 12.82	$ 15.87	$ 78.55	$ 55.14	$ 68.25	$ 5.11	4.00%	$ 4.42	2.00%	$ (4.27)	$ (3.85)	$ (4.09)	$ 74.28	$ 51.29	$ 64.16
115	Oct-21	$ 4.320	$ 53.93	$ 44.59	$ 49.82	$ 16.15	$ 13.35	$ 14.92	$ 70.08	$ 57.94	$ 64.74	$ 5.11	4.00%	$ 4.42	2.00%	$ (4.12)	$ (3.90)	$ (4.02)	$ 65.96	$ 54.04	$ 60.71
116	Nov-21	$ 4.540	$ 54.13	$ 44.76	$ 50.01	$ 15.42	$ 12.75	$ 14.25	$ 69.55	$ 57.51	$ 64.26	$ 5.11	4.00%	$ 4.42	2.00%	$ (4.11)	$ (3.89)	$ (4.02)	$ 65.44	$ 53.62	$ 60.24
117	Dec-21	$ 4.760	$ 58.26	$ 48.17	$ 53.82	$ 15.83	$ 13.09	$ 14.63	$ 74.09	$ 61.26	$ 68.45	$ 5.11	4.00%	$ 4.42	2.00%	$ (4.19)	$ (3.96)	$ (4.09)	$ 69.90	$ 57.30	$ 64.36
118	Jan-22	$ 4.680	$ 56.61	$ 47.93	$ 52.79	$ 16.43	$ 13.91	$ 15.32	$ 73.04	$ 61.84	$ 68.11	$ 5.22	4.00%	$ 4.51	2.00%	$ (4.23)	$ (4.03)	$ (4.15)	$ 68.81	$ 57.81	$ 63.97
119	Feb-22	$ 4.660	$ 53.88	$ 45.62	$ 50.25	$ 15.70	$ 13.30	$ 14.64	$ 69.58	$ 58.92	$ 64.89	$ 5.22	4.00%	$ 4.51	2.00%	$ (4.17)	$ (3.98)	$ (4.09)	$ 65.41	$ 54.94	$ 60.80

Exhibit__(JMS-2)
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	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U
1	Escalation:	2.10%																			
2	On System Basis %	30%																			
3	As of:	6/7/2013																			
4																					
5																					
6																					
7																					
8			Mid-C No Carbon			Carbon Adder			Mid-C With Carbon							NWE System Basis			NWE System Price		
9		AECO	Mid-C Peak	Mid-C Off Peak	Mid-C Flat	Peak	Off Peak	Flat	Mid-C Peak	Mid-C Off Peak	Mid-C Flat	NWE Transmission	NWE Losses	BPA Transmission	BPA Losses	On Peak Basis	Off Peak Basis	Flat Basis	On Peak Price	Off Peak Price	Flat Price
120	Mar-22	4.570	50.56	42.80	47.15	15.03	12.72	14.01	65.59	55.52	61.16	5.22	4.00%	4.51	2.00%	(4.10)	(3.92)	(4.02)	61.49	51.60	57.14
121	Apr-22	4.360	42.63	26.29	35.44	13.28	8.19	11.04	55.91	34.48	46.48	5.22	4.00%	4.51	2.00%	(3.93)	(3.54)	(3.76)	51.98	30.94	42.72
122	May-22	4.300	42.63	26.29	35.44	13.47	8.30	11.19	56.10	34.59	46.63	5.22	4.00%	4.51	2.00%	(3.93)	(3.54)	(3.76)	52.17	31.05	42.88
123	Jun-22	4.330	42.03	25.92	34.94	13.18	8.13	10.96	55.21	34.05	45.90	5.22	4.00%	4.51	2.00%	(3.91)	(3.53)	(3.75)	51.30	30.52	42.16
124	Jul-22	4.320	61.56	43.21	53.49	19.35	13.59	16.82	80.91	56.80	70.30	5.22	4.00%	4.51	2.00%	(4.38)	(3.94)	(4.18)	76.54	52.85	66.12
125	Aug-22	4.330	61.56	43.21	53.49	19.31	13.55	16.78	80.87	56.76	70.26	5.22	4.00%	4.51	2.00%	(4.37)	(3.94)	(4.18)	76.50	52.82	66.08
126	Sep-22	4.360	61.56	43.21	53.49	19.18	13.46	16.66	80.74	56.67	70.15	5.22	4.00%	4.51	2.00%	(4.37)	(3.94)	(4.18)	76.36	52.73	65.97
127	Oct-22	4.410	55.06	45.53	50.87	16.96	14.02	15.67	72.02	59.55	66.53	5.22	4.00%	4.51	2.00%	(4.22)	(3.99)	(4.12)	67.80	55.56	62.42
128	Nov-22	4.640	55.27	45.70	51.06	16.18	13.38	14.95	71.45	59.08	66.01	5.22	4.00%	4.51	2.00%	(4.21)	(3.98)	(4.11)	67.24	55.09	61.90
129	Dec-22	4.860	59.48	49.18	54.95	16.62	13.74	15.36	76.10	62.92	70.30	5.22	4.00%	4.51	2.00%	(4.29)	(4.05)	(4.18)	71.81	58.87	66.12
130	Jan-23	4.780	57.80	48.94	53.90	17.24	14.60	16.08	75.04	63.54	69.98	5.33	4.00%	4.60	2.00%	(4.33)	(4.12)	(4.24)	70.71	59.42	65.74
131	Feb-23	4.760	55.01	46.58	51.30	16.48	13.96	15.37	71.49	60.54	66.67	5.33	4.00%	4.60	2.00%	(4.27)	(4.07)	(4.18)	67.23	56.47	62.49
132	Mar-23	4.670	51.62	43.70	48.14	15.76	13.35	14.70	67.38	57.05	62.83	5.33	4.00%	4.60	2.00%	(4.19)	(4.01)	(4.11)	63.19	53.04	58.72
133	Apr-23	4.450	43.53	26.84	36.19	13.95	8.60	11.60	57.48	35.44	47.78	5.33	4.00%	4.60	2.00%	(4.01)	(3.62)	(3.84)	53.47	31.82	43.94
134	May-23	4.390	43.53	26.84	36.19	14.14	8.72	11.76	57.67	35.56	47.94	5.33	4.00%	4.60	2.00%	(4.02)	(3.62)	(3.84)	53.65	31.94	44.10
135	Jun-23	4.420	42.91	26.46	35.67	13.84	8.54	11.51	56.75	35.00	47.18	5.33	4.00%	4.60	2.00%	(4.00)	(3.61)	(3.83)	52.75	31.39	43.35
136	Jul-23	4.410	62.85	44.12	54.61	20.32	14.27	17.66	83.17	58.39	72.27	5.33	4.00%	4.60	2.00%	(4.48)	(4.03)	(4.28)	78.70	54.36	67.99
137	Aug-23	4.420	62.85	44.12	54.61	20.28	14.24	17.62	83.13	58.36	72.23	5.33	4.00%	4.60	2.00%	(4.48)	(4.03)	(4.28)	78.65	54.33	67.95
138	Sep-23	4.450	62.85	44.12	54.61	20.14	14.14	17.50	82.99	58.26	72.11	5.33	4.00%	4.60	2.00%	(4.47)	(4.03)	(4.28)	78.52	54.23	67.83
139	Oct-23	4.500	56.22	46.49	51.94	17.82	14.73	16.46	74.04	61.22	68.40	5.33	4.00%	4.60	2.00%	(4.31)	(4.08)	(4.21)	69.73	57.14	64.19
140	Nov-23	4.740	56.43	46.66	52.13	16.98	14.04	15.68	73.41	60.70	67.82	5.33	4.00%	4.60	2.00%	(4.30)	(4.07)	(4.20)	69.11	56.63	63.62
141	Dec-23	4.960	60.73	50.21	56.10	17.46	14.44	16.13	78.19	64.65	72.23	5.33	4.00%	4.60	2.00%	(4.39)	(4.14)	(4.28)	73.80	60.50	67.95
142	Jan-24	4.880	59.01	49.97	55.03	18.11	15.33	16.89	77.12	65.30	71.92	5.44	4.00%	4.70	2.00%	(4.43)	(4.22)	(4.34)	72.69	61.09	67.58
143	Feb-24	4.860	56.17	47.56	52.38	17.31	14.65	16.14	73.48	62.21	68.52	5.44	4.00%	4.70	2.00%	(4.36)	(4.16)	(4.28)	69.11	58.05	64.25
144	Mar-24	4.770	52.70	44.62	49.14	16.54	14.01	15.43	69.24	58.63	64.57	5.44	4.00%	4.70	2.00%	(4.29)	(4.10)	(4.20)	64.96	54.53	60.37
145	Apr-24	4.540	44.44	27.40	36.94	14.66	9.04	12.18	59.10	36.44	49.13	5.44	4.00%	4.70	2.00%	(4.11)	(3.70)	(3.93)	54.99	32.74	45.20
146	May-24	4.480	44.44	27.40	36.94	14.85	9.16	12.35	59.29	36.56	49.29	5.44	4.00%	4.70	2.00%	(4.11)	(3.70)	(3.93)	55.18	32.86	45.36
147	Jun-24	4.510	43.81	27.02	36.42	14.55	8.97	12.09	58.36	35.99	48.52	5.44	4.00%	4.70	2.00%	(4.09)	(3.69)	(3.92)	54.26	32.30	44.60
148	Jul-24	4.500	64.17	45.05	55.76	21.35	14.99	18.55	85.52	60.04	74.31	5.44	4.00%	4.70	2.00%	(4.58)	(4.12)	(4.38)	80.94	55.92	69.93
149	Aug-24	4.510	64.17	45.05	55.76	21.31	14.96	18.51	85.48	60.01	74.27	5.44	4.00%	4.70	2.00%	(4.58)	(4.12)	(4.38)	80.90	55.89	69.89
150	Sep-24	4.540	64.17	45.05	55.76	21.17	14.86	18.39	85.34	59.91	74.15	5.44	4.00%	4.70	2.00%	(4.58)	(4.12)	(4.38)	80.76	55.79	69.77
151	Oct-24	4.590	57.40	47.47	53.03	18.73	15.49	17.30	76.13	62.96	70.33	5.44	4.00%	4.70	2.00%	(4.41)	(4.18)	(4.31)	71.71	58.78	66.02
152	Nov-24	4.840	57.62	47.64	53.23	17.83	14.74	16.47	75.45	62.38	69.70	5.44	4.00%	4.70	2.00%	(4.40)	(4.16)	(4.30)	71.05	58.21	65.40
153	Dec-24	5.060	62.01	51.26	57.28	18.35	15.17	16.95	80.36	66.43	74.23	5.44	4.00%	4.70	2.00%	(4.49)	(4.24)	(4.38)	75.87	62.19	69.85
154	Jan-25	4.980	60.25	51.02	56.19	19.02	16.11	17.74	79.27	67.13	73.93	5.55	4.00%	4.80	2.00%	(4.53)	(4.31)	(4.44)	74.74	62.81	69.49
155	Feb-25	4.960	57.35	48.56	53.48	18.18	15.39	16.95	75.53	63.95	70.44	5.55	4.00%	4.80	2.00%	(4.46)	(4.26)	(4.37)	71.07	59.70	66.06
156	Mar-25	4.870	53.81	45.56	50.18	17.37	14.71	16.20	71.18	60.27	66.38	5.55	4.00%	4.80	2.00%	(4.39)	(4.19)	(4.30)	66.80	56.08	62.08
157	Apr-25	4.640	45.37	27.98	37.72	15.37	9.48	12.78	60.74	37.46	50.50	5.55	4.00%	4.80	2.00%	(4.20)	(3.78)	(4.01)	56.55	33.68	46.49
158	May-25	4.570	45.37	27.98	37.72	15.61	9.63	12.98	60.98	37.61	50.70	5.55	4.00%	4.80	2.00%	(4.20)	(3.78)	(4.02)	56.78	33.82	46.68
159	Jun-25	4.600	44.73	27.59	37.19	15.29	9.43	12.71	60.02	37.02	49.90	5.55	4.00%	4.80	2.00%	(4.19)	(3.77)	(4.00)	55.83	33.25	45.90
160	Jul-25	4.590	65.52	46.00	56.93	22.44	15.76	19.50	87.96	61.76	76.43	5.55	4.00%	4.80	2.00%	(4.69)	(4.22)	(4.48)	83.28	57.54	71.95
161	Aug-25	4.600	65.52	46.00	56.93	22.39	15.72	19.46	87.91	61.72	76.39	5.55	4.00%	4.80	2.00%	(4.69)	(4.22)	(4.48)	83.23	57.51	71.91
162	Sep-25	4.640	65.52	46.00	56.93	22.20	15.59	19.29	87.72	61.59	76.22	5.55	4.00%	4.80	2.00%	(4.68)	(4.21)	(4.48)	83.04	57.37	71.75
163	Oct-25	4.690	58.61	48.47	54.15	19.65	16.25	18.15	78.26	64.72	72.30	5.55	4.00%	4.80	2.00%	(4.51)	(4.27)	(4.41)	73.74	60.45	67.89
164	Nov-25	4.940	58.83	48.64	54.35	18.72	15.48	17.30	77.55	64.12	71.64	5.55	4.00%	4.80	2.00%	(4.50)	(4.26)	(4.39)	73.05	59.86	67.25
165	Dec-25	5.170	63.31	52.34	58.48	19.25	15.92	17.79	82.56	68.26	76.27	5.55	4.00%	4.80	2.00%	(4.59)	(4.33)	(4.48)	77.97	63.92	71.79
166	Jan-26	5.080	61.52	52.09	57.37	19.99	16.93	18.64	81.51	69.02	76.02	5.67	4.00%	4.90	2.00%	(4.64)	(4.41)	(4.54)	76.87	64.60	71.48
167	Feb-26	5.060	58.55	49.58	54.60	19.10	16.18	17.82	77.65	65.76	72.42	5.67	4.00%	4.90	2.00%	(4.57)	(4.35)	(4.47)	73.08	61.40	67.94
168	Mar-26	4.970	54.94	46.52	51.24	18.25	15.45	17.02	73.19	61.97	68.25	5.67	4.00%	4.90	2.00%	(4.49)	(4.29)	(4.40)	68.70	57.69	63.85
169	Apr-26	4.740	46.32	28.57	38.51	16.13	9.95	13.41	62.45	38.52	51.92	5.67	4.00%	4.90	2.00%	(4.30)	(3.86)	(4.11)	58.16	34.66	47.82
170	May-26	4.670	46.32	28.57	38.51	16.37	10.10	13.61	62.69	38.67	52.12	5.67	4.00%	4.90	2.00%	(4.30)	(3.87)	(4.11)	58.40	34.80	48.01
171	Jun-26	4.700	45.67	28.17	37.97	16.04	9.89	13.34	61.71	38.06	51.31	5.67	4.00%	4.90	2.00%	(4.28)	(3.86)	(4.09)	57.43	34.21	47.21
172	Jul-26	4.690	66.90	46.97	58.13	23.55	16.53	20.46	90.45	63.50	78.59	5.67	4.00%	4.90	2.00%	(4.80)	(4.31)	(4.59)	85.65	59.19	74.01
173	Aug-26	4.700	66.90	46.97	58.13	23.50	16.50	20.42	90.40	63.47	78.55	5.67	4.00%	4.90	2.00%	(4.80)	(4.31)	(4.58)	85.60	59.16	73.96
174	Sep-26	4.740	66.90	46.97	58.13	23.30	16.36	20.25	90.20	63.33	78.38	5.67	4.00%	4.90	2.00%	(4.79)	(4.31)	(4.58)	85.41	59.02	73.80
175	Oct-26	4.790	59.84	49.49	55.29	20.62	17.06	19.05	80.46	66.55	74.34	5.67	4.00%	4.90	2.00%	(4.62)	(4.37)	(4.51)	75.84	62.18	69.83
176	Nov-26	5.040	60.07	49.66	55.49	19.68	16.27	18.18	79.75	65.93	73.67	5.67	4.00%	4.90	2.00%	(4.61)	(4.36)	(4.50)	75.14	61.57	69.17
177	Dec-26	5.280	64.64	53.44	59.71	20.21	16.71	18.67	84.85	70.15	78.38	5.67	4.00%	4.90	2.00%	(4.70)	(4.43)	(4.58)	80.15	65.72	73.80
178	Jan-27	5.190	62.81	53.18	58.57	20.98	17.76	19.56	83.79	70.94	78.14	5.79	4.00%	5.00	2.00%	(4.75)	(4.51)	(4.64)	79.04	66.43	73.49
179	Feb-27	5.170	59.78	50.62	55.75	20.04	16.97	18.69	79.82	67.59	74.44	5.79	4.00%	5.00	2.00%	(4.67)	(4.45)	(4.58)	75.15	63.14	69.86
180	Mar-27	5.070	56.09	47.50	52.31	19.18	16.24	17.89	75.27	63.74	70.20	5.79	4.00%	5.00	2.00%	(4.59)	(4.38)	(4.50)	70.68	59.36	65.69
181	Apr-27	4.840	47.29	29.17	39.32	16.94	10.45	14.08	64.23	39.62	53.40	5.79	4.00%	5.00	2.00%	(4.39)	(3.95)	(4.20)	59.83	35.67	49.20
182	May-27	4.770	47.29	29.17	39.32	17.19	10.60	14.29	64.48	39.77	53.61	5.79	4.00%	5.00	2.00%	(4.40)	(3.95)	(4.20)	60.08	35.82	49.40
183	Jun-27	4.800	46.63	28.76	38.77	16.84	10.39	14.00	63.47	39.15	52.77	5.79	4.00%	5.00	2.00%	(4.38)	(3.94)	(4.19)	59.09	35.20	48.58
184	Jul-27	4.790	68.30	47.96	59.35	24.72	17.36	21.48	93.02	65.32	80.83	5.79	4.00%	5.00	2.00%	(4.91)	(4.41)	(4.69)	88.11	60.90	76.14
185	Aug-27	4.800	68.30	47.96	59.35	24.67	17.32	21.43	92.97	65.28	80.78	5.79	4.00%	5.00	2.00%	(4.91)	(4.41)	(4.69)	88.06	60.87	76.09
186	Sep-27	4.840	68.30	47.96	59.35	24.46	17.18	21.26	92.76	65.14	80.61	5.79	4.00%	5.00	2.00%	(4.91)	(4.41)	(4.69)	87.85	60.73	75.92
187	Oct-27	4.890	61.10	50.53	56.45	21.66	17.91	20.01	82.76	68.44	76.46	5.79	4.00%	5.00	2.00%	(4.73)	(4.47)	(4.61)	78.03	63.97	71.85
188	Nov-27	5.150	61.33	50.70	56.65	20.64	17.07	19.07	81.97	67.77	75.72	5.79	4.00%	5.00	2.00%	(4.71)	(4.46)	(4.60)	77.26	63.31	71.12
189	Dec-27	5.390	66.00	54.56	60.97	21.23	17.55	19.61	87.23	72.11	80.57	5.79	4.00%	5.00	2.00%	(4.81)	(4.53)	(4.69)	82.42	67.57	75.89
190	Jan-28	5.300	64.13	54.30	59.80	22.02	18.65	20.54	86.15	72.95	80.34	5.91	4.00%	5.11	2.00%	(4.86)	(4.62)	(4.75)	81.30	68.33	75.59
191	Feb-28	5.280	61.04	51.68	56.92	21.04	17.82	19.62	82.08	69.50	76.54	5.91	4.00%	5.11	2.00%	(4.78)	(4.56)	(4.68)	77.30	64.94	71.86
192	Mar-28	5.180	57.27	48.50	53.41	20.12	17.04	18.77	77.39	65.54	72.18	5.91	4.00%	5.11	2.00%	(4.70)	(4.49)	(4.61)	72.69	61.06	67.57
193	Apr-28	4.940	48.28	29.78	40.14	17.79	10.97	14.79	66.07	40.75	54.93	5.91	4.00%	5.11	2.00%	(4.50)	(4.04)	(4.29)	61.57	36.71	50.63
194	May-28	4.870	48.28	29.78	40.14	18.04	11.13	15.00	66.32	40.91	55.14	5.91	4.00%	5.11	2.00%	(4.50)	(4.04)	(4.30)	61.82	36.87	50.84
195	Jun-28	4.900	47.61	29.36	39.58	17.68	10.91	14.70	65.29	40.27	54.28	5.91	4.00%	5.11	2.00%	(4.48)	(4.03)	(4.28)	60.81	36.24	50.00
196	Jul-28	4.890	69.73	48.97	60.60	25.95	18.23	22.55	95.68	67.20	83.15	5.91	4.00%	5.11	2.00%	(5.03)	(4.52)	(4.80)	90.66	62.68	78.35
197	Aug-28	4.900	69.73	48.97	60.60	25.90	18.19	22.51	95.63	67.16	83.10	5.91	4.00%	5.11	2.00%	(5.03)	(4.51)	(4.80)	90.60	62.65	78.30
198	Sep-28	4.940	69.73	48.97	60.60	25.69	18.04	22.33	95.42	67.01	82.93	5.91	4.00%	5.11	2.00%	(5.02)	(4.51)	(4.80)	90.40	62.50	78.12
199	Oct-28	4.990	62.38	51.59	57.63	22.75	18.82	21.02	85.13	70.41	78.65	5.91	4.00%	5.11	2.00%	(4.84)	(4.57)	(4.72)	80.29	65.83	73.93
200	Nov-28	5.260	62.62	51.76	57.84	21.67	17.91	20.01	84.29	69.67	77.86	5.91	4.00%	5.11	2.00%	(4.82)	(4.56)	(4.71)	79.47	65.11	73.15
201	Dec-28	5.500	67.39	55.71	62.25	22.30	18.44	20.60	89.69	74.15	82.85	5.91	4.00%	5.11	2.00%	(4.92)	(4.64)	(4.80)	84.77	69.51	78.05
202	Jan-29	5.410	65.48	55.44	61.06	23.13	19.58	21.57	88.61	75.02	82.63	6.03	4.00%	5.22	2.00%	(4.97)	(4.73)	(4.86)	83.64	70.30	77.77
203	Feb-29	5.390	62.32	52.77	58.12	22.10	18.71	20.61	84.42	71.48	78.72	6.03	4.00%	5.22	2.00%	(4.89)	(4.66)	(4.79)	79.52	66.82	73.93
204	Mar-29	5.290	58.47	49.52	54.53	21.12	17.89	19.70	79.59	67.41	74.23	6.03	4.00%	5.22	2.00%	(4.81)	(4.59)	(4.71)	74.79	62.82	69.52
205	Apr-29	5.040	49.29	30.41	40.98	18.69	11.53	15.54	67.98	41.94	56.52	6.03	4.00%	5.22	2.00%	(4.60)	(4.13)	(4.39)	63.38	37.81	52.13
206	May-29	4.970	49.29	30.41	40.98	18.95	11.69	15.76	68.24	42.10	56.74	6.03	4.00%	5.22	2.00%	(4.60)	(4.13)	(4.40)	63.64	37.97	52.35
207	Jun-29	5.000	48.61	29.98	40.41	18.58	11.46	15.45	67.19	41.44	55.86	6.03	4.00%	5.22	2.00%	(4.58)	(4.12)	(4.38)	62.61	37.32	51.48
208	Jul-29	4.990	71.19	50.00	61.87	27.27	19.15	23.69	98.46	69.15	85.56	6.03	4.00%	5.22	2.00%	(5.15)	(4.62)	(4.92)	93.31	64.53	80.65
209	Aug-29	5.000	71.19	50.00	61.87	27.21	19.11	23.65	98.40	69.11	85.51	6.03	4.00%	5.22	2.00%	(5.15)	(4.62)	(4.91)	93.25	64.49	80.60
210	Sep-29	5.040	71.19	50.00	61.87	26.99	18.96	23.46	98.18	68.96	85.33	6.03	4.00%	5.22	2.00%	(5.14)	(4.62)	(4.91)	93.04	64.34	80.41
211	Oct-29	5.090	63.69	52.67	58.84	23.91	19.78	22.09	87.60	72.45	80.93	6.03	4.00%	5.22	2.00%	(4.95)	(4.68)	(4.83)	82.65	67.77	76.10
212	Nov-29	5.370	63.94	52.85	59.06	22.76	18.81	21.02	86.70	71.66	80.08	6.03	4.00%	5.22	2.00%	(4.94)	(4.66)	(4.82)	81.76	66.99	75.26
213	Dec-29	5.670	68.81	56.88	63.56	23.40	19.34	21.61	92.21	76.22	85.18	6.03	4.00%	5.22	2.00%	(5.03)	(4.75)	(4.91)	87.17	71.48	80.27
214	Jan-30	5.570	66.86	56.60	62.35	24.31	20.58	22.66	91.17	77.18	85.01	6.16	4.00%	5.33	2.00%	(5.09)	(4.84)	(4.98)	86.08	72.34	80.03
215	Feb-30	5.500	63.63	53.88	59.34	23.22	19.66	21.65	86.85	73.54	80.99	6.16	4.00%	5.33	2.00%	(5.01)	(4.77)	(4.90)	81.84	68.77	76.09
216	Mar-30	5.400	59.70	50.56	55.68	22.19	18.79	20.69	81.89	69.35	76.37	6.16	4.00%	5.33	2.00%	(4.92)	(4.70)	(4.82)	76.96	64.65	71.55
217	Apr-30	5.150	50.33	31.05	41.85	19.61	12.10	16.31	69.94	43.15	58.15	6.16	4.00%	5.33	2.00%	(4.71)	(4.22)	(4.49)	65.24	38.92	53.66
218	May-30	5.070	50.33	31.05	41.85	19.92	12.29	16.56	70.25	43.34	58.41	6.16	4.00%	5.33	2.00%	(4.71)	(4.23)	(4.50)	65.54	39.11	53.91
219	Jun-30	5.110	49.63	30.61	41.26	19.49	12.02	16.70	69.12	42.63	57.46	6.16	4.00%	5.33	2.00%	(4.69)	(4.21)	(4.48)	64.43	38.42	52.98
220	Jul-30	5.090	72.68	51.05	63.16	28.65	20.13	24.90	101.33	71.18	88.06	6.16	4.00%	5.33	2.00%	(5.27)	(4.73)	(5.03)	96.06	66.45	83.03
221	Aug-30	5.110	72.68	51.05	63.16	28.54	20.05	24.80	101.22	71.10	87.97	6.16	4.00%	5.33	2.00%	(5.27)	(4.73)	(5.03)	95.95	66.37	82.94
222	Sep-30	5.150	72.68	51.05	63.16	28.32	19.89	24.61	101.00	70.94	87.77	6.16	4.00%	5.33	2.00%	(5.26)	(4.72)	(5.03)	95.73	66.22	82.75
223	Oct-30	5.200	65.03	53.78	60.08	25.10	20.75	23.18	90.13	74.53	83.26	6.16	4.00%	5.33	2.00%	(5.07)	(4.79)	(4.95)	85.06	69.75	78.32
224	Nov-30	5.480	65.28	53.96	60.30	23.90	19.76	22.08	89.18	73.72	82.38	6.16	4.00%	5.33	2.00%	(5.05)	(4.77)	(4.93)	84.13	68.95	77.45
225	Dec-30	5.740	70.26	58.07	64.90	24.56	20.30	22.69	94.82	78.37	87.58	6.16	4.00%	5.33	2.00%	(5.15)	(4.86)	(5.02)	89.67	73.51	82.56
226	Jan-31	5.640	68.26	57.79	63.65	25.50	21.59	23.78	93.76	79.38	87.43	6.29	4.00%	5.44	2.00%	(5.21)	(4.95)	(5.09)	88.55	74.43	82.34
227	Feb-31	5.620	64.97	55.01	60.59	24.36	20.62	22.72	89.33	75.63	83.30	6.29	4.00%	5.44	2.00%	(5.13)	(4.88)	(5.02)	84.20	70.75	78.28
228	Mar-31	5.510	60.95	51.62	56.84	23.31	19.74	21.74	84.26	71.36	78.58	6.29	4.00%	5.44	2.00%	(5.04)	(4.80)	(4.93)	79.22	66.56	73.65
229	Apr-31	5.260	51.39	31.70	42.73	20.59	12.70	17.17	71.98	44.40	59.84	6.29	4.00%	5.44	2.00%	(4.81)	(4.32)	(4.60)	67.16	40.08	55.25

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U
1	Escalation:	2.10%																			
2	On System Basis %	30%																			
3	As of:	6/7/2013																			
4																					
5																					
6																					
7																					
8			Mid-C No Carbon			Carbon Adder			Mid-C With Carbon							NWE System Basis			NWE System Price		
9		AECO	Mid-C Peak	Mid-C Off Peak	Mid-C Flat	Peak - Off Peak		Flat	Mid-C Peak	Mid-C Off Peak	Mid-C Flat	NWE Transmission	NWE Losses	BPA Transmission	BPA Losses	On Peak Basis	Off Peak Basis	Flat Basis	On Peak Price	Off Peak Price	Flat Price
230	May-31	$ 5.186	$ 51.39	$ 31.70	$ 42.73	$ 20.90 - $	12.89	$ 17.38	$ 77.29	$ 44.59	$ 60.11	$ 6.29	4.00%	$ 5.44	2.00%	$ (4.82)	$ (4.37)	$ (4.60)	$ 67.47	$ 40.27	$ 55.50
231	Jun-31	$ 5.220	$ 50.67	$ 31.25	$ 42.13	$ 20.45 - $	12.61	$ 17.00	$ 71.17	$ 43.86	$ 59.13	$ 6.29	4.00%	$ 5.44	2.00%	$ (4.80)	$ (4.31)	$ (4.58)	$ 66.32	$ 39.56	$ 54.55
232	Jul-31	$ 5.200	$ 74.21	$ 52.12	$ 64.49	$ 30.07 - $	21.12	$ 26.13	$ 104.28	$ 73.24	$ 90.62	$ 6.29	4.00%	$ 5.44	2.00%	$ (5.40)	$ (4.84)	$ (5.15)	$ 98.88	$ 66.40	$ 85.47
233	Aug-31	$ 5.220	$ 74.21	$ 52.12	$ 64.49	$ 29.95 - $	21.04	$ 26.03	$ 104.16	$ 73.16	$ 90.52	$ 6.29	4.00%	$ 5.44	2.00%	$ (5.39)	$ (4.84)	$ (5.15)	$ 98.77	$ 66.32	$ 85.37
234	Sep-31	$ 5.260	$ 74.21	$ 52.12	$ 64.49	$ 29.73 - $	20.88	$ 25.83	$ 103.94	$ 73.00	$ 90.32	$ 6.29	4.00%	$ 5.44	2.00%	$ (5.39)	$ (4.83)	$ (5.14)	$ 98.55	$ 66.16	$ 85.18
235	Oct-31	$ 5.310	$ 66.40	$ 54.91	$ 61.34	$ 26.35 - $	21.79	$ 24.34	$ 92.75	$ 76.70	$ 85.68	$ 6.29	4.00%	$ 5.44	2.00%	$ (5.19)	$ (4.90)	$ (5.06)	$ 87.56	$ 71.80	$ 80.62
236	Nov-31	$ 5.600	$ 66.66	$ 55.09	$ 61.56	$ 25.08 - $	20.73	$ 23.16	$ 91.73	$ 75.82	$ 84.73	$ 6.29	4.00%	$ 5.44	2.00%	$ (5.17)	$ (4.88)	$ (5.04)	$ 86.58	$ 70.93	$ 79.68
237	Dec-31	$ 5.860	$ 71.74	$ 59.29	$ 66.26	$ 25.79 - $	21.32	$ 23.83	$ 97.53	$ 80.61	$ 90.09	$ 6.29	4.00%	$ 5.44	2.00%	$ (5.27)	$ (4.97)	$ (5.14)	$ 92.26	$ 75.64	$ 84.95
238	Jan-32	$ 5.760	$ 69.69	$ 59.00	$ 64.99	$ 26.77 - $	22.66	$ 24.96	$ 96.46	$ 81.66	$ 89.95	$ 6.42	4.00%	$ 5.55	2.00%	$ (5.33)	$ (5.06)	$ (5.21)	$ 91.13	$ 76.60	$ 84.74
239	Feb-32	$ 5.740	$ 66.33	$ 56.17	$ 61.86	$ 25.57 - $	21.65	$ 23.84	$ 91.90	$ 77.82	$ 85.70	$ 6.42	4.00%	$ 5.55	2.00%	$ (5.25)	$ (4.99)	$ (5.13)	$ 86.65	$ 72.83	$ 80.57
240	Mar-32	$ 5.630	$ 62.23	$ 52.70	$ 58.04	$ 24.45 - $	20.71	$ 22.81	$ 86.68	$ 73.41	$ 80.84	$ 6.42	4.00%	$ 5.55	2.00%	$ (5.15)	$ (4.91)	$ (5.05)	$ 81.53	$ 68.50	$ 75.80
241	Apr-32	$ 5.370	$ 52.47	$ 32.37	$ 43.63	$ 21.62 - $	13.34	$ 17.97	$ 74.09 - $	45.71	$ 61.60	$ 6.42	4.00%	$ 5.55	2.00%	$ (4.97)	$ (4.41)	$ (4.70)	$ 69.16	$ 41.29	$ 56.90
242	May-32	$ 5.290	$ 52.47	$ 32.37	$ 43.63	$ 21.94 - $	13.54	$ 18.25	$ 74.41 - $	45.91	$ 61.87	$ 6.42	4.00%	$ 5.55	2.00%	$ (4.93)	$ (4.47)	$ (4.70)	$ 69.48	$ 41.49	$ 57.17
243	Jun-32	$ 5.330	$ 51.73	$ 31.91	$ 43.01	$ 21.47 - $	13.25	$ 17.85	$ 73.20 - $	45.16	$ 60.86	$ 6.42	4.00%	$ 5.55	2.00%	$ (4.91)	$ (4.46)	$ (4.69)	$ 68.29	$ 40.75	$ 56.17
244	Jul-32	$ 5.310	$ 75.77	$ 53.21	$ 65.84	$ 31.57 - $	22.17	$ 27.43	$ 107.34 - $	75.38	$ 93.28	$ 6.42	4.00%	$ 5.55	2.00%	$ (5.52)	$ (4.95)	$ (5.27)	$ 101.87	$ 70.43	$ 88.01
245	Aug-32	$ 5.330	$ 75.77	$ 53.21	$ 65.84	$ 31.45 - $	22.09	$ 27.33	$ 107.12 - $	75.30	$ 93.17	$ 6.42	4.00%	$ 5.55	2.00%	$ (5.52)	$ (4.95)	$ (5.27)	$ 101.70	$ 70.35	$ 87.91
246	Sep-32	$ 5.370	$ 75.77	$ 53.21	$ 65.84	$ 31.22 - $	21.92	$ 27.13	$ 106.99 - $	75.13	$ 92.97	$ 6.42	4.00%	$ 5.55	2.00%	$ (5.52)	$ (4.94)	$ (5.26)	$ 101.47	$ 70.19	$ 87.71
247	Oct-32	$ 5.410	$ 67.79	$ 56.06	$ 62.63	$ 27.67 - $	22.88	$ 25.56	$ 95.46 - $	78.94	$ 88.19	$ 6.42	4.00%	$ 5.55	2.00%	$ (5.31)	$ (5.01)	$ (5.18)	$ 90.15	$ 73.93	$ 83.01
248	Nov-32	$ 5.770	$ 68.05	$ 56.25	$ 62.86	$ 28.32 - $	23.76	$ 24.31	$ 94.37 - $	78.01	$ 87.17	$ 6.42	4.00%	$ 5.55	2.00%	$ (5.29)	$ (5.00)	$ (5.16)	$ 89.08	$ 73.01	$ 82.01
249	Dec-32	$ 5.980	$ 73.25	$ 60.54	$ 67.66	$ 27.10 - $	22.40	$ 25.03	$ 100.35 - $	82.94	$ 92.69	$ 6.42	4.00%	$ 5.55	2.00%	$ (5.40)	$ (5.08)	$ (5.26)	$ 94.85	$ 77.85	$ 87.43
250	Jan-33	$ 5.880	$ 71.15	$ 60.24	$ 66.35	$ 28.11 - $	23.80	$ 26.21	$ 99.26 - $	84.04	$ 92.56	$ 6.55	4.00%	$ 5.67	2.00%	$ (5.45)	$ (5.18)	$ (5.33)	$ 93.81	$ 78.86	$ 87.33
251	Feb-33	$ 5.860	$ 67.77	$ 57.35	$ 63.16	$ 26.85 - $	22.73	$ 25.04	$ 94.57 - $	80.08	$ 88.19	$ 6.55	4.00%	$ 5.67	2.00%	$ (5.37)	$ (5.11)	$ (5.25)	$ 89.20	$ 74.98	$ 82.94
252	Mar-33	$ 5.750	$ 63.54	$ 53.81	$ 59.26	$ 25.67 - $	21.74	$ 23.94	$ 89.21 - $	75.55	$ 83.20	$ 6.55	4.00%	$ 5.67	2.00%	$ (5.27)	$ (5.03)	$ (5.16)	$ 83.94	$ 70.52	$ 78.04
253	Apr-33	$ 5.480	$ 53.57	$ 33.05	$ 44.54	$ 22.71 - $	14.01	$ 18.88	$ 76.28 - $	47.06	$ 63.42	$ 6.55	4.00%	$ 5.67	2.00%	$ (5.04)	$ (4.51)	$ (4.81)	$ 71.24	$ 42.55	$ 58.61
254	May-33	$ 5.400	$ 53.57	$ 33.05	$ 44.54	$ 23.04 - $	14.21	$ 19.16	$ 76.61 - $	47.27	$ 63.70	$ 6.55	4.00%	$ 5.67	2.00%	$ (5.05)	$ (4.52)	$ (4.82)	$ 71.57	$ 42.75	$ 58.89
255	Jun-33	$ 5.440	$ 57.82	$ 37.58	$ 43.91	$ 22.56 - $	13.91	$ 18.75	$ 75.38 - $	46.49	$ 62.67	$ 6.55	4.00%	$ 5.67	2.00%	$ (5.02)	$ (4.50)	$ (4.79)	$ 70.35	$ 41.99	$ 57.87
256	Jul-33	$ 5.470	$ 77.36	$ 54.33	$ 67.23	$ 33.16 - $	23.29	$ 28.81	$ 110.52 - $	77.62	$ 96.04	$ 6.55	4.00%	$ 5.67	2.00%	$ (5.66)	$ (5.06)	$ (5.39)	$ 104.86	$ 72.55	$ 90.65
257	Aug-33	$ 5.440	$ 77.36	$ 54.33	$ 67.23	$ 33.03 - $	23.20	$ 28.71	$ 110.39 - $	77.53	$ 95.93	$ 6.55	4.00%	$ 5.67	2.00%	$ (5.65)	$ (5.06)	$ (5.39)	$ 104.74	$ 72.47	$ 90.54
258	Sep-33	$ 5.480	$ 77.36	$ 54.33	$ 67.23	$ 32.79 - $	23.03	$ 28.50	$ 110.15 - $	77.36	$ 95.72	$ 6.55	4.00%	$ 5.67	2.00%	$ (5.65)	$ (5.06)	$ (5.39)	$ 104.50	$ 72.30	$ 90.34
259	Oct-33	$ 5.530	$ 69.21	$ 57.24	$ 63.94	$ 29.07 - $	24.04	$ 26.66	$ 98.28 - $	81.28	$ 90.80	$ 6.55	4.00%	$ 5.67	2.00%	$ (5.44)	$ (5.13)	$ (5.30)	$ 92.85	$ 76.16	$ 85.50
260	Nov-33	$ 5.840	$ 69.48	$ 57.43	$ 64.18	$ 27.64 - $	22.84	$ 25.53	$ 97.12 - $	80.27	$ 89.71	$ 6.55	4.00%	$ 5.67	2.00%	$ (5.41)	$ (5.11)	$ (5.28)	$ 91.70	$ 75.16	$ 84.43
261	Dec-33	$ 6.110	$ 74.79	$ 61.81	$ 69.08	$ 28.43 - $	23.50	$ 26.26	$ 103.27 - $	85.31	$ 95.34	$ 6.55	4.00%	$ 5.67	2.00%	$ (5.52)	$ (5.20)	$ (5.38)	$ 97.70	$ 80.11	$ 89.96

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
1	**Forecasted Revenue Credits**														
2															
3															
4	Volumes in MWh		Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Total
5															
6	On Peak														
7	Default Supply Load (Incl DSM)		337,286	320,285	378,583	375,813	340,154	337,962	317,286	297,647	335,335	382,605	367,324	315,039	4,105,319
8															
9	Total Existing Peak Resources		250,231	230,096	253,159	255,723	225,881	241,129	241,702	227,203	228,908	209,536	207,676	207,729	2,778,973
10	New Hydro Generation		149,224	148,024	171,093	165,358	157,549	158,772	171,810	194,296	210,176	188,301	152,594	99,714	1,966,911
11															
12	Total On Peak Resources		399,455	378,120	424,252	421,081	383,430	399,901	413,512	421,498	439,085	397,837	360,270	307,442	4,745,884
13															
14	Net On Peak Position		62,169	57,835	45,669	45,268	43,277	61,940	96,226	123,851	103,749	15,232	(7,054)	(7,597)	640,565
15															
16	Forecast Net Sales Price		$35.07	$35.21	$38.18	$37.87	$35.86	$33.42	$25.59	$25.59	$25.18	$38.40	$38.40	$38.40	
17															
18	On Peak Revenue Credits		$2,180,028	$2,036,500	$1,743,642	$1,714,453	$1,552,074	$2,070,034	$2,462,504	$3,169,453	$2,612,482	$584,820	$0	$0	$20,125,991
19															
20															
21	Off Peak														
22	Default Supply Load (Incl DSM)		177,728	215,641	235,667	231,384	196,475	200,996	173,678	191,297	174,548	212,245	203,610	181,899	2,395,168
23															
24	Total Existing Peak Resources		168,866	189,398	187,470	172,436	144,067	165,706	128,088	140,019	118,123	135,691	135,537	138,343	1,823,743
25	New Hydro Generation		107,773	129,906	134,901	130,378	118,162	124,804	125,554	167,094	153,591	148,468	120,314	79,771	1,540,716
26															
27	Total Off Peak Resources		276,639	319,304	322,370	302,814	262,229	290,511	253,642	307,113	271,713	284,159	255,851	218,114	3,364,459
28															
29	Net Off-Peak Position		98,911	103,663	86,703	71,430	65,754	89,514	79,964	115,816	97,165	71,915	52,241	36,214	969,291
30															
31	Forecast Net Sales Price		$29.47	$29.62	$32.58	$31.87	$30.15	$28.06	$12.15	$12.15	$11.93	$25.36	$25.36	$25.36	
32															
33	Off Peak Revenue Credits		$2,915,025	$3,070,223	$2,825,216	$2,276,569	$1,982,559	$2,511,710	$971,530	$1,407,115	$1,158,898	$1,823,530	$1,324,663	$918,284	$23,185,322
34															
35	Total Revenue Credits		$5,095,054	$5,106,723	$4,568,858	$3,991,022	$3,534,634	$4,581,744	$3,434,033	$4,576,568	$3,771,380	$2,408,350	$1,324,663	$918,284	$43,311,313

Department of Public Service Regulation
Montana Public Service Commission
Docket No. 2013.12.85
PPLM Hydro Assets Purchase
NorthWestern Energy

PREFILED DIRECT TESTIMONY OF

WILLIAM T. RHOADS

ON BEHALF OF NORTHWESTERN ENERGY

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Exhibits

Due diligence team relevant experience	**Exhibit__(WTR-1)**
Independent Consultant's Reports	**Exhibit__(WTR-2)**
Shaw Independent Engineer's Final Report 01/03/13	Exhibit__(WTR-2.1)
Addendum to Independent Engineer's Final Report (dated 06/25/2013)	Exhibit__(WTR-2.2)
CBI Due Diligence Report Supplementing the 01/03/13 Report (dated 09/06/2013)	Exhibit__(WTR-2.3)
Map of the hydro developments	**Exhibit__(WTR-3)**
Summary description of the Hydro Assets	**Exhibit__(WTR-4)**
Part 12 Safety Inspections	**Exhibit__(WTR-5)**
Black Eagle 9th Part 12 Safety Inspection Report- 2009	Exhibit__(WTR-5.1)
Cochrane 10th Part 12 Safety Inspection Report- 2013	Exhibit__(WTR-5.2)
Hauser 9th Part 12 Safety Inspection Report- 2010	Exhibit__(WTR-5.3)
Hebgen 9th Part 12 Safety Inspection Report- 2010	Exhibit__(WTR-5.4)
Holter 9th Part 12 Safety Inspection Report- 2010	Exhibit__(WTR-5.5)
Kerr 10th Part 12 Safety Inspection Report- 2011	Exhibit__(WTR-5.6)
Madison 9th Part 12 Safety Inspection Report- 2010	Exhibit__(WTR-5.7)
Morony 9th Part 12 Safety Inspection Report- 2009	Exhibit__(WTR-5.8)
Mystic 10th Part 12 Safety Inspection Report- 2013	Exhibit__(WTR-5.9)
Rainbow 10th Part 12 Safety Inspection Report- 2013	Exhibit__(WTR-5.10)
Ryan 9th Part 12 Safety Inspection Report- 2009	Exhibit__(WTR-5.11)
Thompson Falls 10th Part 12 Safety Inspection Report- 2011	Exhibit__(WTR-5.12)
Annual FERC Dam Safety Inspections	**Exhibit__(WTR-6)**
Black Eagle Annual Dam Safety Inspection Report- 2012	Exhibit__(WTR-6.1)
Cochrane Annual Dam Safety Inspection Report- 2012	Exhibit__(WTR-6.2)
Hauser Annual Dam Safety Inspection Report- 2012	Exhibit__(WTR-6.3)

Hebgen Annual Dam Safety Inspection Report- 2013	Exhibit__(WTR-6.4)
Holter Annual Dam Safety Inspection Report- 2013	Exhibit__(WTR-6.5)
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Ryan Annual Dam Safety Inspection Report- 2012	Exhibit__(WTR-6.11)
Thompson Falls Annual Dam Safety Inspection Report- 2013	Exhibit__(WTR-6.12)

PPL Owner's Dam Safety Program ("ODSP") **Exhibit__(WTR-7)**

Emergency Action Plans **Exhibit__(WTR-8)**

Black Eagle Development Emergency Action Plan	Exhibit__(WTR-8.1)
Cochrane Development Emergency Action Plan	Exhibit__(WTR-8.2)
Hauser Development Emergency Action Plan	Exhibit__(WTR-8.3)
Hebgen Development Emergency Action Plan	Exhibit__(WTR-8.4)
Holter Development Emergency Action Plan	Exhibit__(WTR-8.5)
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Mystic Development Emergency Action Plan	Exhibit__(WTR-8.9)
Rainbow Development Emergency Action Plan	Exhibit__(WTR-8.10)
Ryan Development Emergency Action Plan	Exhibit__(WTR-8.11)
Thompson Falls Development Emergency Action Plan	Exhibit__(WTR-8.12)

Hydro Unit Upgrade Summary **Exhibit__(WTR-9)**

Witness Information

Q. Please state your name and business address.

A. My name is William T. Rhoads. My business address is 40 East Broadway, Butte, Montana.

Q. By whom are you employed and in what capacity?

A. I am employed by NorthWestern Energy ("NorthWestern") as the General Manager, Generation. I report to John D. Hines, Vice-President, Supply. I am also responsible for the Environmental Permitting and Compliance, and Real Estate and Lands Departments.

Q. Please describe your educational and work background.

A. I was born and raised in Great Falls, Montana, the son of a highly respected lineman for The Montana Power Company ("MPC") who served as the president of IBEW Local #44 in the late 1950's. After many years as a lineman, my father became a plant operator at Black Eagle Dam until his retirement after over 35 years of service. That is where my appreciation of and education in the utility industry started. Of special interest with regard to this filing is my memory of the construction and dedication of Cochrane Dam in 1958.

I began my own career in the utility industry in 1967 at MPC's Ryan Hydroelectric Plant. I graduated from Montana State University ("MSU"),

Bozeman in Electrical Engineering in 1971. After graduation, I started work at MPC in the Distribution Engineering Department. During my career at MPC, I held various supervisory positions in the Generation, Transmission and Distribution areas. I have spent 25 years in hydro and thermal generation, with almost 15 of those years as the Director of Hydro Operations.

My education also includes a year of study in 1973 at North Carolina State University, Raleigh while in the U.S. Air Force ("USAF") where I became an accredited meteorologist. I am a registered professional engineer (since 1980), a senior life member of the Institute of Electrical and Electronics Engineers, and I have a history of supporting local, state and national professional, technical, and service-based organizations.

I also attended the Public Utility Executive Course at the University of Idaho, Moscow in 1993. In 2003, I graduated from MSU with a Master's Degree in Project Engineering and Management.

My work history also includes 28 years of active and reserve service in the USAF as a staff meteorologist and a command and control operations officer. During this time, I was a weather forecaster at a pilot training base in Columbus, Mississippi, and a staff meteorologist at the USAF Satellite Test Center at Sunnyvale, California, where I was involved in missile

launch, on-orbit (including forecasting and interpreting solar events that impact satellite operations), and satellite payload recovery operations. During my reserve assignments, I was a staff meteorologist for the Titan II missile program at Little Rock AFB, Arkansas, a reserve Weather Detachment Commander at Minot AFB, North Dakota, and served as a Command and Control Officer for Disaster and Emergency Services organizations in Montana.

Purpose of Testimony

Q. What is purpose of your testimony?

A. The purpose of my testimony is to demonstrate that the 11 hydroelectric generating facilities, one storage reservoir and related assets ("Hydro Assets") included in the proposed purchase have the capability, the reliability, and the longevity to serve NorthWestern's customers well into the future. The Hydro Assets that are the subject of this filing are long-lived, reliable assets, because they are and have been:

- Well operated and maintained by experienced, competent, and dedicated personnel;
- Upgraded through investment of significant capital; and
- Compliant with environmental regulations.

I include an overview of the due diligence process employed by NorthWestern to evaluate the Hydro Assets. In particular, I describe how the due diligence process led to the conclusions expressed above.

Executive Summary

Q. Please provide an Executive Summary of your testimony related to the due diligence effort which focused on the operations, maintenance, engineering and environmental aspects of the PPL Montana, LLC ("PPLM") Hydro Asset purchase.

A. NorthWestern implemented a rigorous due diligence effort to determine and value the condition of the Hydro Assets and to understand the regulatory and environmental obligations and risks associated with them. NorthWestern concludes that the Hydro Assets are in good operating condition, well maintained, and compliant with the obligations of the Federal Energy Regulatory Commission ("FERC") licenses. NorthWestern also concludes that the hydroelectric system is a reliable, long-term investment.

These conclusions were reached by a team of highly experienced internal NorthWestern employees[1] and a consultant hired by NorthWestern to assess the Hydro Assets. The team:

- Reviewed information provided by PPLM in the data room;

[1] A summary of the individuals and their experience is included as Exhibit__(WTR-1)

- Reviewed information available in the public record;
- Conducted a site visit to each of the 12 hydro facilities, and
- Interviewed key PPLM operations, engineering, and regulatory, and environmental personnel.

The due diligence process also included review of historical expenditures, proposed budget forecasts, and water data. The due diligence evaluation was concluded prior to the completion of the Purchase and Sale Agreement ("PSA").

NorthWestern concludes that PPLM has appropriately operated, maintained, and improved the projects. Significant improvements have been made which directly contribute to the *capability, reliability, and longevity* of the assets. These improvements include but are not limited to the following:

- Installation of a new powerhouse, intake, and water conveyance at the Rainbow Project;
- Hydro turbine runner replacements;
- Generator rewinds;
- Control system upgrades;
- Substation rehabilitations;
- Electric equipment upgrades including the replacement of:
    - Generator step up transformers;

- Breakers;
- Exciters;
- Relays; and
- Power and control wiring.

- Improvements to project structures, including:
  - Replacement of the Rainbow Project rubber dam;
  - Replacement and upgrade of the Hebgen Project intake structure, and the planned upgrade of the spillway structure;
  - Fish passage facility ("fish ladder") installation at Thompson Falls;
  - Rock bolt installation at Madison Dam; and
  - Great Falls area transmission and substation upgrades.

The FERC licenses include numerous resource management requirements. PPLM monitors operations and has processes in place to comply with these requirements. In particular, PPLM maintains relationships and agreements with local, state, and federal agencies to facilitate consultation concerning its compliance programs which we observed to be very effective and which NorthWestern expects to continue under its ownership.

Additional details regarding the characteristics, reliability, capability, and longevity of the Hydro Assets are included below.

Q. Did the team discover any operational or engineering issues or risks that require immediate attention?

A. No. The due diligence effort did not reveal any significant issues that would cause NorthWestern to reconsider the acquisition or the offer price. NorthWestern is aware of some operational and engineering issues, but these are manageable. There is dialogue between FERC and PPLM regarding some aspects and items related to dam safety inspections which is normal for a FERC-licensed project.

Q. Did the team find any cases of significant non-compliance with environmental laws?

A. No. However, in its due diligence effort, the team did discover the potential for future environmental issues which are discussed later in this testimony.

Q. What conclusions did you reach based on your due diligence effort?

A. These Hydro Assets have the capability, the reliability, and the longevity to serve NorthWestern's customers well into the future. NorthWestern has confirmed that the assets conform to FERC dam safety requirements and are appropriately maintained and managed. From the analysis of the data, PPLM has made significant operations, maintenance, and capital investment in the Hydro Assets.

The hydro system is comprised of 11 hydroelectric generating plants, one water storage reservoir facility, and related assets. The facilities are located in Montana on the Clark Fork, Flathead, Missouri and Madison Rivers and on West Rosebud Creek. The total capacity of the assets is 633 MW. The assets and their condition are further discussed in the CB&I due diligence reports in Exhibit__(WTR-2); the location of each of the hydro developments is shown in Exhibit__(WTR-3); and a summary description of the assets is provided in Exhibit__(WTR-4). A description of the licenses is also included with the orders approving the licenses which can be reviewed on the FERC website: **http://www.ferc.gov/docs-filing/elibrary.asp**.

The Hydro Assets are operated in accordance with four project licenses issued by FERC. The nine Missouri-Madison hydroelectric developments are operated under a license issued for FERC Project No. 2188, Mystic under a license issued for FERC Project No. 2301, Thompson Falls under a license issued for FERC Project No. 1869, and Kerr under a license issued for FERC Project No. 5. The licenses describe the projects and establish the dam safety, environmental, and operational requirements, including water management for each project. Dam safety programs for the Hydro Assets are in compliance with FERC regulations and license requirements. The established resource management programs

effectively address fisheries, wildlife, water quality, recreation, and cultural resources under the terms and requirements of the FERC licenses.

We reviewed documentation and conducted discussions with PPLM's operations, engineering, and environmental personnel. We found appropriate dam safety programs are in place, equipment is well maintained, and there is a program for upgrades and modernization. Programs are in place to protect, mitigate, and enhance the environment in compliance with the licenses. Effective communication exists between PPLM and governmental agencies. All of these aspects contribute to an effective compliance program for the Hydros.

Q. Subsequent to conducting your due diligence analysis, what can you conclude about these assets?

A. Our analyses of the hydro system operation, maintenance, monitoring, and upgrade program to address FERC regulatory requirements for these projects supports the projects' structural and operational longevity. PPLM's compliance record confirms that the hydroelectric system is maintained and operated consistent with regulatory processes. The FERC regulations for structural and operational integrity are a mature process that has been formally applied over the last 50 years under the Federal Power Act. These rigorous FERC regulations are in place so projects are operated and maintained for structural adequacy and

longevity. Operation of the hydro system under FERC regulations provides for the sustainability of the assets. Otherwise, licensees are directed to implement actions to remedy any significant project deficiencies.

Our due diligence evaluation of PPLM's recent capital and maintenance commitments verified that strategic investments have been made to support condition and operation beyond the planned regulatory and license term lives. PPLM's capital and maintenance forecasts for at least a 30-year period are based on the recent investment levels that will continue to adequately fund operational longevity.

Therefore, NorthWestern concludes that the federal regulatory process will provide for structural adequacy long into the future as it has to date. The current operational condition of the projects' generation and auxiliary systems is sound and will be effectively supported by the planned investment levels forecast for the next 30 years and beyond.

Q. Please summarize why the Hydro Assets have the reliability, capability, and longevity for NorthWestern to include them in its resource plan to meet the energy needs of its Montana electric customers.

A. PPLM's Hydro Assets have been a reliable source of energy for NorthWestern's Montana customers. Through continued and sustained investment in operation and maintenance ("O&M") and capital improvements, NorthWestern will meet the ongoing requirements for dam safety and environmental protection, mitigation, or enhancement ("PM&E"). The due diligence process confirms the PPLM hydroelectric system is a reliable long term investment.

The following conclusions support the system's value:

- The hydro system operation and generation is consistent, with limited variability. The system is primarily a run-of-river operation. The flow regimes of the river systems are significantly regulated resulting in consistent river flows in the long term. These factors support effective system production.
- The regulatory dam safety process and the license resource management, along with the operation, are mature aspects of the system.
- Consistent mature system operation reduces a potential increase in operational impacts on the natural resource which stabilizes future license management costs. Quality maintenance practices result in equipment and machines that last. The annual O&M costs are expected to remain stable.

The project fisheries, wildlife, recreation, water quality, and project safety have been managed through a full license term of 30 to 40 years, and to varying degrees into a second term. FERC recognizes that hydroelectric projects under their jurisdiction are long-term sustainable operations.

Summary of the Hydro Assets Due Diligence Effort

Q. Who was involved in the due diligence effort regarding the operations, engineering and environmental areas?

A. The due diligence team was comprised of highly experienced, technically competent individuals, most of whom have extensive experience in hydro operations, engineering, and environmental requirements.

NorthWestern hired Stone & Webster, Inc. ("SWI") (a Chicago Bridge & Iron ("CB&I") company) as an independent engineer to assist in the evaluation of the Hydro Assets and to determine whether any serious flaws existed. SWI (formerly a Shaw Group company), is among the leading power design firms in the country.

The relevant experience of the key individuals who were involved in the due diligence effort is included in Exhibit__(WTR-1). The team reviewed PPLM implementation and management of, and compliance with, the FERC licenses; compliance with environmental requirements; and plant operations. As described above, site visits were conducted at each of the

hydro projects, including interviews with key operating, engineering, and environmental personnel. The detailed site reviews were conducted in August 2013.

Q. What were CB&I's conclusions?

A. CB&I produced several reports regarding its review of the assets. The reports are included as Exhibit__(WTR-2):

- Independent Engineer's Report Final Report – 01/03/2013
- Addendum to Independent Engineer's Final Report – 06/25/2013
- Due Diligence Report supplementing Independent Engineer's Report – 09/06/2013[2]

CB&I conclusions from their Due Diligence Report dated September 6, 2013 supplementing their Independent Engineer's Report dated January 3, 2013 include:

- The ongoing program of upgrades and rehabilitation remains effective to maintain system operational reliability and safety. Notably, Rainbow Unit 9 and the new control center are now operational.
- Equipment and systems appear to be maintained in satisfactory condition.

[2] Some information in these reports is protected under Protective Order No. 7323 in this docket. The unredacted versions will be provided on a protected CD. Redacted public versions of these reports are provided on the public CD attached to this filing.

- The hydro system has become significantly automated for monitoring and some operations.
- Recent available reporting indicates that generally the structures in the hydro system are in satisfactory condition and well maintained.
- Staffing levels appear to be adequate for reliable operation and maintenance. Proper attention should be focused on effectively staffing the important role of resource coordinator.
- License provisions are effectively managed by PPLM compliance staff with regulatory and agency groups.
- An effective framework is in place to implement license regulatory requirements via Management Plans and Memorandums of Understanding ("MOU").
- Environmental aspects for the plants are adequately addressed, although there is room for more focused administration for some items.

Q. Do these conclusions by CB&I validate your own observations?

A. Yes. The CB&I report validates NorthWestern's own observations regarding the operational safety and reliability, environmental compliance, and plans for continued funding for O&M, capital expenditures, and environmental obligations for the projects. These efforts, as demonstrated

in the past, will continue to meet the terms and requirements of the four licenses.

Q. Did NorthWestern/CB&I identify any material issues during its due diligence review?

A. No. However, there are areas where NorthWestern needs to continue to monitor and where opportunities exist to improve the operation. There is ongoing correspondence between PPLM and FERC which occurs as part of the normal process of owning FERC-licensed hydro assets. This correspondence relates to annual safety inspections, FERC-required five-year independent dam safety reviews, operational performance, and environmental obligations and compliance. NorthWestern will monitor the various routine, ongoing items of discussion with FERC and see that they are appropriately addressed. In the normal course of business PPLM has repair and maintenance work in progress, and NorthWestern will follow through to see that these efforts are effectively completed in a timely manner.

Q. Do any of these areas cause you concern about the assets?

A. No. A dam owner must always be vigilant regarding obligations for operations, maintenance, engineering, dam safety, and environmental stewardship. Although there are some open items, none rise to the level

of concern, and NorthWestern is confident in its ability to manage the assets. Additional discussion and detail about these areas is included below.

Q. Is NorthWestern committed to the operation of the Hydro Assets in an environmentally sound manner?

A. Yes. NorthWestern is committed to environmental stewardship and effective resource management of the system. The areas of environmental exposure identified in CB&I's report and other environmental matters are addressed later in the Environmental Resource Management section of my testimony.

Dam Safety

Q. Please describe the longevity of the hydro structures.

A. The hydro structures are subject to stringent regulatory oversight that accompanies each of the project licenses. Specific to structural integrity, this regulatory oversight, combined with the ongoing O&M and capital improvement programs, provide for long-lived assets.

FERC requires an inspection and formal dam safety analysis every five years. These FERC "Part 12" inspections and reports are conducted for each of the hydro projects by a FERC-approved Independent Consultant to review the adequacy of structures in detail. "Part 12" means Part 12 of

the Federal Power Act, Section 18. Copies of the most recent Part 12 inspections are included as Exhibit__(WTR-5), which will be provided under Protective Order No. 7323 in this docket. The schedule for these Part 12 inspections varies for each plant. Current Part 12 inspections and evaluations for 2013 are in progress for Mystic, Rainbow, and Cochrane.

The rigorous Part 12 analysis includes the structural stability of projects under normal load, seismic load, and flood load conditions. The categories included in the five-year inspections, are:

- Summary of Surveillance and Monitoring Plan
- Summary of Field Inspection
- Summary of Operations and Maintenance
- Summary of Supporting Technical Information (STI)
- Summary of Potential Failure Mode Analysis (PFMA)

Generally the structures in the hydro system are in satisfactory condition and well maintained. The condition of the hydro structures complies with FERC dam safety regulation criteria and is regularly assessed, monitored, and documented. This is formally done through a FERC process of Potential Failure Mode Analysis ("PFMA"). The FERC Dam Safety Guidelines Chapter 14-Section 3 fully describes the PFMA process and its relationship with the other FERC dam safety requirements.

This analysis process is a thorough consideration and evaluation of Potential Failure Modes ("PFMs") for project structures and water-retaining components (spillways, waterways, gates, penstocks, powerhouses, etc.) for various loading conditions. Based on actual assessed conditions and the likelihood of occurrence of the PFMs, they are categorized and assessed for needed action or follow-up monitoring per the documented PFMA record.

Pertinent risk reduction measures to address PFMs are conducted. In most cases this includes monitoring, measuring, and documenting alignment, piezometers, drainage flows, flowlines, penstocks, etc. This evaluation is documented and provided to FERC via annual Dam Safety Surveillance and Monitoring reports.

Based on current Part 12 project inspection reports, Hebgen PFM2 – failure of the intake structure under seismic loading – is the only Category 1 PFM for the hydro system. According to the Hebgen 2013 annual dam safety inspection report, this category remains unchanged until the current intake rehabilitation construction program is complete.

There are several dam safety items under review between PPLM and FERC as part of FERC's ongoing dam safety program, but none are of immediate concern or expose or obligate NorthWestern to large, future

costs beyond those already planned. Plant structures are routinely monitored and reviewed in an ongoing process and may require periodic upgrade to maintain safety, longevity, and operational reliability and capability. The following efforts are of note for system structures in this regard:

- At Thompson Falls, seismic criteria are under review, and reassessment of the seismic evaluation of the intake is expected.
- At Kerr, the seismic evaluation of structures is being reassessed based on updated seismic criteria.
- The rehabilitation of the Hebgen intake structure is continuing and the upgrade of the spillway is planned in 2016. This work is to provide seismic adequacy for updated criteria.
- Also at Hebgen, rehabilitation of the low-level outlet conduit is planned in 2017.
- The stability of rock at the left abutment at Madison remains an item of note. PPLM conducts an ongoing program to monitor, measure, and report on these rock conditions.
- With the completion of Rainbow Unit 9, the old flow lines and surge structure have been demolished and are being removed as planned. The old powerhouse is to be demolished, pending resolution of studies for alternative uses, but the schedule for this work is undefined at this time.

Q. You discussed annual inspections conducted by FERC. Please explain.

A. FERC conducts an annual inspection of each plant to review adequacy of project components and continually review PFM status. The FERC regulations require that PPLM, with the FERC Regional Office engineers, conduct a yearly safety and operational inspection of all project works. The annual FERC operational inspections confirm that PPLM is performing the continual monitoring and maintenance actions that assure adequacy and support the FERC Part 12 five-year inspection process. The review of the current annual inspections for all the projects shows that PPLM is compliant. PPLM has developed an annual Dam Safety and Surveillance Monitoring Program ("DSSMP") for each facility to support structural adequacy that is reviewed as part of the annual inspection. Gate operation testing and certification is also included in the requirement. Operation of backup generation sources must be certified on an annual basis. Copies of the most recent FERC Annual Dam Safety Inspection Reports are included as Exhibit__(WTR-6), which will be provided under Protective Order No. 7323 in this docket.

Q. Are there other FERC dam safety requirements required of the licensees?

A. Yes. PPLM (as a FERC licensee) is required to have an "Owner's Dam Safety Program" ("ODSP"). The focus of the ODSP is to maintain safe

dams and prevent dam failures. A copy of the PPLM ODSP is included as Exhibit__(WTR-7). An officer of PPLM is required to review and approve the ODSP.

The due diligence process included a review of the FERC-mandated Emergency Action Plans ("EAPs") for each project. The EAPs for each project are included as Exhibit__(WTR-8), which will be provided under Protective Order No. 7323 in this docket. The EAPs include an evaluation of the potential area of influence that projects could have on the downstream river and adjacent lands. EAPs are established and tested to minimize impacts in the unlikely event of an uncontrolled release of water. These plans define downstream inundation areas resulting from different hypothetical water release scenarios from the project. For all projects, a plan has been developed by PPLM and approved by FERC that identifies potential inundation areas along with local and state emergency response agencies. The plans include a disciplined warning protocol for notification and potential actions in the event of a release occurrence. This EAP protocol is tested annually with all parties.

Q. What does this mean for NorthWestern?

A. This means that NorthWestern will purchase assets that are structurally sound, adequately maintained and in good operating condition. FERC's Portland Regional Office, supported by the Washington, D.C.

headquarters, has dam safety jurisdiction over PPLM's hydroelectric operations. Their role is to oversee PPLM's compliance with their commitment to their ODSP.

Operations

Q. Please describe how the plants have been operated.

A. The due diligence team assessed the hydro system capability, reliability, and longevity to verify that the Hydro Assets are a good investment for NorthWestern and its customers. As part of the due diligence effort, we found that the plants are operated in a safe, environmentally sound, and productive manner. Areas of operational focus include safety, environmental stewardship, and efficiency which are discussed in more detail below.

1. **Safety** – PPLM is focused on employee safety and participates in the federal Occupational Safety and Health Administration's ("OSHA") Voluntary Protection Program ("VPP"). The Madison, Hauser, Holter, Thompson Falls, and Kerr Plants have achieved VPP "Star" status.

   The VPP recognizes employers and workers in the private industry and federal agencies who have implemented effective safety and health management systems and maintain injury and illness rates below national Bureau of Labor Statistics averages for their

respective industries. In VPP, management, labor, and OSHA work cooperatively and proactively to prevent fatalities, injuries, and illnesses through a system focused on: hazard prevention and control; worksite analysis; training; and management commitment and worker involvement. PPLM is committed to workplace safety and the hydro VPP program

Public safety is managed through appropriate warning signs, warning sirens, fences where appropriate, commercial advertisements, education programs, etc.

Dam safety surveillance and monitoring is performed routinely by qualified individuals. In addition, telemetry data is transmitted from each of the plants to the Generator Control Center located at the Rainbow Shop. This telemetry data is monitored on a 24 x 7 basis by a qualified operator. The operator has control of the five plants in Great Falls, as well as Holter, Thompson Falls, Kerr, and Mystic. Control of Madison and Hauser are scheduled for 2014, with Hebgen following in subsequent years.

2. **Environmental stewardship** – PPLM is focused on environmental stewardship and compliance with the numerous requirements contained in the FERC licenses and resource management plans.

PPLM works closely with resource agencies on technical advisory committees and working groups to address these requirements. Since 2000, PPLM has invested significant funds in environmental programs. NorthWestern is also committed to environmental stewardship and the support of funding obligations.

3. **Efficiency** – The projects are operated in an efficient manner. PPLM has O&M and capital improvement programs which continue to optimize production and extend the life of the projects. Scheduled maintenance is performed to minimize lost production. Operating Performance is covered in the CB&I Due Diligence Report, Section 4.

Q. Please describe the staffing levels needed to operate the projects.

A. PPLM employees who currently spend 100% of their time in support of the O&M of the plants will be offered employment with NorthWestern to provide continuity of the operation and resource management.

These personnel include management, craft, engineers, environmental biologists/scientists, logistics, drafting, and a resource coordinator, along with North American Electric Reliability Corporation ("NERC") compliance, safety, information technology, and administrative personnel. Each plant has three to five operating personnel. A maintenance crew is located at

the Rainbow Shop. The maintenance crew performs maintenance duties and major overhauls at Holter and the five hydro plants in Great Falls. Contractors are typically used at the other plants to perform major maintenance activities. Craft personnel are represented by IBEW Local #44 and as explained in the Prefiled Direct Testimony of Kendall G. Kliewer, NorthWestern is committed to honoring their existing bargaining agreement.

The hydro operation will be integrated into NorthWestern's existing Generation Department. NorthWestern has three management professionals with extensive experience in hydro operations, engineering, and environmental issues to transition and integrate PPLM's hydro generation into NorthWestern in a seamless fashion. Additional support staff for NERC/FERC critical infrastructure program ("CIP"), and information or business technology for computer support will be hired as needed.

Q. Please describe what is done to manage some of the risks with dam operation.

A. The operation is managed on the basis of the following considerations: employee safety, public safety, dam safety, environmental stewardship (including compliance), and efficiency as discussed above. Risks associated with these areas are managed through compliance with

regulations, license conditions, and monitoring. The variability of the water resource and equipment risk is discussed below.

Variability in water flows can either increase or decrease production levels. Average annual water availability and production is relatively constant. Since the projects are located in different river drainages, and production is spread between 40 generating units at 11 plants, impact from operations including water variability or unit maintenance is reduced. Management of water resources is coordinated with various agencies.

Overall, production equipment is reliable, but outages or a change in project operation can cause problems. Equipment failure can result in a loss of production. Equipment condition is routinely monitored and protected through the use of controls and instrumentation and alarms. The loss of a single unit has limited impact since the generation capability of the hydro system is distributed across 40 generating units in 11 plants.

In rare instances, equipment on the dam such as stop logs or waste gates could fail either in the open or closed position. These events are mitigated through gate operational inspections, annual certifications to FERC, and automatic flow restoration procedures. Loss of normal station power could prevent gate operation, but backup generator systems on the top of most

of the dams will provide the necessary backup power. The operation of these backup generators must also be certified annually.

The factors listed above contribute to a safe, reliable, and stable hydro operation.

Q. Do the plants have to meet NERC compliance requirements?

A. Yes. PPLM maintains a thorough and aggressive NERC Compliance program to support ongoing compliance with all NERC, NERC CIP, and Western Electricity Coordinating Council ("WECC") reliability regulations. Each applicable requirement of every standard is monitored and verified annually to support ongoing compliance. New standards are thoroughly reviewed and compliance action plans assembled to support future compliance. Procedures and processes have been implemented to support operations staff compliance, and rigorous self-assessment supports continuous improvement and risk reduction in the program. The NERC compliance program has and continues to perform well.

NorthWestern is experienced in NERC compliance and has a NERC/FERC compliance department in place to address mandated federal compliance requirements for generation and transmission. The requirements affiliated with the hydro plants will be integrated into plant operations with oversight from the compliance department.

Reliability

Q. What is the status of the major hydro equipment? Discuss the capital upgrade program.

A. Turbine-generators and other major equipment are well maintained. PPLM has made improvements to plant equipment through significant investment during its ownership. The capital upgrade program is consistent with industry practice to maintain reliability. Routine and special maintenance and capital improvements sustain the hydro system reliability and longevity through major unit overhauls and equipment replacements and upgrades.

Plant equipment requires periodic upgrades to maintain operational safety, reliability, and capability. Equipment upgrades are addressed in the ongoing capital program. The scope and extent of capital improvements are reasonable for facilities of this type and age. The status of upgrades for major equipment is summarized in Exhibit__(WTR-9), Hydro Unit Upgrade Summary. This summary addresses upgrades and replacements noted in the Executive Summary.

Some recent or planned upgrade activities that demonstrate the adequacy of the upgrade program and the reliability of the hydro equipment are as follows:

- Thompson Falls plant control system ("PCS") upgrade was recently completed in 2013 and is now operable;
- At Kerr, vibration monitoring instrumentation was added to the units in 2012;
- Madison/Hebgen PCS upgrade is planned for 2014. The capability to automate gate operations at Hebgen for pulse flow releases to the river controlled from Madison will be added;
- At Black Eagle, a new intake trash rake was installed in May 2013;
- The Generation Control Center at Rainbow is now operational for remote monitoring of the hydro plants. This system includes operational capability for a number of the projects;
- The most significant upgrade on the hydro system is the new powerhouse and new Unit 9 at Rainbow. Unit 9 is now operational and operating satisfactorily. Unit 9 provides 60 megawatts ("MW") capacity operating at improved efficiency and replaces eight older units (36 MW total) which dated to 1910 and 1918. Items with the Unit 9 bearing lube oil system and cooling water control remain to be corrected;
- At Morony the planned PCS upgrade is complete; and
- Morony Unit 1 new generator and turbine refurbishment work is in progress. The completion date has been extended to second quarter of 2014. Additional machining on the unit embedments will

1 improve the alignment of the unit, reduce vibration, and extend the
2 operational life of the units.
3 • The generator lead lines connecting Cochrane, Ryan, and Morony
4 facilities have been replaced with new structures and provide
5 interconnection at the newly built Crooked Falls Substation for
6 these facilities. The new Rainbow Unit #9 facility included a new
7 generator lead line and interconnection at Crooked Falls as well.
8
9 **Q. Discuss major maintenance of the hydro plants and its effectiveness**
10 **in supporting reliability.**
11 **A.** The equipment is well maintained to support ongoing operations. PPLM's
12 program has been effective in the extension of service life to the units.
13 This understanding was reinforced in NorthWestern's due diligence efforts
14 and site visits in August 2013. We found no extraordinary conditions of
15 impact. Identified significant maintenance items, such as refurbishment of
16 Madison Unit 4 and Hauser Unit 6, are of limited extent and can be
17 addressed in the normal course of O&M efforts. The maintenance of the
18 generating units is effectively scheduled when there is no power
19 production impact at low water conditions. Equipment and associated
20 systems are maintained and addressed in the system's ongoing O&M
21 program. This includes major generating equipment, auxiliary systems,
22 and intake, spillway, and waste gates.
23

The maintenance shop at Rainbow is an integral part of ongoing system O&M. The maintenance facility provides capabilities including equipment refurbishing, repairing, and testing; parts fabrication; tools and parts warehousing; and administration. Maintenance efforts at the Rainbow shop focus on the five developments at Great Falls, and Holter, and support activities throughout the system as necessary.

Some recent or planned major maintenance activities that demonstrate the adequacy of the program and its contribution to plant reliability are as follows:

- In August 2013, Madison Unit 4 was out of service for turbine overhaul. PPLM reports they are working as time and budget allow to do major overhauls of the turbine runners;
- In August 2013, Hauser Unit 6 was out of service for annual maintenance. A program is planned to work through one unit per year and conduct generator rewinds and turbine rehabilitation. This is to start in 2014;
- Holter Unit 4 was back on-line in August 2013 following maintenance including re-machining bearings and adjusting clearances;
- Rehabilitation work began on Holter Unit 2;
- The planned replacement of the two rubber dam sections at Rainbow was completed in 2013;

- Painting of Cochrane spillway radial gates is complete;
- The planned overhaul of Ryan Unit 5 was completed in 2013 and the unit has been returned to service; and
- Morony has experienced some downstream flow release excursions due to conflicting regulatory requirements concerning rate change of flow and safety notification. PPLM's intent is to remedy this by the end of 2013 with additional downstream safety provisions and thus allow timely flow releases.

Q. So do you conclude that hydro plant production will continue to perform well into the future?

A. Yes, through proper equipment maintenance and capital improvements output should be maintained based upon average water flows. As equipment ages, equipment maintenance and upgrades will continue as in the past.

Environmental Resource Management

Q. How are environmental resources at the projects regulated?

A. As previously stated, FERC regulates environmental resources at the nine dams on the Missouri and Madison Rivers through license #2188; Mystic through license #2301; Kerr through license #5; and Thompson Falls through license #1869. The licenses regulate over 700 miles of river and reservoirs in two major drainages bisecting several Montana cities and

1 communities. FERC license terms are between 40-50 years. Three of the
2 projects are in their second license terms and one was recently licensed
3 for a third term.

PROJECT	LICENSE RENEWAL DATE	EXPIRATION DATE
Missouri-Madison	September 2000 2nd License Term	2040
Thompson Falls	December 1979 2nd License Term	2025
Kerr	July 1985 2nd License Term	2035
Mystic	December 2007 3rd License Term	2050

4 FERC must give equal consideration to fish and wildlife, the protection of
5 recreational opportunities, and the preservation of other aspects of
6 environmental quality in addition to power production. For these reasons,
7 the FERC licenses include articles with resource management conditions,
8 and, accordingly, consultation with the resource agencies is essential.
9
10 **Q. What environmental conditions are included in the FERC licenses?**
11 **A.** The FERC licenses requires the Protection, Mitigation, and Enhancement
12 ("PM&E") of fisheries, water quality, wildlife, threatened and endangered
13 species, cultural resources, recreation, land use and vegetation. PM&E
14 broadly includes operational measures such as reservoir levels and
15 downstream flows, flow ramp rates, new project-related facilities such as a

boat launch or signage, and ongoing monitoring and assessing of project effects. Because of the length of the licenses, FERC requires that resource plans be developed and implemented to monitor the project effects over the 40-50 year term of the license and to identify and implement appropriate PM&E. The license may include a requirement to periodically update and submit the plans to FERC for approval.

Q. What is PPLM's approach to compliance with the FERC license conditions related to PM&E?

A. NorthWestern determined that PPLM has collaborated with federal and state agencies and other parties to develop MOU agreements, programmatic agreements, long-term and annual collection agreements, and cooperative management agreements setting forth the framework for meeting obligations under the FERC licenses. The majority of the current resource management work involves monitoring to confirm that there are no impacts to the resource from the operation of the projects.

PPLM's approach to license compliance, which NorthWestern will continue, is to:

- Monitor the health and condition of the system;
- Address potential operational influences from continued operation through the MOU agreements;

- Evaluate resource enhancements consistent with license obligations;
- Leverage available outside cost share opportunities to maximize resource benefit; and
- Sustain relationships with regulators, agencies and non-governmental organizations for resource management.

Q. Please expand on the MOUs.

A. Two MOUs between PPLM and resource agencies facilitate compliance with FERC license articles. One is the Missouri-Madison Project 2188 Fisheries, Wildlife, Habitat, and Water Quality Protection, Mitigation, and Enhancement MOU. The other MOU is the Thompson Falls Hydroelectric Project Memorandum of Understanding for Facilitation and Funding of Commission Order Approving Construction and Operation of Fish Passage Facilities, based on the Consultation Process, Fish Passage and Minimization Measures in United States Fish and Wildlife Service "USFWS" Biological Opinion for Threatened Bull Trout. The purpose of the MOUs is to establish terms and conditions for collaboration among PPLM and the resource agencies regarding FERC-required PM&E. They also establish Technical Advisory Committees ("TACs") and operating procedures for the committees including processes to approve expenditures of PPLM committed monies. NorthWestern intends to maintain these MOUs.

1 **Q. What is an example of a "resource plan" required in the license?**

2 **A.** Both the Kerr and Mystic licenses include articles that require the
3 submittal of fish, wildlife, and water quality management plans. PPLM
4 developed the plans in consultation with the resources agencies and,
5 similar to the approach formalized in the MOUs, implements the plans in
6 collaboration with the resource agencies. At Mystic, for example, *The*
7 *Fisheries Monitoring Plan* was approved by FERC and the Mystic Lake
8 Fisheries, Aquatic Habitats and Water Quality TAC made up of
9 representatives of the USFWS, United States Forest Service ("USFS"),
10 Montana Department of Environmental Quality, and Montana Department
11 of Fish, Wildlife, and Parks ("MDFWP"). *The Mitigation and Management*
12 *Plan* which addresses fish and wildlife issues at Kerr was developed in
13 consultation with the U. S. Department of Interior and the Confederated
14 Salish and Kootenai Tribes ("CSKT"). Implementation of the plan is the
15 responsibility of CSKT and PPLM with funding provided by PPLM until
16 September 2015 when plant operation is expected to transfer to CSKT.
17

18 **Q. What are the "programmatic agreements"?**

19 **A.** The programmatic agreements require that PPLM consult with the
20 appropriate agencies and review all project O&M actions to determine
21 potential impacts on historic architectural and engineering resources. A
22 condition of the Mystic and Missouri-Madison licenses requires that

cultural resources be managed under Programmatic Agreements between the Montana State Historic Preservation Officer, FERC and the licensee.

Q. Please explain license conditions for recreation as part of environmental resource management.

A. The hydro projects currently provide an abundance of recreational opportunities both on the reservoirs and downstream of dam facilities. NorthWestern is committed to maintaining these recreational opportunities.

All the project licenses include a requirement to provide adequate recreation opportunities. One example of how PPLM addresses the recreation requirement is the Missouri-Madison Project 2188 License which requires a *Comprehensive Recreation Plan* for managing recreational resources at the project. A Recreation MOU among PPLM and the resource agencies including the USFS, MDFWP, Bureau of Land Management, the U. S. Bureau of Reclamation ("USBR") and the six counties where the nine dams are located (Madison, Gallatin, Broadwater, Chouteau, Lewis and Clark, and Cascade) is the mechanism used to implement the *Comprehensive Recreation Plan*. The Recreation MOU established Recreation Advisory Groups and Regional Working Groups and provides a mechanism for agencies, the licensee, and the general public to work together to identify, prioritize, and fund board-approved

projects. A non-profit, independently operated Revolving Trust Fund was also established to fund the acquisition, development and O&M of recreation opportunities per the *Project 2188 Comprehensive Recreation Plan*. NorthWestern would assume PPLM's duties and obligations with respect to funding and management of this Fund following closing.

Q. How do these approaches facilitate compliance with the license over the 40- to 50-year term of the licenses?

A. The MOUs, programmatic agreements and resource management plans all include collaboration and some flexibility to adapt PM&E compliance strategies within the constraints of the FERC licenses over time. Adaptive management is a resource management strategy in which decisions are made as part of an ongoing monitoring and consultation process. In this context, PM&E funds may be redirected to accommodate new technologies, changes in resource management priorities, or as new data becomes available.

Q. Is NorthWestern staffed to handle all license obligations regarding environmental resource management?

A. Yes. NorthWestern has experienced engineering, environmental, and hydro operations personnel that dealt with these issues when these assets were owned by MPC. In addition, PPLM has four full-time biologists/scientists supported by consultants to manage its resource

1 commitments. NorthWestern intends to retain these individuals to help
2 with continuity in the transition of the FERC licenses and compliance
3 processes and projects.
4
5 **Q. Would you conclude PPLM is in compliance with FERC's resource**
6 **management license conditions?**
7 **A.** Based on the due diligence, NorthWestern concludes that PPLM's
8 resource management processes and programs satisfy the FERC license
9 conditions.
10
11 **Q. Did you consider compliance with other environmental requirements**
12 **in your due diligence in addition to FERC license compliance?**
13 **A.** Yes, NorthWestern reviewed PPLM's management of license conditions
14 and day-to-day management of non-license environmental requirements.
15 We found that day-to-day compliance was managed primarily by plant
16 operators with support from PPL corporate staff. We did not identify any
17 material gaps in the management of underground storage tanks, oil
18 handling, or hazardous material management.
19
20 **Q. What changes have been made to the system to increase**
21 **environmental stewardship?**
22 **A.** We observed that PPLM has worked over the last several years to reduce
23 the risk of noncompliance and increase the environmental stewardship of

the Hydro Assets. For example, PPLM increased the containment around generator step-up transformers ("GSUs") or moved the containment and the GSUs further away from the river to reduce the risk of a release of petroleum product into the river.

Q. Please discuss any potential environmental issues that you are aware of.

A. NorthWestern identified five potential future environmental issues:

1. The Anaconda Copper Mining Smelter and Refinery Superfund Site is located near Black Eagle. Historic records show plant wastes from the Anaconda facility were routinely dumped into the Missouri River and contamination has been found in river sediments near the Black Eagle Dam. The U.S. Environmental Protection Agency ("EPA") has not completed the delineation of the Anaconda Copper Mining Smelter and Refinery Superfund Site and some portions of the Black Eagle facility may eventually fall within the final boundaries of this Superfund site.

2. Contaminated river sediments have also been found in the Thompson Falls reservoir. The suspected source of this contamination is the former Anaconda Mining Company facility in Milltown, Montana, which is located approximately 130 miles upstream of the Thompson Falls facility. The remediation of the Milltown Reservoir/Clark Fork River Superfund Site has been underway for a number of years, and EPA is

not seeking any additional action downstream, including in the vicinity of Thompson Falls.

3. The USFWS has indicated the Arctic grayling in the Upper Missouri River Basin may be listed as a threatened or endangered species under the Endangered Species Act. Madison Dam and Hebgen Reservoir are located in the Upper Missouri River Basin. If the Arctic grayling were listed as a threatened or endangered species, NorthWestern may be required to implement investigative studies to evaluate the potential relationship between the status of the Arctic grayling and project operation and to identify and implement mitigation measures.

4. The FERC order approving the new Rainbow Powerhouse required a plan for demolition of the old powerhouse. PPLM has notified FERC that it is considering options, including demolition or re-purposing the building for a different use. PPLM provided NorthWestern with a cost estimate for the old powerhouse demolition that included asbestos abatement, handling Polychlorinated Biphenyls containing equipment, disposal of mercury-containing light bulbs, recovering and recycling freon and lead acid batteries. However, as with any project of this nature, unanticipated environmental conditions may be discovered that require abatement or remediation.

5. PPLM has land use easements for the right to flood and other purposes at the Hydro Asset locations. There is ongoing litigation concerning alleged shoreline erosion at Flathead Lake due to Kerr operations and at Lake Helena due to Hauser operations.

Capability

Q. Discuss hydro generation capability.

A. The hydroelectric system generation capability is supported by a number of factors. There are 40 generation units across the system, and each facility, excluding Rainbow, consists of multiple units. PPLM maintains a major equipment strategy program to annually inspect and maintain the generating units for reliable operating condition. Work is scheduled to coordinate with the annual hydrologic cycle to limit the amount of lost generation. The low water period of the annual water year allows unit inspection and maintenance without production loss.

Consistent O&M and capital investment in the hydro system will help to sustain project availability. In the long term the river drainages have produced consistent average hydrologic water years. The combination of the system's well-maintained condition and consistent average water supply results in consistent generation production.

Other hydroelectric projects on the same river systems add to operational stability and water regulation. The USBR Canyon Ferry project is located on the Missouri-Madison river system downstream from the PPLM Madison project and upstream of the PPLM Hauser, Holter, Black Eagle, Rainbow, Cochrane, Ryan and Morony facilities. The USBR Canyon Ferry project is a large storage (flood control) and generation facility. This project provides regulated flows for the downstream PPLM projects. The operation of the Canyon Ferry project and PPLM projects are coordinated by the formal Madison-Missouri River Coordination Agreement.

The USBR Hungry Horse hydro project is located upstream of the Kerr and Thompson Falls facilities. The Hungry Horse project is also a large storage (flood control) and generation project. This project is operated in coordination with Kerr, Thompson Falls, and other downstream projects of the Columbia River Basin to provide management of the various operations for all projects' generation capability.

Water Rights

Q. Prior to entry into the PSA did NorthWestern conduct due diligence concerning the water rights to be acquired?

A. Yes. During the negotiations leading to the PSA, PPLM provided NorthWestern a listing detailing its water right claims. Prior to entry into the PSA, PPLM's listing was cross-checked with the Montana Department

of Natural Resources and Conservation's ("DNRC") online Water Right Query System to verify (1) that the water rights claims identified by PPLM included all water rights claims of record with the DNRC held by PPLM pertaining to the Hydro Assets; (2) that the water rights claims identified by PPLM included all the water rights claims that PPL acquired from the MPC in 1998; (3) that the water right claim numbers, priority dates, flow rates, volumes and purposes as stated by PPLM substantially matched the DNRC's records; and (4) to determine, based on the information available online from the DNRC, the presence and nature of any issues pertaining to those water rights claims.

As a result of this review, it was determined that the water rights claims as identified by PPLM included all the Hydro Asset water rights claims held by it. Additionally, the water rights claims identified by PPLM included all those acquired by PPL from MPC in 1998. In addition, a Provisional Permit, issued in 2008 for additional power generation at the Rainbow Facility, is included among the water rights claims.

Q. Does this conclude your testimony?

A. Yes, it does.

WILLIAM T. RHOADS, PE

NorthWestern Energy
General Manager, Generation

HIGHLIGHTS OF RELEVANT PROFESSIONAL EXPERIENCE

- William Rhoads is the General Manager, Generation for NorthWestern Energy ("NWE"). Immediately following passage of Montana House Bill 25 in 2007 – the bill which allows NWE to build and rate base generation projects following deregulation in Montana – Mr. Rhoads was handpicked to establish a new NWE Montana Generation Department to design and build a unique 150 MW generation asset to integrate variable generation and load into the company's Montana transmission balancing authority. The plant received international recognition as a runner up in Pennwell Publishing's Power Plant of the Year Award program for 2011. Since then, Mr. Rhoads has led the department's efforts to build a 60 MW peaking plant in South Dakota, ownership of a 40 MW wind project in Montana, and NWE's portion of emission control upgrades at coal-fired projects in North Dakota, South Dakota, and Iowa. The total value of these projects exceeds $530 million. Recently, Mr. Rhoads led the due diligence effort for the acquisition of over 630 MW of hydroelectric assets valued at $900 million. Mr. Rhoads has served as a witness before the Montana Public Service Commission and the Federal Energy Regulatory Commission. Throughout his career, Mr. Rhoads has placed a high emphasis on workforce safety.

- William Rhoads served as Director, Hydro Operations for over 14 years for The Montana Power Company ("MPC"). Mr. Rhoads was responsible for overall administration, including technical guidance, direction, and policy development for operation and maintenance of 13 hydroelectric projects. The administration of the hydro plants included effective management of operations, maintenance, and capital improvement budgets and the direction of employees needed to support the operation, including key supervisory personnel. The position required considerable interface with internal Company departments, other utilities, and local, state, and federal officials, as well as interaction with union personnel. Mr. Rhoads performed due diligence project evaluations in Argentina and physically reviewed non-MPC projects in Montana, Alaska, Nevada, Pennsylvania, Tennessee, Texas, Washington, British Columbia, and Quebec. He also led the development of a state-certified hydro operator/maintenance training program. In addition, Mr. Rhoads served on the *HYDRO REVIEW MAGAZINE* Publisher's Advisory Board, National Hydropower Association Board of Directors, Electric Power Research Institute (EPRI) Storage, Renewables, and Hydro Business Unit Council, EPRI Hydro Working Group and has authored hydro-related technical papers and presentations.

- Other leadership positions:
  - General Manager, Montana Distribution Operations – Mr. Rhoads was responsible for over $32 million in annual expenditures and $65 million in annual capital improvements for NWE's electric and gas distribution system. Resources included a workforce of over 500 employees.
  - Director, Electric Transmission – Mr. Rhoads was responsible for MPC's electric transmission system engineering and construction departments including transmission, substations, utility communications, and drafting.
  - United States Air Force - Lieutenant Colonel Rhoads served as a staff weather officer and a command and control operations officer with twenty eight years of active and reserve service.

EDUCATION

MONTANA STATE UNIVERSITY, Bozeman, MT
Master of Project Engineering and Management; Bachelor of Science in Electrical Engineering
NORTH CAROLINA STATE UNIVERSITY, Raleigh, NC
Accredited Meteorologist (One year of advanced meteorological studies)
USAF Institute of Technology
UNIVERSITY OF IDAHO, Moscow, ID
Public Utilities Executive Course

JOHN VANDAVEER, PE

Northwestern Energy
Transition Team Manager

HIGHLIGHTS OF RELEVANT PROFESSIONAL EXPERIENCE

- Mr. VanDaveer has 30 years in the utility business that includes 25 years involved in power generation primarily hydroelectric engineering and operations.
- 2008-2013: Mr. VanDaveer was the Manager of Division Operations for the NorthWestern Energy Butte, Montana gas and electric distribution workforce and system. Major responsibilities included the development and execution of annual work plans and budget for construction and maintenance of the distribution system within the division operating territory. The management of 50 personnel included both craft and supervisory employees.
- 1998-2005: Mr. VanDaveer was the Manager of Hydroelectric Generation for Montana Power (1998-2000) and PPL Montana (2000-2005) subsequent to the sale of the hydroelectric generation assets by Montana Power to PPL Montana in 2000. Overall responsibilities included the management on the engineering staff, operations staff, regulatory and compliance staff, support staff, system operations, planning, budgeting, and maintenance work for the safe, effective and reliable performance of the operation.
- 1995-1998: Mr. VanDaveer was the Director of Engineering for the Montana Power Hydroelectric business. His major responsibilities included the supervision of the engineering department staff and function that included planning, design, budgeting, project execution and support of the operation and expansion of the Company's hydroelectric generation operation.
- 1991-1995: Mr. VanDaveer was the Project Manager for the Thompson Falls Development 50 MW Expansion owned at the time by the Montana Power Company. The $50 million project responsibilities encompassed the planning, design, permitting, contracting, construction and commissioning of the additional powerhouse and associated facilities for the expansion project.
- 1988-1991: Mr. VanDaveer was a senior engineer in the Montana Power Company hydroelectric engineering department. The requirements of this position included engineering design, analysis and support of the regulatory and operational aspects of the Company hydroelectric system across the state. Additionally, support was provided to the Company's independent power group for due diligence work necessary to assess potential acquisition of new or existing hydroelectric projects overseas.
- 1979-1988: Mr. VanDaveer was an engineer in the Montana Power Company substation distribution group. General responsibilities of this position included the civil design and electrical layout for upgrades and new construction for the distribution substation facilities across the system.

EDUCATION

MONTANA STATE UNIVERSITY
B.S., Civil Engineering

LICENSES AND REGISTRATIONS

PROFESSINAL ENGINEER
Montana, License No. 11875 PE

MARY GAIL SULLIVAN

NorthWestern Energy
Manager, Environmental Permitting & Compliance

HIGHLIGHTS OF RELEVANT PROFESSIONAL EXPERIENCE

- Mary Gail started her career in 1980 with the Montana Power Company where she held various Environmental positions through 1998 including Coordinator of Land Use and Recreation, a position in which she conducted research and reported on the recreation and land uses associated with the hydro facilities to comply with annual FERC license requirements. Testified on behalf of MPC concerning its stewardship responsibilities at Kerr Dam proceedings.

- Director of Environmental Permitting responsible for compliance with State, Federal and local permitting and hydro license requirements. Managed research and reporting requirements for land use, recreation, visual, socioeconomic, and cultural resources. Directed preparation and implementation of MPC's application to construct electric transmission lines under the Montana Major Facility Siting Act.

- Director of Hydroelectric Relicensing with responsibility for relicensing the nine hydro facilities on the Missouri and Madison rivers. This involved establishing and overseeing implementation of a relicensing strategy that balanced FERC's requirement to protect, mitigate, and enhance environmental attributes associated with the projects and plant operational objectives. Effectively managed relationships with agencies and stakeholders affected by hydro operations. Established a formal pre-consultation process with the resource agencies and facilitated public meetings in each of the communities near the nine dams.

- Director of Environmental Compliance, under the direction of the CFO and the Audit Committee of the Board of Directors, established a comprehensive environmental audit program, provided strategic and policy guidance on environmental issues and promoted corporate environmental principles. Conducted audits of hydroelectric operations to verify compliance with FERC license conditions and environmental requirements.

- In 1998 the environmental audit program was merged with internal audit. Mary Gail was named the Director of Audit Services, a position she held through MPC's transformation from a diversified utility to a telecommunications company and ultimate bankruptcy in 2003. She remained in the telecommunications industry working primarily in customer and billing operations until March, 2013 when she hired by NorthWestern Energy as Manager of Environmental Permitting and Compliance.

EDUCATION

UNIVERSITY OF MONTANA, Missoula, MT
Master of Business Administration
Bachelor of Science in Recreation Management (School of Forestry)
UNIVERSITY OF IDAHO, Moscow, ID
Public Utilities Executive Course

WILLIAM THOMPSON, PE

NorthWestern Energy
Senior Technical Advisor

HIGHLIGHTS OF RELEVANT PROFESSIONAL EXPERIENCE

- Mr. Thompson has 25 years of engineering, project management, and field experience and has been involved in a wide variety of environmental and engineering projects covering a variety of disciplines
- At NorthWestern Energy, Mr. Thompson is responsible for providing project management, engineering services and technical expertise for the gas and electric utility including generation, distribution and transmission operations. He has provided environmental due diligence support related to the sale/purchase of energy and generation business units including calculating stranded environmental liability costs and managing liabilities associated with sale/purchase agreement indemnification clauses.
- His experience ranges from managing routine compliance issues to complex environmental liabilities. He is experienced with business divestiture/acquisition due diligence, air emissions monitoring and compliance, CERCLA settlement negotiations, remedial investigations, feasibility studies, environmental risk assessments, environmental site assessments, environmental permitting, environmental compliance inspections, insurance recovery analysis and development of utility company environmental plans.
- He has conducted numerous site assessments and environmental inspections at utility hydroelectric plants, coal and gas-fired generation plants, operation centers, electrical substations and natural gas compressor stations. He has managed investigation and cleanup operations for a variety of sites including former manufactured gas plants, transformer oil (PCB and non-PCB) releases, transformer salvage sites, and gasoline and diesel releases.
- Mr. Thompson managed the Milltown Hydroelectric Project for several years. In addition to hydroelectric generation, the Milltown Project was associated with a high profile Superfund Site, the Milltown Reservoir Sediments Superfund Site. His management of this project spanned the time period from pre-Record of Decision through Consent Decree (CD) negotiations and implementation of the Remedial Action (RA) including dam removal. His engineering and management responsibilities for this project were divided into two main categories – FERC regulated hydroelectric operations and Milltown Reservoir Sediments Superfund Site management. The existence of the Superfund Site within the reservoir resulted in some atypical FERC-regulated project operations, which afforded Mr. Thompson a truly unique and challenging project management experience.

EDUCATION

MONTANA STATE UNIVERSITY
B.S., Civil Engineering

LICENSES AND REGISTRATIONS

PROFESSINAL ENGINEER
Montana

GARY WISEMAN, PE

Project Manager
CBI

HIGHLIGHTS OF RELEVANT PROFESSIONAL EXPERIENCE

- Mr. Wiseman has 40 years of experience in hydro / fossil / civil and water resource consulting, engineering, and design. His experience has included a significant number of due diligence reviews of numerous power plant facilities.

- Mr. Wiseman was Project Manager as Owner's Engineer for permitting support, technical support and review, and construction monitoring for Aberdeen Generating Station Unit #2, a simple cycle gas/diesel-fired peaking unit in South Dakota and for the Dave Gates Generating Station at Mill Creek, a simple cycle gas/diesel-fired plant in Montana.

- He was Project Engineer for engineering and technical support for AFC for a proposed NRG combined cycle plant in Carlsbad, California. He was Project Engineer for BOP engineering for NRG Long Beach repowering project. And he was also part of the review team for condition of assets assessment of select Mirant combined cycle plants. He was Assistant Project Engineer for Phase 1 design efforts for the Konaktepe Hydroelectric Project. Other assignments have included condition of assets review and assessment of existing hydro plants of 1) Northeast Generation, 2) Boralex, and 3) Clean Power.

- Mr. Wiseman has been Project Manager for numerous banks due diligence assessments of hydro projects. These assignments have included the review and analysis of existing assets at the following projects: Kaweah River Power Authority Project, STS Hydropower Projects, Friant Hydroelectric Project, Muck Valley Hydroelectric Project, Orion's Acquisition of Niagara Mohawk Hydro Assets, Endesa (Santander) Hydroelectric Assets, assessment of Orion's New York hydro assets, and consultant review of design/operation issues for the Bakun AC Hydro Power Project. Assessments of design, development plans, and/or construction monitoring have included the following projects: Valerie Falls Hydroelectric Project, Casecnan Multipurpose Project, Bakun AC Hydro Power Project, and Tiber Dam Hydroelectric Project. Mr. Wiseman was responsible for the technical evaluation to support the risk / feasibility assessment of Edelca's Tacoma Hydroelectric Project.

- His engineering assignments on hydroelectric projects have included Project Engineer for the feasibility study of the Tazimina River Hydroelectric Project; Lead Hydraulic Engineer for the repair of Victoria Dam; Lead Hydraulic Engineer for the design and construction of the Second Powerhouse, Thompson Falls Hydroelectric Project; and Lead Hydraulic Engineer for the rehabilitation of the hydraulic turbines at the Rocky Reach Hydroelectric Project.

EDUCATION

OHIO STATE UNIVERSITY
B.S., Civil Engineering

LICENSES AND REGISTRATIONS

PROFESSINAL ENGINEER
Montana, 1993; Washington, 1992; and Colorado, 1977

E. NICOLE OPELA

CB&I
Environmental Scientist

HIGHLIGHTS OF RELEVANT PROFESSIONAL EXPERIENCE

- Ms. Opela started her career as a field scientist. Her responsibilities included managing, overseeing, and conducting emergency spill response, completing site inspections for Environmental Site Assessments (ESA), drafting Spill Prevention Control and Countermeasure Plans and Stormwater Pollution Prevention Plans.

- During her time in this position, she developed the necessary skills required to complete ESAs, including observing whether the proper handling, storage, and disposal method are being used for hazardous materials and hazardous waste, determining if stormwater best management practices are being utilized, and confirming that spill prevention techniques are appropriate for the material being stored onsite.

- Since Ms. Opela started in the environmental field she has continued to develop and improve her knowledge in all environmental media. Since coming to CB&I (formerly Shaw Environmental) she has been involved in on-site environmental consulting for ONEOK Hydrocarbon fractionation plant and Sanofi-Aventis pharmaceutical manufacture, retail DOT inspections, assisting in the daily maintenance and upkeep of an Environmental Management Information System (EMIS) for a national retailer. She has also been heavily involved in Emission Inventory Reporting, Tier II Reporting, Toxic Release Inventory (TRI) Reporting, and Hazardous Waste Reporting for both retail and industry clients, including NRG and ONEOK Hydrocarbon.

- Ms. Opela has continued to grow her experiences related to ESAs by completing onsite and regulatory due diligence efforts for coal fired power plants, natural gas power plants, and hydroelectric facilities. Onsite environmental assessments include the Hardin Generating Station, Colstrip Power Plant, J.E. Corette, Thompson Falls Dam, Mystic Lake Dam, Kerr Dam, Hebgen Lake, Madison Dam, Hauser Dam, Holter Dam, Black Eagle Dam, Rainbow Dam, Cochrane Dam, Ryan Dam, and Morony Dam. Offsite regulatory due diligence efforts include Brayton Point Power Station, Elwood Power Station, Kincaid Power Station, and Basin Creek Power Plant.

- Ms. Opela's environmental experiences in the power industry also include environmental compliance reviews based on publically available information for companies such as Exelon, Entergy, NRG Energy, Arizona Public Service, Duke Energy, and Ameren. Additionally she has been involved in potential site studies for new plants in Montana, Indiana, Texas and Louisiana.

EDUCATION

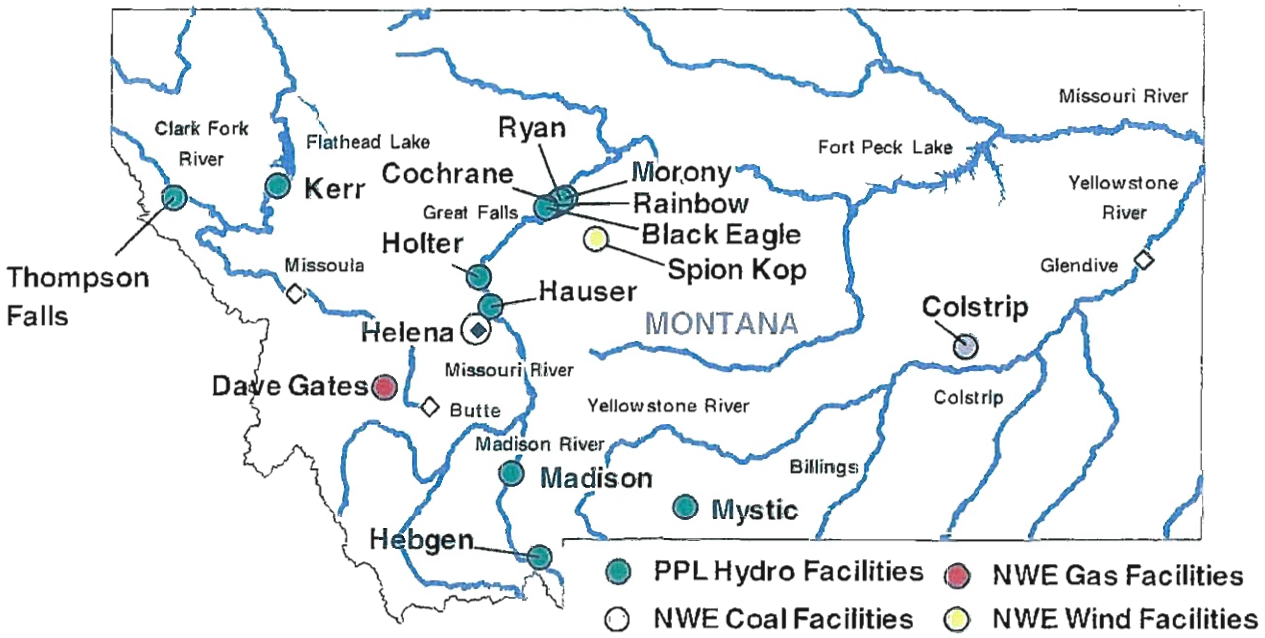
UNIVERSITY OF OKLAHOMA, Norman, OK
Bachelor of Science in Environmental Science (School of Engineering)

EXHIBIT__(WTR-2)

Independent Consultant's Reports

Shaw Independent Engineer's Final Report 01/03/13	Exhibit__(WTR-2.1)
Addendum to Independent Engineer's Final Report (dated 06/25/2013)	Exhibit__(WTR-2.2)
CBI Due Diligence Report Supplementing the 01/03/13 Report (dated 09/06/2013)	Exhibit__(WTR-2.3)

Portions of Exhibit__(WTR-2) include Critical Energy Infrastructure Information that has been redacted from this public version of this document and filed with the Commission in accordance with Protective Order No. 7323. This public version is provided on CD with this filing. The protected version will be provided on a separate CD under the terms of the Order to those parties who execute the associated non-disclosure agreement.


Clark Fork River
Flathead Lake
Kerr
Thompson Falls
Missoula
Ryan
Cochrane
Morony
Rainbow
Great Falls
Black Eagle
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Spion Kop
Hauser
Helena
MONTANA
Missouri River
Fort Peck Lake
Yellowstone River
Glendive
Colstrip
Colstrip
Dave Gates
Butte
Missouri River
Yellowstone River
Madison River
Madison
Billings
Mystic
Hebgen
PPL Hydro Facilities
NWE Gas Facilities
NWE Coal Facilities
NWE Wind Facilities

Summary Description of the Hydro Assets

Black Eagle

The Black Eagle development is located on the Missouri River, 2 miles northeast of Great Falls. The 924-foot-long Black Eagle dam includes:

- a 75-foot-long right gravity abutment (former intake) section;
- a 105-foot-long, post-tensioned, waste gate section, with eight 10.25-foot-wide by 9.75-foot-high sluice gates;
- a 648-foot-long overflow spillway with trippable flashboard panels (crest elevation = 3279 feet);
- an approximately 420-foot-long forebay with a 96-foot-wide stoplog intake at the upstream end; and
- an integral intake/powerhouse section containing three turbine/generator units with capacity of 21 MW (1927).

Cochrane

Cochrane is located on the Missouri River, 8 miles northeast of Great Falls. The Cochrane development consists of a 856-foot-long dam with:

- a 144-foot-long right abutment concrete gravity section;
- a 334-foot-long spillway section with seven 40-foot-wide by 25-foot-high radial gates and a 6-foot-wide by 12-foot-high vertical lift trash gate;
- a 188-foot-long integral intake and powerhouse section with two turbine-generator units with a total capacity of 69 MW (1958); and
- a 190-foot-long left concrete gravity section.

Hauser

Hauser development is located on the Missouri River, 14 miles northeast of Helena. The development comprises:

- Hauser Dam consists of a 717-foot-long, 128-foot-high (structural height) concrete gravity dam, at a dam crest elevation of 3640 feet. The dam consists of sections as follows:
    - Right Abutment – 40-foot-long to the right of the 47-foot opening of the forebay channel;
    - Forebay – 18-foot-wide upstream end of the Forebay, which is integral with the 87-foot-long Right Non-Overflow Section (105 feet total);
    - Spillway – 493-foot-long ogee including 5 bays with 20 vertical lift gates and 19 bays with flashboard gates;
    - Left Abutment – 32-foot-long non-overflow section with post-tensioned anchors.
- Forebay Dam perpendicular to the right abutment is approximately 250 feet long and 35 feet high to rock at the heel.
- Downstream powerhouse containing six turbine-generator units with capacity of 19 MW (1911/1914).

Hebgen

The Hebgen development is located on the Madison River, 25 miles north of West Yellowstone, and consists of a 88-foot-high, 721-foot-long earth embankment dam with a concrete core wall, including a 47-foot-long spillway with six, 7-foot-wide vertical slide gates; and a 667-foot-long concrete spillway chute, and an intake structure connecting to a 12-foot-diameter wood stave, concrete encased outflow pipe.

Holter

Holter is located on the Missouri River, 43 miles northeast of Helena. The development comprises:

- Holter Dam is a 1,364-foot-long, 124-foot-high concrete gravity dam, with a dam crest elevation of 3,568 feet. The dam consists of the following sections:
  - Right Gravity Section – 88-foot-long concrete non-overflow section;
  - Spillway Training Wall;
  - Spillway – 682-foot-long ogee including 10 bays with vertical lift gates and 21 bays with flashboard gates;
  - Intake/Powerhouse – 210-foot-long section; and
  - Left Gravity Section – 374-foot-long non-overflow section with post-tensioned anchors.
- Powerhouse containing four turbine-generator units with capacity of 48 MW (1918).

Kerr

The Kerr Project is located on the Flathead River, 5 miles southwest of Polson and comprises:

- a 200-foot-high concrete arch dam with left and right thrust blocks;
- a left abutment concrete intake structure;
- a concrete gravity section between the left thrust block and intake structure;
- an earth embankment at the right abutment;
- a concrete gravity section between the right thrust block and earth dike; and
- a downstream powerhouse with three turbine-generator units with capacity of 194 MW (1938/1954).

Madison

The Madison development, located on the Madison River, 10 miles north of Ennis, consists of:

- a 39-foot-high, 257-foot-long dam, with concrete slabs overlying timber cribs including a 70-foot-long right gravity section; a 37-foot-long intake section; a 140-foot-long overflow spillway with trippable slide panels, with a crest elevation of 4832.7 feet;
- a 7,500-foot-long steel flow line;
- a concrete surge chamber, with a wood overflow spillway;
- four 9-foot-diameter riveted steel penstocks and
- a powerhouse containing four turbine/generator units with capacity of 8 MW (1906).

Morony

Morony is located on the Missouri River, 15 miles northeast of Great Falls. The Morony development consists of an 842-foot-long concrete gravity dam, with:

- a 68-foot-long right abutment gravity section;
- a 390-foot-long spillway section, with nine 34-foot-wide by 24-foot-high radial gates and a 7-foot-wide by 10.5-foot-high vertical lift trash gate;
- a 195-foot-long integral intake and powerhouse section with two turbine-generator units with total capacity of 48 MW (1930); and
- a 189-foot-long left gravity section.

Mystic

Mystic is located on West Rosebud Creek, 75 miles southwest of Billings. Mystic Lake Dam is a 45-foot-high, 368-foot-long concrete arch-type structure. Water from the lake flows through the project's 1.9-mile-long flow line to a surge tank,

through a 0.5-mile-long steel penstock, to the powerhouse which contains two turbine-generators with an installed capacity of 12 MW (1925). After exiting the powerhouse, water re-enters West Rosebud Creek and flows for a distance of about one mile to West Rosebud Lake which is impounded by the re-regulation dam. The re-regulation dam is a 19-foot-high by 420-foot-long earth-filled structure that modulates peaking flows from the powerhouse.

Rainbow

Rainbow is located on the Missouri River, 6 miles northeast of Great Falls. The Rainbow development consists of a 1,405-foot-long dam, with:

- a 78-foot-long waste gate section, with five 8-foot-wide by 10-foot-high sluice gates;
- a 545-foot-long overflow spillway with trippable flashboards and a crest elevation of 3214 feet;
- a 519-foot-long overflow section with two inflatable rubber dam gates and a crest elevation of 3212 feet;
- new Unit 9 intake structure;
- new Unit 9 power canal;
- new Unit 9 penstock;
- a new downstream powerhouse containing one 60 MW turbine/generator unit (2013); and
- Rainbow shop and administration building with system control room.

Ryan

Ryan is located on the Missouri River, 10 miles northeast of Great Falls. The Ryan development consists of a 1,465-foot-long dam with:

- a 100-foot-long, post-tensioned, right gravity section;
- a 1,000-foot-long overflow spillway with 5-foot-wide by 14-foot-high trippable, wheeled flashboard panels;
- a 130-foot-long, post-tensioned, waste gate section with six operable 6-foot-diameter, riveted-steel, low-level conduits controlled by 7-foot-wide by 7-foot-high cast iron gates; and a 10-foot-wide by 12-foot-high, vertical lift trash gate;
- a 135-foot-long, post-tensioned, intake section with six 12.7-foot-diameter penstocks;
- a 100-foot-long left abutment gravity section; and
- a non-integral powerhouse containing six turbine/generator units with a total capacity of 60 MW (1915/1916).

Thompson Falls

The Thompson Falls Project, located on the Clark Fork River at the town of Thompson Falls comprises:

- a 1,016-foot-long, 50 foot high concrete Main Dam, including a 913-foot-long spillway with two 41-foot-wide by 18-foot-high radial gates and stoplog overflow sections;
- a 449-foot-long concrete Dry Channel Dam, including a 289-foot-long stoplog overflow section, and a 122-foot-long, 38-foot-high concrete gravity non-overflow section with 10 sealed low-level sluices;
- old powerhouse and intake structure with six turbine-generator units with total capacity of 44 MW (1915); and
- integral intake and new powerhouse with one turbine-generator unit of 50 MW capacity (1995).

EXHIBIT__(WTR-5)

Part 12 Safety Inspections

Black Eagle 9th Part 12 Safety Inspection Report- 2009	Exhibit__(WTR-5.1)
Cochrane 10th Part 12 Safety Inspection Report- 2013	Exhibit__(WTR-5.2)
Hauser 9th Part 12 Safety Inspection Report- 2010	Exhibit__(WTR-5.3)
Hebgen 9th Part 12 Safety Inspection Report- 2010	Exhibit__(WTR-5.4)
Holter 9th Part 12 Safety Inspection Report- 2010	Exhibit__(WTR-5.5)
Kerr 10th Part 12 Safety Inspection Report- 2011	Exhibit__(WTR-5.6)
Madison 9th Part 12 Safety Inspection Report- 2010	Exhibit__(WTR-5.7)
Morony 9th Part 12 Safety Inspection Report- 2009	Exhibit__(WTR-5.8)
Mystic 10th Part 12 Safety Inspection Report- 2013	Exhibit__(WTR-5.9)
Rainbow 10th Part 12 Safety Inspection Report- 2013	Exhibit__(WTR-5.10)
Ryan 9th Part 12 Safety Inspection Report- 2009	Exhibit__(WTR-5.11)
Thompson Falls 10th Part 12 Safety Inspection Report- 2011	Exhibit__(WTR-5.12)

Exhibit__(WTR-5) includes Critical Energy Infrastructure Information and has been redacted in its entirety in accordance with Protective Order No. 7323 ("Order"). This protected exhibit will be provided on CD under the terms of the Order to the Commission and those parties who execute the associated non-disclosure agreement.

EXHIBIT__(WTR-6)

Annual FERC Dam Safety Inspections

Black Eagle Annual Dam Safety Inspection Report- 2012	Exhibit__(WTR-6.1)
Cochrane Annual Dam Safety Inspection Report- 2012	Exhibit__(WTR-6.2)
Hauser Annual Dam Safety Inspection Report- 2012	Exhibit__(WTR-6.3)
Hebgen Annual Dam Safety Inspection Report- 2013	Exhibit__(WTR-6.4)
Holter Annual Dam Safety Inspection Report- 2013	Exhibit__(WTR-6.5)
Kerr Annual Dam Safety Inspection Report- 2013	Exhibit__(WTR-6.6)
Madison Annual Dam Safety Inspection Report- 2013	Exhibit__(WTR-6.7)
Morony Annual Dam Safety Inspection Report- 2012	Exhibit__(WTR-6.8)
Mystic Annual Dam Safety Inspection Report- 2012	Exhibit__(WTR-6.9)
Rainbow Annual Dam Safety Inspection Report- 2012	Exhibit__(WTR-6.10)
Ryan Annual Dam Safety Inspection Report- 2012	Exhibit__(WTR-6.11)
Thompson Falls Annual Dam Safety Inspection Report- 2013	Exhibit__(WTR-6.12)

Exhibit__(WTR-6) includes Critical Energy Infrastructure Information and has been redacted in its entirety in accordance with Protective Order No. 7323 ("Order"). This protected exhibit will be provided on CD under the terms of the Order to the Commission and those parties who execute the associated non-disclosure agreement.

Carrie A Harris
Manager, Engineering & Projects

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Butte MT 59701-9704
Tel. 406.533.3429 Fax 406.533-3401
caharris@pplweb.com

October 1, 2013

bcc: File
FERC Ease
e-mail: GDC/JHJ/JCC/CAH

PPL Letter Nos. *PPLM-ALL-3078*
FERC-ALL-2026
PPLM-ALL-2982

Douglas L. Johnson, P.E., Regional Engineer
Federal Energy Regulatory Commission
805 SW Broadway, Suite 550
Portland, OR 97205

Re: FERC Project Nos. P-005, P-1869, P-2188 and P-2301
Owner's Dam Safety Program (OSDP) Revisions

Dear Mr. Johnson:

In response to you office's August 1, 2013 request for revisions, enclosed please find PPL Montana's (PPLM) Owner's Dam Safety Program, Revision 1 for the following PPLM owned FERC Licensed Projects:

- FERC Project No. P-0005 — Kerr Hydroelectric Development
- FERC Project No. P-1869 — Thompson Falls Hydroelectric Development
- FERC Project No. P-2188 — Missouri-Madison Project
  - (01) Morony Hydroelectric Development
  - (02) Ryan Hydroelectric Development
  - (03) Cochrane Hydroelectric Development
  - (04) Rainbow Hydroelectric Development
  - (05) Black Eagle Hydroelectric Development
  - (06) Holter Hydroelectric Development
  - (07) Hauser Hydroelectric Development
  - (08) Madison Hydroelectric Development
  - (09) Hebgen Development
- FERC Project No. P-2301 — Mystic Hydroelectric Development

We hope to discuss the content of the ODSP in our next annual interface meeting. Questions or comments regarding this matter can be directed to me at (406) 533-3429 or via email to caharris@pplweb.com.

Sincerely,

Carrie Harris

Carrie Harris

Federal Energy Regulatory Commission

Owner's Dam Safety Program

PPL MONTANA

September 2013

ODSP Revision Tracking

Rev. No	Content	Rev. Date
0	Original	October 29, 2012
1	Address FERC 8/1/13 comments	September 30, 2013

PPL Montana

Owner's Dam Safety Program

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B. Corporate Policy 407 – Records Management

PPL Montana Owner's Dam Safety Program

Our PPL Montana Hydro Organization is committed to protecting the health and safety of our employees, customers and communities and to operate our dams in a reliable and environmentally responsible manner. Safety is a key "Core Value" integrated into all aspects of our business including dam safety. We are committed to develop and maintain a culture of full employee participation, ownership, and teamwork leading to world class dam safety performance.

- We believe that our employees are the first line of defense in detecting and preventing dam safety incidents.
- Every Hydro employee has the responsibility to report observations and changed conditions which may have an effect on dam safety with no fear of reprisal.
- There will be no conflict between dam safety and production, emergent dam safety issues will be addressed expediently over production.
- We are committed to continuous improvement in our dam safety program and to learning from every opportunity
- We will comply with the spirit and letter of 18 CFR Part 12, other FERC regulations, and other industry standards.

The content of this Owner's Dam Safety Program has been reviewed and approved by the undersigned.

Date

Pete Simonich
Vice President & COO
PPL Montana

1. Introduction

PPL Montana, LLC (PPLM) is an indirect, wholly-owned subsidiary of PPL Generation, LLC. The purpose of PPLM's Owner's Dam Safety Program (ODSP) is to provide for a robust and focused dam safety program to safeguard the public, the environment, and the hydroelectric dams owned and operated by PPLM in the State of Montana. The ODSP was developed in accordance with the requirements of 18 CFR Part 12 and provides a comprehensive summary that describes and places in context all of the elements of FERC dam safety practices utilized by PPLM.

The focus of this ODSP is to maintain safe dams and prevent dam failures. In particular, the ODSP is intended to improve PPLM's employees', contractors' and consultants' understanding and awareness of the need to fully comply with all necessary dam safety measures and requirements. The ODSP affirms the company's commitment to dam safety and promotes the expectation and responsibility of all employees to recognize and place dam safety as a highest priority, independent of business objectives. Specific goals of the ODSP include:

- Define employee responsibility for aspects of dam safety
- Facilitate the prompt detection, reporting, and remediation of developing deficiencies
- Outline the dam safety related training required of various individuals with a commitment to continuous improvement
- Review communication pathways for dam safety related matters both internally and externally
- Ensure that all personnel associated with the dams clearly understand and are constantly aware of the dam's potential failure modes and associated risk reduction measures
- Endorse the proper prioritization and allocation of funds and resources necessary to promote dam safety.

The PPLM owned FERC Licensed Projects covered by this ODSP are as follows:

- FERC Project No. P-0005 — Kerr Hydroelectric Development
- FERC Project No. P-1869 — Thompson Falls Hydroelectric Development
- FERC Project No. P-2188 — Missouri-Madison Project
  - (01) Morony Hydroelectric Development
  - (02) Ryan Hydroelectric Development
  - (03) Cochrane Hydroelectric Development
  - (04) Rainbow Hydroelectric Development
  - (05) Black Eagle Hydroelectric Development
  - (06) Holter Hydroelectric Development
  - (07) Hauser Hydroelectric Development
  - (08) Madison Hydroelectric Development
  - (09) Hebgen Development
- FERC Project No. P-2301 — Mystic Hydroelectric Development

2. Terms and Definitions

Assessment – A documented routine review conducted to evaluate the performance or effectiveness of an activity.

Audit – An objective examination and evaluation of dam safety and regulatory compliance or effectiveness in accordance with a defined set of standards and a formal audit plan.

Chief Dam Safety Engineer (CDSE) – The engineer with responsibility and authority to ensure the Dam Safety Program is fully implemented and to ensure high standards are maintained for dam safety and regulatory compliance. The Chief Dam Safety Engineer is the single point of contact for non-emergency regulatory communications from PPL Montana to FERC. The Chief Dam Safety Engineer shall designate a qualified alternate to act in his or her absence.

Construction Quality Control and Inspection Plan (CQCIP) – A document that describes the qualifications, roles, and responsibilities of all parties responsible for ensuring that constructed work meets design requirements, and includes a plan for quality control inspection and testing to be implemented for construction or modifications.

Dam – An engineered barrier constructed to contain a body of water, or control the flow or level, relative to the Projects named in Section 1.

Dam Safety Inspection – A scheduled dam safety inspection performed in accordance with a documented inspection plan or checklist. These inspections will be performed by operations personnel, the Hydro Engineering staff, or other qualified consultants.

Dam Safety Performance Monitoring Program (DSPMP) – The Program developed by PPLM under Chapter 14 of the FERC's "Engineering Guidelines for the Evaluation of Hydropower Projects" incorporating a Supporting Technical Information document, a Potential Failure Modes Analysis and a Surveillance and Monitoring Plan to improve the ability of Owners, Consultants and the FERC to manage the risk associated with Commission-regulated hydro dams.

Dam Safety Surveillance and Monitoring Plan (DSSMP) – The DSSMP is a written monitoring plan that addresses the site-specific potential failure modes that are identified in the PFMA report and is designed to minimize the risk associated with the potential failure modes by providing early warning if the failure modes become active or worsen.

Dam Safety Surveillance and Monitoring Report (DSSMR) – The annual monitoring plan report summarizing site-specific data collected and analyzed as related to the early detection of trends indicating possible development of potential failure modes.

Emergency Action Plan (EAP) – A formal document that identifies potential emergency conditions at a dam and specifies pre-planned actions to be followed to minimize loss of life and property damage in the event of a dam failure or emergency.

Federal Energy Regulatory Commission (FERC) – The federal agency responsible for regulatory oversight of PPL Montana's hydroelectric dams summarized in Section 1.

FERC Dam Safety Inspection – A formal inspection conducted by a FERC inspector; annually for high hazard dams and bi-annually for low hazard dams.

FERC Part 12 Inspection – A formal inspection conducted at five year intervals by a FERC approved Independent Consultant in conjunction with the Chief Dam Safety Engineer and performed in accordance with Part 12D of the FERC's regulations.

Independent Consultant – A third-party consultant contracted by PPLM to perform FERC Part 12 Inspections or other specific inspections or analyses.

Modification(s) – Any activities including repair, reconstruction, or operational changes which in any way change the physical features or design of the dam from the state reflected in the plans, drawings or other documents filed with the FERC.

Owner's Dam Safety Program (ODSP) – This robust and focused dam safety program that has been put in place to protect the public, the environment, and the hydroelectric facilities to which it applies.

Owner – PPL Montana, LLC (PPLM).

Potential Failure Mode (PFM) – The chain of events leading to unsatisfactory performance of the dam or a portion thereof. The dam does not have to completely fail in the sense of a complete release of the impounded water.

Potential Failure Mode Analysis (PFMA) – An exercise to identify all PFMs under static loading, normal operating water level, and flood and earthquake conditions. This includes all external loading conditions for water-retaining structures and assessment of those PFMS of enough significance to warrant continued awareness and attention to visual observation, monitoring and remediation as appropriate.

Supporting Technical Information Document (STID) – A document prepared to capture the information necessary to have a complete and thorough understanding of the dam and the analyses completed that support the findings regarding the safety of the structure(s).

3. Dam Safety Policy, Objectives and Expectations

3.1 Policy

It is the policy of PPLM to maintain a safe operation, fully compliant with its FERC licenses and applicable regulations. PPLM employees, contractors, and consultants shall be aware of public and personnel safety and implement this policy in the daily operation of PPLM's hydroelectric dams.

PPLM incorporates into its daily operations dam safety policies for the operation and maintenance of its hydroelectric dams in a manner that minimizes the potential hazards associated with our dams. Specifically, PPLM has a fully developed Dam Safety Performance Monitoring Program (DSPMP) developed in accordance with the Chapter 14 of the FERC Engineering Guidelines (Reference 11.6). The DSPMP is detailed in our site specific Dam Safety Surveillance and Monitoring Plans (DSSMP) (Reference 11.3) and reported on annually to the FERC Regional Office in Dam Safety Surveillance and Monitoring Reports (DSSMR) (Reference 11.4). Additionally, PPLM abides with other 18 CFR Part 12 annual dam safety requirements such as those summarized in the FERC Regional Office Annual Letter (Reference 11.5) like spillgate gate testing and Emergency Action Plan development and testing.

3.2 Objectives

The objective of PPLM's Owner's Dam Safety Program is to maintain dam safety as a priority for its business at all times. PPLM seeks to continually improve dam safety through continued implementation of the following program initiatives:

3.2.1 Clear definition of dam safety roles and responsibilities;

3.2.2 Continued implementation of a dam safety training program;

3.2.3 Clear communication protocols emphasizing reporting with no fear of reprisal;

3.2.4 Utilization of effective record keeping systems and project databases;

3.2.5 Succession planning;

3.2.6 Continuous improvement;

3.2.7 Audits and assessments; and

3.2.8 Effective and safe design, construction, operation, surveillance, monitoring and inspection of dams. This includes consolidation of current dam safety practices by reference into the overall ODSP including:

- Dam Safety Surveillance and Monitoring Plans (DSSMP) and Reports. Note that inspection and other dam safety practices utilized by the Owner are defined in the DSSMP, as opposed to the ODSP;
- Annual Dam Safety Inspections;
- Part 12 Independent Consultant Safety Inspections;
- Potential Failure Mode Analysis;
- Supporting Technical Information Documents;
- Emergency Action Planning;
- Construction Quality Control and Inspection Plans (CQCIP);
- Dam security plans; and
- Other Project-specific procedures, inspections, evaluations and studies, including:
    - FERC License Articles, Orders, and Operational requirements of the individual FERC Licenses covered by this program.

3.3 Expectations

PPLM recognizes that dam safety is the responsibility of employees in our company and that our employees are the first line of defense against dam safety failures and incidents. As such, it is our expectation that communication of potential problems or concerns is supported at all levels of the organization and encouraged at all times. Contractors and consultants employed by PPLM are educated on how their work may affect dam safety and are expected to comply with the same communication obligations as PPLM employees.

3.3.1 It is the policy of PPLM to maintain safe and compliant operation of its FERC regulated dams as a first priority. PPLM's employees, consultants and contractors shall implement this policy in their work activities.

3.3.2 PPLM expects that its employees, agents, consultants and contractors performing services for a FERC licensed facility will fully comply with all of FERC's dam safety related requirements. This includes:

- The requirement to use sound and prudent engineering practices in any action relating to the design, construction, operation, monitoring, maintenance, use, repair, or modification of such dams (18 C.F.R. 12.5).
- The requirement for PPLM to notify FERC about the following, in the manner specified in the cited regulations:
  - As to any condition affecting the safety of a project or project works (18 C.F.R. 12.10); and
  - As to any modification to the project or project works (18 C.F.R. 12.11).
- The requirement to comply with all additional items specified in the FERC licenses and standard requirements of the FERC regional office.

3.3.3 PPLM will communicate these requirements to the applicable employees, agents, consultants and contractors by discussing it with them. The Chief Dam Safety Engineer or his or her designee is authorized to determine the proper level of training required of such employees, agents, consultants or contractors based on his or her judgment as the relevant factors, including, but not limited to, the following: prior experience,

background, expected services to be performed, and the impact of such services on dam safety, and compliance with regulations.

3.3.4 Each year the Vice President/Chief Operating Officer at PPLM will issue a signed statement documenting the company dam safety philosophy to the employees.

4. Responsibilities for Dam Safety

The PPLM organization has many people with responsibilities regarding dam safety. The responsibilities of program personnel are designed to identify dam safety issues in a timely manner, evaluate the significance of the identified issue, communicate those issues to the appropriate supervisory personnel and evaluate overall dam performance on an ongoing basis.

PPLM considers the dam safety program to be a bottom up organization, where every individual from the Assistant Plan Operators to the COO are engaged and knowledgeable of their responsibilities related to ensuring dam safety. As such, senior management recognizes and understands the risks associated with dam ownership and manages PPLM hydro with a questioning attitude in an engaged supportive environment.

The descriptions of position duties and responsibilities herein are limited to those duties and responsibilities directly related to the ODSP and do not reflect the complete scope of all of a particular position's duties or other responsibilities within the PPLM organization.

4.1 Vice President & Chief Operating Officer – Montana (VP/COO PPLM)

Pete Simonich, Vice President/Chief Operating Officer, is the senior company operating official in the PPLM organization that is responsible for ensuring PPLM is operating in accordance with all regulatory compliance obligations.

4.2 Director Environmental & Engineering Compliance

Reports to the VP/COO and directly oversees all the regulatory compliance obligations within PPLM.

4.3 Chief Dam Safety Engineer – (Manager – Engineering & Projects)

Carrie Harris, Manager – Engineering & Projects, is the person identified in the ODSP as the Chief Dam Safety Engineer (CDSE) and has responsibility and authority to ensure the ODSP is fully implemented. Her resume is included in Appendix A.

She provides oversight of engineering and operational activities related to dam safety and works collaboratively with the hydro plant management and staffs to enhance dam safety. She makes certain a Dam Safety Training Plan is developed and implemented, as described in this program. She confirms the DSSMPs are developed and implemented, as required by the FERC. She reviews and approves the annual DSSMRs as required by the FERC. She takes necessary corrective action when dam safety is in question and will issue an oral or written stop work order for operational activities or a plant shutdown if necessary to place an affected dam in a safer condition.

In addition to tasks directly related to the FERC dam safety program, the CDSE reviews all structural, operational, and management modifications to projects for their effect on dam safety. The Chief Dam Safety Engineer is the single point of contact for non-emergency regulatory communications from PPLM to FERC and reports directly to the Director Environmental & Engineering Compliance.

4.4 Manager Hydro Operations & Maintenance

The Manager Hydro O&M reports directly to the VP/COO and is the manager responsible for working with the Chief Dam Safety Engineer and Hydro Engineers to ensure dam safety is being implemented by plant operations personnel. He/she is responsible for notifying the Chief Dam Safety Engineer before a plant modification affecting dam safety is made.

4.5 Supervisor Hydro

The supervisor(s) that are responsible for notifying the Chief Dam Safety Engineer if a condition is identified which potentially affects dam safety. The Supervisor Hydro reports directly to the Manager Hydro Operations & Maintenance.

4.6 Equipment Reliability Manager

A manager reporting directly to the Manager Hydro O&M that oversees work management and reporting within the enterprise software systems for PPLM hydro. The Equipment Reliability Manager supervises some of the O&M Engineers with dam safety responsibilities defined herein.

4.7 Hydro Engineer

The Hydro Engineers report directly to the Chief Dam Safety Engineer and are responsible for maintaining surveillance and monitoring scheduling, maintaining surveillance and monitoring work orders, evaluating surveillance reports, collecting instrumentation data as needed, evaluating instrumentation data, conducting inspections related to dam safety as needed, managing instrument maintenance and preparing the annual DSSMRs. They communicate monitoring data evaluations, inspection reports, the annual DSSMRs and other dam safety surveillance or monitoring correspondence to the affected plant foreman, his or her Supervisor and the Chief Dam Safety Engineer.

4.8 Hydro O&M Engineer

The O&M Engineers are responsible for maintaining the surveillance and monitoring work management and reporting within the enterprise software systems. The Hydro O&M Engineers report directly to the Manager Hydro Operations & Maintenance or the Equipment Reliability Manager.

4.9 Hydro Compliance Professional

Boyd Burnett, a Hydro Compliance Professional, reports directly to the Manager – Engineering & Projects. This position within the Hydro Engineering Department is very similar to the Hydro Engineer position; however, the individual specifically functions as the EAP Coordinator then fulfills the same duties of the Hydro Engineers as time allows. The EAP Coordinator is responsible for all duties required to maintain, exercise and train affected persons on the Emergency Action Plans for PPLM's twelve hydroelectric facilities per the Code of Federal Regulations Chapter 12 Subpart C.

4.10 Hydro Administrative Assistant

The Hydro Administrative Assistant reports directly to the Manager – Engineering & Projects. The Assistant provides support to the entire Hydro Engineering Staff and has responsibility for implementing the Document Management Program described in Section 7.

4.11 Hydro Foreman

The Hydro Foreman is responsible for scheduling surveillance and monitoring work items as provided in the DSSMP. He/she provides oversight of operational activities related to dam safety and works collaboratively with the Hydro Engineers to assure the implementation of the DSSMP. He/she confirms the surveillance and monitoring data are entered in their respective data forms within the schedule specified by the DSSMP. The Hydro Foreman or his or her designate is the single point of contact for surveillance and monitoring data. The Hydro Foreman reports directly to a Supervisor Hydro.

4.12 Operator Maintenance

The Operator Maintenance person performs dam operations, maintenance, and inspection duties assigned by the Foreman or Supervisor Hydro. Operator Maintenance employees are the plant personnel with the responsibility for conducting the dam safety surveillance activities and instrumentation data collection as specified by the DSSMP. The Operator Maintenance reports directly to a Hydro Foreman or Supervisor Hydro.

4.12.1 A job description within the Operator Maintenance position is the Hydro System Operator (HSO). The people in this role staff the Hydro Operations Generation Control Center (GCC) on a 24X7 schedule. The HSO is responsible for making many of the calls associated with implementation of the Emergency Action Plan in the event of a dam safety emergency resulting in an uncontrolled release of the reservoir.

4.13 Hydro Supervisor On-Call

The Hydro Supervisors On-Call are a group of Hydro Managers, Supervisors and O&M Engineers who rotate a 24X7 on-call schedule to assist Hydro Operators in responding to unplanned events during non-business hours. The "PPL Montana Hydro Supervisor On-Call Procedure Notification Requirements" (Reference 11.8) includes specific details and responsibilities of the Hydro Supervisor On-Call.

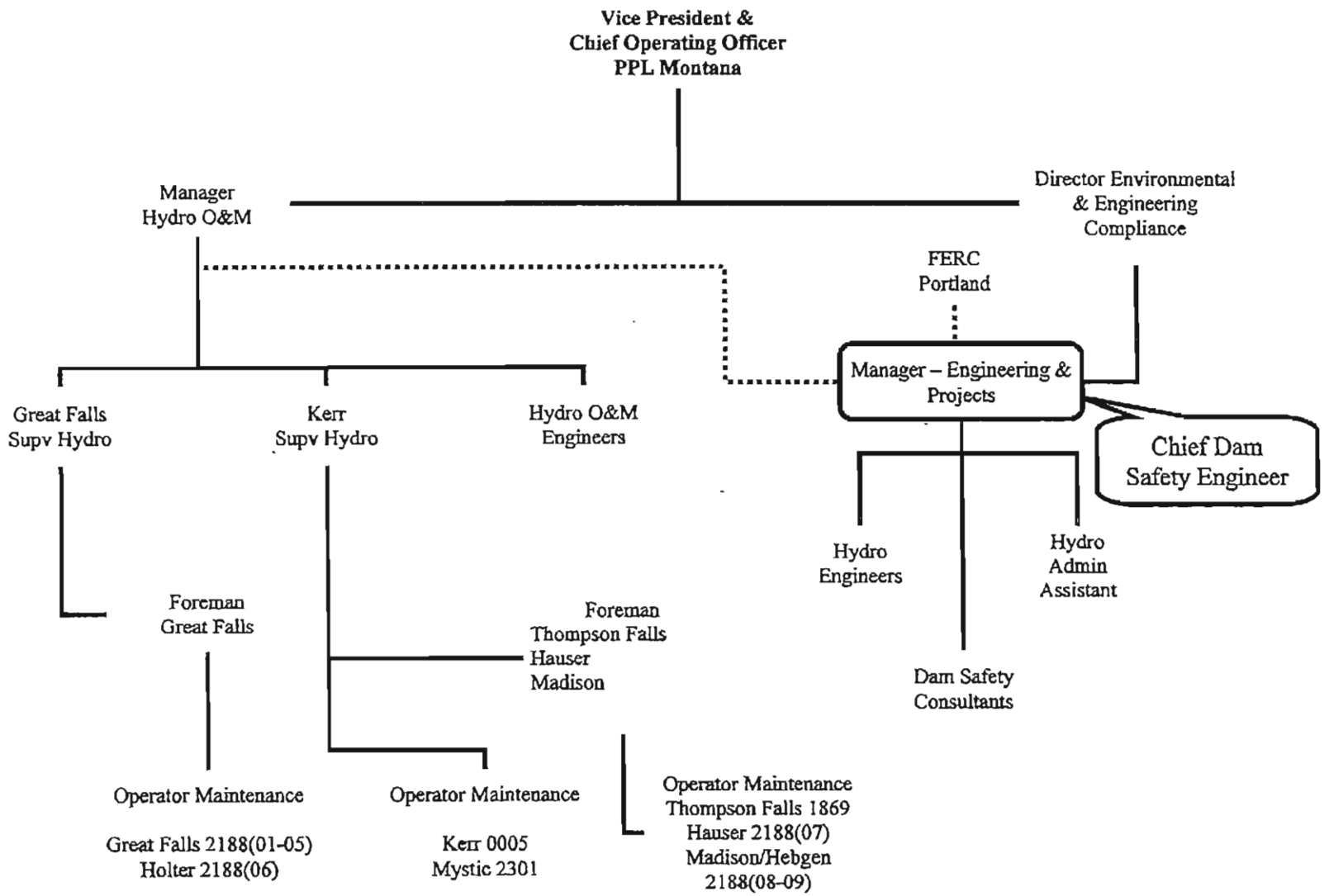
4.14 Director – Montana External Affairs

The Director of Montana External Affairs serves as a single point of contact for interaction with the media concerning site conditions during dam safety emergencies.

4.15 Part 12D Independent Consultant

The Part 12D Independent Consultant (IC) is a licensed professional engineer, approved by FERC under contract with PPLM to "independently" conduct periodic Part 12D (dam safety) inspections of PPLM's FERC licensed facilities as outlined in Code of Federal Regulations Chapter 12 Subpart D. The IC is contracted by and under the supervision of the Chief Dam Safety Engineer and his/ her staff in the course of performing his/her contractual duties.

The following page illustrates PPL Montana's OPSP organization and communication paths:


Vice President &
Chief Operating Officer
PPL Montana
Manager
Hydro O&M
Director Environmental
& Engineering
Compliance
FERC
Portland
Manager – Engineering &
Projects
Chief Dam
Safety Engineer
Great Falls
Supv Hydro
Kerr
Supv Hydro
Hydro O&M
Engineers
Hydro
Engineers
Hydro
Admin
Assistant
Foreman
Great Falls
Foreman
Thompson Falls
Hauser
Madison
Dam Safety
Consultants
Operator Maintenance
Great Falls 2188(01-05)
Holter 2188(06)
Operator Maintenance
Kerr 0005
Mystic 2301
Operator Maintenance
Thompson Falls 1869
Hauser 2188(07)
Madison/Hebgen
2188(08-09)

5. Dam Safety Training Program

Annual Dam Safety Training is conducted for all Hydro Operator Maintenance personnel and their supervision. The Training Program shall be implemented for other personnel involved in the operation or modification of hydroelectric dams on a level appropriate to the assigned responsibilities. The Training Program includes training for management, operations, maintenance, engineering, consultants, and contractors, as appropriate. A more detailed outline of training modules is provided in the Dam Safety Surveillance and Monitoring Plans – Appendix C (Reference 11.4).

In establishing and maintaining the Training Program, the Chief Dam Safety Engineer shall consider, and make use of, all appropriate materials, such as PPLM Hydro Engineers, FERC's Part 12 Regulations and its Engineering Guidelines for the Evaluation of Hydropower Projects, as well as opportunities to attend seminars, conferences and FERC training programs as appropriate.

The dam safety Training Program includes the following features:

5.1 General and site-specific training focused on dam safety awareness.

5.2 Presentation of the PPLM policies regarding dam safety.

5.3 Recognition of potential dam safety scenarios, including, but not limited to, a review of Potential Failure Modes (PFMs)

5.4 Inspection and monitoring techniques, including a review of the elements of the DSSMP.

5.5 Instrumentation training, including reading, maintenance and calibration.

5.6 Documentation and communication procedures.

5.7 EAP development and implementation, including understanding of life safety and property impacts, inundation mapping, and affected agencies, to include, as appropriate:

- Annual site-specific EAP refresher training
- Annual EAP drills for each river basin, rotating through the plants in the subject river basin. This training is performed to ensure the accuracy and workability of the EAP

and to test the state of training of key personnel responsible for responding to dam safety emergencies both internal and external to the company.

- Attendance at EAP Tabletop and Functional Exercises for appropriate personnel.

6. Communications, Coordination, Reporting & Reports

6.1 Internal Communications

6.1.1 Personnel in Hydro Operations & Maintenance, Hydro Engineering, and other support groups shall notify the Chief Dam Safety Engineer before a proposed plant modification affecting dam safety is made. Additionally, operations supervisory personnel shall immediately notify the Chief Dam Safety Engineer or Hydro Engineers if a condition is identified, which potentially affects dam safety but does not necessarily require Emergency Action Plan (EAP) activation.

6.1.2 The following communication requirements shall be implemented by the PPLM hydro organization for the reporting of issues not requiring EAP activation:

- PPLM employees and consultants engaged in hydro operations or supporting activities shall report issues related to dam safety and regulatory compliance to their immediate supervisor.

- Supervisors and managers shall take immediate action if necessary to address issues related to dam safety and regulatory compliance. Additionally, they shall promptly notify the Chief Dam Safety Engineer or Hydro Engineers.

- Reported dam safety issues shall be recorded by a written report and will be evaluated and resolved by the Chief Dam Safety Engineer or Hydro Engineers, with corrective action taken if necessary. Records will be retained in accordance with the PPL Policy CP 407 Records Management (Reference 11.7).

6.1.3 A Hydro Engineer evaluates instrumentation data within 30 days of its collection. An evaluation report is forwarded to the Operator Maintenance person collecting the data, his/her immediate supervisor, the appropriate Supervisor Hydro Operations and the Chief Dam Safety Engineer.

6.1.4 The Chief Dam Safety Engineer shall regularly report dam safety issues to the Director Environmental and Engineering Compliance who in turn reports to the Vice President and Chief Operating Officer – Montana.

If an item of concern is noted outside of normal business hours, the Hydro Supervisor On-Call should be notified by the plant personnel noting the concern. The Hydro Supervisor On-Call may choose to notify the Chief Dam Safety Engineer of the incident or choose to activate the EAP if he/she determines the situation is serious enough to threaten the water retaining structures or result in an uncontrolled release of the reservoir. Refer to "The Hydro Supervisor On-Call Procedure Notification Requirements" (Reference 11.8) for additional information related to after-hour operational protocol. For additional emergency response protocols refer to PPLM's Site Specific Emergency Action Plans (Reference 11.9).

6.2 External Communications

6.2.1 The Chief Dam Safety Engineer (CDSE) is the single point of contact for non-emergency regulatory reporting of dam safety issues. Except for those immediate communications required by emergency plans, communications related to dam safety between PPLM and the FERC shall be routed through the CDSE.

6.2.2 The CDSE shall be specifically responsible for overseeing all aspects of the PPLM's compliance with Part 12 of Title 18 of the Code of Federal Regulations. That sphere of responsibility includes, but is not limited to, (i) reports to FERC of significant events relating to dam safety; (ii) the annual Guidelines, Dam Safety Surveillance Monitoring Report (DSSMR) to the FERC Regional Engineer; (iii) annual and Independent Consultant Part 12D dam safety inspections; (iv) maintenance, updates and functional exercises relating to the Emergency Action Plan (EAP) for each dam; (v) updates to drawings and progress reports as may be required for any construction; and (vi) maintenance, update and distribution of the Supporting Technical Information Document (STID).

7. Record Keeping and Databases

The CDSE shall verify the retention and maintenance as permanent records the relevant documents and data related to design, construction, operation, inspection, surveillance, and maintenance of the dam including, but not limited to: design reports, drawings, specifications, construction reports, dam safety inspection reports, photographs, instrumentation details and data, dam safety program audit reports, incident tracking, and training programs. Upkeep of the Potential Failure Mode Analysis Reports, the Supporting Technical Information Documents, and the Part 12 Reports is delegated to the Hydro Engineering staff by the CDSE.

7.1 Document Control

Documents, electronic or paper, related to dam safety and FERC regulatory compliance are retained in accordance with PPL Records Management Policy CP 407 (Reference 11.7). The referenced policy provides for the retention of critical and other relevant documents and data related to design, construction, operation and maintenance of the dams. A PPLM Hydro specific inventory of our records includes the retention schedule as prescribed by the Policy as well as the permanent record storage location.

The Hydro Administrative Assistant is responsible for assuring the PPLM Hydro document inventory log is up-to-date and the retention of all hydro records is performed in accordance with PPL Policy CP 407.

7.2 Correspondence with FERC

The Hydro Administrative Assistant is tasked with the responsibility to assign every piece of correspondence to and from FERC a unique PPLM tracking number. The correspondence is scanned into pdf format and saved in a backed-up group drive, providing ease of access by relevant PPLM employees regardless of physical location.

Correspondence with FERC is also logged in a database to help ensure regulatory compliance submittal deadlines are met. PPLM utilizes a database program titled "FERC Ease" to log and track all FERC correspondence and compliance items. For items requiring a follow-up action by PPLM, FERC Ease provides for the assignment of responsible persons and due dates with a

feature to include an email notification to specific individuals that an item is coming due. In addition to correspondence items to and from FERC, recurring compliance activities, like spillgate operations testing, can be also logged in FERC Ease so that reminders can be sent as the due date is approaching.

In addition to FERC Ease entry, small or routine items identified as requiring follow-up during inspections are assigned to plant personnel for corrective action via an Outlook Task from the CDSE to the appropriate supervisor. Those items can then simply be completed; entered into CCATS (a compliance action tracking program) for assignment and completion; or entered into Asset Suite (PPLM's maintenance management program) for completion.

Larger items identified as needing follow-up during inspection, but not requiring immediate action as related to dam safety, are prioritized and submitted as a budget request for completion in a subsequent year. The Chief Dam Safety Engineer is responsible for assuring the items receive proper priority during the budget process. In addition, the CDSE must submit to and seek approval from the FERC any of PPLM's plans and schedules to address dam safety related items.

7.3 Drawings

PPLM drawings are managed and maintained by PPLM's Central Documents Management Center (CDMC). Change management is facilitated through a facilitated and controlled Document Change Notice (DCN) process. An electronic file of the most current revision of a drawing is accessible through the Montana Archive Drawings (MAD) database. Paper copies can be printed directly from MAD or requested from the CDMC.

In addition, the Chief Dam Safety Engineer is responsible for keeping current project changes on FERC Exhibit F Drawings which are also controlled by the DCN process and filed in electronic and aperture card format with the FERC.

8. Succession Planning

PPLM has a robust succession planning program. The program includes a corporate Strategic Workforce Plan to focus on actions to be taken by PPL Corporation Business Lines for successful workforce planning. To facilitate succession planning, PPLM is participating in a PPL Generation, LLC program titled the "Knowledge Management" (KM) Program which is a systematic assessment to help prepare to meet future workforce needs. The process helps identify, inventory, organize and share critical knowledge and skills within PPL Generation. For all positions identified as having a high numeric rating in the critical skills category (such as the Chief Dam Safety Engineer) a plan is formulated for retaining the critical knowledge and skills prior to the position is vacated.

Under the KM Program, it is the responsibility of the Chief Dam Safety Engineer to annually review his or her workforce where the department is at risk of losing critical skills in the near future. The annual re-evaluation provides for real time adjustment of risk levels. Specific knowledge management and retention activities are completed for a position as the risk factor increases above set action levels prior to any position being vacated, including the responsibilities of the Chief Dam Safety Engineer included in the duties of the Manager Engineering & Project .

In addition, within the Hydro Engineering group that is responsible for overseeing the dam safety program, cross training and mentoring occurs continually among the hydro engineering staff. The cross training helps provide for relatively seamless coverage so that if an unplanned absence from work in any one of the positions occurs the others in the group can relatively easily cover the tasks of the absent person.

The Knowledge Management program is implemented throughout the hydro organization and is targeted to identify critical knowledge within powerhouse and support staff before positions are vacated. Knowledge retention is accomplished through updated documentation, procedures as well as hiring replacements ahead of retirements to allow for hands on mentoring.

9. Continuous Improvement

A core value of PPL is Performance Excellence. We have a personal commitment to excellence in all we do, taking great pride in our professionalism, attention to detail and continual improvement. Each employee understands that excellent day-to-day performance and a personal focus on results are essential. We create a supportive action–oriented environment, promoting employee growth through learning on the job and development programs. PPL Montana is committed to continuous improvement of its ODSP through education, peer reviews, and plan updates to reflect feedback from the FERC and changes to site conditions.

An important piece of PPLM's continuous improvement culture is the implementation of our corrective action process. When an unplanned incident occurs (or almost occurs, such as in a near hit event), whether it is related to lost generation, personnel safety, or dam safety employees are encouraged to report it without fear of reprisal. PPLM then utilizes a corrective action process to look into the event. Depending on the severity of an incident, the investigation may include a formal root cause analysis or be as simple as a self-check process. Regardless of the type of investigation, the corrective actions to prevent future recurrence of a similar incident are documented in CCATS (a compliance action tracking program) and communicated to all employees so they can learn of the incident thus helping to prevent recurrence.

The ODSP will be reviewed at least annually to assure that it reflects the current staffing and organizational structure of the company. The review will incorporate lessons learned from the ongoing implementation of the Program, information gathered from dam safety inspections and operating history, changes in the state-of-practice in dam safety, knowledge gained from training and the study of case histories of incidents and failures, and findings from audits of the ODSP. As appropriate, updates and changes will be made to the ODSP, the DSSMPs and/or the annual DSSMRs.

In review of the ODSP, the CDSE shall identify any additional steps or improvements necessary for the safe operations, maintenance, security, and surveillance of the PPLM hydro developments. Outside consultants specializing in dam safety and civil engineering will be utilized for advice as needed.

10. Audits and Assessments

In order to evaluate whether PPLM's dam safety program is being implemented in accordance with the written ODSP, the Chief Dam Safety Engineer shall routinely assess PPLM's compliance with this ODSP and report his or her findings to PPLM's senior management. These assessments or audits will include, but are not limited to, the effectiveness of the ODSP and operational activities, operational compliance with, and improvement of the ODSP. The assessment shall be performed at least once per year. The findings of the assessment(s) shall be reported to PPLM VP/COO annually or upon completion if more frequent.

In addition to annual assessment by the Chief Dam Safety Engineer, an independent audit of the effectiveness of the program will be performed by a qualified dam safety expert every 5 years. The review will be conducted in conjunction with the Independent Consultant Part 12D Inspections. Utilizing a Part 12 consultant ensures the external audit will be conducted by consultants with expertise in dam safety.

These external Audits will include the following:

10.1 Interview the CDSE, dam safety staff, facility managers, staff engineers, and hydro plant technicians to determine their understanding of the ODSP and the implementation of their respective responsibilities.

10.2 Review operating and maintenance records for each facility to determine if proper notification procedures were followed.

10.3 Review DSSMRs for each facility to verify compliance with the DSSMP.

10.4 Review training records to verify that dam safety training is being provided in accordance with the plan.

10.5 Conduct interviews, examinations, or other methods to evaluate the effectiveness of training.

The CDSE shall review the external audit report and issue a summary report to the FERC Regional Engineer and senior management.

11. References

11.1 PPL Federal Energy Regulatory Compliance Manual for Jurisdictional Subsidiaries of PPL Corporation

11.2 Federal Energy Regulatory Compliance Matrix

11.3 Dam Safety Surveillance and Monitoring Plan (DSSMP)

11.4 Dam Safety Surveillance and Monitoring Report (DSSMR)

11.5 FERC Regional Office Annual Letter to Licensees

11.6 FERC Engineering Guidelines Chapter 14 – Dam Safety Performance Monitoring Program

11.7 PPL Policy CP 407 Records Management

11.8 PPL Montana Hydro Supervisor On-Call Procedure Notification Requirements

11.9 PPL Montana Site Specific Emergency Action Plans

11.10 Ameren Generation. 2006. The stipulation and Consent Agreement between FERC and Ameren, Dam Safety Program for FERC licensed Faculties. Accessed online at:

11.11 FERC Letter to all Licensees and Exemptees of high and significant hazard potential dams requiring submittal of an Owner's Dam Safety Program (ODSP).

Online at: http://www.ferc.gov/ industries/hydropower/safety/initiatives/odsp.asp

11.12a. Outline for Owner's Dam Safety Program

Online at:http://www.ferc.gov/industries/hydropower/safety/initiatives/odsp.asp

11.12b. What will FERC be looking for during FERC dam safety inspections:

Online at http://www.ferc.gov/industries/hydropower/safety/initiatives/odsp.asp

11.12c. Owners ODSP Self-Assessment Evaluation Parameters:

Online at: http://www.ferc.gov/ industries/hydropower/safety/initiatives/odsp.asp

APPENDICES

Appendix A

Resume of Chief Dam Safety Engineer

Carrie A. Harris

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Butte, MT 59701
e-mail: caharris@pplweb.com
(406) 533-3429 Work
(406) 490-1769 Cell

♦ Manager of Engineering & Projects, PPL Montana Hydro Generation ♦

As the Manager of Engineering & Projects, I function as the Chief Dam Safety Engineer and lead the Hydro Engineering staff to oversee the dam safety program, ensure all regulatory requirements are met, manage capital construction projects, and support operations and maintenance to ensure efficient and safe operation of PPL Montana's 12 hydro developments.

♦ Relevant Characteristics & Work Experience ♦

Progressive Minded	Actively promote continuous improvement of PPLM's Dam Safety program by researching and implementing new processes and procedures.
Safety Conscious	Safety is a personal value of mine and a core value of PPL Montana. I model my value of safety in my behavior and actions by considering safety in all decisions.
Professional Development	In the pursuit of continuous improvement, I regularly attend workshops and seminars with topics on dam safety. Examples are CEATI, HydroVision, FERC workshops, USSD, etc.
Dam Safety Experience	I have 20+ years' experience in hydro engineering and dam safety. I started as an intern in 1991 collecting dam safety monitoring data, was promoted to project supervisor in 2003, and was promoted to manager in 2010.
Leadership	As an active member of the PPLM Management team, a primary responsibility is to manage hydro's capital budget and the FERC dam safety program. To expand my leadership skills and build new professional relationships throughout the state, I am currently participating in Leadership Montana class of 2014.
Presentation Skills	I have made presentations at the state and national level on dam safety topics such as "Best Practices in EAP Activations", "Holter Spillway Trippable Stanchion Issues", and Hebgen Dam Stop Log Gate Failure.

♦ Education & Credentials ♦

- Licensed Professional Engineer — State of Montana — 1998
- Bachelor of Science Civil Engineering — Montana State University — 1993

♦ Dam Safety Related Training & Experience♦

- CEATI Workshop on Mitigating Impacts of Aging Infrastructure — March 2013
- Presenter HydroVision International — Best Practices for EAPs — July 2012
- CEATI Penstock Symposium: Learning from Best Practices, Incidents & Failures — March 2012
- FERC Northwest Fish Passage Training & Facilities Workshop — September 2011
- Presenter CEATI International — Holter Flashboard Gates — March 2011
- Presenter USSD Conference — Hebgen Intake Stoplog Failure. — April 2010
- Presenter MT Association of Dams & Canals — Hebgen Lake Stoplog Failure — August 2009
- Presenter FEMA National Dam Safety Technical Workshop — Hebgen EAP Activation Review — February 2009
- Various FERC Workshops on Risk Informed Decision Making, ODSPs, PFMA development, EAPs

Appendix B

PPL Corporate Policy 407

Records Management

Records Management (CP 407)

Issued: 08/08/02 **Updated:** 10/11/2010
Responsibility: VP - Chief Information Officer
Information Services Department
Purpose: Ensure that records are maintained the required length of time, according to applicable legal requirements and business needs, and in the appropriate location. Specifically:

- Ensure all corporate records are being retained/destroyed in compliance with all applicable legal requirements and records management policies and procedures.
- Ensure all non-records are destroyed after a relatively short period of time, unless a legal hold is in effect.
- Reduce the risk of loss of records by accidental or intentional destruction.

Applicability: This policy applies to all PPL domestic and international subsidiaries. Each PPL company must comply with this corporate policy unless it has its own specific records management policy. Such policy must be reviewed and approved by Document Management Services and the Office of General Counsel.

Contents

References
Definitions
Background
Policy
Responsibilities
Compliance and Exceptions

References

Standards of Integrity
Records Retention Schedule
Information Security, CP 403
Responsible Behavior Program Guidelines, GP 702
Records Destruction Procedures, GP 803

Definitions

Business Continuity/Disaster Recovery (BC/DR) plan - A BC/DR plan serves as the main resource for the preparation of, response to, and recovery from a disaster affecting any number of crucial business processes and functions within the company.

Destruction - The disposal of records that have reached the end of their retention period and non-records of no further value. Refer to Records Destruction Procedures, GP 803, for appropriate records disposal guidance.

Individual - Refers to any and all employees of the company, its contractors, consultants, and vendor representatives.

Record - Any document made or received, regardless of medium, that contains information relevant to the business of PPL or its affiliates and which needs to be retained because of its informational/historical value, as evidence of the functions, policies, decisions, procedures, operations, or activities of the company or for legal and regulatory requirements. The following are examples of records:

- Contracts/Agreements,

- Engineering Drawings,
- Customer correspondence, billing reports,
- Performance & Key Events Reports, financial statements, tax records,
- Employment applications, employee records,
- Corporate Policies & Procedures,
- Filings required by governmental agencies, etc.

Records must be retained in such a way that they remain authentic, reliable and accessible. For help in determining whether a particular document is a record, see the Decision Process – Record vs. Non-Record and direct questions to your department Records Management Coordinator, Document Management Services or the Office of General Counsel.

Non-Record – A document that can be destroyed at the discretion of the user, generally after a relatively short period of time, unless a legal hold is in effect. If a non-record needs to be kept for an extended period of time (more than two years), consideration should be given as to whether it is in fact a record and thus should be listed on a Records Retention Schedule. The following are examples of non-records:

- Convenience copies kept for reference,
- Informal notes of assignments,
- Telephone messages,
- Drafts,
- Published reference materials,
- Transmittal memos, etc.

Vital Records - Records containing information essential to the survival of an organization in the event of an emergency/disaster. Vital Records must be identified, adequately protected, accessible, and immediately usable in case of an emergency/disaster.

There are two types of vital records:

- **Emergency Operating Records** - Documents needed ***immediately*** after an emergency or disaster to continue key functions and activities, e.g., business continuity/disaster recovery plans, building plans, software source code, current standard operating procedures (SOPs), copy of vital records inventory, and other similar operating records.
- **Legal and Financial Rights Records** - Documents essential to protect the legal and financial rights of the company. These records include proof of ownership, financial interests and legal proceedings and decisions and are usually ***not required immediately*** after an emergency or disaster.

Vital Record Inventory – A list of records that have been identified as vital. The inventory should also provide information on how to locate and recover vital records.

Records Management - The systematic control of all records from their creation, use and maintenance to final disposition.

Records Retention Schedule – An established timetable that sets out the periods for which a company's records should be retained to meet its operational needs and to comply with legal and regulatory requirements.

Background

Records are the property of PPL and considered a valuable Company asset. As noted in the *Standards of Integrity*, "PPL needs to maintain complete and accurate records of all business transactions."

The scope of this policy encompasses all records created and/or received by each company, regardless of their media format (e.g., electronic, paper, book, microfilm, photographic, magnetic, laser optics, map, drawing, etc.). Each company is responsible for:

- Effectively managing, maintaining, and disposing of the records within its domain based on all applicable legal requirements relating to the preservation and destruction of records, and
- Identifying and appropriately safeguarding vital records.

All individuals must adhere to the records retention policy established by their company. All non-records should be destroyed after a relatively short period of time unless they are subject to a legal hold.

Vital Records Protection

The main protection method for Vital Records is through:

Duplication – The scheduled reproduction of records and information specifically for vital records protection. Duplication does not require duplication of the original media.

Dispersion - Sending copies of vital records to locations other than those where the originals are housed.

Vital records that are transferred to PPL's Records Center are stored with additional protection. All records that are retained by its PPL owner must be adequately protected; duplication and dispersion techniques should be considered to adequately protect vital records.

Policy

Each company must establish and implement an appropriate records retention program that meets the following minimum requirements:

1. Records are retained at least for the minimum legally required period. Non-records are destroyed after a relatively short period of time.
2. Records that may substantially affect the obligations of the company are retained for a period of time that reasonably assures the availability of those records when needed
3. A process is in place that provides for destruction of records in accordance with the Record Retention Schedule.
4. A process is in place to assure destruction of appropriate records or non-records can promptly be stopped when notified of actual or anticipated litigation or investigation by a regulatory agency.
5. Records are appropriately safeguarded.
6. The privacy and security of records are maintained.
7. Records are properly retained, regardless of the media in which they are stored (e.g., electronic, paper, book, microfilm, photographic, magnetic, laser optics, map, drawing, card, etc.).
8. Supports cost reduction by performing, when appropriate,:
    - The periodic, systematic transfer of inactive records to off-site storage facilities.
    - The maintenance of efficient filing systems in records storage areas.
    - The periodic review by employees of files for the purpose of timely deletion of non-records and records in accordance with the Records Retention Schedule.
9. At the end of a record's retention period, as established in the Records Retention Schedule, if there are no legal or tax holds, it should be destroyed.

10. A process is in place to periodically monitor compliance with this policy and applicable procedures and to take corrective action as appropriate.

Each company shall comply with the following training requirements:

1. The company's Records Management Coordinator(s) must complete certification training provided by ISD.
2. All company personnel must complete the designated training as determined by the appropriate Records Management Coordinator in conjunction with ISD Document Management Services.

Responsibilities

PPL Companies - The senior officer is responsible for ensuring a records retention program is established and implemented for their company. This program should document the methods used to retain, preserve and dispose of records. Additionally, if the company has identified vital records, it must have a plan to protect, safeguard and have available in case of an emergency.

Each company should identify a "Records Management Coordinator" to act as the senior officer's designee for all records management-related issues.

Records Management Coordinator

- Acts as the contact for all company specific records management-related inquiries.
- Develops and implements programs covering company-specific recordkeeping requirements.
- Establishes the objectives and responsibilities for recordkeeping requirements.
- Establishes procedures for retention and migration/conversion methods for electronic records.
- Assists with the maintenance of the Records Retention Schedule and initiates needed changes resulting from operational or legal/regulatory requirements.
- Identifies vital records and establishes procedures to ensure their protection.
- Notifies employees of their records management responsibilities and training requirements.
- Ensure all records management information is readily available to all employees.
- Whenever he/she becomes aware that litigation or regulatory investigation is threatened or anticipated ensures Office of General Counsel is notified immediately.
- Suspends destruction of records including those from departments or affiliates with related records, upon learning that a legal proceeding is anticipated.
- Completes Records Management certification training.
- Works with ISD's Document Management Services to determine appropriate Records Management training for all business personnel.
- Ensure the completion of an annual Records Management self assessment report.

Individuals - All individuals will be responsible for the appropriate use and handling of the corporate records they deal with, remembering that the records are the property of the corporation and not to be considered their personal property. Refer to Information Security, CP 403, for contractor, consultant and vendor representative information access.
All individuals complete assigned records management training.

ISD-Document Management Services - DMS is responsible for interpreting any portion of this policy, the Records Retention Schedule, or records management procedures as they may apply to specific situations. DMS personnel are available to assist in the development

of company records retention programs. DMS is also responsible for developing and delivering certification training for the Records Management Coordinators and Records Management training for all personnel.

Office of General Counsel – OGC is responsible for the interpretation of law and regulatory matters pertaining to PPL's records management responsibilities and for issuing appropriate guidance to PPL companies with respect to their records management programs and the appropriate handling of documents relating to litigation hold matters.

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Compliance and Exceptions

Employees are expected to fully comply with this policy. Violations of this policy may constitute a violation of PPL's Standards of Integrity and, if so, will be handled in accordance with the Responsible Behavior Program or your company's equivalent discipline policy.

Exceptions to this policy require written approval of the VP – Chief Information Officer. All questions concerning this policy should be directed to ISD - Document Management Services.

EXHIBIT__(WTR-8)

Emergency Action Plans

Black Eagle Development Emergency Action Plan	Exhibit__(WTR-8.1)
Cochrane Development Emergency Action Plan	Exhibit__(WTR-8.2)
Hauser Development Emergency Action Plan	Exhibit__(WTR-8.3)
Hebgen Development Emergency Action Plan	Exhibit__(WTR-8.4)
Holter Development Emergency Action Plan	Exhibit__(WTR-8.5)
Kerr Development Emergency Action Plan	Exhibit__(WTR-8.6)
Madison Development Emergency Action Plan	Exhibit__(WTR-8.7)
Morony Development Emergency Action Plan	Exhibit__(WTR-8.8)
Mystic Development Emergency Action Plan	Exhibit__(WTR-8.9)
Rainbow Development Emergency Action Plan	Exhibit__(WTR-8.10)
Ryan Development Emergency Action Plan	Exhibit__(WTR-8.11)
Thompson Falls Development Emergency Action Plan	Exhibit__(WTR-8.12)

Exhibit__(WTR-8) includes Critical Energy Infrastructure Information and has been redacted in its entirety in accordance with Protective Order No. 7323 ("Order"). This protected exhibit will be provided on CD under the terms of the Order to the Commission and those parties who execute the associated non-disclosure agreement.

10-30-2013

Hydro Unit Upgrade Summary									
Through 2013									
Plant	Unit No.	Date in Service	Last Generator Rewind	Turbine Comment	Exciter Upgrade	Governor Upgrade	GSU Upgrade	Relay Upgrade	PCS Allen Bradley Upgrade
Mystic	1	1925	1979	Replaced 2007	No	Yes	Yes	Yes	Yes
	2	1925	1980	Replaced 2008	No	Yes	Yes	Yes	Yes
Madison	1	1906	2009		Yes	Yes	Yes	No	Yes
	2	1906	1938		Yes	Yes	Yes	No	Yes
	3	1906	1965		Yes	Yes	Yes	No	Yes
	4	1906	1964		Yes	Yes	Yes	No	Yes
Hauser	1	1911	1959		Yes	Yes	Yes	No	No, planned for 2014
	2	1911	1963		Yes	Yes	Yes	No	No, planned for 2014
	3	1911	1959		Yes	Yes	Yes	No	No, planned for 2014
	4	1911		Rear Runner Replaced	Yes	Yes	Yes	No	No, planned for 2014
	5	1911	1949		Yes	Yes	Yes	No	No, planned for 2014
	6	1914	2006		Yes	Yes	Yes	No	No, planned for 2014
Holter	1	1918	1964		Yes	Yes	Yes	Yes	Yes
	2	1918	1962		Yes	Yes	Yes	Yes	Yes
	3	1918	1962		Yes	Yes	Yes	Yes	Yes
	4	1918	1964		Yes	Yes	Yes	Yes	Yes
Black Eagle	1	1927	1982		No, planned for 2014	Yes	Yes	Yes	Yes
	2	1927	1981		No, planned for 2014	Yes	Yes	Yes	Yes
	3	1927	2001		No, planned for 2014	Yes	Yes	Yes	Yes

Hydro Unit Upgrade Summary

Through 2013

Plant	Unit No.	Date in Service	Last Generator Rewind	Turbine Comment	Exciter Upgrade	Governor Upgrade	GSU Upgrade	Relay Upgrade	PCS Allen Bradley Upgrade
Rainbow	1	1910	2006		No	No	No	No	No
	2	1910	2006		No	No	No	No	No
	3	1910	1928		No	No	No	No	No
	4	1910	1938		No	No	No	No	No
	5	1910	1940		No	No	No	No	No
	6	1910	1928		No	No	No	No	No
	7	1918	1952		No	No	No	No	No
	8	1918	1952		No	No	No	No	No
Cochrane	1	1958	2004		No, planned for 2017	No, planned for 2017	Yes	No, planned for 2013	Yes
	2	1958	2005		No, planned for 2017	No, planned for 2017	Yes	No, planned for 2013	Yes
Ryan	1	1916			Yes	Yes	Yes	Yes	Yes
	2	1916	2010	New turbine 2012	Yes	Yes	Yes	Yes	Yes
	3	1915			Yes	Yes	Yes	Yes	Yes
	4	1915	2009	New turbine 2011	Yes	Yes	Yes	Yes	Yes
	5	1915		New turbine 2013	Yes	Yes	Yes	Yes	Yes
	6	1915			Yes	Yes	Yes	Yes	Yes
Morony	1	1930	Replaced 2013	Refurbished 2013	Yes	Yes	Yes	Yes	Yes, 2013
	2	1930	2011		Yes	Yes	Yes	Yes	Yes, 2013
Kerr	1	1938	2003		No	No	Yes	Yes	No
	2	1948	1977		No	No	Yes	Yes	No
	3	1954	1995	New turbine 2007	No	No	Yes	Yes	No

Hydro Unit Upgrade Summary

Through 2013

Plant	Unit No.	Date in Service	Last Generator Rewind	Turbine Comment	Exciter Upgrade	Governor Upgrade	GSU Upgrade	Relay Upgrade	PCS Allen Bradley Upgrade
Thompson Falls	1	1915	1979	New turbine 2000	Yes	Yes	Yes	No, planned for 2018	Yes, 2013
	2	1915	1983		Yes	Yes	Yes	No, planned for 2018	Yes, 2013
	3	1915	1980	New turbine 2001	Yes	Yes	Yes	No, planned for 2018	Yes, 2013
	4	1915	1958		Yes	Yes	Yes	No, planned for 2018	Yes, 2013
	5	1915	1981		Yes	Yes	Yes	No, planned for 2018	Yes, 2013
	6	1915	1982		Yes	Yes	Yes	No, planned for 2018	Yes, 2013
	7	1995			No	No	No	No	Yes, 2013

Department of Public Service Regulation
Montana Public Service Commission
Docket No. D2013.12.85
PPLM Hydro Assets Purchase
NorthWestern Energy

PREFILED DIRECT TESTIMONY OF

AHMAD MASUD

ON BEHALF OF NORTHWESTERN ENERGY

Q. Please state your name and occupation.

A. My name is Ahmad Masud, and I am a Managing Director and currently a co-head of the U.S. Power and Utilities Group at Credit Suisse Securities (USA) LLC ("Credit Suisse"), a global investment banking firm based in New York.

Q. Please state your business address.

A. My business address is Eleven Madison Avenue, New York, NY, 10010.

Q. Briefly describe your business experience and education.

A. My business career started at Credit Suisse when I joined the firm in 1994 as a financial analyst in the Mergers & Acquisitions ("M&A") Group. Since 1997, I have primarily focused on providing advice to Credit Suisse's North American clients in the power generation as well as electric and gas

1 regulated utility businesses. In 2012, I was appointed co-head of the
2 Power and Utilities Group at Credit Suisse. Over the last 16 years, I have
3 been directly involved in advising Credit Suisse's clients on numerous
4 strategic transactions, including corporate acquisitions and divestitures;
5 asset acquisitions and divestitures; sale and acquisitions of minority
6 interests in assets and businesses; and hostile M&A transactions.
7
8 I earned a Bachelor of Arts degree, summa cum laude, with dual majors in
9 accounting and economics from Ohio Wesleyan University.
10
11 **Q. What is the purpose of your testimony?**
12 **A.** The purpose of my testimony is to provide an overview of Credit Suisse's
13 role as financial advisor to NorthWestern for the proposed purchase of 11
14 hydroelectric generating facilities (the "Hydros") from PPL Montana.
15
16 **Q. In what capacity were you retained by NorthWestern?**
17 **A.** Credit Suisse was retained by NorthWestern to act as its lead financial
18 advisor with respect to a potential acquisition of the Hydros or other similar
19 transactions.
20
21 **Q. What was the role of Credit Suisse as lead financial advisor in**
22 **NorthWestern's proposed purchase of the Hydros?**

1 **A.** Credit Suisse's mandate was to assist NorthWestern in analyzing and
2 evaluating the business, operations and financial position of the Hydros;
3 developing a strategy to effect a transaction, including financing
4 alternatives; and structuring and negotiating any transaction involving the
5 Hydros.
6
7 **Q. Did Credit Suisse advise NorthWestern on the value of the Hydros?**
8 **A.** Yes. In connection with the proposed purchase of the Hydros, Credit
9 Suisse reviewed financial information relating to the Hydros, including
10 historical financials and various financial forecasts and other data provided
11 to Credit Suisse by NorthWestern. Credit Suisse was provided two sets of
12 projections for the Hydros by NorthWestern, reflecting two scenarios. One
13 set of projections assumed operation of the Hydros as unregulated assets.
14 The other set of projections assumed operation of the Hydros as rate
15 based assets earning a regulated rate of return. Credit Suisse also
16 reviewed public information with respect to certain precedent transactions
17 that Credit Suisse believed to be generally relevant in evaluating the
18 Hydros. Credit Suisse also reviewed public information with respect to
19 certain other companies in lines of businesses Credit Suisse believed to
20 be generally relevant in evaluating the Hydros. After review of the above
21 mentioned information, Credit Suisse performed certain financial analysis
22 to estimate theoretical ranges of value for the Hydros as both unregulated
23 assets and as rate based (or regulated) assets.

1 **Q. What methodologies did Credit Suisse employ to value the Hydros?**

2 **A.** Credit Suisse employed a number of methodologies that it deemed
3 appropriate in evaluating a theoretical range of value for the Hydros as
4 unregulated assets and a theoretical range of value for the Hydros as
5 regulated assets.

6

7 Credit Suisse performed Discounted Cash Flow Analyses ("DCF"), which
8 is a methodology used to derive a valuation of an asset by calculating the
9 present value of the estimated future unlevered free cash flows generated
10 by the asset.

11

12 Credit Suisse also performed Selected Transaction Multiples Analyses by
13 reviewing public information for precedent transactions that Credit Suisse
14 viewed as comparable to the purchase of the Hydros. Credit Suisse then
15 calculated various financial ratios related to these transactions and
16 estimated theoretical ranges of value for the Hydros as both unregulated
17 assets and as regulated assets by applying ranges of selected multiples
18 that Credit Suisse believed to be appropriate to the relevant data for the
19 Hydros, as provided to Credit Suisse by NorthWestern.

20

21 Credit Suisse also performed a Comparable Companies Trading Multiples
22 Analysis by reviewing financial information of certain publically traded
23 companies with operations Credit Suisse believed were comparable to

NorthWestern's ownership of the Hydros as regulated assets. Credit Suisse then calculated financial multiples and ratios for each of the comparable companies and selected ranges of multiples it deemed appropriate. Credit Suisse estimated a range of value for the Hydros as regulated assets by applying selected multiple ranges to the relevant data for the Hydros, as provided to Credit Suisse by NorthWestern.

Finally, Credit Suisse reviewed publicly available information related to the estimated costs of building various types of generation assets as well as public information on cost of various generation assets that have been built throughout the northwest region in recent years. This information was provided to Northwestern for informational purposes only and was not part of Credit Suisse's valuation analysis.

Using the valuation methodologies described above, Credit Suisse separately valued Kerr by calculating the present value of the proceeds from the anticipated sale of Kerr in 2015, as estimated by NorthWestern. The value of Kerr was then added to the hypothetical range of values for the Hydros excluding Kerr.

Q. How did Credit Suisse apply the Selected Precedent Transactions Analysis for the Hydros?

1 **A.** Credit Suisse reviewed public financial information for selected precedent
2 transactions involving hydroelectric generating assets and calculated the
3 financial multiples implied by the selected precedent transactions. After
4 review of the dollar per kilowatt ("kW") of generating capacity multiples
5 implied by the precedent transactions, Credit Suisse estimated the
6 hypothetical range of value for the Hydros as unregulated assets by
7 applying a range of dollar per kW multiples it deemed appropriate to the
8 estimated operating capacity of the Hydros.
9
10 Additionally, as described above, Credit Suisse also reviewed and
11 analyzed public information relating to selected precedent transactions
12 involving regulated utility businesses that Credit Suisse viewed as
13 comparable to the purchase of Hydros as regulated assets and calculated
14 various financial multiples and ratios for each of the transactions. Credit
15 Suisse then estimated the hypothetical range of value for the Hydros as
16 regulated assets by applying a range of price to earnings ("P/E") multiples
17 and Enterprise Value to Earnings Before Interest Tax and Depreciation
18 ("EV/EBITDA") multiples it deemed appropriate to the relevant data for the
19 Hydros, which was provided to Credit Suisse by NorthWestern.
20
21 **Q. What comparable sales did Credit Suisse include in the Selected**
22 **Precedent Transactions Analysis of the Hydros as unregulated**
23 **assets?**

1 **A.** Credit Suisse reviewed eight hydroelectric acquisition transactions
2 announced since December 2008. Credit Suisse selected these
3 transactions based on its judgment of their relevance to evaluating the
4 Hydros and based on the availability of public information related to the
5 selected transaction, including purchase price and characteristics of the
6 assets being purchased, primarily generation capacity.
7
8 **Q. Please describe the details of these comparable sales, including the**
9 **public utility nature of the sellers and purchasers, the size and**
10 **characteristics of the assets, the age of the assets, the operational**
11 **limitations of the assets.**
12 **A.** Credit Suisse reviewed public information for eight transactions involving
13 hydroelectric generation facilities announced since December 2008. The
14 assets were all located in North America. The transactions involved
15 sellers and buyers who were North American based power companies and
16 generation asset investment funds. In each transaction, either the buyer
17 or the seller was a publicly traded entity who disclosed certain information
18 regarding the purchase price and size of the operating assets. The
19 transactions ranged in size from under $70 million to $760 million and
20 included single assets as well as portfolios of assets. The hydroelectric
21 generation facilities or portfolio of facilities involved in these transactions
22 ranged from 28 to over 350 net owned megawatts ("MW"). For
23 informational purposes, Credit Suisse noted that there are a relatively

small number of hydroelectric generation asset transactions, a relatively limited amount of public information on the selected precedent transactions, and a lack of direct comparability of the precedent transactions to the Hydros.

Q. Did Credit Suisse use comparable sales of generation assets other than hydroelectric assets in its financial analysis of the Hydros?

A. Credit Suisse did not use comparable sales of other unregulated generation assets as hydroelectric generation assets possess unique operational and financial characteristics. For example, hydroelectric generation facilities do not consume fuel and therefore have relatively low operating costs compared to thermal generating facilities. As another example, hydroelectric facilities have much longer useful lives than many other types of generating assets.

Credit Suisse did, however, review publicly disclosed information for eighteen transactions announced since May 2005 involving publicly traded regulated utility businesses that Credit Suisse viewed as comparable to the purchase of Hydros as regulated assets. These precedent utility transactions ranged in transaction size from approximately $700 million to over $10 billion and included both stock transactions and cash and stock consideration deals.

1 **Q. Please explain why precedent transactions involving regulated utility**
2 **businesses with non-hydro assets are relevant to the proposed**
3 **transaction.**
4 **A.** Evaluation of transactions involving publicly traded regulated utility
5 businesses is relevant to the proposed transaction because NorthWestern
6 proposes to rate base the Hydros. In our view, rate basing the Hydros
7 changes the fundamental earnings model of the Hydros compared to their
8 current status as merchant generation assets under PPL Montana's
9 ownership, and therefore, the value of the Hydros to NorthWestern and its
10 customers is potentially different than the value of the Hydros to a non-
11 utility owner. From the standpoint that at the closing of the proposed
12 transaction, NorthWestern would be acquiring rate-based assets to be
13 operated as an on-going utility business, precedent transactions involving
14 regulated utilities are relevant.
15
16 **Q. How did Credit Suisse apply the Selected Company Trading**
17 **Multiples Analysis for the Hydros?**
18 **A.** Credit Suisse reviewed financial information of 11 publically traded U.S.
19 companies, whose businesses primarily involve owning and operating
20 regulated utility businesses, similar to that of NorthWestern's. For each of
21 these companies, Credit Suisse calculated various financial multiples and
22 ratios, including the ratio of each company's stock price to its estimated
23 future earnings (forward P/E multiple) and the ratio of each company's

enterprise value to its estimated future earnings before interest tax and depreciation (forward EV/EBITDA multiple). Estimated future net income and EBITDA data were based on the consensus of Wall Street equity research. Credit Suisse then selected ranges of forward P/E multiples and forward EV/EBITDA multiples it deemed appropriate and applied those to the relevant estimated future net income and EBITDA generated by the Hydros, assuming operation of the Hydros by NorthWestern as rate based assets earning a regulated rate of return.

Q. How did Credit Suisse apply the DCF to the Hydros?

A. Credit Suisse performed both an unregulated DCF analysis and a regulated DCF analysis. For the unregulated DCF analysis, Credit Suisse calculated the estimated unlevered free cash flow implied by the projections assuming the Hydros are operated as unregulated generation assets. Credit Suisse then calculated the DCF value for the Hydros as the sum of the net present value of the estimated future unlevered free cash flows through the projection period and the estimated present value of the Hydros at the end of the projection period, or the terminal value. For its discounted cash flow calculations, Credit Suisse applied a range of discount rates based on Credit Suisse's judgment of the estimated range of weighted average cost of capital for unregulated generation assets.

1 For the regulated DCF analysis, Credit Suisse calculated the estimated
2 unlevered free cash flow implied by the projections assuming the Hydros
3 are operated as rate based assets earning a regulated rate of return.
4 Credit Suisse then calculated the DCF value for the Hydros as the sum of
5 the net present value of the estimated future unlevered free cash flows
6 through the projection period and the estimated present value of the
7 Hydros at the end of the projection period, or the terminal value. For its
8 discounted cash flow calculations, Credit Suisse applied a range of
9 discount rates based on Credit Suisse's judgment of the estimated range
10 of weighted average cost of capital for regulated generation assets.
11
12 **Q. Did Credit Suisse use a replacement value approach to determine the**
13 **value of the Hydros?**
14 **A.** No. While Credit Suisse reviewed public information related to estimated
15 new build costs and the costs of recent new build generation in the
16 northwest, this information was provided to NorthWestern for informational
17 purposes. Credit Suisse did not use a replacement value approach for a
18 number of reasons. First, development, engineering and construction of a
19 generating facility are complicated processes involving numerous factors
20 unique to each generating facility's specific circumstances. It is Credit
21 Suisse's view that a reasonable estimation of replacement cost for the
22 Hydros would require a detailed study specific to the characteristic of the
23 Hydros. This requires intimate knowledge of hydroelectric engineering

and construction, project development, environmental law, among other subjects, that is outside of Credit Suisse's domain of expertise. Second, the Hydros have unique characteristics including their strategic locations, interconnection infrastructure, FERC licensing that we understand would be very difficult to replace and therefore would be difficult to reasonably estimate the cost of replacing. Based on the publicly available information regarding newly constructed generating assets in the Northwest, the replacement cost of the Hydros would be well in excess of the Purchase Price.

Q. What is the estimated value of the Hydros?

A. Based on our analysis, Credit Suisse estimated the theoretical value of the Hydros as unregulated generation assets to be in the approximately $750 million to $1 billion range. Credit Suisse estimated the theoretical value of the Hydros to NorthWestern as regulated generation assets to be in the approximately $800 million to $1.25 billion range. The complete analysis conducted by Credit Suisse to arrive these valuation ranges are attached hereto as AM Exhibit 1.

Q. Please explain the role of Credit Suisse as financial advisor in the purchase and sale process.

A. Credit Suisse assisted NorthWestern in conducting due diligence to evaluate the business, operations and financial prospects of the Hydros.

1 Credit Suisse analyzed the historical financial statements and financial
2 projections provided by NorthWestern for the Hydros and performed
3 analysis to estimate the value of the Hydro assets under various
4 scenarios. Credit Suisse also assisted NorthWestern in negotiating the
5 structure, terms and price of the Transaction.
6
7 **Q. Is this the normal role for a lead financial advisor?**
8 **A.** Yes. This is a typical role for a lead financial advisor.
9
10 **Q. Is Credit Suisse providing any other services to NorthWestern in the**
11 **Transaction?**
12 **A.** Yes. Credit Suisse, along with another global investment bank, arranged
13 and committed to bridge financing for the Transaction. In addition, Credit
14 Suisse will act as the lead underwriter to raise the permanent financing for
15 this Transaction.
16
17 **Q. Has Credit Suisse represented purchasers in similar transactions?**
18 **A.** Yes. Credit Suisse has an extensive track record of advising clients in the
19 utility and power generation sector on both corporate and generation asset
20 acquisitions, as well as advising clients on the divestiture of corporate and
21 generation assets, including conducting sale processes to affect the
22 divestitures. Credit Suisse is also experienced in arranging financing for
23 utility and generation asset acquisitions.

1 **Q. Has Credit Suisse represented public utilities in similar**
2 **transactions?**
3 **A.** Yes. Credit Suisse has represented public utilities, including
4 NorthWestern, on similar transactions to acquire generation assets.
5
6 **Q. How did the purchase and sale process in this transaction compare**
7 **with the processes in similar transactions in which Credit Suisse**
8 **represented a purchaser?**
9 **A.** Each process has its unique set of circumstances and dynamics. Based
10 on my experience, the negotiation process with the Seller was extensive
11 as NorthWestern thoroughly considered the terms of the proposed
12 transaction.
13
14 **Q. Is the purchase price that NorthWestern will be paying for the Hydros**
15 **within the range estimated by Credit Suisse?**
16 **A.** Yes, the purchase price that NorthWestern will be paying for the Hydros
17 falls within the range estimated by Credit Suisse.
18
19 **Q. Does this conclude your testimony?**
20 **A.** Yes, it does.

Portions of pages 12 and 20 of AM Exhibit 1 include non-public forward looking financial information that has been redacted from this public version of the document pending the Commission's decision on NorthWestern's motion for protective order that has been filed on the same date as this Application. NorthWestern will update this filing by providing this information in the appropriate format after the Commission rules on the motion for a protective order.

CREDIT SUISSE

NorthWestern Energy

Confidential

NorthWestern Corporation

Presentation to the Board of Directors – Valuation

September 23, 2013

PRELIMINARY | SUBJECT TO FURTHER REVIEW AND EVALUATION

These materials may not be used or relied upon for any purpose other than as specifically contemplated by a written agreement with Credit Suisse AG or its Affiliates (hereafter "Credit Suisse").

NorthWestern Energy

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1. Project Mustang transaction overview

2. Mustang valuation analysis

Appendix

1. Project Mustang transaction overview

Project Mustang transaction overview

NorthWestern Energy

Transaction summary

- NorthWestern Corporation ("NorthWestern", "NWE", or the "Company") intends to acquire 633 MW of hydroelectric generation facilities ("Mustang") currently owned by PPL Montana LLC ("PPLM")
- PPLM, a wholly-owned subsidiary of PPL Corporation ("PPL" or the "Seller") owns 1,316 MW of generation capacity comprised of 633 MW of hydroelectric and 683 MW of coal-fired generation assets in Montana
- NWE has asked Credit Suisse ("CS") to act as M&A advisor in this process
- NWE has also asked CS and Bank of America Merrill Lynch ("BAML") to provide a bridge loan commitment and permanent financing toward the cash purchase price of $900 million
- NWE will seek regulatory approval to place the currently merchant assets into NWE's rate base prior to close of the transaction

Background

- In Q4 2012, NWE participated in PPL's initial auction process for PPLM and submitted a final bid that proposed two transaction structures
  - A Conforming Bid of $500 million to acquire 100% of PPLM (including 529 MW of leasehold interest in the Colstrip coal facilities)
  - A Non-Conforming Bid of $740 million to acquire PPLM's 633 MW of hydroelectric assets only
  - Unable to secure a bid above reservation price, PPL pulled the Mustang process in late-January 2013
- During the initial Mustang process, the Colstrip lease was identified as having a negative impact to valuation and transaction complexity. PPL subsequently initiated lease termination discussions with Colstrip's owner lessors
  - In April 2013, PPL launched a process to sell only PPLM's 683 MW of coal generation assets, free of the lease structure
  - In May 2013, PPL launched another process to sell only PPLM's 633 MW of hydro generation assets
- In May 2013, PPLM approached NWE with the opportunity to conduct bi-lateral discussions and pre-empt a re-launched process for the entirety of PPLM
- NWE submitted a revised final bid of $900 million to acquire only PPLM's hydro assets on July 1, 2013
- In late July, PPL accepted the bid and invited NWE to reopen PSA negotiations and conduct confirmatory due diligence on the hydro only transaction
- NWE and PPL have been negotiating PSA terms since mid-August

Anticipated timing

- NWE Board of Directors met on Friday June 28th to approve final bid submission
- Bid submitted to PPL on July 1st
- NWE management has conducted confirmatory due diligence and negotiated a finalized PSA with PPL
- Currently seeking Board of Directors approval to sign PSA the week of September 23rd
- Anticipated 9-12 month regulatory approval process involving the Montana Public Service Commission ("MPSC"), Federal Energy Regulatory Commission ("FERC"), and DOJ/FTC approval under Hart-Scott-Rodino Act
- Q2-Q3 2014: close acquisition after regulatory approval and complete permanent financing (bridge expected to remain undrawn)

Mustang strategic rationale

NorthWestern Energy

Transaction rationale

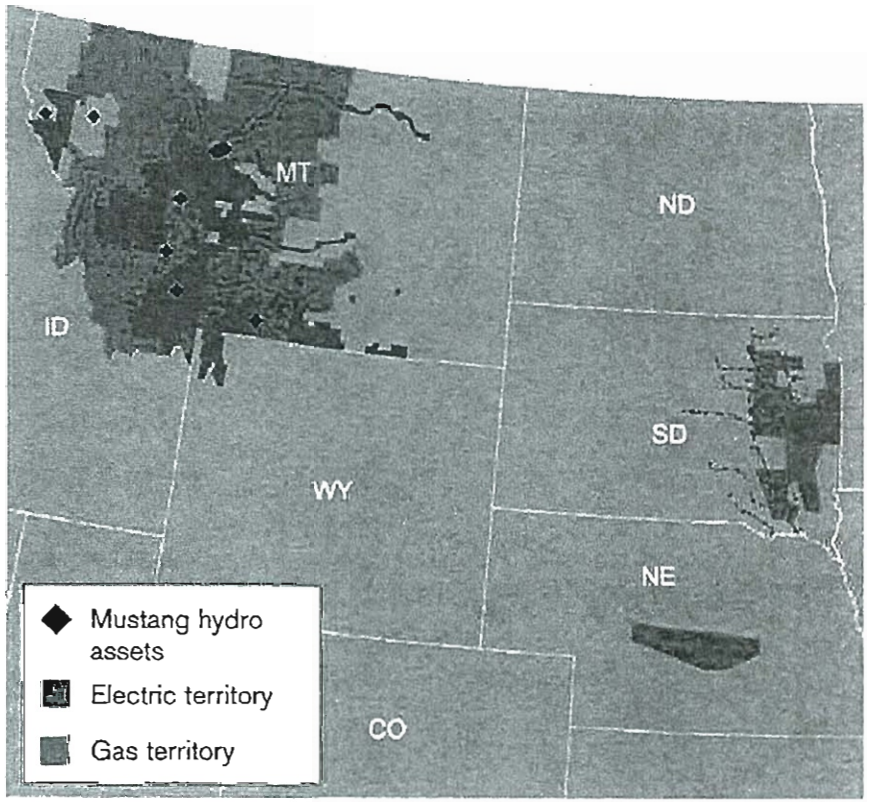
Strategic rationale

- Transaction consistent with stated goal of better matching owned generation with load requirements
- Opportunity for NWE to acquire reliable, long-life generation assets near the bottom of current commodity price cycle for inclusion in rate base
- Provides NWE customers with greater long-term energy security and rate stability
- Pending and future environmental regulation will likely increase value for clean hydroelectric generation assets in the northwest
- Acquiring well-maintained operating assets represents attractive risk proposition versus developing new thermal generation
- Proposed purchase price compares favorably with new construction costs and recent comparable hydroelectric generation transactions

Financial rationale

- Immediate and significant earnings accretion
- Maintain credit ratings with improved business risk profile
  - Reduced reliance on purchased power
- Substantial increase in business scale provides opportunities for future growth

NorthWestern service territory and Mustang assets



Transaction structure

NorthWestern Energy

Overview of PPL Montana's simplified organizational structure

PPL Montana LLC
(Indirect subsidiary of PPL Corp.)

Assets to be acquired

Western Power Marketing

- Sells electricity output from PPL Montana Holdings, LLC through wholesale and retail transactions
- Procures transmission rights necessary for transportation of electricity

Colstrip

- Leases and operates a 529 MW interest in Colstrip, a 2,094 MW mine-to-mouth coal plant
- Units 1&2 represent 307 MW
- Unit 3 represents 222 MW
- PPLM has a sharing agreement with NWE such that each have a 15% economic interest in Units 3 & 4

J.E. Corette

- Owns and operates a 154 MW coal plant
- PPL Montana is scheduled to mothball the plant in April 2015 due to environmental compliance costs exceeding economic viability post-2015

Hydro

- Owns and operates 11 units with net aggregate capacity of 633 MW
- Units located through Montana
- Confederated Salish and Kootenai Tribes ("CSKT") has a 2015 purchase option on Kerr (194 MW)

Acquisition Structure

- NWE to acquire 100% of PPLM's hydroelectric facilities and associated facilities, permits, licenses, contracts, and operating personnel for a purchase price of $900 million, subject to certain purchase price adjustments for capital expenditure, Kerr conveyance and mark-to-market of NWE's power contracts with PPLM, which will be terminated
- Transaction will be structured as an asset purchase
  - NWE to receive a step-up in tax basis
- Prior to transaction close, the current lease on the coal assets will be terminated (condition to close)
- PPLM will retain existing pension plans for transferred employees and will be responsible for liabilities accrued prior to close. After closing, NWE will provide pension and benefit plans to transferred employees and will be responsible for liabilities from date of transfer

Northwestern and PPL performance

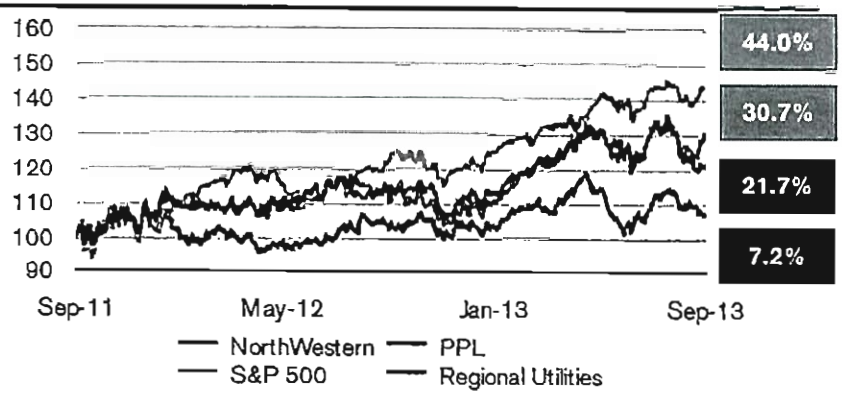
NorthWestern Energy

NWE and PPL trading multiples overview

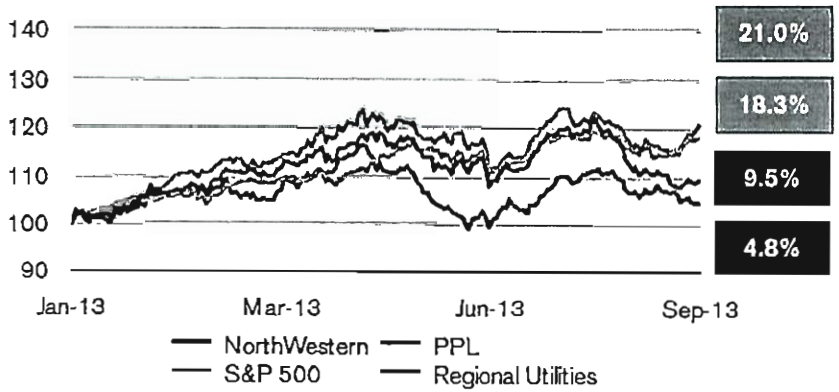
($ in millions, except per share data)

	NWE	PPL
Stock price (9/13/2013)	$42.03	$30.00
52-week low	32.98	27.74
52-week high	43.25	55.16
Diluted shares outstanding (MM)	38.6	636.5
Market capitalization	**$1,624**	**$19,095**
Debt	1,152	20,832
(Cash)	(8)	(711)
Enterprise value	**$2,769**	**$39,234**
Enterprise value multiples		
2013E EBITDA	9.8x	9.3x
2014E EBITDA	9.0x	9.3x
2015E EBITDA	8.5x	9.0x
Equity value multiples		
2013E EPS	16.5x	12.8x
2014E EPS	15.4x	13.9x
2015E EPS	14.5x	13.8x
Other statistics		
LT EPS growth	5.0%	5.0%
Debt / Cap	53.5%	65.5%
Dividend yield	3.6%	4.9%
Price / book value	1.6x	1.7x
Long-term issuer credit ratings		
Moody's	A2[2]	Baa3
S&P	A-[2]	BBB
S&P risk profiles		
Business risk profile	Excellent	Excellent
Financial risk profile	Aggressive	Aggressive

Price performance over last 2 years



Price performance YTD



Source: FactSet, Wall Street research as of 9/13/2013.
(1) Regional utilities include: ALE, BKH, IDA, MDU, PNM, POR, XEL.
(2) Represents NWE's senior secured credit ratings. Long-term issuer rating of Baa1 / BBB.

Market update since prior Mustang Board meeting

NorthWestern Energy

M&A update

- In 2013, two significant utility transactions have demonstrated the willingness of parties to pay sizeable premiums to rate base to grow their regulated platform
  - Acquisition of NV Energy by MidAmerican Energy for $10.5 billion enterprise value (~1.5x rate base)
  - Acquisition of New Mexico Gas Company by TECO Energy for $950 million enterprise value (~1.9x rate base)
- Brookfield Renewable's acquisition of NextEra Energy's Maine hydroelectric facilities at ~$2,165 / kW and LS Power's acquisition of FirstEnergy's run-of-river facilities at ~1,800 / kW[1] provide further insight into market value for hydro

Equity capital market

- Although regulated utilities have come off recent highs, they continue to trade at attractive relative valuations
  - Utility index trades at a 4.5% premium to the S&P 500 on current year P/E multiple
- In the last three months, NWE stock outperformed (up 3%) vs. its regional peers (down 4%) and in line with PPL (up 3%)
- While recent utility equity issuances have performed well, supply continues to be scarce
  - Recent $387 million Laclede equity offering to finance the Missouri Gas acquisition was issued 10% above the pre-M&A announcement price despite representing 44% of the company's market cap

Debt capital market

- The investment grade market remains open at attractive terms; September has been a record setting month for new issuances
  - Verizon recently accessed the market with the largest ever DCM offering at $49 billion, dwarfing the previous record of $17 billion
- On September 18th, the Fed unexpectedly refrained from tapering its monthly asset purchases of $85 billion, citing a need for "more evidence" of a sustained economic recovery. The Fed also left unchanged its guidance that it will hold its target interest rate near zero
  - The majority of FOMC members expect the first hike to occur in 2015
  - Treasuries soared as the yield on the 10-Year Treasury note dropped 15 basis points to 2.70%

Regulatory environment

- Utility allowed ROEs offered by commissions continue to face downward pressure
  - Authorized ROEs for electric utilities rate cases have averaged 10.08% in 2013 YTD vs. 10.17% in 2012 and 10.29% in 2011
  - Authorized ROEs for gas utilities rate cases have averaged 9.50% in 2013 YTD vs. 9.94% in 2012 and 9.92% in 2011

Environmental policy

- Following President Obama's pledge in June to address climate change, the EPA is expected to set limits on greenhouse gas emissions for new power plants in September
  - While details of the new rule are still unknown, stricter standards will likely block construction of new coal generation and could accelerate shutdown of existing coal facilities

Note: Authorized ROE data sourced from SNL Financial RRA Associates as of 9/16/2013.
(1) Excludes value allocated to 451 MW Seneca pumped storage facility. Estimated allocation of ~$132 million to 73 MW of run-of-river facilities.

2. Mustang valuation analysis

Valuation summary

NorthWestern Energy

Credit Suisse has conducted an independent valuation analysis of the Mustang portfolio based on financial projections developed by NWE management through its due diligence process

Valuation approach

Credit Suisse has evaluated the Mustang portfolio from two standpoints:

Unregulated generation analysis: values Mustang in its current state as unregulated generation assets

- Based on merchant forecast provided by NWE Energy Supply
- Employs valuation methodologies appropriate for standalone clean generation assets and independent power producers
  - Unlevered discounted cash flow analysis ("DCF") with discount rates of 6.5% to 7.5% and 7.5x to 8.5x terminal EV/EBITDA multiples
  - Unlevered DCF with discount rates of 6.5% to 7.5% and $1,650 to $2,150 terminal $/kW multiples
  - Comparable hydroelectric generation acquisitions implied valuation of $1,650 to $2,150 $/kW

Regulated utility analysis: evaluates Mustang's value under NWE ownership as rate based assets

- Based on regulated earnings model provided by NWE
- Employs valuation methodologies appropriate for utilities and rate based assets
  - Unlevered DCF with 5.5% to 6.5% discount rate range and 8.0x to 9.0x terminal EV/EBITDA multiples
  - Unlevered DCF with 5.5% to 6.5% discount rate range and 14.0x to 17.0x terminal P/E multiples
  - Comparable company implied valuation with 7.5x to 9.0x 2014E EV/EBITDA, 7.0x to 8.5x 2015E EV/EBITDA, 13.5x to 16.0x 2014E P/E, and 13.0x to 15.0x 2015E P/E multiples
  - Comparable utility acquisitions implied valuation with 8.0x to 9.0x forward EV/EBITDA and 15.0x to 18.0x forward P/E multiples

Note: PPLM to retain existing pension plans for transferred employees and will be responsible for accrued liabilities up until Transaction closing. NWE is obligated to provide pension and benefit plans to transferred employees and will be responsible for liabilities from date of transfer. Previous analysis on impact of assumed underfunded pension no longer applicable.

Mustang unregulated valuation summary

NorthWestern Energy

- The analysis presented here is an independent Credit Suisse valuation of the Mustang hydroelectric portfolio as standalone unregulated generation assets based on management financial projections

Valuation summary

($ in millions)

	Adjusted Enterprise reference range			Implied valuation multiples						
					EV / EBITDA[1]			$ / kW[2]		
DCF (EBITDA multiple driven)[3]	$855		$1,003	2014	18.4x	–	21.6x	$1,904	–	$2,242
				2015	18.6x	–	21.8x			
DCF ($ / kW multiple driven)[4]	$770		$924	2014	16.5x	–	19.9x	$1,710	–	$2,060
				2015	16.5x	–	20.1x			
Comparable acquisition analysis	$752		$972	2014	15.9x	–	20.8x	$1,650	–	$2,150
				2015	16.1x	–	20.9x			

$900mm purchase price

(1) Calculation based on adjusted enterprise reference range, which excludes transaction fees and PV of Kerr proceeds (~$28mm). NWE base case: 2014E plant level EBITDA of $45mm, 2015E plant level EBITDA of $45mm.
(2) Calculation based on adjusted enterprise reference range, which excludes transaction fees and PV of Kerr proceeds (~$28mm). Implied $ / kW multiple based on 439 MW (excludes Kerr).
(3) Terminal values based on 7.5x to 8.5x EBITDA multiple for hydro assets. Kerr proceeds and corporate expenses added as separate adjustments.
(4) Terminal values based on $1,650 / kW and $2,150 / kW multiple for hydro assets. Kerr proceeds and corporate expenses added as separate adjustments.

Mustang regulated valuation summary

NorthWestern Energy

- The analysis presented here is an independent Credit Suisse valuation of the Mustang hydroelectric portfolio as regulated assets under NWE ownership based on management financial projections

Valuation summary

($ in millions)

	Adjusted Enterprise reference range	Implied valuation multiples		
			EV / EBITDA[1]	$ / kW[2]
DCF (EBITDA multiple driven)[3]	$901 – $1,010	2014	7.8x – 8.8x	$2,008 – $2,256
		2015	8.1x – 9.1x	
DCF (P/E multiple driven)[4]	$890 – $995	2014	7.7x – 8.7x	$1,983 – $2,221
		2015	8.0x – 9.0x	
Comparable acquisition analysis[5]	$929 – $1,268	2014	7.0x – 10.5x	$1,797 – $2,693
		2015	7.3x – 10.9x	
Comparable company analysis[6]	$789 – $1,182	2014	8.3x – 11.3x	$2,117 – $2,889
		2015	8.3x – 11.7x	

$900mm purchase price

(1) Calculation based on adjusted enterprise reference range, which excludes transaction fees and PV of Kerr proceeds (~$28mm), divided by EBITDA. NWE base case: 2014E EBITDA of $113mm, 2015E EBITDA of $109mm. Assumes $900mm of rate base with 48% allowed equity content and 10% ROE allowed
(2) Calculation based on adjusted enterprise reference range, which excludes transaction fees and PV of Kerr proceeds (~$28mm) Implied $ / kW multiple based on 439 MW (excludes Kerr).
(3) Terminal values based on 8.0x to 9.0x EBITDA
(4) Terminal values based on 14.0x to 17.0x P/E.
(5) Based on selected acquisition terminal multiples of 8.0x to 9.0x forward year EBITDA and 15.0x to 18.0x forward year net income.
(6) Based on selected comparable company trading terminal multiples of 7.5x to 9.0x 2014E EBITDA, 7.0x to 8.5x 2015E EBITDA, 13.5x to 16.0x 2014E net income, and 13.0x to 15.0x 2015E net income

Mustang estimated earnings impact analysis

NorthWestern Energy

Sources & uses

($ in millions)

Sources of funds	Amount	%
NWE first mortgage bonds ("FMBs")[1]	$468.0	50.6%
NWE equity issuance, net[2]	380.0	41.1%
Cash from operations / credit facility[3]	76.4	8.3%
Total sources of cash	**$924.4**	**100.0%**

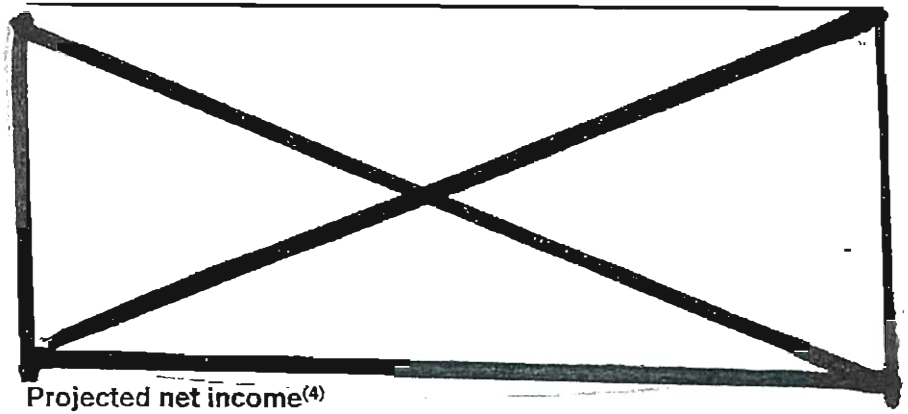
Uses of funds	Amount	%
Cash purchase price	$900.0	97.4%
Fees and expenses	24.4	2.6%
Cash required	**$924.4**	**100.0%**

Estimated fees and expenses[1]

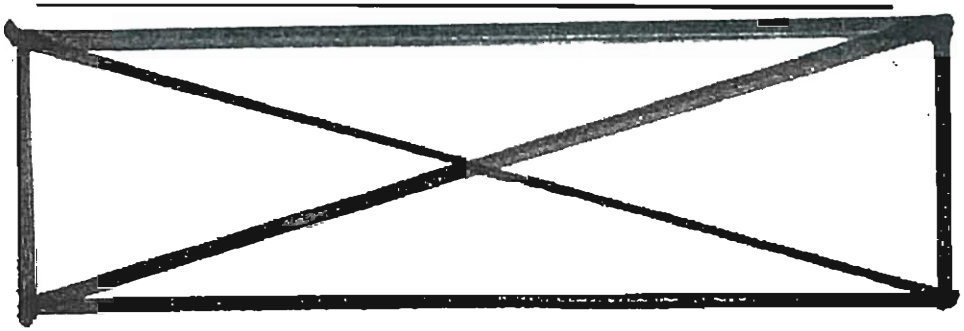
($ in millions)

	Transaction amount	Overall Spread	Amount	Accounting treatment
Bridge loan commitment fee	$900.0	0.300%	$2.7	Expensed in 2014
Bridge loan structuring fee	900.0	0.350%	3.2	Expensed in 2014
FMB syndication fees	468.0	0.750%[1]	3.5	Capitalized and amortized over 10 years
Total debt financing fees			*$9.4*	
M&A			5.0	Expensed in 2014
Legal fees and other expenses			10.0	Expensed in 2014
Total fees and expenses			**$24.4**	

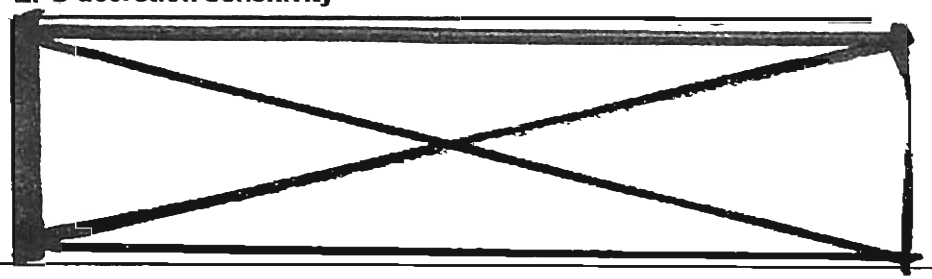
Projected earnings per share[4]



Projected net income[4]



EPS accretion sensitivity



(1) Assumes FMB issuance at 4.5% average coupon.
(2) Equity issuance fees (gross spread of 3.5%) netted from gross offering and accounted for through reduction of equity account. Assumed 9.7 million shares issued at $40.71, a 3.5% discount to NWE's share price of $42.19 on September 16, 2013.
(3) Revolving credit facility interest of 2.5% based on drawn amounts.
(4) Assumes $900 million purchase price placed into rate base with 10% allowed regulatory ROE and 48% allowed regulatory equity content.

NorthWestern Energy

Appendix

Summary of DCF analysis

Unregulated analysis

NorthWestern Energy

($ in millions, unless otherwise noted)

TV EBITDA multiple driven

		Enterprise value			Implied $ / kW		
	TV multiple:	**7.5x**	**8.0x**	**8.5x**			
	WACC:	**7.5%**	**7.0%**	**6.5%**			
	MW	**Low**	**Mid**	**High**	**Low**	**Mid**	**High**
Hydro	439	$883	$955	$1,035	$2,012	$2,176	$2,358
(–) PV of corporate expenses[1]		(47)	(49)	(51)			
Total portfolio	439	$836	$906	$984	$1,904	$2,064	$2,242
(+) PV of Kerr proceeds[2]		28	28	28			
(–) Transaction fees[3]		(9)	(9)	(9)			
Total portfolio - adjusted EV	439	$855	$925	$1,003	$1,948	$2,108	$2,285

TV $ / kW driven

		Enterprise value			Implied $ / kW		
	TV multiple:	**$1,650**	**$1,900**	**$2,150**			
	WACC:	**7.5%**	**7.0%**	**6.5%**			
	MW	**Low**	**Mid**	**High**	**Low**	**Mid**	**High**
Hydro	439	$798	$872	$955	$1,818	$1,987	$2,176
(–) PV of corporate expenses[1]		(47)	(49)	(51)			
Total portfolio	439	$751	$823	$904	$1,710	$1,875	$2,060
(+) PV of Kerr proceeds[2]		28	28	28			
(–) Transaction fees[3]		(9)	(9)	(9)			
Total portfolio - adjusted EV	439	$770	$842	$924	$1,754	$1,918	$2,104

Note: Hydro asset valuation assumes $1,650, $1,900, and $2,150 per kW of terminal value for low, mid, and high of EV reference range. EBITDA driven terminal value assumes 7.5x to 8.5x for terminal EBITDA. Assumes valuation date of 6/30/2014.
(1) Present value of ~$8mm of gross annual corporate G&A, net of ~$2mm of annual synergies over 20 year forecast.
(2) Assumes $30mm purchase price for Kerr in September 2015.
(3) Includes $15mm in M&A and legal fees (pre-tax). Excludes bridge financing and syndication fees.

Comparable company trading statistics

IPPs

NorthWestern Energy

($ in millions)

Company		Barra Predicted Beta	Market Equity	Net Debt	Enterprise Value	Debt / Non-Deductible Pref. Stock / Market Equity / Cash	Senior Unsec. Credit Ratings	Tax Rate	Unlevered Barra Predicted Beta	Enterprise value / EBITDA 2013E	2014E	2015E
Canadian IPPs												
Atlantic Power Corporation		1.16	$484	$2,157	$2,641	73% / 8% / 18% / 0%	B	26.5%	0.50	9.2x	8.8x	9.7x
Brookfield Renewable Energy Partners LP		0.71	6,871	7,727	14,598	47% / 6% / 47% / 0%	BBB	26.5%	0.39	15.2x	14.9x	14.7x
Capital Power Corporation		0.65	1,990	1,669	3,659	46% / 0% / 54% / 0%	BBB-	26.5%	0.40	9.0x	9.3x	7.0x
TransAlta Corporation		0.86	3,461	5,095	8,556	51% / 9% / 40% / 0%	BBB-	26.5%	0.41	8.8x	8.4x	8.4x
	Mean	0.85	$3,202	$4,162	$7,364	48% / 5% / 43% / 0%		26.5%	0.43	10.5x	10.3x	10.1x
	Median	0.78	2,726	3,626	6,108	32% / 4% / 45% / 0%		26.5%	0.41	9.1x	9.0x	9.0x
U.S. IPPs												
Calpine Corporation		1.11	$8,568	$11,020	$19,588	56% / 0% / 44% / 0%	B+	38.0%	0.61	10.4x	9.6x	9.3x
NRG Energy, Inc.		1.14	8,899	16,875	25,774	65% / 1% / 35% / 0%	BB-	38.0%	0.52	9.0x	8.2x	8.9x
Dynegy Inc.		0.96	1,937	1,296	3,233	40% / 0% / 60% / 0%	B	38.0%	0.68	13.2x	10.6x	10.1x
	Mean	1.07	$6,468	$9,730	$16,198	60% / 1% / 40% / 0%		38.0%	0.60	10.9x	9.5x	9.4x
	Median	1.11	8,568	11,020	19,588	58% / 0% / 42% / 0%		38.0%	0.61	9.7x	8.9x	9.1x
YieldCos												
NRG Yield, Inc. Class A		0.55	$1,925	$1,901	$3,826	50% / 0% / 50% / 0%	NR	38.0%	0.34	17.0x	13.3x	12.7x
Pattern Energy Group, Inc.		NA	$1,022[1]	$1,316	$2,338	56% / 0% / 44% / 0%	NR	38.0%	NA	15.5x[2]	10.9x[2]	NA
TransAlta Renewables, Inc.		0.87	$1,108	$555	$1,664	33% / 0% / 67% / 0%	NR	38.0%	0.66	9.8x	10.8x	11.0x
	Mean	0.71	$1,352	$1,257	$2,609	48% / 0% / 52% / 0%		38.0%	0.50	14.1x	11.7x	11.8x
	Median	0.71	1,108	1,316	2,338	47% / 0% / 48% / 0%		38.0%	0.50	15.5x	10.9x	11.8x
	Mean	0.89	$3,626	$4,961	$8,588	55% / 2% / 42% / 0%		33.4%	0.50	11.7x	10.5x	10.3x
	Median	0.87	1,964	2,029	3,742	55% / 1% / 44% / 0%		38.0%	0.50	10.1x	10.1x	9.7x

→ Clean generation IPP comps

Source: FactSet, Alacra, S&P, Moody's, company management as of 9/13/13.

(1) Assumes $20 per share price, the midpoint of the stated IPO offer range.

(2) Based on management estimates as filed in offering prospectus.

Comparable acquisition analysis

Unregulated analysis

NorthWestern Energy

Select precedent hydro transactions

Hydro Announced date	Buyer	Seller	Plant Name	NERC region (subregion)	Price ($US MM)	Net capacity (MW)	$ / kW
09/04/13	*Harbor Hydro Holdings, LLC*	*FirstEnergy Corp*	*Portfolio*	*Multi*	*$132*[1]	*75*[2]	*$1,813*
12/21/12	Brookfield Renewable Energy Partners LP	NextEra Energy	Hydroelectric facilities	NPCC (NE)	$760	351	$2,165
07/26/12	Innergex Renewable Energy Inc.	Hydromega Services Inc.	Magpie	NPCC (QUE)	80	28	2,830
07/26/12	*Innergex Renewable Energy Inc.*	*Hydromega Services Inc.*	*Hydroelectric facilities*[2]	*Multi*	*80*	*50*	*1,587*
06/29/12	Brookfield Renewable Energy Partners LP	Alcoa Power Generating Inc.	Tapoco	Multi	600	351	1,709
06/29/12	*Brookfield Renewable Energy Partners LP*	*Alcoa Power Generating Inc.*	*Tapoco*	*Multi*	*600*	*378*[3]	*1,587*
06/14/12	Innergex Renewable Energy Inc.	Capital Power Corporation	Portfolio	WECC (WECCN)	68	40	1,700
04/03/12	Eagle Creek Renewable Energy	North American Hydro, Inc.	Power generation facilities	Multi	NA	40	NA
07/01/09	ArcLight Capital Partners	PPL Corporation	Hydro portfolio	NPCC (NE)	95	30	3,220
03/13/09	Hydro Quebec	AbitibiBowater Inc.	Manicouagan Hydroelectric facility		603	201	2,999
12/22/08	Brookfield Asset Management	AbitibiBowater Inc.	Portfolio		162	137	1,184

Mean	$2,203
Median	$1,989

(1) Estimated value of run of river hydro assets. Excludes estimated $268mm of value allocated to the 451 MW Seneca pumped storage facility.
(2) Excludes the 451 MW Seneca pumped storage facility.
(3) 28.35 MW operating, 22 MW under development / in construction. Value attributed to development was not disclosed.
(4) Current modernization will increase installed capacity from 351 MW to 378 MW. Value attributed to development was not disclosed.

Comparable acquisition analysis

	Type	Primary fuel	COD	2012 Capacity factor	Pollution control	MW capacity	$ / kW range Low	–	High	Reference range ($mm) Low	–	High
Hydro consolidated	HT	Hydro	Various	64%	NA	439	$1,650	–	$2,150	$724	–	$944
Enterprise value						**439**	**$1,650**	**–**	**$2,150**	**$724**	**–**	**$944**
(+) PV of Kerr proceeds										28	–	28
Adjusted enterprise value										**$752**	**–**	**$972**

Recent utility new construction in the northwest

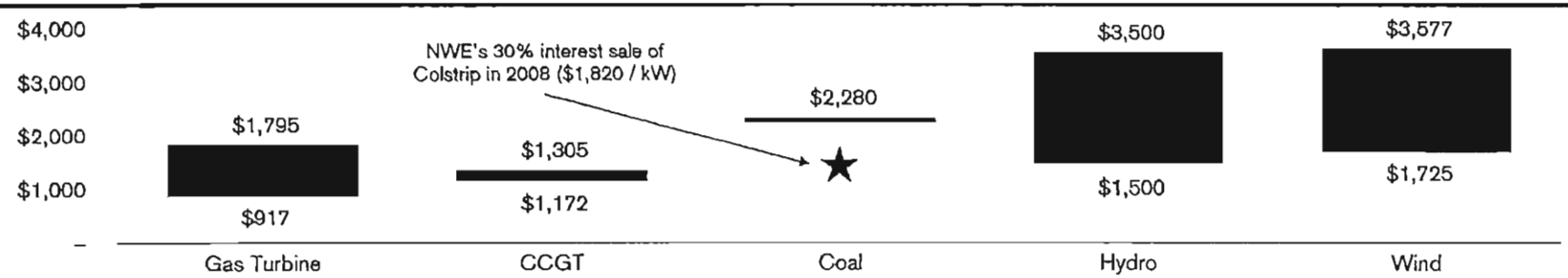
NorthWestern Energy

New construction projects by utility

Company	Project Name	Location (State)	Type	COD	Capacity (MW)	Capital Costs $mm	Capital Costs $/kW
Black Hills	Cheyenne Prairie Generating Station	WY	Gas Turbine	2014E	132	$237	$1,795
	Pueblo Airport Generating Station	CO	Gas Turbine	2011	180	$230	$1,278
	BHCI Facility (Pueblo Airport CC)(1)	CO	CCGT	2011	200	$261	$1,305
	Wygen Unit 3 (50% ownership)	WY	Coal	2010	55	$125	$2,280
Idacorp	Langley Gulch	ID	CCGT	2012	330	$398	$1,206
MDU	Morton CT Plant	ND	Gas Turbine	2014E	88	$86	$977
	Wygen Unit 3 (25% ownership)	WY	Coal	2010	28	$63	$2,280
	Cedar Hills Wind Facility	ND	Wind	2010	20	$45	$2,310
NorthWestern	Aberdeen Generating Station Unit 2	SD	Gas Turbine	2013	60	$55	$917
	Dave Gates Generating Station	MT	Gas Turbine	2007	150	$183	$1,220
Portland General Electric	Biglow Canyon	OR	Wind	2007-2010	450	$961	$2,136
PPL Montana	Rainbow Dam	MT	Hydro	2013	60	$210	$3,500
Puget Sound	Lower Snake River	WA	Wind	2012	343	$1,226	$3,577
PacifiCorp	Lake Side Power	UT	CCGT	2014E	645	$756	$1,172
ALLETE Inc.	Bison 4 Wind Farm	ND	Wind	2014E	200	$345	$1,725
Grant County Public Utility	Wanapum	WA	Hydro	2012	122	$183	$1,500
Basin Electric Power Coop	Pioneer Generating Station	ND	Gas Turbine	2013	45	$65	$1,433

Source: Company disclosure and SNL Financial.

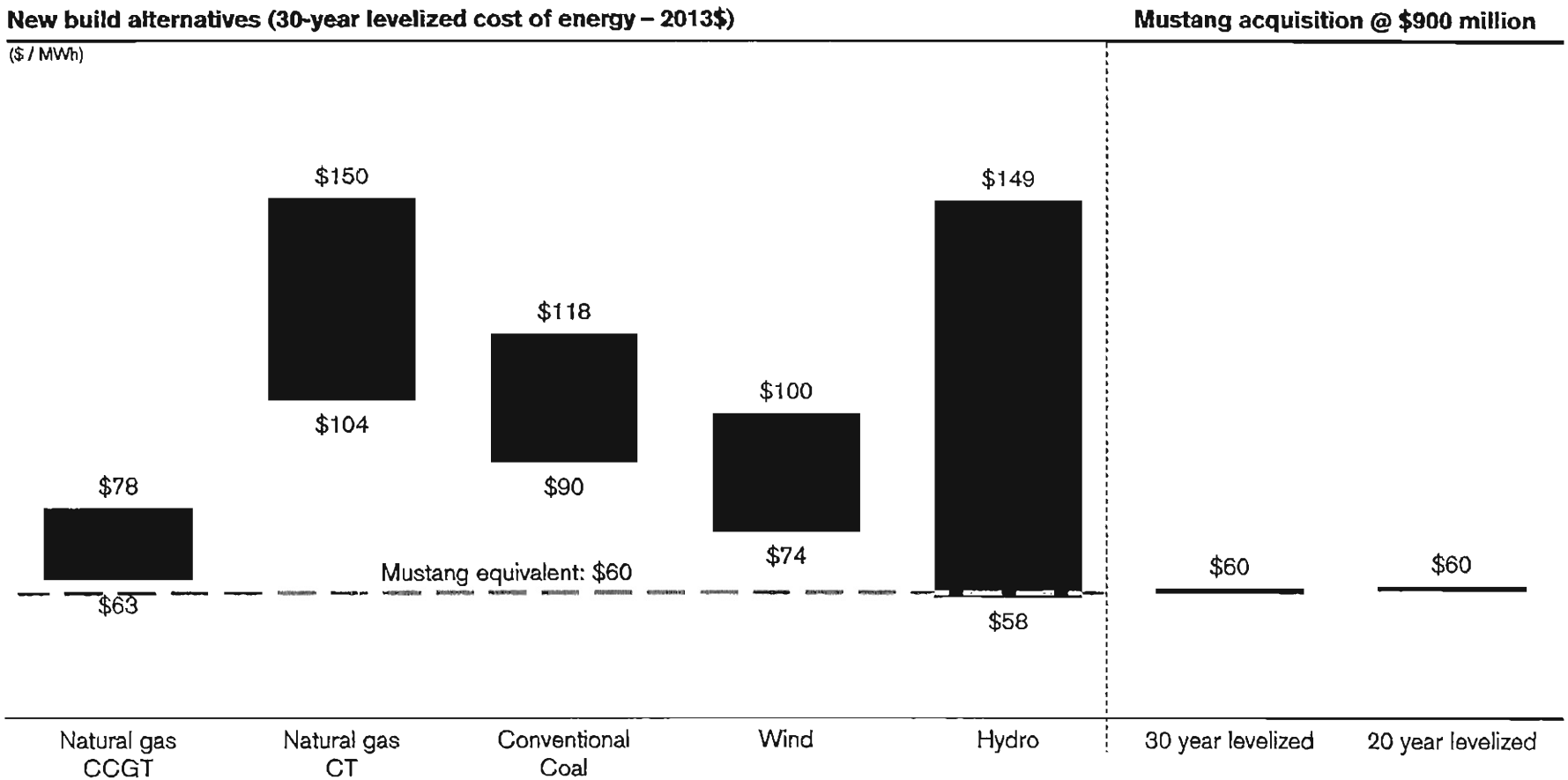
New construction capital cost by generation type ($/kW)



(1) Owned by Black Hill's Colorado IPP with 100% of power sold to Colorado Electric under a 20-year PPA.

Mustang purchase vs. EIA estimated new build costs

NorthWestern Energy



Equivalent Mustang acquisition price[1]

Natural gas CCGT	Natural gas CT	Conventional Coal	Wind	Hydro
$990mm –$1,380mm	$2,050mm –$3,220mm	$1,690mm –$2,410mm	$1,280mm –$1,940mm	$870mm –$3,200mm

PPLM hydro assets provide long term energy security as levelized costs well below new build alternatives

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Source: New build levelized costs per Levelized Cost of New Generation Resources in the Annual Energy Outlook 2013. U.S. Energy Information Administration.
Mustang levelized costs based on NWE internal estimates.
Note: 2011 numbers escalated based on PPI index.
(1) Represents equivalent purchase price for Mustang that would yield same range of levelized cost. Based on NWE internal estimates.

Summary of DCF analysis
Regulated utility

NorthWestern Energy

($ in millions, unless otherwise noted)

TV EBITDA multiple driven

		Enterprise Value			Implied $ / kW		
	TV multiple:	**8.0x**	**8.5x**	**9.0x**			
	WACC:	**6.5%**	**6.0%**	**5.5%**			
	MW	**Low**	**Mid**	**High**	**Low**	**Mid**	**High**
Hydro	439	$882	$933	$990	$2,008	$2,126	$2,256
(+) PV of Kerr proceeds[1]		28	28	28			
(–) Transaction fees[2]		(9)	(9)	(9)			
Total portfolio - adjusted EV	439	$901	$953	$1,010	$2,052	$2,170	$2,301

TV P/E multiple driven

		Enterprise Value			Implied $ / kW		
	TV multiple:	**14.0x**	**15.5x**	**17.0x**			
	WACC:	**6.5%**	**6.0%**	**5.5%**			
	MW	**Low**	**Mid**	**High**	**Low**	**Mid**	**High**
Hydro	439	$871	$920	$975	$1,983	$2,097	$2,221
(+) PV of Kerr proceeds[1]		28	28	28			
(–) Transaction fees[2]		(9)	(9)	(9)			
Total portfolio - adjusted EV	439	$890	$940	$995	$2,027	$2,141	$2,265

Note: EBITDA driven terminal value assumes 8.0x to 9.0x for terminal EBITDA. P/E driven terminal value assumes 14.0x to 17.0x for terminal net income. Assumes valuation date of 6/30/2014.
(1) Assumes $30mm purchase price for Kerr in September 2015.
(2) Includes $15mm in M&A and legal fees (pre-tax). Excludes bridge financing and syndication fees. Fees not included in rate base.

NorthWestern Energy

Comparable company and comparable acquisition analysis

Regulated utility

	NWE Projections	Selected multiple range Low	–	High	Implied reference range Low	–	High
Comparable acquisition analysis							
2014E Net income					$643	–	$772
(+) Net debt						468	
(+) PV of Kerr proceeds					28		28
Implied enterprise value					**$1,140**	–	**$1,268**
2014E EBITDA					$901	–	$1,013
(+) PV of Kerr proceeds					28		28
Implied enterprise value					**$929**	–	**$1,042**
Valuation range					**$929**	–	**$1,268**
Selected comparable companies analysis							
2014E Net income					$579	–	$686
2015E Net income					$545	–	$629
Low to high range					*$545*		*$686*
(+) Net debt						468	
(+) PV of Kerr proceeds					28		28
Implied enterprise value					**$1,042**	–	**$1,182**
2014E EBITDA					$844	–	$1,013
2015E EBITDA					$761	–	$924
Low to high range					*$761*		*$1,013*
(+) PV of Kerr proceeds					28		28
Implied enterprise value					**$789**	–	**$1,042**
Valuation range					**$789**	–	**$1,182**

Comparable company trading statistics

Regulated utility

NorthWestern Energy

($ in millions)

Company	Barra Predicted Beta	Market Equity	Net Debt	Enterprise Value	Debt / Non-Deductible Pref. Stock / Market Equity / Cash	Senior Unsec. Credit Ratings	Tax Rate	Unlevered Barra Predicted Beta	Price / Earnings 2013E	Price / Earnings 2014E	Price / Earnings 2015E	Enterprise value / EBITDA 2013E	Enterprise value / EBITDA 2014E	Enterprise value / EBITDA 2015E
Regional utilities														
ALLETE, Inc.	0.74	$1,883	$1,103	$2,986	37% / 0% / 63% / 0%	BBB+	38.0%	0.54	17.2x	15.0x	14.0x	10.3x	9.0x	8.3x
Avista Corporation	0.90	$1,571	1,457	3,028	48% / 0% / 52% / 0%	BBB	38.0%	0.57	14.6x	14.1x	13.5x	7.9x	7.5x	7.1x
Black Hills Corporation	0.84	$2,167	1,314	3,481	38% / 0% / 62% / 0%	BBB-	38.0%	0.61	20.7x	19.4x	18.4x	8.4x	7.9x	7.5x
IDACORP, Inc.	0.79	$2,351	1,748	4,099	43% / 0% / 57% / 0%	BBB	38.0%	0.54	14.1x	13.0x	NA	9.3x	9.1x	NA
MDU Resources Group, Inc.	1.12	$5,082	2,053	7,135	29% / 0% / 71% / 0%	BBB+	38.0%	0.90	19.4x	17.0x	15.4x	8.6x	7.8x	7.2x
Northwest Natural Gas Company	0.66	$1,098	829	1,927	43% / 0% / 57% / 0%	A+	38.0%	0.45	18.6x	17.2x	16.3x	8.8x	8.4x	8.2x
PNM Resources, Inc.	0.84	$1,730	1,935	3,665	52% / 0% / 47% / 0%	BBB-	38.0%	0.50	15.7x	14.7x	13.1x	8.2x	7.7x	7.1x
Portland General Electric Company	0.78	$2,138	1,736	3,874	45% / 0% / 55% / 0%	BBB	38.0%	0.52	21.1x	13.2x	12.4x	7.2x	6.4x	5.8x
UNS Energy Corp	0.73	$1,883	1,841	3,724	49% / 0% / 51% / 0%	NR	38.0%	0.46	15.8x	13.2x	13.7x	7.9x	7.2x	7.2x
Westar Energy, Inc.	0.73	$3,831	3,658	7,489	49% / 0% / 51% / 0%	BBB	38.0%	0.46	14.2x	13.6x	13.3x	8.7x	8.2x	7.8x
Xcel Energy Inc.	0.75	$13,786	11,553	25,339	46% / 0% / 54% / 0%	A-	38.0%	0.49	14.5x	13.9x	13.3x	8.8x	8.1x	7.7x
Mean	0.81	$3,411	$2,657	$6,068	44% / 0% / 56% / 0%		38.0%	0.55	16.9x	15.1x	14.3x	8.5x	7.9x	7.4x
Median	0.78	2,138	1,748	3,724	47% / 0% / 57% / 0%		38.0%	0.52	15.8x	14.1x	13.6x	8.8x	7.9x	7.4x
NorthWestern Corporation	0.72	$1,624	1,152	2,777	42% / 0% / 58% / 0%	BBB	38.0%	0.50	16.5x	15.4x	14.5x	9.8x	9.0x	8.5x

Source: FactSet, Alacra, S&P, Moody's, company management as of 9/13/13.

Select comparable regulated utility acquisitions

NorthWestern Energy

Date announced	Acquiror name	Target name	Transaction value	EBITDA multiple LTM	EBITDA multiple FY	EBITDA multiple FY+1	Earnings multiple LTM	Earnings multiple FY	Earnings multiple FY+1	Consideration offered
5/29/13	Berkshire Hathaway / MidAmerican Energy	NV Energy, Inc.	$10,494	8.9x	9.0x	8.8x	17.1x	18.3x	17.6x	Cash
2/21/12	Fortis Inc.	CH Energy Group	$1,453	10.4x	10.1x	9.7x	21.1x	21.7x	20.6x	Cash
7/12/11	Gaz Metro	Central Vermont Public Service Corp.	$691	10.8x	NA	NA	19.8x	21.4x	19.6x	Cash
4/28/11	Exelon Corp.	Constellation Energy	$11,430	8.6x	6.4x	7.3x	27.4x	11.8x	15.6x	Stock
4/20/11	AES Corp.	DPL Inc.	$4,702	7.6x	7.7x	7.7x	13.4x	12.4x	12.0x	Cash
3/1/11	PPL Corp.	Central Networks	$6,400	8.3x	NA	NA	NA	NA	NA	Cash
1/10/11	Duke Energy	Progress Energy, Inc.	$25,834	8.2x	8.6x	8.4x	16.0x	15.3x	14.8x	Stock
12/7/10	AGL Resources Inc.	Nicor Inc.	$3,099	6.8x	4.7x	4.5x	NA	17.7x	16.9x	Cash/Stock (40.5%:59.5%)
10/18/10	Northeast Utilities	NSTAR	$6,985	8.1x	7.8x	7.6x	17.6x	15.9x	15.2x	Stock
4/28/10	PPL Corp.	E.ON US	$7,625	9.9x	NA	NA	NA	NA	NA	Cash
2/11/10	FirstEnergy Corp.	Allegheny Energy, Inc.	$9,037	7.5x	7.8x	7.3x	12.1x	12.7x	11.9x	Stock
10/26/07	Macquarie	Puget Energy Inc.	$6,676	9.4x	8.7x	8.2x	18.5x	18.5x	17.6x	Cash
6/25/07	Iberdrola	Energy East	$8,099	8.2x	8.7x	8.6x	17.4x	18.9x	18.6x	Cash
2/7/07	Great Plains Energy / Black Hills Corp.	Aquila Inc.	$2,739	9.0x	12.6x	9.4x	NA	NM	NM	Cash/Stock (39.6%:60.4%)
7/5/06	Macquarie	Duquesne Light Holdings	$2,797	10.3x	NA	NA	20.0x	24.4x	15.4x	Cash
2/27/06	National Grid PLC	KeySpan Corp	$12,519	9.2x	9.6x	9.4x	NA	17.6x	17.1x	Cash
5/24/05	MidAmerican Energy Holdings	Pacificorp	$9,410	9.2x	NA	NA	22.4x	NA	NA	Cash
5/9/05	Duke Energy	Cinergy	$13,677	9.8x	9.5x	8.8x	20.6x	16.2x	14.8x	Stock
		Mean	$7,982	8.9x	8.5x	8.1x	18.7x	17.3x	16.3x	
		Median	$7,305	9.0x	8.7x	8.4x	18.5x	17.6x	16.2x	
		High	$25,834	10.8x	12.6x	9.7x	27.4x	24.4x	20.6x	
		Low	$691	6.8x	4.7x	4.5x	12.1x	11.8x	11.9x	

Source: SDC platinum, Factset and Company filings.

NorthWestern Energy

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NorthWestern Energy

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Department of Public Service Regulation
Montana Public Service Commission
Docket No. D2013.12.85
PPLM Hydro Assets Purchase
NorthWestern Energy

PREFILED DIRECT TESTIMONY OF

ALLEN OTTO

ON BEHALF OF NORTHWESTERN ENERGY

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Exhibits

Blackstone Fairness Opinion Letter	Exhibit__(AO-01)
Blackstone Presentation to NorthWestern Board	Exhibit__(AO-02)

Witness Information

Q. Please state your name and business address.

A. My name is Allen Otto, and my business address is 345 Park Avenue, New York, NY 10154.

1 **Q. By whom are you employed and in what capacity?**

2 **A.** I am employed by Blackstone Advisory Partners L.P. ("Blackstone"), as a

3 Vice President.

4

5 **Q. When did you join Blackstone Advisory Partners?**

6 **A.** June 18, 2007.

7

8 **Q. What do you do as a vice president focused on the energy,**

9 **infrastructure, and natural resources sectors?**

10 **A.** I am part of a team that advises corporate and other clients as a financial

11 advisor in the context of transactions including, for example, mergers,

12 acquisitions, joint ventures and other strategic transactions.

13

14 **Q. Please describe your educational background and your professional**

15 **experience before joining Blackstone Advisory Partners.**

16 **A.** I have a BA from Hamilton College. Upon graduation from college, I

17 joined Bear, Stearns & Co. Inc. as an Analyst in the Industrial Products

18 and Services group. Following that, I worked in the Corporate Finance

19 group of Sirius Satellite Radio Inc., and later in the Mergers and

20 Acquisitions group of Centrica plc's North American business unit.

21

22 **Purpose of Testimony**

23 **Q. What is the purpose of your testimony?**

1 **A.** The purpose of my testimony is to provide information regarding the
2 opinion delivered by Blackstone to NorthWestern Corporation
3 ("NorthWestern"), based upon and subject to certain work performed,
4 assumptions and qualifications, regarding the fairness to NorthWestern,
5 from a financial point of view, of the consideration to be paid by
6 NorthWestern in the acquisition (the "Acquisition") of hydroelectric
7 generating facilities and certain associated assets of PPL Montana, LLC
8 ("PPL Montana").
9
10 **Fairness Opinion Defined**
11 **Q. What is a fairness opinion?**
12 **A.** A fairness opinion is an opinion of a financial advisory firm, based upon
13 and subject to certain work performed, assumptions and qualifications, as
14 to the fairness, from a financial point of view, of consideration to be paid or
15 received by the client of such financial advisory firm. The fairness opinion
16 informs the board of directors in making a decision as to the consideration
17 to be paid in a transaction and, thereby, provides an element of support
18 for the proper exercise of their business judgment. Fairness does not
19 reflect a single price or the lowest price that could be paid by a buyer but,
20 rather, reflects a range of values derived from our judgment and financial
21 analyses.
22

1 **Fairness Opinion Process**

2 **Q. What was your role in preparing and delivering the fairness opinion**
3 **to NorthWestern Energy's Board of Directors?**

4 **A.** I was principally responsible for preparing and reviewing the financial
5 analyses and models used by Blackstone in connection with its opinion as
6 well as the Blackstone presentation materials prepared for the information
7 of the NorthWestern Energy Board of Directors, participated in calls with
8 business executives of NorthWestern and the review of financial and other
9 information provided by NorthWestern and attended the meeting of
10 NorthWestern Energy's Board of Directors at which my colleague
11 delivered Blackstone's fairness opinion.

12

13 **Q. Please describe the steps that Blackstone Advisory Partners took**
14 **and the information Blackstone Advisory Partners utilized to reach a**
15 **conclusion about the fairness of the Base Purchase Price to be paid**
16 **by NorthWestern to PPL.**

17 **A.** Blackstone, among other things:

18 • Reviewed certain publicly available information concerning the
19 business, financial condition, and operations of NorthWestern and
20 the facilities that Blackstone believed to be relevant;

21 • Reviewed certain internal information, including business, financial
22 and operating analyses, as well as projected information, including
23 estimates, budgets and forecasts, relating to NorthWestern and the

facilities, both on a standalone basis and pro forma for the Acquisition, prepared and furnished to Blackstone by the management of NorthWestern and PPL;

- Held discussions with members of senior management of NorthWestern concerning their evaluations of the Acquisition and the facilities' past and prospective business, operating and regulatory environments, financial condition, prospects, and strategic objectives, as well as such other matters as Blackstone deemed necessary or appropriate for purposes of rendering the opinion;
- Compared certain financial information for the facilities with similar information for certain publicly traded companies that Blackstone deemed to be generally comparable to the facilities;
- Reviewed the publicly available financial terms of certain other business combination transactions that Blackstone deemed to be relevant and the consideration paid for such companies that Blackstone believed to be generally relevant;
- Performed a discounted cash flow analysis of the facilities utilizing the projections prepared by and furnished to Blackstone by the management of NorthWestern;
- Reviewed the potential pro forma impact of the Acquisition on NorthWestern based upon the projections prepared by and furnished to Blackstone by the management of NorthWestern;

- Reviewed the draft of September 21, 2013 of the purchase agreement; and
- Performed such other financial studies, analyses and investigations, and considered such other matters as Blackstone deemed necessary or appropriate for purposes of rendering the opinion.

Blackstone did not undertake an independent verification of any information or projections and did not assume any responsibility or liability for the accuracy or completeness thereof. Blackstone did not conduct a physical inspection of any of the properties or assets of the facilities; make an independent evaluation or appraisal of the assets or the liabilities of the company, PPL Montana or the facilities; or evaluate the solvency of NorthWestern, PPL Montana or the facilities under any state or federal laws.

Blackstone did not consider the relative merits of the Acquisition as compared to any other acquisition, business plan or opportunity that might be available to NorthWestern and expressed no opinion as to the fairness of the Acquisition to the holders of any class of securities, creditors or other constituencies of NorthWestern or as to the underlying decision by NorthWestern to engage in the Acquisition. Blackstone's opinion did not address any other aspect or implication of the Acquisition, the purchase agreement or any other agreement or understanding entered into in

1 connection with the Acquisition or otherwise, including, without limitation,
2 the form or structure of the Acquisition or any financing arrangements.

3 Blackstone expressed no opinion as to the fairness of the amount or
4 nature of compensation to any officers, directors or employees of any
5 party to the Acquisition, or any class of such persons, relative to the
6 consideration or any other amount; the prices or trading ranges at which
7 NorthWestern common stock would trade at any time; or the impact of the
8 Acquisition on the solvency or viability of NorthWestern (after giving effect
9 to the Acquisition) or the ability of NorthWestern (after giving effect to the
10 Acquisition) to pay its obligations when they become due.

11 Blackstone did not make any recommendation as to any action the Board
12 of Directors should take with respect to the Acquisition or any aspect
13 thereof and assumed no responsibility for updating or revising the opinion
14 based on circumstances or events occurring after the date thereof.

15 All of the foregoing matters are customary for fairness opinions.
16
17 **Fairness Opinion Conclusion**

18 **Q. Did Blackstone Advisory Partners conclude that the Hydroelectric**
19 **Generating Assets' Base Purchase Price of $900 million in cash was**
20 **fair, from a financial point of view?**

21 **A.** Based on and subject to the work performed, the assumptions set forth in
22 the fairness opinion and certain qualifications, Blackstone was of the

opinion that, as of the date of the opinion, the $900 million in cash to be paid by NorthWestern in the Acquisition was fair to NorthWestern from a financial point of view. Blackstone's letter to the Board containing the fairness opinion is attached as Exhibit __ (AO-01).

Board Presentation

Q. Did Blackstone Advisory Partners present its conclusion to NorthWestern's Board of Directors?

A. Yes.

Q. Please describe the presentation made to NorthWestern's Board of Directors.

A. The presentation made to NorthWestern's Board of Directors set forth a summary of the scope of the work performed, the assumptions made and relied upon, the analyses conducted and the conclusion reached by Blackstone in evaluating the fairness, from a financial point of view, of the $900 million in cash to be paid by NorthWestern in the Acquisition, as well as the qualifications to such evaluation. The written portion of the presentation is attached as Exhibit __ (AO-02).

Q. Please describe the analyses that Blackstone Advisory Partners presented to NorthWestern's Board of Directors.

1 **A.** In accordance with customary investment banking practice, Blackstone
2 employed generally accepted valuation methods as part of reaching its
3 opinion as to the fairness to NorthWestern, from a financial point of view,
4 of the consideration to be paid in the Acquisition. The following is a
5 summary of the material Regulated Business Model financial analyses
6 contained in the presentation that was made by Blackstone to the
7 Northwestern Board of Directors on September 23, 2013 and that were
8 utilized by Blackstone in connection with providing its opinion. The
9 following summary, however, does not purport to be a complete
10 description of the financial analyses or other work performed by
11 Blackstone, nor does the order of analyses described represent the
12 relative importance or weight given to those analyses by Blackstone. The
13 principal financial methodologies utilized were (1) a discounted cash flow
14 analysis, (2) a selected comparable companies analysis and (3) a
15 selected precedent transactions analysis.
16
17 In performing its analysis, Blackstone relied on the Regulated Business
18 Model financial projections (as described in the Board of Directors
19 presentation attached as Exhibit__(AO-02)) for purposes of evaluating the
20 fairness of the transaction from a financial point of view to NorthWestern,
21 but was also informed by the Merchant Business Model financial
22 projections provided by NorthWestern management. Blackstone's

analyses were subject to the scope of work performed, assumptions and qualifications set forth in its opinion and Board of Directors presentation.

Blackstone conducted an illustrative discounted cash flow analysis for the Montana Hydro Assets, on a standalone basis under a Regulated Business Model, which is designed to estimate a range of implied values of the Montana Hydro Assets by calculating the present value of the estimated projected unlevered after-tax cash flows from the Montana Hydro Assets, using a range of discount rates and terminal value assumptions.

Blackstone also reviewed and compared certain financial information for the Montana Hydro Assets to corresponding financial information and public market multiples for certain regulated electric utilities, which, in the exercise of its professional judgment, Blackstone determined to be relevant to its analysis. Although Blackstone selected the regulated electric utilities reviewed in the analysis because, among other things, their businesses are reasonably similar to that of Montana Hydro Assets under a Regulated Business Model, no selected company is identical to the Montana Hydro Assets. In performing this analysis, Blackstone made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters. Accordingly, Blackstone's comparison of selected regulated electric

utilities to the Montana Hydro Assets and analysis of the results of such comparisons was not purely quantitative, but instead necessarily involved qualitative considerations and professional judgments concerning differences in financial and operating characteristics and other factors that could affect the relative values of the selected regulated electric utilities and the Montana Hydro Assets.

Blackstone performed a selected precedent transactions analysis, which is designed to imply a range of values for the Montana Hydro Assets under a Regulated Business Model based on publicly available financial terms of selected transactions that share some characteristics with the Acquisition. Blackstone reviewed and compared the proposed financial terms offered for the Montana Hydro Assets to corresponding publicly available financial terms in selected acquisitions of regulated electric utility companies. In its analysis, Blackstone reviewed certain precedent transactions as of the date of announcement, selected based on Blackstone's professional judgment.

Q. Does this conclude your testimony?

A. Yes.

Blackstone Advisory Partners L.P.

September 23, 2013

Board of Directors of NorthWestern Corporation
125 S. Dakota Ave.
Sioux Falls, SD 57104

Members of the Board:

We understand that NorthWestern Corporation ("NorthWestern" or the "Company") proposes to enter into a Purchase and Sale Agreement with PPL Montana, LLC ("PPL Montana"), a wholly-owned subsidiary of PPL Corporation ("PPL"), (the "Purchase Agreement"), which provides for, among other things, the acquisition by the Company of hydroelectric generating facilities and certain associated assets (collectively, the "Facilities") of PPL Montana, subject to the assumption of certain liabilities related thereto (the "Acquisition"), in exchange for aggregate consideration of $900 million in cash (the "Base Purchase Price"), which amount is subject to adjustment under certain circumstances and as to which adjustments we express no opinion. The terms and conditions of the Acquisition are fully set forth in the Purchase Agreement.

You have asked us whether, as of the date hereof, in our opinion, the Base Purchase Price being paid by NorthWestern in the Acquisition is fair to NorthWestern from a financial point of view.

In arriving at the opinion set forth below, we have, among other things:

- Reviewed certain publicly available information concerning the business, financial condition, and operations of NorthWestern and the Facilities that we believe to be relevant to our inquiry;

- Reviewed certain internal information, including business, financial and operating analyses, as well as projected information, including estimates, budgets and forecasts, relating to NorthWestern and the Facilities, both on a standalone basis and pro forma for the Acquisition, prepared and furnished to us by the management of NorthWestern and PPL;

- Held discussions with members of senior management of NorthWestern concerning their evaluations of the Acquisition and the Facilities' past and prospective business, operating and regulatory environments, financial condition, prospects, and strategic objectives, as well as such other matters as we deemed necessary or appropriate for purposes of rendering this opinion;

- Compared certain financial information for the Facilities with similar information for certain publicly traded companies that we deem to be generally comparable to the Facilities;

- Reviewed the publicly available financial terms of certain other business combination transactions that we deemed to be relevant and the consideration paid for such companies that we believe to be generally relevant;

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- Performed a discounted cash flow analysis of the Facilities utilizing the projections prepared by and furnished to us by the management of NorthWestern;
- Reviewed the potential pro forma impact of the Acquisition on NorthWestern based upon the projections prepared by and furnished to us by the management of NorthWestern;
- Reviewed the draft of September 21, 2013 of the Purchase Agreement; and
- Performed such other financial studies, analyses and investigations, and considered such other matters as we deemed necessary or appropriate for purposes of rendering our opinion.

In preparing this opinion, at your direction, we have relied without assuming responsibility or liability for independent verification upon the accuracy and completeness of all financial and other information that is available from public sources and all information and projections provided to us or otherwise discussed with or reviewed by or for us. We have assumed with your consent that the projections provided to us by NorthWestern and the assumptions underlying those projections, including expected regulatory outcomes and the amounts and the timing of all financial and other performance data, have been reasonably prepared in accordance with industry practice and represent management's best estimates and judgments as of the date of their preparation and will be realized in the amounts and at the times set forth therein. We assume at your direction no responsibility for and express no opinion as to such information or projections or the assumptions on which they are based. We have further relied with your consent upon the assurances of the management of NorthWestern that they are not aware of any facts that would make the information and projections provided by them inaccurate, incomplete or misleading.

We have not been asked to undertake, and have not undertaken, an independent verification of any information or projections, nor have we been furnished with any such verification and we do not assume any responsibility or liability for the accuracy or completeness thereof. We did not conduct a physical inspection of any of the properties or assets of the Facilities. We did not make an independent evaluation or appraisal of the assets or the liabilities (contingent or otherwise) of the Company, PPL Montana or the Facilities, nor have we been furnished with any such evaluations or appraisals, nor have we evaluated the solvency of NorthWestern, PPL Montana or the Facilities under any state or federal laws.

We also have assumed with your consent that the final executed form of the Purchase Agreement does not differ in any material respect from the draft dated September 21, 2013 and the consummation of the Acquisition will be effected in accordance with the terms and conditions of the Purchase Agreement, without waiver, modification or amendment of any material term, condition or agreement, and that, in the course of obtaining the necessary regulatory or third party consents and approvals (contractual or otherwise) for the Acquisition, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on NorthWestern or the Facilities or the contemplated benefits of the Acquisition in any manner relevant to this opinion. We are not legal, tax or regulatory advisors and have relied upon without independent verification the assessment of the Company and its legal, tax and regulatory advisors with respect to such matters.

We have not considered the relative merits of the Acquisition as compared to any other acquisition, business plan or opportunity that might be available to NorthWestern or the effect of any other arrangement in which NorthWestern might engage. Our opinion is limited to the fairness, from a financial point of view, of the Base Purchase Price to be paid in the proposed Acquisition, and we express no opinion as to the fairness of the Acquisition to the holders of any class of securities, creditors or other constituencies of NorthWestern or as to the underlying decision by NorthWestern to engage in the Acquisition. Our opinion does not address any other aspect or implication of the Acquisition, the Purchase Agreement, or any other agreement or understanding entered into in connection with the Acquisition or otherwise, including, without limitation, the form or structure of the Acquisition or any financing arrangements. We also express no opinion as to the fairness of the amount or nature of the compensation to any officers, directors or employees of any party to the Acquisition, or any class of such persons, relative to the Base Purchase Price or any other amount.

Our opinion is necessarily based upon economic, market, monetary, regulatory and other conditions as they exist and can be evaluated, and the information made available to us, as of the date hereof. We express no opinion as to the prices or trading ranges at which NorthWestern Common Stock will trade at any time. Furthermore, we are not expressing any opinion as to the impact of the Acquisition on the solvency or viability of the Company (after giving effect to the Acquisition) or the ability of the Company (after giving effect to the Acquisition) to pay its obligations when they become due.

This opinion does not constitute a recommendation as to any action the Board of Directors should take with respect to the Acquisition or any aspect thereof. We assume no responsibility for updating or revising our opinion based on circumstances or events occurring after the date hereof. This opinion has been approved by a fairness committee in accordance with established procedures.

This letter is provided to the Board of Directors of NorthWestern in connection with and for the purposes of its evaluation of the Acquisition only and is not rendered to or for the benefit of, and shall not confer rights or remedies upon, any person other than the Board of Directors of Northwestern. Without our prior written consent, this letter is not to be referred to, quoted, summarized, paraphrased, excerpted or otherwise disclosed, in whole or in part, in any registration statement, prospectus or proxy statement, or in any other report, document, release or other written or oral communication prepared, issued or transmitted by the Board of Directors, including any committee thereof, or NorthWestern.

We will receive a fee from NorthWestern for our services, which fee is payable upon delivery of this opinion, and accordingly no portion of our fee is contingent upon the entry into the Purchase Agreement or completion of the Acquisition. In addition, NorthWestern has agreed to reimburse us for out-of-pocket expenses and to indemnify us for certain liabilities arising out of the performance of such services (including the rendering of this opinion). Within the past 3 years, we have not received any fees from NorthWestern or PPL or any of their respective affiliates. In the ordinary course of our and our affiliates' businesses, we and our affiliates may actively trade or hold the securities of NorthWestern or PPL or any of their affiliates for our or their own account or for others and, accordingly, may at any time hold a long or short position in such securities.

Based on the foregoing and subject to the foregoing, we are of the opinion that, as of the date hereof, the Base Purchase Price being paid by NorthWestern in the Acquisition is fair to NorthWestern from a financial point of view.

Very truly yours,

Blackstone Advisory Partners L.P.

Blackstone Advisory Partners L.P.

Portions of pages 9, 21, 22, 23, and 43 of Exhibit__(AO-02) include non-public forward looking financial information that has been redacted from this public version of the document pending the Commission's decision on NorthWestern's motion for protective order that has been filed on the same date as this Application. NorthWestern will update this filing by providing this information in the appropriate format after the Commission rules on the motion for a protective order.

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Project Mustang

Presentation to the Board of Directors of NorthWestern Corporation

September 23, 2013

Blackstone

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I. Introduction

Executive Summary

The Board of Directors of NorthWestern Corporation ("NorthWestern", the "Company", or the "Buyer") has asked Blackstone Advisory Partners L.P. ("Blackstone") to opine as to the fairness, from a financial point of view, of the Base Purchase Price to be paid by NorthWestern for the acquisition (the "Acquisition") of selected hydroelectric generation assets ("Montana Hydro Assets", the "Facilities", or the "Target") being sold by PPL Corporation ("PPL", or the "Seller").

- We understand the Acquisition comprises, among others, the following elements:
  - The Montana Hydro Assets consisting of 11 hydroelectric generation facilities, one storage reservoir, and related assets located throughout Montana currently owned by PPL Montana with an aggregate capacity of 633 MW
    - One of the facilities, the Kerr Dam hydro electric facility ("Kerr"), has a capacity of 194 MW and is subject to a purchase option by a third-party and is exercisable at any time between September 2015 and 2025. Per management, we have assumed that the option will be exercised at the earliest possible date in 2015
  - NorthWestern is interested in taking ownership of the Facilities to secure long-term power supply for its customers in Montana, among other benefits
  - NorthWestern intends to acquire the Facilities and operate them as regulated assets by placing the Facilities into its rate base
    - NorthWestern intends to seek and to receive from the Montana Public Service Commission ("MPSC") revenue requirement treatment for $900mm of additional rate base with a 10% Return on Equity ("ROE")
  - The Acquisition is conditioned on, among other things, approval by the MPSC
    - MPSC to issue an order approving NorthWestern's application with respect to the transaction upon terms which are "reasonably satisfactory" to NorthWestern
  - The Transaction is expected to close in mid/late-2014
- In performing our analysis, Blackstone utilized financial projections prepared by NorthWestern Management, and relied on the Regulated Business Model[1] financial projections for purposes of evaluating the fairness of the transaction from a financial point of view to NorthWestern
  - In forming our opinion, Blackstone has, with the consent of management, relied on NorthWestern management's assumption that the Company receives its expected revenue requirement treatment, including $900mm of rate base and 10% ROE
  - We have also assumed that the final executed form of the purchase agreement between NorthWestern and PPL Montana, LLC (the "Purchase Agreement") does not differ in any material respect from the draft dated September 20, 2013 and that the consummation of the Acquisition will be effected in accordance with the terms and conditions of the Purchase Agreement

(1) I.e., projections based on regulated rate-base (revenue requirement) treatment of the assets.

Scope of Blackstone Work

In arriving at its conclusion, Blackstone has:

- Reviewed certain publicly available information concerning the business, financial condition, and operations of NorthWestern and the Facilities that we believe to be relevant to our inquiry
- Reviewed certain internal information, including business, financial and operating analyses, as well as projected information, including estimates, budgets and forecasts, relating to NorthWestern and the Facilities, both on a standalone basis and pro forma for the Acquisition, prepared and furnished to us by the management of NorthWestern and PPL
- Held discussions with members of senior management of NorthWestern concerning their evaluations of the Acquisition and the Facilities' past and prospective business, operating and regulatory environments, financial condition, prospects, and strategic objectives, as well as such other matters as we deemed necessary or appropriate for purposes of rendering this opinion
- Compared certain financial information for the Facilities with similar information for certain publicly traded companies that we deem to be generally comparable to the Facilities
- Reviewed the publicly available financial terms of certain other business combination transactions that we deemed to be relevant and the consideration paid for such companies that we believe to be generally relevant
- Performed a discounted cash flow analysis of the Facilities utilizing the projections prepared by and furnished to us by the management of NorthWestern
- Reviewed the potential pro forma impact of the Acquisition on NorthWestern based upon the projections prepared by and furnished to us by the management of NorthWestern
- Reviewed the draft of September 20, 2013 of the Purchase Agreement
- Performed such other financial studies, analyses and investigations, and considered such other matters as we deemed necessary or appropriate for purposes of rendering our opinion
- Assumed with your consent that the projections provided to us by NorthWestern and the assumptions underlying those projections, including expected regulatory outcomes and the amounts and the timing of all financial and other performance data, have been reasonably prepared in accordance with industry practice and represent management's best estimates and judgments as of the date of their preparation and will be realized in the amounts and at the times set forth therein
- Relied with your consent upon the assurances of the management of NorthWestern that they are not aware of any facts that would make the information and projections provided by them inaccurate, incomplete or misleading
- Assumed that the final executed form of the Purchase Agreement does not differ in any material respect from the draft dated September 20, 2013 and the consummation of the Acquisition will be effected in accordance with the terms and conditions of the Purchase Agreement, without waiver, modification or amendment of any material term, condition or agreement, and that, in the course of obtaining the necessary regulatory or third party consents and approvals (contractual or otherwise) for the Acquisition, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on NorthWestern or the Facilities or the contemplated benefits of the Acquisition in any manner relevant to the opinion
- Relied upon without independent verification the assessment of the Company and its legal, tax and regulatory advisors with respect to such matters
- Limited our opinion to the fairness, from a financial point of view, of the Base Purchase Price to be paid in the proposed Acquisition
- Necessarily based our opinion upon economic, market, monetary, regulatory and other conditions as they exist and can be evaluated, and the information made available to us, as of the date hereof

Scope of Blackstone Work (Cont'd)

In arriving at its conclusion, Blackstone has NOT:

- Assumed at your direction responsibility or liability for independent verification of the accuracy and completeness of all financial and other information that is available from public sources and all information and projections provided to us or otherwise discussed with or reviewed by or for us
- Assumed at your direction responsibility for or expressed any opinion as to the information or projections or the assumptions on which they are based
- Been asked to undertake, and have not undertaken, an independent verification of any information or projections, nor have we been furnished with any such verification and we do not assume any responsibility or liability for the accuracy or completeness thereof
- Conducted a physical inspection of any of the properties or assets of the Facilities
- Made an independent evaluation or appraisal of the assets or the liabilities (contingent or otherwise) of the Company, PPL Montana or the Facilities, nor have we been furnished with any such evaluations or appraisals, nor have we evaluated the solvency of NorthWestern, PPL Montana or the Facilities under any state or federal laws
- Considered the relative merits of the Acquisition as compared to any other acquisition, business plan or opportunity that might be available to NorthWestern or the effect of any other arrangement in which NorthWestern might engage
- Expressed any opinion as to the fairness of the Acquisition to the holders of any class of securities, creditors or other constituencies of NorthWestern or as to the underlying decision by NorthWestern to engage in the Acquisition
- Addressed any other aspect or implication of the Acquisition, the Purchase Agreement, or any other agreement or understanding entered into in connection with the Acquisition or otherwise, including, without limitation, the form or structure of the Acquisition or any financing arrangements
- Expressed any opinion as to the fairness of the amount or nature of the compensation to any officers, directors or employees of any party to the Acquisition, or any class of such persons, relative to the Base Purchase Price or any other amount
- Expressed any opinion as to the prices or trading ranges at which NorthWestern Common Stock will trade at any time
- Expressed any opinion as to the impact of the Acquisition on the solvency or viability of the Company (after giving effect to the Acquisition) or the ability of the Company (after giving effect to the Acquisition) to pay its obligations when they become due
- Made a recommendation as to any action the Board of Directors should take with respect to the Acquisition or any aspect thereof
- Assumed responsibility for updating or revising the opinion based on circumstances or events occurring after the date thereof

II. Selected Transaction Perspectives

Blackstone

Transaction Rationale for NorthWestern

Blackstone understands that NorthWestern views the acquisition of the Facilities as highly strategic for a number of reasons and that an important strategic objective for NorthWestern is to own a greater proportion of its supply needs, as opposed to relying on open market purchases from third party power generators.

Strategic	• Opportunity for NorthWestern to secure long-term stable power supply for NorthWestern customers • Customers expected to benefit in the long run from greater reliability and reduced power market price volatility • Acquisition of generation resources at a price that is less than new build alternatives (for example, construction of new natural gas-fired generation) • Provides diversity to NorthWestern's generation portfolio with a non-carbon resource • Strong geographic fit with NorthWestern's system as the hydro assets were built to serve the Montana load • Acquisition opportunities in Montana are very limited. NorthWestern management believes that other than PPL Montana's coal assets, the hydro assets are the only material generation assets that currently exist in Montana for potential acquisition
Regulatory	• Generally supportive Montana regulatory environment for securing control over critical power generation assets in State to serve native Montana load • Ownership of the Montana Hydro Assets by NorthWestern is expected to be well received publicly in Montana
Environmental	• Montana Hydro Assets provide a hedge against environmental risks and costs associated with coal assets[1], including Sierra Club litigation, future greenhouse gas/carbon regulation and President Obama's Climate Change Initiative, ash management, and facility decommissioning
Financial	• Acquisition expected to be accretive to earnings per share in year one (before transaction fees and expenses), and provide strong cash flow • Based on conversations earlier this year with S&P's Ratings Evaluation Service, NorthWestern expects that the transaction will not result in any credit rating degradation • Builds additional scale in the utility business, and provides greater liquidity in NorthWestern's common equity

Source: Company management.
(1) NorthWestern currently owns a 10.6% stake in Colstrip, a 1,354 MW coal-fired generation facility in Montana.

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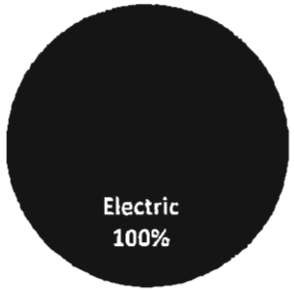
Pro Forma NorthWestern Business Profile

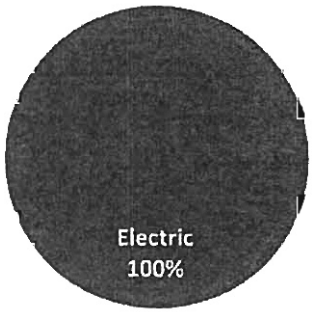
Montana Hydro Assets

2014E EBITDA[1] by Segment



$110mm

2014E Rate Base[1] by Segment

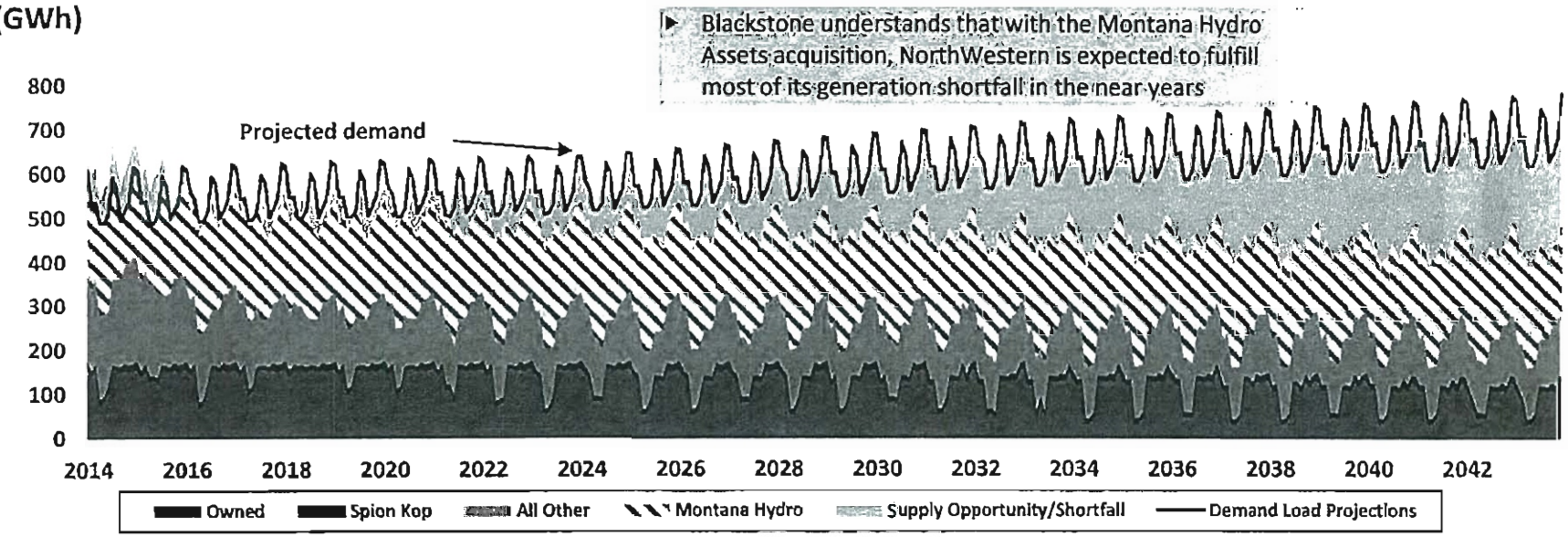


$864mm

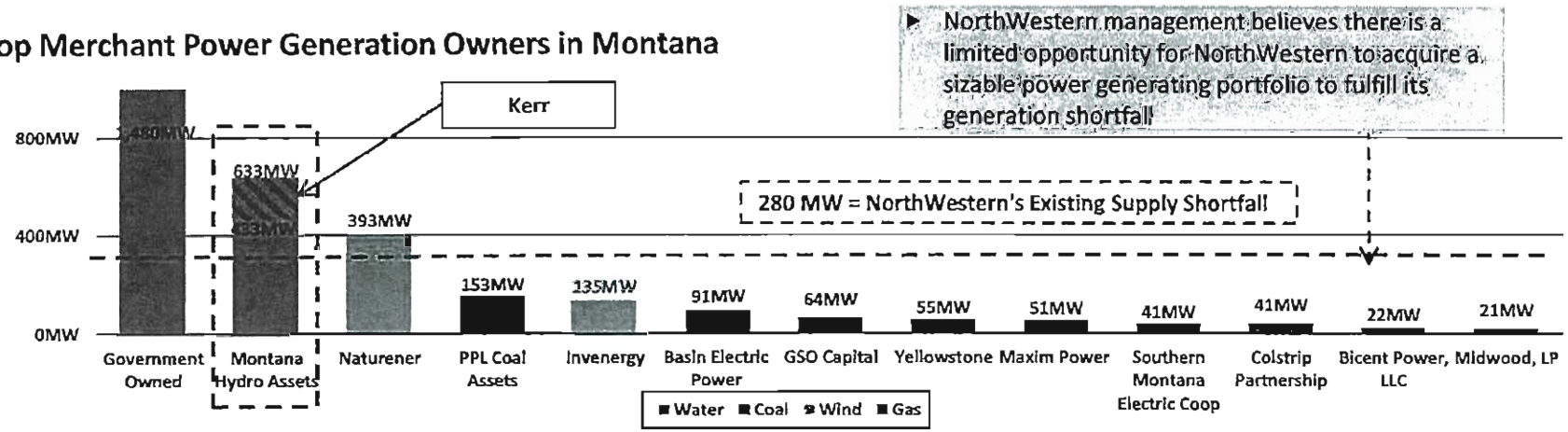
Source: Northwestern Long Range Plan.
Note: 2014E pro-forma assuming illustrative full year contribution EBITDA from Montana Hydro Assets.
(1) Based on Buyer's Regulated Business Model. Excludes Kerr.

Transaction Rationale – Secure Stable Power Supply

Buyer Projected Electricity Supply and Demand in Montana Service Territory (GWh)



Top Merchant Power Generation Owners in Montana



Source: SNL, Company projections.

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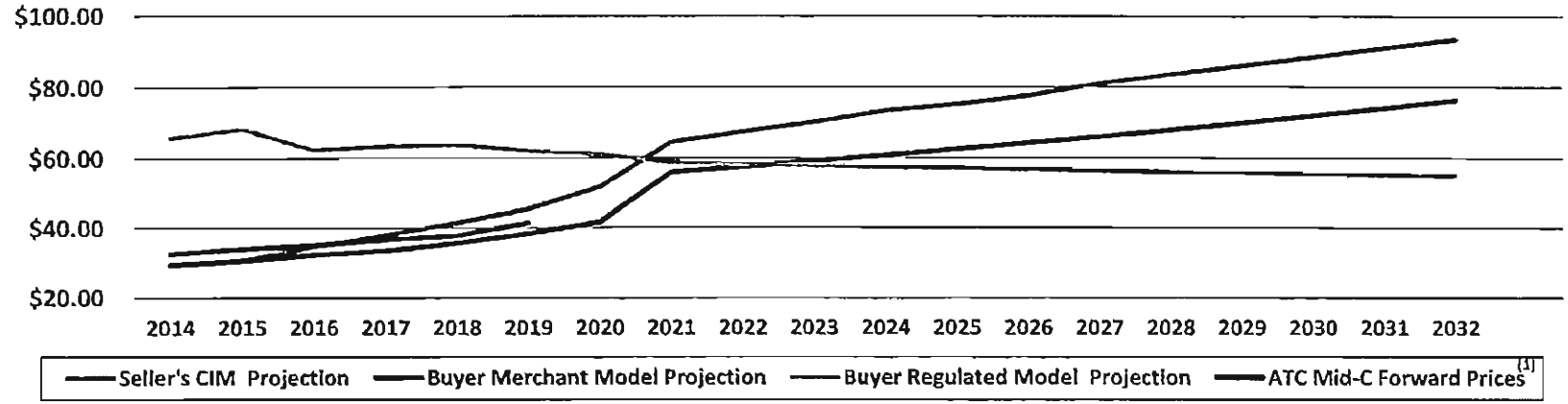
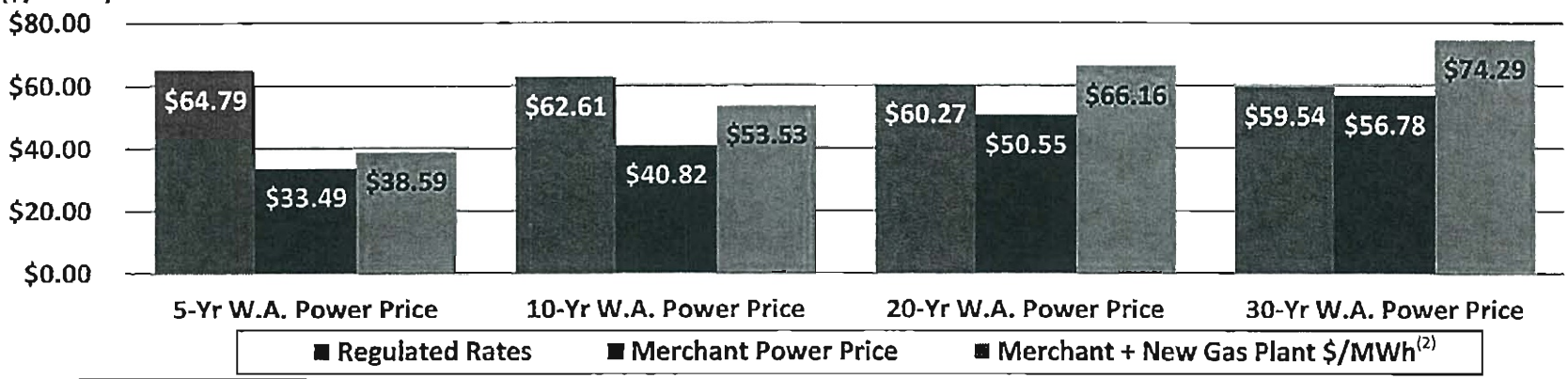
Transaction Rationale – Benefits to Customers

NorthWestern expects the average power prices paid by its Montana customers will be higher initially but lower in the long-run under regulated ownership of the Facilities, versus procuring power in the open market or versus other supply alternatives such as constructing new generation. According to management analysis, over the entire 30 year forecast period, the average price per MWh paid by customers in either the regulated or merchant scenario is similar.

Customer Electric Rates ($/MWh)



Weighted-Average ("W.A.") NorthWestern Montana Electric Customer Rate Over Multi-Year Periods (3) ($/MWh)



(1) Around-the-clock Mid-Columbia ("ATC Mid-C") forward power price, one of the transaction hubs in the Northwest power market. Source: SNL Energy as of 9/16/2013.
(2) Assumes Northwestern meets their demand shortfall over the next 3-4 years through merchant power purchases while building a combined plant to meet their long-term needs.
(3) All figures per NorthWestern management.

III. Summary of Blackstone's Financial Analysis

Blackstone

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Overview of Financial Projections

Blackstone has reviewed three sets of financial projections:

- Buyer's Regulated Business Model: Financial projections from 2014 to 2043 prepared by NorthWestern management, dated June 2013, based on NorthWestern owning and operating the Montana Hydro Assets as regulated assets
  - Regulated required revenue treatment based on 10% ROE and $900mm of rate base
- Buyer's Merchant Business Model: Financial projections from 2014 to 2033 prepared by NorthWestern management, dated June 2013, based on NorthWestern Supply Group's estimated merchant Mid-C market power prices, adjusted for associated delivery and transmission costs for NorthWestern's customers
  - Mid-C power price projections from 2014 to 2020 based on publically quoted forward curve dated 6/7/2013
  - Power price projections from 2021 to 2033 based on NorthWestern management's estimate, including an annual price escalator and cost of carbon(1)
- Seller's Financial Projections (Confidential Information Memorandum): Financial projections from 2013 to 2032 prepared by Seller, dated June 2013
  - Market power price projections based on PA Consulting dated June 29, 2012

In performing our analysis, Blackstone relied on the Regulated Business Model financial projections for purposes of evaluating the fairness of the transaction from a financial point of view to NorthWestern, but was also informed by the Merchant Business Model financial projections provided by NorthWestern management.

(1) Costs associated with carbon emission from thermal power generating facilities. No federal carbon policy currently in place. NorthWestern's estimated cost of carbon emission after 2021 based on U.S. Energy Information Administration's 2013 Annual Energy Outlook.

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Montana Hydro Assets Financial Projections

Buyer's Regulated Business Model[1]

($ in millions)

Buyer Rate Base Financial Forecast		2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Realized Power Price	($/MWh)		$49.90	$52.12	$60.34	$59.49	$59.23	$58.88	$58.38	$58.30	$57.96	$57.65	$57.17	$57.11	$56.69	$56.41	$55.97	$55.84	$55.57
Total Generation	(GWh)		3,572	3,244	2,494	2,487	2,487	2,487	2,494	2,487	2,487	2,487	2,494	2,487	2,487	2,487	2,494	2,487	2,487
Total Revenue			$178	$169	$150	$148	$147	$146	$146	$145	$144	$143	$143	$142	$141	$140	$140	$139	$138
Operating Expenses			(65)	(60)	(45)	(46)	(47)	(48)	(49)	(51)	(52)	(53)	(54)	(56)	(56)	(58)	(59)	(60)	(62)
EBITDA			$113	$109	$105	$101	$100	$98	$96	$94	$92	$90	$88	$86	$84	$82	$80	$78	$76
Depreciation			(22)	(22)	(22)	(23)	(23)	(23)	(23)	(24)	(24)	(24)	(24)	(24)	(25)	(25)	(25)	(26)	(26)
Operating Income			$91	$87	$83	$79	$77	$75	$72	$70	$68	$66	$64	$62	$59	$57	$55	$53	$50
Interest Expenses			(21)	(20)	(19)	(19)	(18)	(17)	(17)	(16)	(16)	(15)	(15)	(14)	(14)	(13)	(13)	(12)	(12)
Income Before Taxes			$70	$66	$63	$60	$59	$57	$55	$54	$52	$51	$49	$47	$45	$44	$42	$40	$38
Income Tax Expenses			(27)	(24)	(23)	(22)	(22)	(21)	(21)	(20)	(20)	(19)	(18)	(18)	(17)	(16)	(16)	(15)	(14)
Net Income			$43	$42	$40	$38	$37	$36	$35	$34	$33	$32	$31	$29	$28	$27	$26	$25	$24
Capex			($13)	($10)	($9)	($12)	($9)	($9)	($9)	($9)	($9)	($10)	($10)	($10)	($10)	($11)	($11)	($11)	($11)
MEMO:																			
Kerr EBITDA			*$3*	*$3*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Kerr Net Income			*$1*	*$1*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Buyer's Merchant Business Model[1]

		2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Realized Power Price	($/MWh)	$29.34	$30.52	$32.42	$33.54	$35.64	$38.40	$41.70	$55.95	$57.50	$59.10	$60.81	$62.54	$64.32	$66.16	$68.04	$70.02	$72.10
Total Generation	(GWh)	3,572	3,244	2,494	2,487	2,487	2,487	2,494	2,487	2,487	2,487	2,494	2,487	2,487	2,487	2,494	2,487	2,487
Total Revenue		$105	$99	$81	$83	$89	$96	$104	$139	$143	$147	$152	$156	$160	$165	$170	$174	$179
Operating Expenses		(65)	(59)	(45)	(46)	(47)	(48)	(49)	(50)	(51)	(52)	(53)	(54)	(56)	(57)	(58)	(59)	(61)
EBITDA		$40	$40	$36	$38	$42	$48	$55	$89	$92	$95	$98	$101	$104	$108	$112	$115	$119
Capex		($13)	($10)	($9)	($12)	($9)	($9)	($9)	($9)	($9)	($10)	($10)	($10)	($10)	($11)	($11)	($11)	($11)

Seller's Financial Projections[2]

		2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Realized Power Price	($/MWh)	$29.69	$30.82	$33.79	$37.11	$40.65	$44.52	$50.82	$63.65	$66.55	$69.20	$72.48	$74.15	$76.50	$79.92	$82.56	$84.99	$87.39
Total Generation	(GWh)	3,572	3,252	2,494	2,487	2,487	2,487	2,494	2,487	2,487	2,487	2,494	2,487	2,487	2,487	2,494	2,487	2,487
Total Revenue		$106	$100	$84	$92	$101	$111	$127	$158	$166	$172	$181	$184	$190	$199	$206	$211	$217
Operating Expenses		(63)	(56)	(39)	(40)	(41)	(42)	(43)	(44)	(45)	(46)	(47)	(48)	(49)	(50)	(51)	(52)	(53)
EBITDA		$43	$44	$45	$52	$60	$69	$84	$114	$121	$126	$134	$136	$141	$149	$155	$159	$164
Capex		($12)	($9)	($9)	($12)	($9)	($9)	($9)	($9)	($9)	($10)	($10)	($10)	($10)	($11)	($11)	($11)	($11)

(1) Source: NorthWestern Management. Includes Kerr in 2014 and 2015.
(2) Source: PPL Confidential Information Memorandum. Includes Kerr in 2014 and 2015.

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Summary of Financial Analysis Methods Considered

In performing our analysis, Blackstone relied on the Regulated Business Model financial projections for purposes of evaluating the fairness of the transaction from a financial point of view to NorthWestern, but was also informed by the Merchant Business Model financial projections provided by NorthWestern management.

Regulated Utility Business Model	**Discounted Cash Flow Analysis**	▸ Enterprise Value based upon the present value of the projected unlevered after-tax cash flows from the regulated business, using a suitable discount rate and terminal value assumptions
	Comparable Companies Trading Analysis	▸ Enterprise Value based on indicative metrics implied by trading prices of securities of selected comparable regulated electric utilities
	Precedent Transaction Analysis	▸ Enterprise Value based on purchase price multiples implied by precedent transactions of regulated electric utility companies

Memo:

Merchant Business Model	**Discounted Cash Flow Analysis**	▸ Enterprise Value based upon the present value of the projected unlevered after-tax cash flows from the merchant business, using suitable discount rate and terminal value assumptions
	Precedent Transaction Analysis	▸ Enterprise Value based on the implied $/kW acquisition multiple of non-regulated hydroelectric generation facility transactions
	Broker Sum-of-the-Parts Estimates	▸ Indicative Enterprise Value based on a third party equity research analyst

Note: For all multiples-based methodologies, we have calculated the value of Kerr separately using management's projections for Kerr, assuming proceeds from the conveyance of Kerr on January 1, 2016 ($30mm after-tax proceeds), and discounted at the respective cost of capital under each business model. DCF approaches include Kerr in the cash flows.

Assumptions

Overall Assumptions[1]

- Transaction closing date of July 1, 2014
- Analysis assumes a purchase of Montana Hydro Assets as an asset purchase
  - Tax basis step up to $870mm at closing
- DCF analysis includes cash flows from Kerr. For multiples-based methodologies, the PV of Kerr is calculated using a discount rate of 6.40% and 7.80% for regulated and merchant methodologies, respectively
  - Assumed Kerr after-tax sale proceeds of $30mm arrive on 1/1/2016
- 39.4% tax rate on the standalone Montana Hydro Assets (i.e., before any pro forma combination adjustments)

Regulated Business Model Analysis

- Based on Buyer's Regulated Business Model
  - Analysis assumes $900mm Base Purchase Price is placed into rate base
  - Allocated Kerr rate base of $30mm and all other assets rate base totaling $870mm
  - Regulated earnings based on 10% ROE, 4.5% cost of debt and 48% allowed equity content
- WACC analysis, terminal multiples, selected precedent utility transactions and trading multiples based on selected publicly traded comparable companies analysis
  - Selected comparable companies include electric utilities with regulated generation

Merchant Business Model Analysis

- Based on Buyer's Merchant Business Model
- WACC analysis, terminal multiples, and transaction multiples based on selected publicly traded companies and selected precedent transactions
  - Selected publicly traded Independent Power Producers ("IPPs")
  - Precedent transaction multiples based on selected hydroelectric generating facilities transactions and IPP transactions since 2005

(1) Source: NorthWestern Management.

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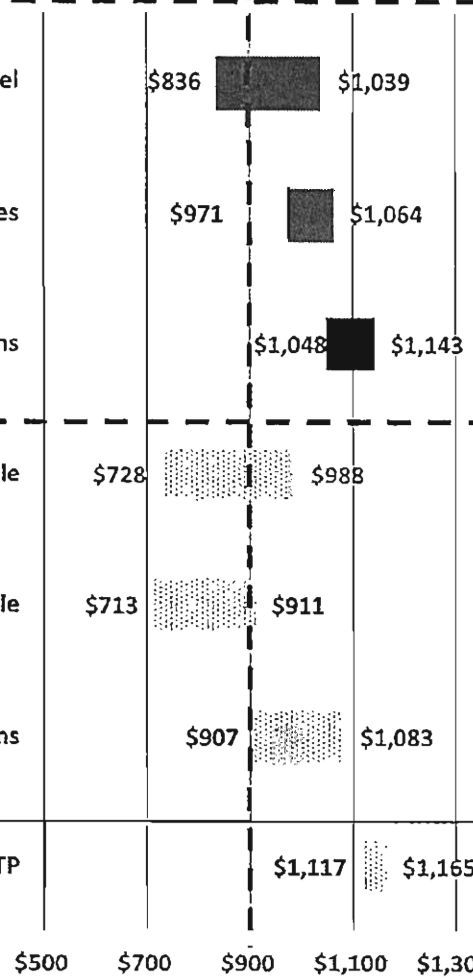
Financial Analysis Summary: Total Enterprise Value ("TEV")

Assumptions[1]
($ in millions)

NorthWestern Base Purchase Price ($900 million)

	Assumptions		Implied Multiples of EBITDA[5] 2014E	Implied Multiples of EBITDA[5] 2015E
Regulated Business Model Analysis	Discounted Cash Flow – Buyer's Regulated Model[2] Min: 7.4% WACC, 7.0x 2043E EBITDA Multiple Max: 5.4% WACC, 9.0x 2043E EBITDA Multiple	DCF - Buyer Regulated Model	8.3x	8.6x
	Selected Comparable Companies[3] Methodology: Median of FY+1, FY+2, FY+3 TEV/EBITDA, P/E, and Rate Base multiples	Public Comparables	9.0x	9.4x
	Selected Precedent Transactions[3] Methodology: Median of FY+1, and FY+2 TEV/EBITDA and P/E multiples	Precedent Transactions	9.7x	10.1x
Memo: Merchant Business Model Analysis	Discounted Cash Flow: Buyer's Merchant Model EBITDA Exit Multiple[2] Min: 8.8% WACC, 7.0x 2033E EBITDA Multiple Max: 6.8% WACC, 9.0x 2033E EBITDA Multiple	DCF - EBITDA Exit Multiple	21.4x	21.7x
	Discounted Cash Flow: Buyer's Merchant Model $/kW Exit Multiple[2] Min: 8.8% WACC, $2,100/kW Exit Multiple Max: 6.8% WACC, $2,300/kW Exit Multiple	DCF - $/kW Exit Multiple	20.2x	20.5x
	Selected Precedent Transactions[3] Methodology: Selected range of $/kW based on precedent merchant hydro transactions	Precedent Transactions	24.8x	25.2x
	Note: Broker Sum-of-the-Parts[4] Based on high and low estimates of a Wall St. analyst	Broker SOTP	28.5x	28.8x



(1) Transaction closing date as of 7/1/2014.
(2) DCFs include cash flows as well as sale proceeds from Kerr. Mid-year cash flow discounting applies in all DCF.
(3) Multiples-based valuations use financial metrics that exclude Kerr and separately adds the PV of Kerr.
(4) 5/13/2013 (low) and 5/2/2013 (high).
(5) Values at midpoint. Based on regulated and merchant business models for respective analyses. EBITDA includes Kerr.

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Summary Matrix

Regulated Business Model

($mm)	Metric[1]	Indicative TEV[2] $900	Selected Publicly Traded Comparable Companies[3] Min	Mean	Max	Selected Precedent Transactions[4] Min	Mean	Max
(-) PV of Kerr		($30)						
TEV excluding Kerr		$870						
(-) 2014 Debt excluding Kerr[1]		($452)						
Equity Value excluding Kerr		$418						
Regulated EBITDA[1]	ex-Kerr							
2014E (FY+1)	$110	7.9x	7.3x	8.4x	9.7x	7.6x	9.1x	11.4x
2015E (FY+2)	$106	8.2x	6.4x	7.8x	8.9x	7.6x	8.5x	9.5x
2016E (FY+3)	$105	8.3x	5.9x	7.7x	10.0x			
Regulated Net Income[1]	ex-Kerr							
2014E (FY+1)	$41	10.1x	13.3x	15.3x	17.6x	12.4x	18.0x	21.5x
2015E (FY+2)	$40	10.3x	13.1x	14.2x	16.0x	12.0x	17.3x	19.7x
2016E (FY+3)	$40	10.5x	12.6x	13.6x	14.7x			

(1) Regulated metrics per Buyer's Regulated Business Model. All figures exclude contribution from Kerr. Debt assumes 52% Debt/TEV per buyer model.
(2) Indicative TEV refers to value of all Montana Hydro Assets including Kerr; implied multiples refer to PPL Hydro Assets ex-Kerr, and metrics ex-Kerr.
(3) Comparable companies include Allete, Xcel, Cleco, Alliant, El Paso, Great Plains, IdaCorp, Pinnacle West, PNM Resources, Portland General, EDE, UNS, Westar.
(4) Based on selected regulated electric utilities transactions since 2005.

Pro Forma Financial Consequences Analysis: Selected Assumptions

Selected assumptions used in our preliminary analysis of pro forma financial consequences analysis are summarized below. Assumptions are per NorthWestern Management.

- 100% cash consideration paid to PPL Corporation
- $900mm Base Purchase Price with $900mm placed into NorthWestern rate base
- Illustrative close date of 7/1/2014
  - 50% of annual 2014 Facility financials accrue to NorthWestern
- Financing mix consisting of $468mm of debt issuance at utility, $380mm of equity issuance and $52mm of anticipated cash on hand
  - Northwestern equity issuance based on a share price before issuance discount or fees of $40.25 (management assumption)
    - Net proceeds assume issuance at a 3.5% discount to market and 3.5% issuance fee / spread
  - Assets transferred with no existing debt at project level
  - Pre-tax cost of utility NorthWestern debt issuance of 4.5%
- Effective tax rate pro forma for Acquisition of approximately 37%
- NorthWestern Management's standalone and pro forma projections through 2017
- Facility financials per Regulated Business Model projections 2014-2017
- No advisory, legal or debt financing transaction costs assumed in base case; no one-time transition services costs included
- Free cash flow after dividend payments, and after annual amortization of utility-level debt, used to repurchase shares or retire corporate debt (or to issue/draw corporate debt, as the case may be) in order to target a consolidated debt capital structure of approximately 55%
  - Utility-level debt amortization consistent with annual decline in rate base, and 52% utility-level debt capitalization
  - Static LTM P/E ratio of 15.5x used to determine implied future NorthWestern share price

Pro Forma Financial Consequences Analysis

Transaction Assumptions and Sources & Uses

($ in millions)

Transaction Assumptions	
Base Purchase Price	$900
Authorized Rate Base	$900
Allowed Return on Equity	10.0%
% Authorized Debt on Rate Base	52%
Authorized Debt	$468
Cost of Debt at Utility	4.5%
Equity Financing Issued	$380
Cash on Hand Financing	$52

($ in millions)

Sources of Funds	
Rollover or Refinancing of Target Net Debt	-
New Debt Issued at Utility	468
Cash on Hand	52
New Equity Issuance	380
Total Sources of Funds	$900

Uses of Funds	
Base Purchase Price	$900
Rollover or Refinancing of Target Net Debt	-
Debt Financing Expenses	-
Total Uses of Funds	$900

Source: Buyer's standalone and pro forma Regulated Business Models.

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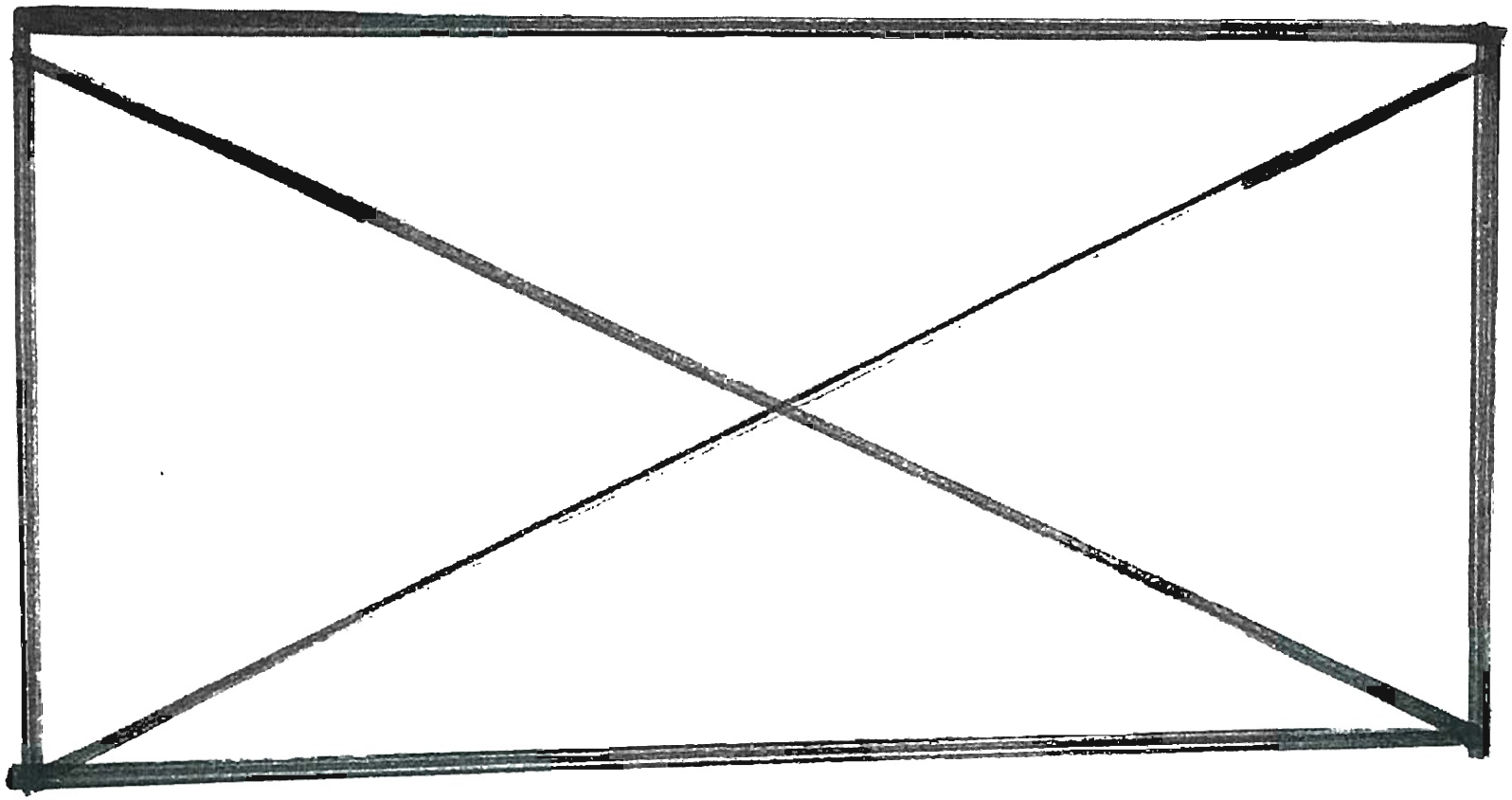
Pro Forma Financial Consequences Analysis (Cont'd)

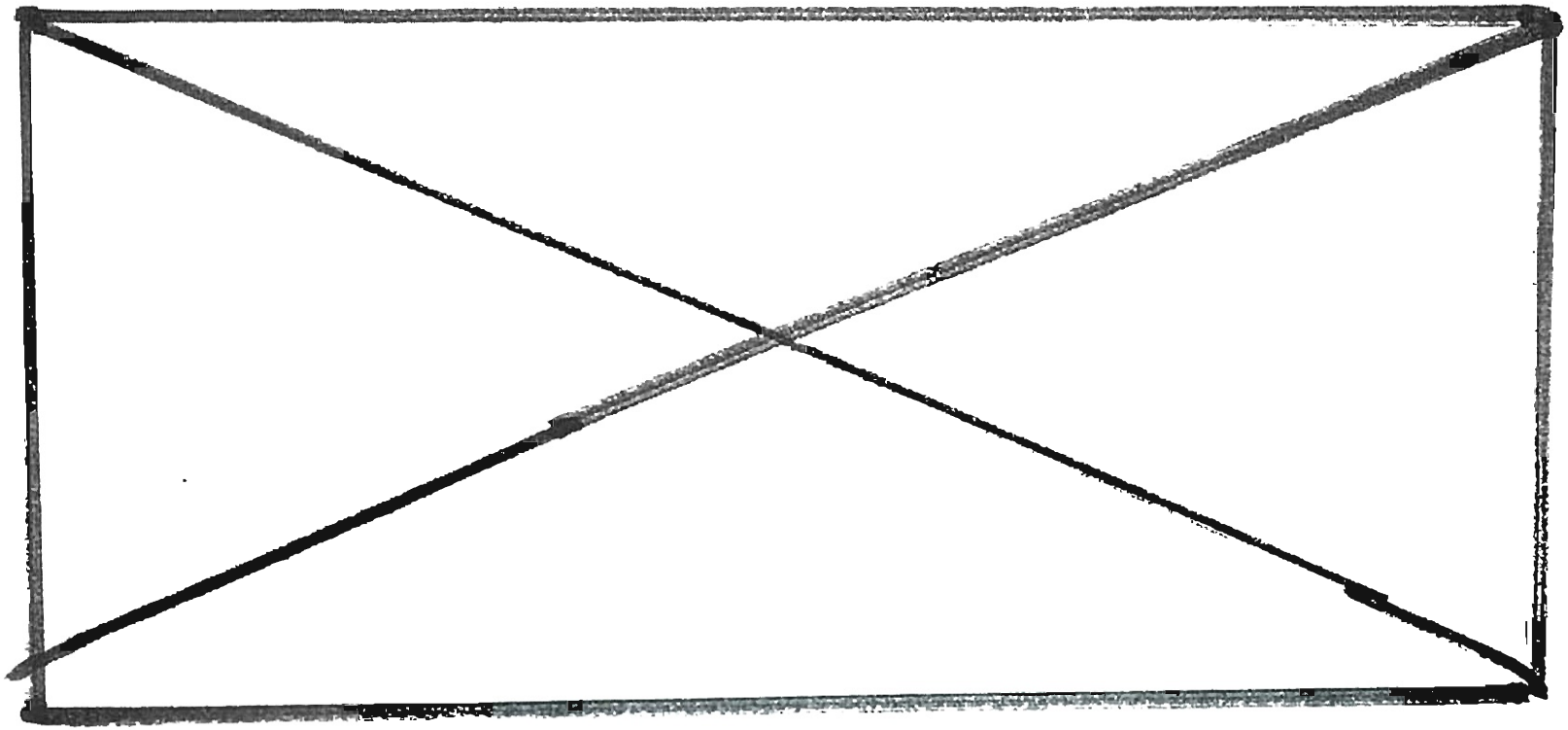
Earnings per Share Accretion / (Dilution)



Source: Buyer's standalone and pro forma Regulated Business Models.

Pro Forma Financial Consequences Analysis (Cont'd)

Cash Flow per Share Accretion / (Dilution)



Source: Buyer's standalone and pro forma Regulated Business Models.

(1) Defined, per Generally Accepted Accounting Principles (GAAP), as cash from ongoing operating activities; net income adjusted for non-cash items, excluding any investment or financing activities.

(2) Defined as cash from operations before the impact of working capital.

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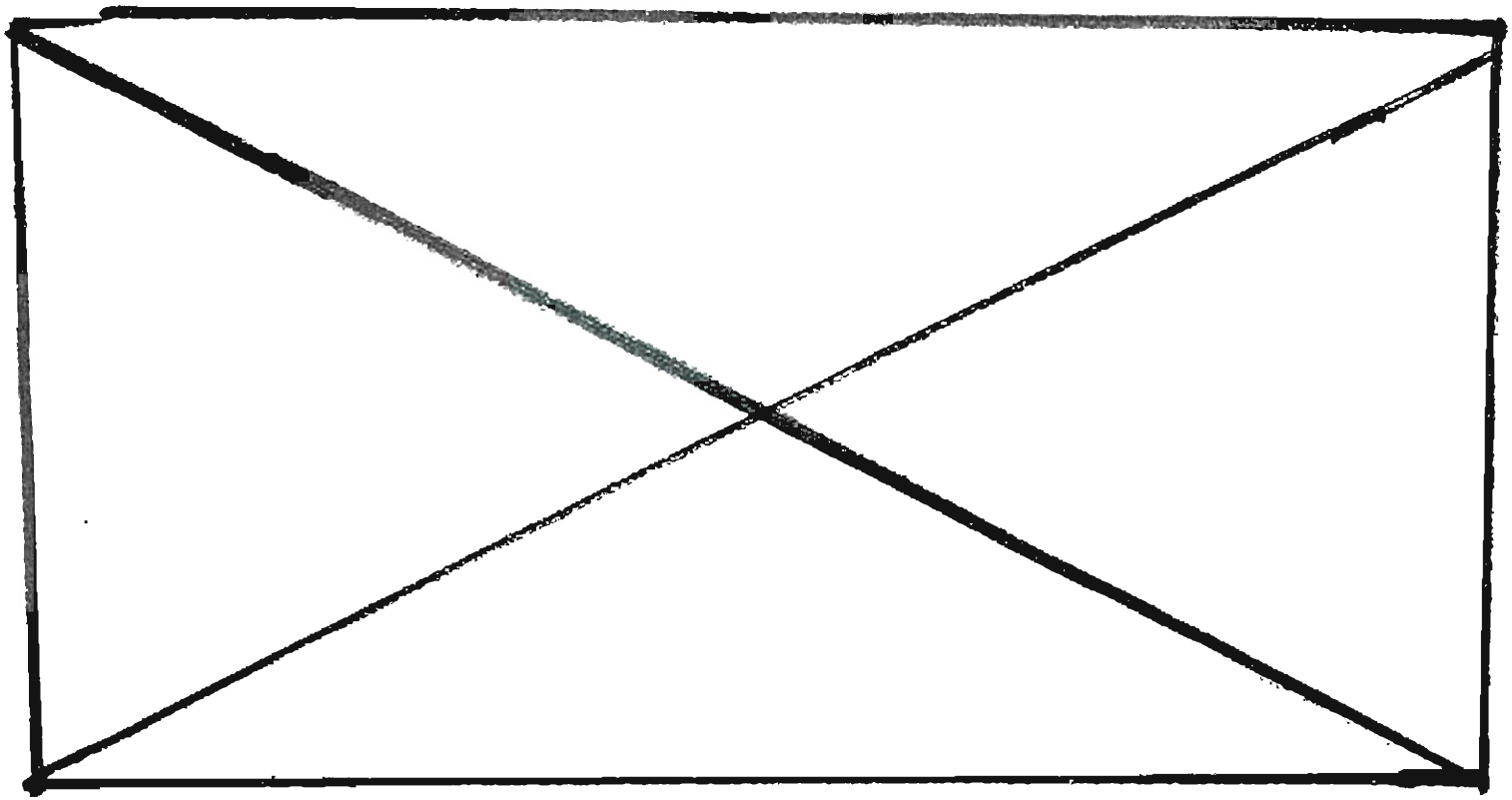
Pro Forma Financial Consequences Analysis (Cont'd)

NorthWestern Standalone and Pro Forma Credit Statistics [1]



Source: Buyer's standalone and pro forma Regulated Business Models.

(1) Does not reflect any S&P, Moody's or other credit rating agency adjustments. Excludes Basin Creek capital lease and non-cash interest on QF liability at NorthWestern.

Appendix

Blackstone

A. Regulated Business Model Analysis

Blackstone

Discounted Cash Flow Analysis: Buyer's Regulated Business Model (Incl. Kerr)

($ in millions)

Buyer's Regulated Business Model	2014	2015	2016	2017	2018	2019	...2043
EBITDA	**$113**	**$109**	**$105**	**$101**	**$100**	**$98**	**$66**
Less: D&A[1]	(33)	(64)	(60)	(56)	(53)	(50)	(13)
EBIT	**79**	**45**	**45**	**45**	**47**	**48**	**54**
Less: Taxes	(31)	(18)	(18)	(18)	(18)	(19)	(21)
Plus: D&A[1]	33	64	60	56	53	50	13
Less: Capex	(13)	(10)	(9)	(12)	(9)	(9)	(16)
Unlevered FCF	**$68**	**$81**	**$78**	**$72**	**$73**	**$70**	**$30**
Kerr Proceeds[2]			**$30**				

DCF TEV Sensitivity

		Discount Rate				
		4.40%	5.40%	6.40%	7.40%	8.40%
Terminal	6.0x	$1,108	$997	$905	$828	$762
Multiple	7.0x	1,126	1,011	916	836	768
of 2043E	8.0x	1,145	1,025	926	844	774
EBITDA	9.0x	1,164	1,039	937	852	781
	10.0x	1,182	1,053	948	860	787

Implied Perpetuity Sensitivity[2]

		Discount Rate				
		4.40%	5.40%	6.40%	7.40%	8.40%
Terminal	6.0x	(3.5%)	(2.6%)	(1.6%)	(0.7%)	0.2%
Multiple	7.0x	(2.4%)	(1.5%)	(0.6%)	0.4%	1.3%
of 2043E	8.0x	(1.6%)	(0.7%)	0.3%	1.2%	2.1%
EBITDA	9.0x	(1.0%)	(0.0%)	0.9%	1.9%	2.8%
	10.0x	(0.5%)	0.5%	1.4%	2.4%	3.3%

Source: Buyer's Regulated Business Model.
Note: Cash flows include Kerr. 2014 cash flows are illustrative full-year financials.
(1) Tax step-up to FMV of $870mm. 20-year MACRS tax D&A applied.
(2) Assumes Kerr sale proceeds on 1/1/2016; no tax leakage.
(3) Assumes that in the terminal year capex equals D&A.

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Discounted Cash Flow Analysis: Kerr

($ in millions)

Buyer's Regulated Business Model	2014	2015	2016
EBITDA	$3	$3	-
Less: D&A[1]	-	-	-
EBIT	3	3	-
Less: Taxes	(1)	(1)	-
Plus: D&A[1]	-	-	-
Less: Capex	-	-	-
Unlevered FCF	$2	$2	-
After-Tax Proceeds[2]			$30

DCF TEV Sensitivity

		Discount Rate				
		4.40%	5.40%	6.40%	7.40%	8.40%
	$10	$12	$12	$12	$12	$11
Sale	$20	21	21	21	21	20
Proceeds[2]	$30	31	30	30	29	29
	$40	40	39	39	38	38
	$50	49	49	48	47	47

Source: Buyer's Regulated Business Model.
(1) Tax step-up to purchase price of $30mm. No D&A assumed in Buyer's Regulated Business Model. 2014 cash flows are illustrative full-year financials.
(2) Assumes Kerr sale proceeds on 1/1/2016; no tax leakage.

WACC Analysis: Selected U.S. Regulated Electric Utilities

Assumptions	
Currency	US$ in millions
Date	9/16/2013
Tax Rate	39.4%
Risk-Free Rate[1]	3.61%
Market Risk Premium[2]	6.11%
Pre-tax Cost of Debt[3]	4.50%

Company	Levered Beta[4]	Total Debt & Preferred	Mkt Equity & Minority Int.	Debt / Equity	Debt / TEV	Unlevered Beta
Electric Utilites w/ Reg Gen						
ALLETE, Inc.	0.7	1,103	1,804	61%	38%	0.54
Xcel Energy Inc.	0.6	11,453	13,633	84%	46%	0.43
Cleco Corporation	0.7	1,343	2,671	50%	33%	0.56
Alliant Energy Corporation	0.8	3,366	5,642	60%	37%	0.59
El Paso Electric Co.	0.7	1,026	1,312	78%	44%	0.50
Great Plains Energy Incorporated	0.9	4,028	3,336	121%	55%	0.50
IdaCorp, Inc.	0.8	1,748	2,345	75%	43%	0.53
Pinnacle West Capital Corporation	0.8	3,449	6,049	57%	36%	0.60
PNM Resources, Inc.	1.0	1,924	1,815	106%	51%	0.59
Portland General Electric Company	0.7	1,736	2,183	80%	44%	0.50
The Empire District Electric Company	0.7	744	913	82%	45%	0.50
UNS Energy Corporation	0.8	1,841	1,879	98%	49%	0.48
Westar Energy, Inc.	0.8	3,602	3,811	95%	49%	0.49
Mean	0.8			80%	44%	0.52
Median	0.8			80%	44%	0.50

Debt / Total Cap	Debt / Equity	Equity / Total Cap	Unlevered Beta	Levered Beta	Size Premium[5]	Cost of Equity	PT Cost of Debt	AT Cost of Debt	WACC
25%	33%	75%	0.50	0.60	1.70%	9.0%	4.5%	2.7%	7.4%
30%	43%	70%	0.50	0.63	1.70%	9.2%	4.5%	2.7%	7.2%
35%	54%	65%	0.50	0.67	1.70%	9.4%	4.5%	2.7%	7.1%
40%	67%	60%	0.50	0.71	1.70%	9.6%	4.5%	2.7%	6.9%
45%	82%	55%	0.50	0.75	1.70%	9.9%	4.5%	2.7%	6.7%
52%	108%	48%	0.50	0.83	1.70%	10.4%	4.5%	2.7%	6.4%
55%	122%	45%	0.50	0.87	1.70%	10.7%	4.5%	2.7%	6.3%
60%	150%	40%	0.50	0.96	1.70%	11.2%	4.5%	2.7%	6.1%
65%	186%	35%	0.50	1.07	1.70%	11.8%	4.5%	2.7%	5.9%
70%	233%	30%	0.50	1.21	1.70%	12.7%	4.5%	2.7%	5.7%

(1) 20-Year Treasury Yield as of 9/16/13.
(2) Source: 2013 Ibbotson SBBI Risk Premia Over Time Report. Reflects long-horizon expected equity risk premium (supply side).
(3) NorthWestern's estimated cost of debt, consistent with current yield of BBB corporate debt.
(4) Reflects 5-year weekly adjusted beta; source: Bloomberg.
(5) Size Premium based on estimated Northwestern pro-forma market cap. Source: 2013 Ibbotson SBBI Risk Premia Over Time Report.

Publicly Traded Comparable Companies Analysis

($ in millions)

Public Company Comparables

Multiple	Metric[1] (ex-Kerr)		Selected Multiple Range Low		High	Implied TEV Montana Hydro Assets Low		High	Comparable Public Company Multiples Low	Median	Mean	High
FY+1 EBITDA	$110	(2014E)	7.9x	-	8.9x	$865	-	$975	7.3x	8.5x	8.4x	9.7x
FY+2 EBITDA	$106	(2015E)	7.4x	-	8.4x	$781	-	$887	6.4x	8.0x	7.8x	8.9x
FY+3 EBITDA	$105	(2016E)	7.2x	-	8.2x	$756	-	$861	5.9x	7.7x	7.7x	10.0x
FY+1 P/E[2]	$41	(2014E)	14.4x	-	16.4x	$1,049	-	$1,132	13.3x	15.5x	15.3x	17.6x
FY+2 P/E[2]	$40	(2015E)	13.0x	-	15.0x	$979	-	$1,060	13.1x	13.8x	14.2x	16.0x
FY+3 P/E[2]	$40	(2016E)	12.5x	-	14.5x	$952	-	$1,032	12.6x	13.5x	13.6x	14.7x
Rate Base	$870		1.3x	-	1.5x	$1,131	-	$1,305	1.2x	1.4x	1.4x	1.9x
Mean						$930	-	$1,036				
Median						$952	-	$1,032				
Selected Range						$941	-	$1,034				
(+) PV of Kerr						$30	-	$30				
Indicative TEV Range						$971	-	$1,064				

Source: Company filings, press releases, Capital IQ.
Note: All financials exclude Kerr.
(1) Metrics per Buyer's Regulated Business Model.
(2) Assumes 52% debt to capitalization, excluding $30mm of capitalization for Kerr.

Project Mustang

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A. Regulated Business Model Analysis

Selected Publicly Traded Comparable Companies: U.S. Regulated Electric Utilities

Company	Company Headquarters	Stock Price (Local)	% of 52-Wk High	% Abo. 52-Wk Low	Analyst PT Upside	Market EqV (USD)	TEV[1] (USD)	Cash & STI	Current Trading Multiples (Calendar Years): TEV / EBITDA[2] LTM	FY+1	FY+2	FY+3	TEV / EBIT[2] LTM	FY+1	FY+2	FY+3	Price / Earnings LTM	FY+1	FY+2	FY+3	LTM PETR[3]	Price-to-BV	TEV/ Net PPE	TEV/ Rate Base
ALLETE, Inc.	Duluth, MN	$46.63	86%	24%	18%	1,871	2,829	145	9.7x	NM	NM	NM	15.5x	18.2x	16.3x	14.9x	17.9x	17.2x	15.9x	14.1x	1.6x	1.5x	1.2x	1.4x
Xcel Energy Inc.	Minneapolis, MN	$27.40	86%	6%	13%	13,633	25,009	77	8.3x	8.6x	8.0x	7.6x	13.0x	13.1x	12.3x	11.7x	13.8x	14.4x	13.8x	13.2x	1.5x	1.4x	1.0x	1.4x
Cleco Corporation	Pineville, LA	$44.19	88%	15%	10%	2,671	4,007	8	8.9x	9.1x	8.4x	8.3x	13.9x	13.4x	12.2x	11.6x	17.2x	17.5x	16.0x	14.7x	1.5x	1.8x	1.3x	1.5x
Alliant Energy Corporation	Madison, WI	$49.04	91%	16%	12%	5,441	8,997	12	9.2x	9.7x	8.9x	8.5x	15.5x	16.6x	14.4x	14.3x	15.2x	15.7x	14.8x	14.1x	1.5x	1.7x	1.1x	1.7x
El Paso Electric Co.	El Paso, TX	$32.59	83%	8%	14%	1,312	2,326	12	7.7x	8.6x	8.2x	7.7x	13.4x	12.6x	12.5x	12.5x	14.0x	13.7x	13.2x	13.5x	6.2x	1.5x	1.1x	1.4x
Great Plains Energy Incorporated	Kansas City, MO	$21.74	86%	11%	14%	3,336	7,356	8	8.0x	8.4x	8.2x	8.0x	13.0x	12.7x	12.4x	12.3x	14.0x	13.9x	13.4x	12.9x	1.4x	1.0x	1.0x	1.3x
IdaCorp, Inc.	Boise, ID	$46.59	85%	16%	11%	2,340	3,956	136	9.5x	NM	NM	10.0x	14.0x	NM	NM	14.7x	12.5x	13.3x	13.6x	14.2x	NM	1.3x	1.1x	1.4x
Pinnacle West Capital Corporation	Phoenix, AZ	$53.75	87%	10%	9%	5,912	9,471	28	6.8x	7.3x	7.1x	6.7x	10.6x	11.0x	10.7x	10.2x	14.0x	14.8x	14.4x	14.0x	1.7x	1.5x	0.9x	1.4x
PNM Resources, Inc.	Albuquerque, NM	$21.65	89%	10%	16%	1,725	3,704	35	7.4x	8.1x	7.6x	7.1x	12.8x	12.8x	12.0x	11.0x	16.6x	15.7x	14.7x	13.2x	1.4x	1.1x	1.0x	1.4x
Portland General Electric Company	Portland, OR	$28.21	85%	13%	14%	2,182	3,800	119	9.0x	7.3x	6.4x	5.9x	16.6x	14.3x	12.0x	10.5x	22.9x	17.6x	13.5x	12.6x	2.4x	1.2x	0.8x	1.2x
The Empire District Electric Company	Joplin, MO	$21.30	88%	9%	13%	913	1,646	11	8.3x	8.1x	8.0x	7.6x	12.1x	12.7x	12.5x	12.1x	15.2x	15.6x	14.8x	14.2x	2.0x	1.3x	1.0x	1.2x
UNS Energy Corporation	Tucson, AZ	$45.29	87%	16%	11%	1,879	3,650	70	8.3x	NM	6.9x	7.0x	14.4x	12.6x	11.1x	11.1x	18.2x	15.5x	13.1x	13.4x	1.7x	1.8x	1.1x	1.9x
Westar Energy, Inc.	Topeka, KS	$29.98	86%	10%	13%	3,808	7,408	4	8.2x	8.6x	8.1x	7.7x	12.1x	12.6x	11.8x	11.4x	12.7x	14.1x	13.5x	13.2x	1.8x	1.3x	1.0x	1.3x
Mean			87%	11%	13%	3,617	6,476	52	8.0x	8.4x	7.8x	7.7x	13.5x	13.5x	12.5x	12.2x	15.7x	15.3x	14.2x	13.6x	2.1x	1.4x	1.0x	1.4x
Median			87%	11%	13%	2,340	3,956	28	8.3x	8.5x	8.0x	7.7x	13.4x	12.7x	12.2x	11.7x	15.2x	15.5x	13.8x	13.5x	1.6x	1.4x	1.0x	1.4x

Return Benchmarking and Credit Statistics

Company	Credit Statistics (LTM Unless Otherwise Noted): S&P Rating / Outlook	Debt / EBITDA	Debt / TEV	Debt / Book	Net Debt / EBITDA LTM	FY+1	FY+2	FY+3	FFO[4] / Net Debt LTM	FY+1	FY+2	FY+3	Return Benchmarking (Local Currency): TSR YTD	7-Day	60-Day	0.5-Yr	1-Yr	TSR Annualized 3-Yr	5-Yr	10-Yr	Expected Return: LT EPS Growth	Div. Yield	Exp. Return	N3Y CapEx % EqV
ALLETE, Inc.	BBB+ / Stable	4.1x	39%	46.9%	3.5x	NM	NM	NM	22%	NM	NM	NM	17%	1%	(12%)	(2%)	18%	14%	6%	8%	7.0%	4.1%	11.1%	70%
Xcel Energy Inc.	A- / Stable	3.8x	46%	55.2%	3.8x	4.1x	4.1x	4.0x	17%	17%	16%	17%	5%	(0%)	(9%)	(4%)	1%	11%	10%	11%	4.9%	4.1%	9.0%	60%
Cleco Corporation	BBB+ / Stable	3.0x	34%	46.7%	3.0x	3.1x	2.8x	2.9x	22%	21%	23%	23%	13%	(1%)	(9%)	(1%)	9%	19%	16%	14%	8.0%	3.3%	11.3%	24%
Alliant Energy Corporation	A- / Stable	3.6x	37%	50.0%	3.6x	4.0x	3.7x	5.2x	21%	19%	20%	15%	15%	1%	(8%)	2%	15%	16%	14%	13%	6.0%	3.8%	9.8%	48%
El Paso Electric Co.	BBB / Stable	3.4x	44%	54.7%	3.3x	3.7x	4.2x	4.2x	17%	18%	16%	15%	4%	(1%)	(16%)	(2%)	1%	15%	12%	12%	(1.0%)	3.3%	2.3%	62%
Great Plains Energy Incorporated	BBB / Positive	4.3x	54%	53.9%	4.3x	4.2x	4.3x	4.4x	13%	14%	14%	14%	10%	0%	(10%)	(4%)	2%	9%	4%	2%	5.7%	4.0%	9.7%	62%
IdaCorp, Inc.	BBB / Stable	4.2x	44%	49.7%	3.9x	NM	NM	NM	20%	NM	NM	NM	10%	0%	(10%)	(1%)	14%	14%	14%	10%	NM	3.3%	NM	NA
Pinnacle West Capital Corporation	BBB+ / Stable	2.5x	36%	45.3%	2.5x	2.9x	3.1x	3.2x	24%	23%	21%	20%	8%	2%	(9%)	(4%)	4%	15%	15%	9%	4.4%	4.1%	8.4%	56%
PNM Resources, Inc.	BBB / Stable	3.8x	52%	52.8%	3.8x	4.6x	5.1x	5.0x	15%	14%	12%	13%	8%	1%	(8%)	(5%)	8%	29%	21%	5%	8.7%	3.0%	11.7%	76%
Portland General Electric Company	BBB / Stable	4.1x	46%	49.6%	3.8x	3.7x	3.9x	3.6x	21%	19%	18%	20%	5%	0%	(12%)	(4%)	7%	17%	8%	NM	5.7%	3.9%	9.6%	91%
The Empire District Electric Company	BBB / Stable	3.8x	45%	50.6%	3.7x	3.7x	3.7x	3.7x	17%	17%	15%	15%	8%	0%	(10%)	(1%)	4%	7%	6%	5%	3.0%	4.7%	7.7%	57%
UNS Energy Corporation	NM / NM	4.2x	50%	63.1%	4.0x	NM	4.2x	4.6x	16%	16%	15%	13%	10%	2%	(11%)	(2%)	14%	16%	14%	13%	7.0%	3.8%	10.8%	71%
Westar Energy, Inc.	BBB / Positive	4.0x	49%	55.1%	4.0x	4.2x	4.3x	4.2x	16%	15%	15%	15%	8%	(1%)	(10%)	(5%)	7%	13%	12%	10%	2.4%	4.5%	7.0%	61%
Mean		3.8x	44%	52%	3.6x	3.8x	3.9x	4.1x	19%	18%	17%	17%	9%	0%	(10%)	(3%)	8%	15%	12%	9%	5.1%	3.8%	9.0%	61%
Median		3.8x	45%	51%	3.8x	3.8x	4.1x	4.2x	17%	17%	16%	15%	8%	0%	(10%)	(2%)	7%	15%	12%	10%	5.7%	3.9%	9.7%	61%

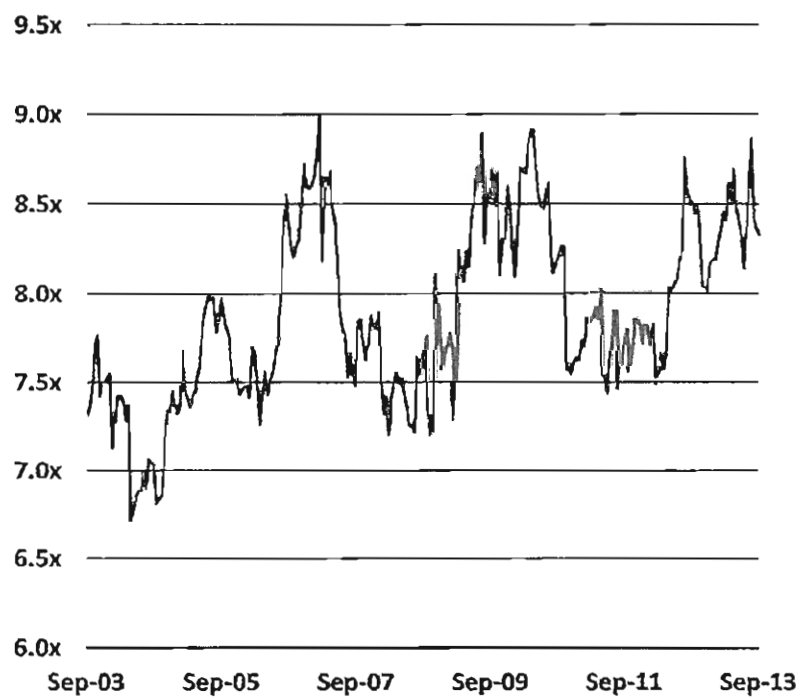
Source: Capital IQ, company filings, market values as of 9/16/2013. Values in USD unless otherwise noted.
Memo: As of Sep 2013, FY+1 represents 2013E, FY+2 represents 2014E, and FY+3 represent 2015E. Currency conversion at spot rates. Values in millions except per share data.
(1) TEV: Current market equity value plus book value of net debt, preferred equity, and minority interest.
(2) LTM EBITDA and LTM EBIT include Earnings in Affiliates. Projected EBITDA and EBIT based on consensus estimates.
(3) PETR: P/E-to-Total Return, calculated as P/E ratio divided by forward expected annualized returns. Expected returns equal to consensus expected EPS growth plus current div. yield.
(4) FFO: Calculated here as Net Income + D&A.

Long-term Historical Trading Multiples: U.S. Regulated Electric Utilities

Selected Publicly Traded Comparable Companies

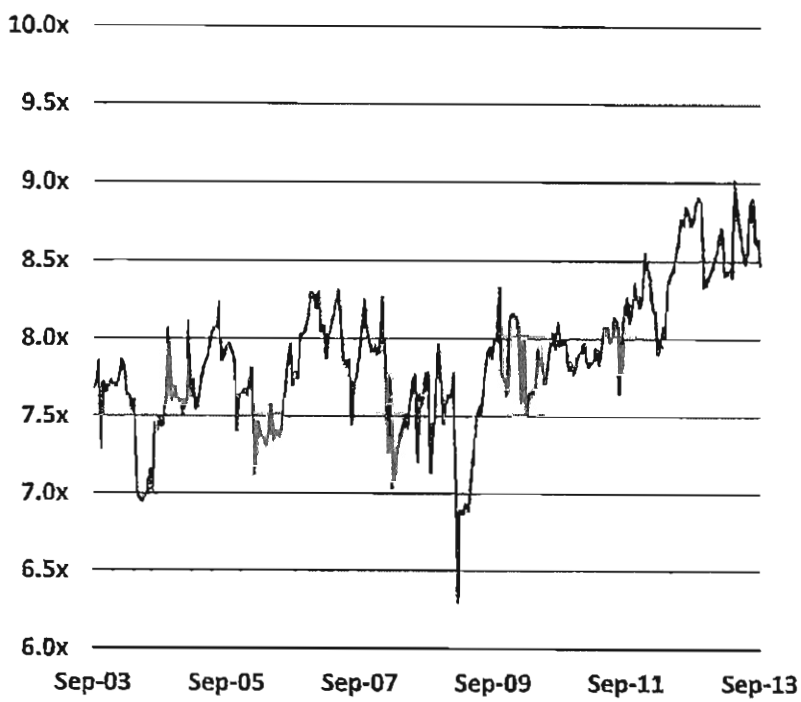
LTM TEV/EBITDA

LTM TEV/EBITDA	Current	5-Year Average	10-Year Average
Electric Utilities w/ Reg. Gen	8.3x	8.1x	7.9x



Forward TEV/EBITDA

Next Twelve Months TEV/EBITDA	Current	5-Year Average	10-Year Average
Electric Utilities w/ Reg. Gen	8.5x	8.0x	7.9x



Electric Utilities w/ Reg Gen (1)

Source: Capital IQ as of September 16, 2013.
(1) Median of publicly traded electric utilities with regulated generation; comparables include: Allete, Xcel, Cleco, Alliant, El Paso, Great Plains, IdaCorp, Pinnacle West, PNM Resources, Portland General, EDE, UNS, Westar.

Precedent Transaction Analysis

($ in millions)

Precedent Transactions

Multiple	Metric[1] (ex-Kerr)		Selected Multiple Range Low		Selected Multiple Range High	Implied TEV Montana Hydro Assets Low		Implied TEV Montana Hydro Assets High	Comparable Precedent Transaction Multiples Low	Comparable Precedent Transaction Multiples Median	Comparable Precedent Transaction Multiples Mean	Comparable Precedent Transaction Multiples High
FY+1 EBITDA	$110	(2014E)	8.5x	-	9.5x	$931	-	$1,040	7.6x	8.9x	9.1x	11.4x
FY+2 EBITDA	$106	(2015E)	8.0x	-	9.0x	$845	-	$950	7.6x	8.6x	8.5x	9.5x
FY+1 P/E[2]	$41	(2014E)	17.2x		19.2x	$1,165	-	$1,248	12.4x	18.3x	18.0x	21.5x
FY+2 P/E[2]	$40	(2015E)	16.3x		18.3x	$1,113	-	$1,194	12.0x	17.4x	17.3x	19.7x
Mean						$1,013	-	$1,108				
Median						$1,022	-	$1,117				
Selected Range						$1,018	-	$1,113				
(+) PV of Kerr						$30	-	$30				
Indicative TEV Range						$1,048	-	$1,143				

Source: Company filings, press releases, Capital IQ.
Note: All financials exclude Kerr.
(1) Metrics per Buyer's Regulated Business Model.
(2) Assumes 52% debt to capitalization, excluding $30mm of capitalization for Kerr.

Selected Precedent U.S. Regulated Electric Transactions

($ in millions)

Date Annc'd	Date Closed / Status	Target	Acquiror	TEV	Total Enterprise Value / LTM Net PP&E	Total Enterprise Value / LTM EBITDA	Total Enterprise Value / FY+1 EBITDA	Total Enterprise Value / FY+2 EBITDA	Equity Value / LTM Net Inc.	Equity Value / FY+1 Net Inc.	Equity Value / FY+2 Net Inc.
05/29/13	Announced	NV Energy	Berkshire Hathaway	$10,364	1.1x	8.8x	8.9x	8.7x	16.9x	18.0x	17.2x
02/21/12	06/27/13	CH Energy	Fortis	$1,470	1.2x	10.2x	9.4x	9.5x	25.1x	18.4x	18.8x
06/23/11	06/27/12	Central Vermont PSC	Gaz Metro	$690	1.8x	9.7x	-	-	19.1x	21.5x	19.7x
04/20/11	11/28/11	DPL	AES	$4,669	1.6x	7.3x	7.6x	7.6x	13.2x	12.4x	12.0x
04/28/10	11/01/10	E.ON U.S.	PPL	$7,625	1.1x	10.8x	-	-	14.4x	-	-
10/25/07	02/06/09	Puget	Macquarie	$6,726	1.2x	9.4x	8.8x	8.3x	18.9x	18.3x	17.2x
06/25/07	09/16/08	Energy East	Iberdrola	$8,131	1.4x	8.7x	8.3x	7.9x	18.0x	19.1x	18.8x
02/06/07	07/14/08	Aquila	Great Plains	$2,877	1.5x	13.0x	11.4x	-	NM	NM	-
07/05/06	05/31/07	Duquesne Light Holdings	Macquarie / IFM / DUET	$2,801	1.7x	11.5x	-	-	18.9x	-	-
02/25/06	08/24/07	KeySpan	National Grid	$11,881	1.6x	9.1x	8.9x	8.6x	18.6x	18.1x	17.4x
05/23/05	03/21/06	PacifiCorp	MidAmerican Energy	$9,372	1.0x	8.6x	-	-	20.3x	-	-
05/08/05	04/03/06	Cinergy	Duke Energy	$14,002	1.4x	10.4x	9.5x	8.6x	22.8x	-	-
				Mean	**1.4x**	**9.8x**	**9.1x**	**8.5x**	**18.8x**	**18.0x**	**17.3x**
				Median	**1.4x**	**9.6x**	**8.9x**	**8.6x**	**18.9x**	**18.3x**	**17.4x**

Source: Capital IQ; Company filings and press releases; Merger Market.
Notes: "FY+1" = Next Fiscal Year (e.g., with latest fiscal year being 2013, FY+1 is 2014E).
"FY+2" = Fiscal Year After Next (e.g., with latest fiscal year being 2013 FY+2 is 2015E).

B. Merchant Business Model Analysis

Blackstone

Discounted Cash Flow Analysis: Buyer's Merchant Business Model (EBITDA Exit Multiple)

($ in millions)

Buyer's Merchant Business Model	2014	2015	2016	2017	2018	2019	...2033
EBITDA	**$40**	**$40**	**$36**	**$38**	**$42**	**$48**	**$143**
Less: D&A[1]	(33)	(64)	(60)	(56)	(53)	(50)	(49)
EBIT	**7**	**(25)**	**(24)**	**(19)**	**(11)**	**(2)**	**94**
Less: Taxes	(3)	10	9	7	4	1	(37)
Plus: D&A[1]	33	64	60	56	53	50	49
Less: Capex	(13)	(10)	(9)	(12)	(9)	(9)	(12)
Unlevered FCF	**$25**	**$39**	**$36**	**$33**	**$38**	**$40**	**$94**
Kerr Proceeds			**$30**				

DCF TEV Sensitivity

		Discount Rate				
		5.80%	6.80%	7.80%	8.80%	9.80%
Terminal	6.0x	$974	$869	$778	$701	$634
Multiple	7.0x	1,022	908	811	728	657
of 2033E	8.0x	1,070	948	845	756	680
EBITDA	9.0x	1,117	988	878	784	703
	10.0x	1,165	1,027	911	811	726

Implied Perpetuity Sensitivity[2]

		Discount Rate				
		5.80%	6.80%	7.80%	8.80%	9.80%
Terminal	6.0x	(0.8%)	0.2%	1.1%	2.0%	3.0%
Multiple	7.0x	0.1%	1.1%	2.0%	2.9%	3.9%
of 2033E	8.0x	0.8%	1.7%	2.7%	3.6%	4.6%
EBITDA	9.0x	1.3%	2.3%	3.2%	4.2%	5.1%
	10.0x	1.7%	2.7%	3.7%	4.6%	5.6%

Source: Based on Buyer's Merchant Business Model.
Notes: Cash flows include Kerr. 2014 cash flows are illustrative full-year financials.
(1) Tax step-up to FMV of $870mm. 20-year MACRS tax D&A applied.
(2) Assumes that in the terminal year capex equals D&A.

Discounted Cash Flow Analysis: Buyer's Merchant Business Model ($/kW Exit Multiple)

($ in millions)

Buyer's Merchant Business Model	2014	2015	2016	2017	2018	2019	...2033
EBITDA	**$40**	**$40**	**$36**	**$38**	**$42**	**$48**	**$143**
Less: D&A[1]	(33)	(64)	(60)	(56)	(53)	(50)	(49)
EBIT	**7**	**(25)**	**(24)**	**(19)**	**(11)**	**(2)**	**94**
Less: Taxes	(3)	10	9	7	4	1	(37)
Plus: D&A[1]	33	64	60	56	53	50	49
Less: Capex	(13)	(10)	(9)	(12)	(9)	(9)	(12)
Unlevered FCF	**$25**	**$39**	**$36**	**$33**	**$38**	**$40**	**$94**
Kerr Proceeds			**$30**				

DCF TEV Sensitivity

		Discount Rate				
		5.80%	6.80%	7.80%	8.80%	9.80%
$/kW	$2,000	$981	$874	$783	$705	$637
Terminal	$2,100	996	886	793	713	644
Multiple	$2,200	1,010	898	803	721	651
in 2023	$2,300	1,025	911	813	730	658
	$2,400	1,039	923	823	738	665

Implied Perpetuity Sensitivity[2]

		Discount Rate				
		5.80%	6.80%	7.80%	8.80%	9.80%
$/kW	$2,000	(0.6%)	0.3%	1.2%	2.2%	3.1%
Terminal	$2,100	(0.4%)	0.6%	1.5%	2.5%	3.4%
Multiple	$2,200	(0.1%)	0.8%	1.8%	2.7%	3.7%
in 2023	$2,300	0.1%	1.1%	2.0%	3.0%	3.9%
	$2,400	0.4%	1.3%	2.3%	3.2%	4.2%

Source: Based on Buyer's Merchant Business Model.
Notes: Cash flows include Kerr. 2014 cash flows are illustrative full-year financials.
(1) Tax step-up to FMV of $870mm. 20-year MACRS tax D&A applied.
(2) Assumes that in the terminal year capex equals D&A.

WACC Analysis: Selected North American Independent Power Producers

($ in millions)

Assumptions	
Currency	US$ in millions
Date	9/16/2013
Tax Rate	39.4%
Risk-Free Rate[1]	3.61%
Market Risk Premium[2]	6.11%
Pre-tax Cost of Debt[3]	6.50%
Target Equity Value ($mm)[6]	540

Company	Levered Beta[4]	Total Debt & Preferred	Mkt Equity & Minority Int.	Debt / Equity	Debt / TEV	Unlevered Beta
Brookfield Renewable Energy Partners LP	0.5	6,923	11,918	58%	37%	0.38
TransAlta Corp.	0.7	5,266	3,898	135%	57%	0.39
Calpine Corp.	1.3	11,165	8,543	131%	57%	0.72
NRG Energy, Inc.	1.1	16,958	9,467	179%	64%	0.54
Dynegy Inc.	0.7	1,296	1,980	65%	40%	0.50
Mean	0.9			114%	51%	0.50
Median	0.7			131%	57%	0.50

Target Capitalization - IPPs

Debt / Total Cap	Debt / Equity	Equity / Total Cap	Unlevered Beta	Levered Beta	Size Premium[5]	Cost of Equity	PT Cost of Debt	AT Cost of Debt	WACC
20%	25%	80%	0.50	0.58	2.46%	9.6%	6.5%	3.9%	8.5%
25%	33%	75%	0.50	0.61	2.46%	9.8%	6.5%	3.9%	8.3%
30%	43%	70%	0.50	0.64	2.46%	10.0%	6.5%	3.9%	8.1%
35%	54%	65%	0.50	0.67	2.46%	10.2%	6.5%	3.9%	8.0%
40%	67%	60%	0.50	0.71	2.46%	10.4%	6.5%	3.9%	7.8%
45%	82%	55%	0.50	0.75	2.46%	10.7%	6.5%	3.9%	7.6%
50%	100%	50%	0.50	0.81	2.46%	11.0%	6.5%	3.9%	7.5%
55%	122%	45%	0.50	0.88	2.46%	11.4%	6.5%	3.9%	7.3%
60%	150%	40%	0.50	0.96	2.46%	12.0%	6.5%	3.9%	7.1%
65%	186%	35%	0.50	1.07	2.46%	12.6%	6.5%	3.9%	7.0%

(1) 20-Year Treasury Yield as of 9/16/13.
(2) Source: 2013 Ibbotson SBBI Risk Premia Over Time Report. Reflects long-horizon expected equity risk premium (supply side).
(3) Based on pricing on recent merchant power plant project financings and yields of comparable IPPs corporate debt.
(4) Reflects 5-year weekly adjusted beta; source: Bloomberg.
(5) Source: 2013 Ibbotson SBBI Risk Premia Over Time Report.
(6) Assumed 60% equity capitalization.

Precedent Transaction Analysis

($ in millions)

	$/kW			Capacity	TEV ($mm)		
	Low	Median	High	(MW)	Low	–	High
Selected Range	$2,000	–	$2,400				
Montana Hydro Portfolio (Ex-Kerr)				439	$878	–	$1,054
Kerr Facility				194			
(+) PV of Kerr [1]					$29	–	$29
Portfolio Total Enterprise Value				**633**	**$907**	**–**	**$1,083**

(1) For all multiples-based methodologies, we have calculated the value of Kerr separately using the Kerr cash flow projections per management, assuming proceeds received from the conveyance of Kerr on January 1, 2016 ($30mm of after-tax proceeds). For merchant multiples-based methodologies, we discount at 7.80%.

B. Merchant Business Model Analysis

Selected Precedent Transactions: North American Hydroelectric Generation

Announcement Date	Buyer/Target	Seller	State(s)	NERC Region	Transaction Value ($000)	Installed Capacity (MW)	Transaction Value/ Capacity ($/KW)
12/21/2012	Brookfield Renewable Energy Partners L.P./ Maine Hydro-White Pine hydroelectric facilities	NextEra Energy, Inc.	ME, NH	NPCC	$760,000	351	$2,165
6/29/2012	Brookfield Renewable Energy Partners L.P./ Tapoco portfolio of hydroelectric facilities	Alcoa Power Generating Inc.	NC, TN	SERC	$600,000	378 (1)	$1,587
12/31/2009	Brookfield Asset Management/Maine hydroelectric facility	Undisclosed	ME	NPCC	$30,000	15	$2,000
7/1/2009	ArcLight Capital Partners LLC/ Maine's hydroelectric generation business	PPL Corporation	ME	NPCC	$95,000	30	$3,220
3/13/2009	Hydro-Quebec/Manicouagan River facility	AbitibiBowater Inc.	QC	NPCC	$483,187 (2)	201	$2,404
12/4/2008	Kodiak Electric Assn Inc/ Terror Lake hydro project	Four Dam Pool Power Agency	AK	ASCC	$38,000	22	$1,696
5/29/2007	Brookfield Asset Management, Inc./ Twin Cities Assembly	Ford Motor Company	MN	MRO	$48,000	18	$2,667
8/28/2006	Brookfield Asset Management, Inc./ Hawks Nest and Glen Ferris generating stations	Alloy Power LLC	WV	RFC	$122,000	107	$1,144
1/11/2006	Brookfield Asset Management, Inc./ Rumford Falls hydro facilities	Cerberus Capital Management, L.P. / NewPage Corporation	ME	NPCC	$144,000	39	$3,673
Selected Transactions							
Mean							$2,284
Median							$2,165

Source: SNL Energy, Company filings, Capital IQ.
Note: Transactions include selected unregulated hydroelectric generation facility transactions since 2006.
(1) Development will increase installed capacity from 351 MW to 378 MW.
(2) Purchase price of C$615mm converted to USD at historical exchange rate as of announcement date.

B. Merchant Business Model Analysis

Selected IPP Transactions And Publicly Traded IPP Trading Multiples

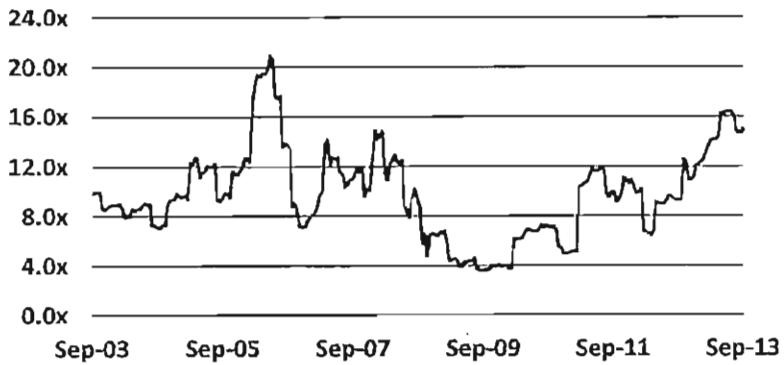
Selected IPP Precedent Transactions: Completed Acquisitions [1]

Date Annc'd	Date Closed / Status	Target	Acquiror	TEV ($mm)	TEV / LTM EBITDA	TEV / FY+1 EBITDA
07/22/12	12/14/12	GenOn	NRG	$4,045	7.1x	8.8x
04/28/11	03/12/12	Constellation Energy	Exelon	$11,403	6.4x	14.7x
04/20/10	07/01/10	Conectiv	Calpine	$1,700	-	13.1x
02/25/07	10/10/07	TXU Corp.	Investor Group	$44,630	9.8x	8.5x
02/01/05	06/24/05	American Ref-Fuel Company	Danielson (nka:Covanta)	$1,940	7.0x	-
			Mean		7.6x	11.3x
			Median		7.0x	11.0x

Selected IPP Trading Multiples

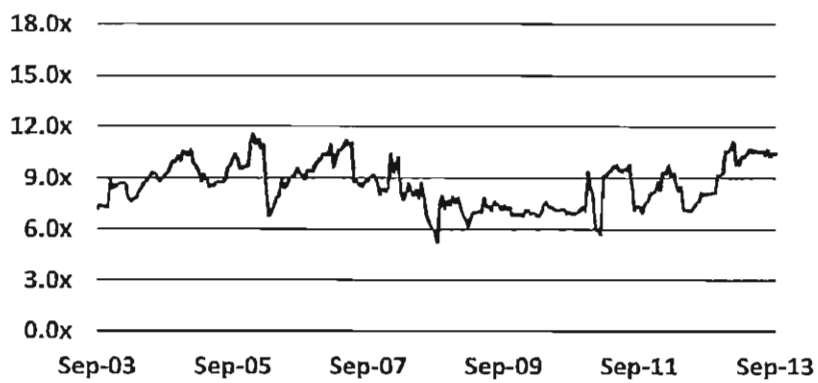
LTM TEV/EBITDA

LTM TEV/EBITDA	Current	5-Year Average	10-Year Average
U.S. IPPs	14.9x	8.4x	9.8x



Forward TEV/EBITDA

Next Twelve Months TEV/EBITDA	Current	5-Year Average	10-Year Average
U.S. IPPs	10.4x	8.1x	8.6x



U.S. IPPs [2]

Source: Capital IQ as of September 16, 2013.
(1) Excluding cancelled, minority-stake, and merger-of-equals transactions.
(2) Median of U.S. IPPs, universe includes: Calpine, NRG, Dynegy, GenOn (before acquisition by NRG), Mirant and Reliant (before their merger), TXU (before take-private).

C. Additional Transaction Background Materials

Blackstone

Buyer Overview: Northwestern Corporation

Company Overview

- NorthWestern provides electricity and natural gas to customers in Montana, South Dakota, and Nebraska
- Fully regulated business operations; investment grade credit profile
  - S&P: BBB / Stable Outlook with "Excellent " business risk profile
- Company was founded in 1923; headquartered in Sioux Falls, SD
- NorthWestern emerged from bankruptcy in 2004

Customer Mix

	Electric	Gas	Total	% Mix
Montana	342,000	183,300	525,300	78%
South Dakota and Nebraska	61,600	86,300	147,900	22%
Total	403,600	269,600	673,200	100%
% Mix	*60%*	*40%*	*100%*	

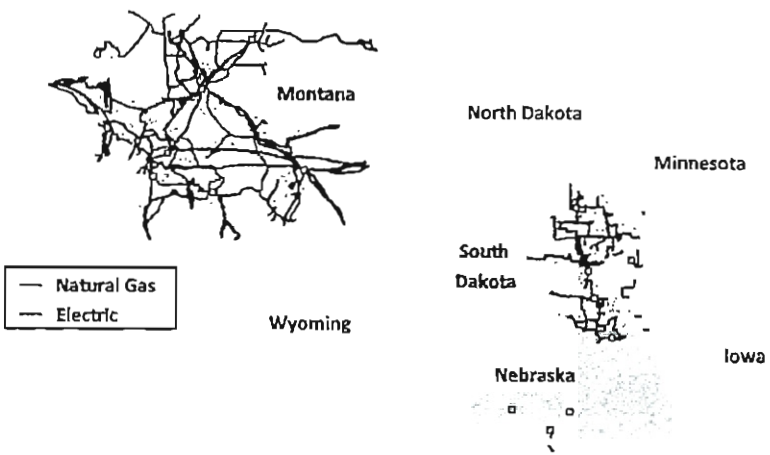
Electric Segment – 2012A Revenue: $807mm (75% of total)

- Serves 403,600 customers in Montana and South Dakota
  - 297 communities and covers over two-thirds of Montana, South Dakota, and Yellowstone National Park in Wyoming
- 37,750 miles of transmission and distribution lines
- In Montana:
  - Annual electric customer usage is approx. 6 mm MWh
  - Owned generation fulfills approx. 31% of customer needs
    - NorthWestern procures the remainder through power purchase agreements and market purchases

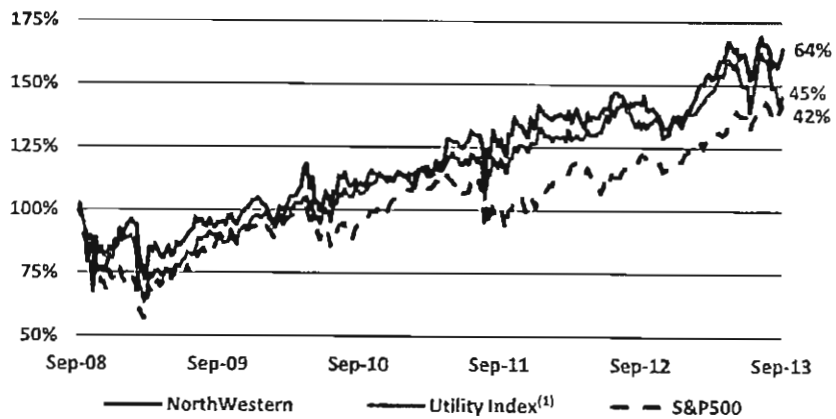
Natural Gas Segment – 2012A Revenue: $263mm (25% of total)

- Serves 269,600 customers in Montana, South Dakota, and Nebraska
- 9,350 miles of transmission and distribution lines
- Approximately 14% of total natural gas needs go toward electric generation and the remaining 86% is sold to retail customers

Utility Footprint



Indexed Stock Price Chart

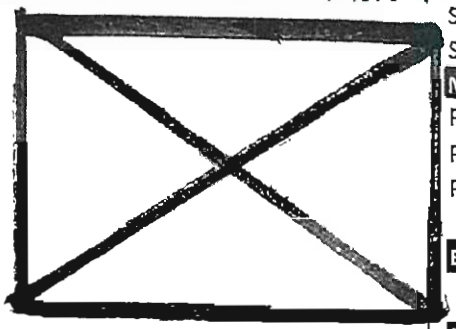


Source: Capital IQ as of 9/16/2013.
(1) Median of publicly traded electric utilities with regulated generation; comparables include: Allete, Xcel, Cleco, Alliant, El Paso, Great Plains, IdaCorp, Pinnacle West, PNM Resources, Portland General, EDE, UNS, Westar.

Buyer Overview: Northwestern Corporation (Cont'd)

Financial Snapshot[1]

($mm)	2011A	2012A	2013E	2014E	2015E
Revenue	$1,117.3	$1,070.3			
% Growth		(4%)			
EBITDA	266.5	283.2			
% Margin	24%	26%			
EBIT	165.5	177.2			
% Margin	15%	17%			
EPS	$2.55	$2.67			
% Growth		5%			
CapEx	(188.5)	(322.5)			

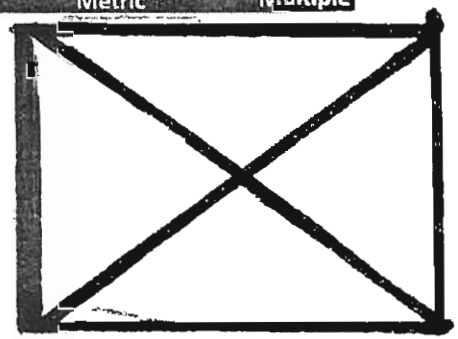


Capitalization and Key Multiples

($ in millions, except share price)

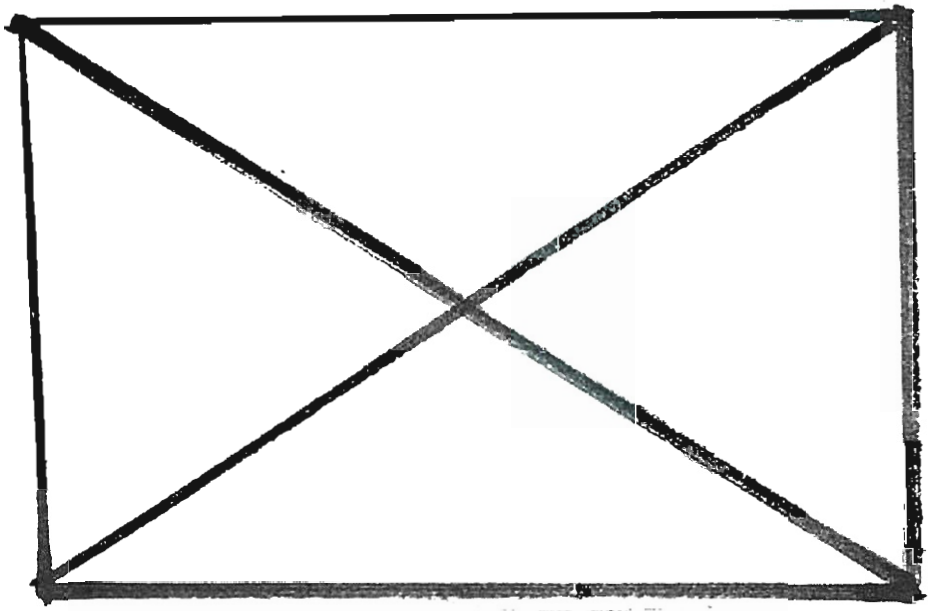
Capitalization as of 9/16/2013	
Share Price	$41.99
Shares Outstanding	38.5
Market Capitalization	**$1,615**
Plus: Total Debt	1,152
Plus: Minority Interest	0
Plus: Preferred Equity	0
Less: Cash & marketable securities	(8)
Enterprise Value	**$2,760**

Financial Metrics	Metric[1]	Multiple
TEV /		
2013E EBITDA		
2014E EBITDA		
2015E EBITDA		
Price /		
2013E EPS		
2014E EPS		
2015E EPS		



Summary Credit Metrics[2]	
Debt / LTM EBITDA	3.6x
Debt / Cap	53.5%
LTM FFO / Interest	4.2x
LTM FFO / Debt	18.8%
Dividend Data	
Current Dividend / Share	$1.50
Dividend Yield	3.6%
Dividend Payout Ratio	57.7%

Rate Base Projections ($mm)[1]



Source: Company website, Capital IQ as of 9/16/2013, company projections.
(1) Projections based on NorthWestern's 2013-2017 Long Range Plan. Projections represent NorthWestern on a standalone basis.
(2) Reflects unadjusted reported financials for NorthWestern.

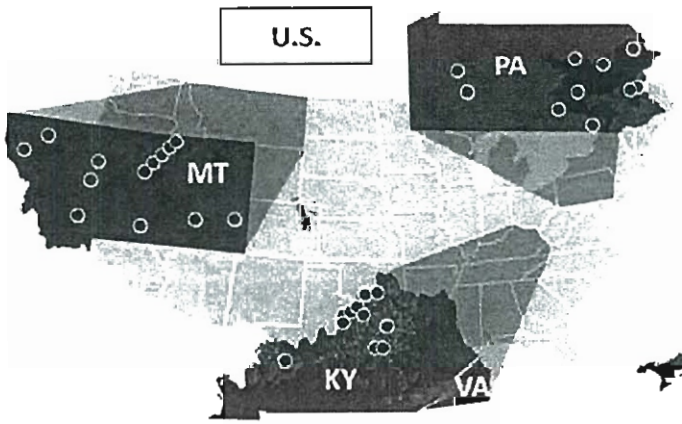
Seller Overview: PPL Corporation

Company Overview

- PPL Corporation is one of the largest companies in the U.S. utility sector, delivering electricity and natural gas to over 10 million customers in the United States and United Kingdom
- Owns approximately 19,000 MW of generating capacity in the U.S. and sells energy into key U.S. markets
  - Mix of regulated and merchant generation
- Markets wholesale and retail energy primarily in northeastern and northwestern portions of the U.S.
- Utility subsidiaries deliver electricity to customers in Pennsylvania, Kentucky, Virginia, and Tennessee
- Founded in 1920 and headquartered in Allentown, Pennsylvania

Delivery Territories:
- PPL Electric Utilities
- Kentucky Utilities
- Louisville Gas and Electric

Generation Assets:
- Competitive Power Plants
- Regulated Power Plants



Capitalization and Key Multiples
($ in millions, except share price)

Capitalization as of 9/16/2013	
Share Price	$29.92
Shares Outstanding	631.7
Market Capitalization	**$18,900**
Plus: Total Debt	20,950
Plus: Minority Interest	18
Plus: Preferred Equity	0
Less: Cash & marketable securities	(841)
Enterprise Value	**$39,027**

Financial Metrics	Metric	Multiple
TEV /		
LTM EBITDA	4,246.0	9.2x
2013E EBITDA	4,212.9	9.3x
2014E EBITDA	4,402.5	8.9x
Price /		
LTM EPS	$2.49	12.0x
2013E EPS	$2.17	13.8x
2014E EPS	$2.17	13.8x

Summary Credit Metrics (LTM)	
Debt / EBITDA	4.9x
Debt / Cap	65.7%
FFO / Interest	3.7x
FFO / Debt	12.7%
Dividend Data	
Current Dividend / Share	$1.46
Dividend Yield	4.9%
Dividend Payout Ratio	58.4%

Source: Company website, Capital IQ as of 9/16/2013.

Transaction Background

- **Late 2012:** PPL unsuccessfully attempted to sell its entire portfolio of generation assets in Montana, including its hydroelectric generating assets (i.e., the Facilities) and its coal-fired (i.e., Colstrip and Corette) generating facilities
  - In connection with that process, NorthWestern submitted a "conforming" bid for all of PPL Montana's assets and a "non-conforming" bid for only the hydroelectric assets
  - PPL Montana rejected the non-conforming bid
  - Due to several factors, including the existence of a sale/leaseback structure encumbering the Colstrip assets, PPL and NorthWestern were not able to reach an agreement with respect to the conforming bid
- **Late 2012/Early 2013**: PPL subsequently reached an agreement with the sale/leaseback owner-lessors of Colstrip to enable PPL to sell the Colstrip assets unencumbered by the sale/leaseback arrangement. Following this, PPL attempted to sell just the coal-fired generating assets with the intention of selling the hydro assets in a later process
  - NorthWestern did not participate in the sale process for the coal-fired assets, and PPL was apparently unsuccessful in finding a buyer or the valuations were inadequate.
- **Early/Mid 2013:** PPL approached NorthWestern about reconsidering an acquisition of all of the unencumbered coal and hydroelectric generation assets of PPL Montana
  - NorthWestern analyzed a potential transaction for all of the coal-fired and hydro assets and concluded not to submit a proposal. Various factors contributed to that decision, including, the magnitude of and uncertainty regarding future environmental costs and their impact associated with ownership of additional units of Colstrip[1] and ownership of Corette.

Source: NorthWestern management.
(1) NorthWestern currently is a 10.6% owner of Colstrip, along with other owners PPL, Portland General, Puget Holdings, Avista, and Berkshire Hathaway. PPL is a 25.26% owner of Colstrip.

CONFIDENTIAL

Transaction Background (Cont'd)

- **June 2013:** PPL launched a sale process giving bidders the opportunity to bid on the Facilities separate from coal and other related power marketing assets of PPL in the northwestern U.S.
  - NorthWestern submitted a bid of $900 million for the Facilities on July 1, 2013
  - NorthWestern and PPL are currently in negotiations with respect to definitive transaction documents and are working to resolve open items
  - If both parties come to an agreement, NorthWestern intends to seek final board approval for the transaction at a Board meeting scheduled for September 23, 2013
  - Upon receiving board approval, NorthWestern and PPL would announce the transaction the week of September 23, 2013
- **September 2013:** Blackstone was asked to provide an opinion to the Board of NorthWestern as to the fairness, from a financial point of view, of the consideration to be paid by the Company in connection with a possible transaction
  - Blackstone would deliver its opinion (the "Opinion") at the NorthWestern board meeting on September 23 and issue its fairness opinion in writing

Source: NorthWestern management.

Target Overview: Montana Hydro Assets

Overview

- The Facilities include 11 hydroelectric generation facilities, one storage reservoir, and related assets located throughout Montana
- The Facilities provide a reliable, zero-emission energy source and benefit from a diverse water supply from two different river basins
- Projects have long-term Federal Energy Regulatory Commission ("FERC") licenses in place and lack the salmon-related issues attendant to many Northwest hydro facilities
- PPL acquired the Montana Hydro Assets in 1998
  - From 2009 to 2013, PPL spent $209mm on Rainbow redevelopment project which increased operating capacity by 29MW

Facilities Overview

Plant	Commercial Operation Date	FERC License Expiration	Capacity (MW)	5-Yr Avg. Generation (GWh)	5-Yr Avg. Capacity Factor (%)[1]
Black Eagle	1927	8/31/2040	21	136	74%
Cochrane	1958	8/31/2040	69	276	49%
Hauser	1911	8/31/2040	19	132	79%
Holter	1918	8/31/2040	48	305	72%
Madison	1906	8/31/2040	8	63	89%
Morony	1930	8/31/2040	48	268	64%
Mystic	1925	12/31/2050	12	51	48%
Rainbow	1910	8/31/2040	60	245	78%
Ryan	1915	8/31/2040	60	420	80%
Thompson Falls	1915	12/31/2025	94	496	60%
Kerr	1938	12/31/2035	194	1,098	65%
Total			**633**	**3,488**	**66%**

Financial Snapshot ($ millions)

	2012A	2013E	2014E	2015E	2016E	2017E
Generation (GWh)[2]	3,720	3,572	3,572	3,252	2,494	2,487
Capacity Factor (%)	70%	69%	64%	65%	65%	65%
Seller's Confidential Information Memorandum[2]						
	Partially Merchant[5]		Fully Merchant			
EBITDA ex-Kerr	$56	$31	$42	$43	$45	$52
EBITDA Kerr	10	(3)	2	1	-	-
(+) Hedge benefit[4]	73	57	-	-	-	-
Total EBITDA	$139	$85	$43	$44	$45	$52
Buyer's Regulated Business Model[3]						
EBITDA ex-Kerr	-	-	$110	$106	$105	$101
EBITDA Kerr	-	-	3	3	-	-
Total EBITDA	-	-	$113	$109	$105	$101

Source: Seller's Confidential Information Memorandum dated June 2013.
(1) Ratio of a plant's actual output to its potential output if it were possible for it to operate at full nameplate capacity indefinitely.
(2) Source: Seller's Confidential Information Memorandum dated June 2013.
(3) Source: Buyer's Regulated Business Model.
(4) 2012 and 2013 results for the Facilities include the impact of legacy supply contracts to sell power from the Facilities and from other generation assets owned by PPL Montana. These contracts are above-market price, resulting in above-market revenues. The Seller's CIM projections after 2014 do not include impact from such contracts.
(5) Merchant facility with certain short- and medium-term contracts or "hedges" in place.

Kerr: Situation Overview

Situation Background

- Kerr, one of the 11 hydroelectric generating plants among the Montana Hydro Assets, is a 194 MW hydroelectric generating plant located on the Flathead River
- Kerr's existing FERC license is jointly owned by PPL Montana and the Confederated Salish and Kootenai Tribes of the Flathead Nation (the "CSKT"), which expires December 31, 2035
- CSKT has the option to purchase the Kerr Plant at any time between 2015 – 2025
  - PPL Montana and NorthWestern management expect the CSKT to exercise the purchase option and pay the conveyance price at their earliest opportunity in September 2015
  - The formula-based price at which the CSKT may exercise its purchase option according to the FERC License (the "Kerr Estimated Conveyance Price") is subject to some interpretation
    - PPL Montana's estimated conveyance price is $51.6mm [(1)]
    - CSKT's estimated conveyance price is believed to be as low as approximately $19mm [(2)]

Transaction Consequence

- Under the Purchase and Sale Agreement, the Buyer assumes $30mm Kerr Estimated Conveyance price to be received by the Buyer upon conveyance to CSKT
  - Should the actual conveyance price received be **below $30mm**, the Seller agrees to compensate the Buyer for the difference, at the time of the conveyance
  - Should the conveyance price received be **above $30mm**, the Buyer agrees to compensate the Seller for the difference, at the time of the conveyance

(1) Source: Seller's Confidential Information Memorandum.
(2) Source: NorthWestern management.

Target Historical Financials: Montana Hydro Assets

($ in million)

	2009A	2010A	2011A	2012A
Operating Statistics				
Total Capacity (MW) [1]	604	604	604	604
Capacity Factor (%)	74%	69%	70%	70%
Total Generation (GWh)	3,505	3,456	3,697	3,586
PPL Montana Contracts and Hedges				
PPL Montana Marketing Wholesale Price ($/MWh)	$42.59	$44.16	$47.67	$36.21
PPL Montana Marketing Retail Price ($/MWh)	$49.76	$49.01	$39.23	$34.30
ATC Mid-C Market Price ($/MWh)[2]	$32.58	$32.82	$23.80	$19.32
Contracted Wholesale Volume (GWh)[3]	10,075	9,146	8,034	6,062
Contracted Retail Volume (GWh)[3]	2,199	2,049	2,137	2,217
Historical Financials				
Revenue at ATC Mid-C Market Power Price	$103	$109	$94	$126
Operating Expenses	(54)	(43)	(59)	(60)
EBITDA at ATC Mid-C Market Power Price	$49	$66	$35	$66
(+) Incremental Revenue due to In-the-Market Contracts	$61	$56	$106	$73
Historical EBITDA	$110	$122	$141	$139
Capex[4]	($35)	($104)	($79)	($45)

Source: Seller's Confidential Information Memorandum dated June 2013, SNL Energy.

(1) Lower than Montana Hydro Assets total capacity of 633MW due to the Rainbow redevelopment project, which entered commercial operation in April 2013, increased total operating capacity by 29 MW.

(2) Around-the-clock Mid-Columbia ("ATC Mid-C") market power price, one of the transaction hubs in the Northwest power market.

(3) Total contracted volume by PPL Montana generation fleet, which includes the 604MW of Montana Hydro Assets, and 682MW of coal facilities.

(4) Historical capex higher than projections due to construction of a turbine at the Rainbow facility as well as other one-time improvements.

Department of Public Service Regulation
Montana Public Service Commission
Docket No. D2013.12.85
PPLM Hydro Assets Purchase
NorthWestern Energy

PREFILED DIRECT TESTIMONY OF

KENDALL G. KLIEWER

ON BEHALF OF NORTHWESTERN ENERGY

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1 **Exhibits**

2 Original plant cost – hydro facilities	Exhibit__(KGK-1)
3 Original plant cost – transmission facilities	Exhibit__(KGK-2)
4 Hydro assets purchase summary	Exhibit__(KGK-3)
5 Depreciation expense work paper	Exhibit__(KGK-4)

6

7 **Witness Information**

8 **Q. Please state your name and business address.**

9 **A.** My name is Kendall G. Kliewer. My business address is 3010 West 69th
10 Street, Sioux Falls, South Dakota 57108.

11

12 **Q. By whom are you employed and in what capacity?**

13 **A.** I am the Vice President and Controller of NorthWestern Corporation d/b/a
14 NorthWestern Energy ("NorthWestern").

15

16 **Q. Please summarize your educational and employment experiences.**

17 **A.** I have been with NorthWestern since November 2002. My primary
18 responsibilities include, among other duties, overseeing compliance with
19 financial reporting requirements established by the Securities and
20 Exchange Commission ("SEC") and other regulatory agencies, technical
21 research with regard thereto, reviewing NorthWestern's financial
22 statements, and implementing and overseeing accounting policies and
23 procedures. Previously, I was a Senior Manager at KPMG, LLP in

Lincoln, Nebraska. During my tenure at KPMG, I coordinated financial statement audits, consulted with clients on appropriate accounting practices and SEC reporting requirements, assisted clients with the preparation and review of various SEC filings, and planned and supervised audits. I have a Bachelor of Science degree in Business Administration from the University of Nebraska and am a Certified Public Accountant.

Purpose of Testimony

Q. What is the purpose of your testimony?

A. My testimony supports NorthWestern's application for approval of the acquisition of 11 hydroelectric facilities and related assets (the "Hydros") from PPL Montana, LLC ("PPLM") and specifically supports the following items included in Exhibit__(PJD-1) attached to the Prefiled Direct Testimony of Patrick J. DiFronzo ("DiFronzo Direct Testimony"):

1. NorthWestern's obligations with respect to transferred employees;
2. NorthWestern's calculation of original cost for the Hydros;
3. NorthWestern's determination of depreciation expense in this application;
4. NorthWestern's calculation of working capital associated with the gross cash requirement; and

5. NorthWestern's determination of the Production Tax Credit ("PTC"), deferred income taxes, accelerated tax depreciation, current income taxes, and property tax expense in this application.

Transferred Employees

Q. Please explain how NorthWestern will handle the transfer of employees from PPLM.

A. NorthWestern expects approximately 80 current employees of PPLM or its affiliates (collectively, "PPL") to become NorthWestern employees upon closing. For ease of reference we are referring to these employees as "transferred employees." The cost for labor and benefits of these employees is included in the operating and maintenance ("O&M") and administrative and general ("A&G") expense estimates included in this filing. Consistent with the Purchase and Sale Agreement ("PSA"), the transferred employees will receive pay and benefits in the aggregate that are consistent with what they received from PPL for at least 12 months following the closing. We do not expect significant changes after the first 12 months. All the transferred employees will begin participating in NorthWestern's benefit plans immediately after closing, and NorthWestern is not assuming any of PPL's obligations under its benefit plans. For transferred employees represented by IBEW Local 44, NorthWestern will assume and honor all obligations under the Collective Bargaining Agreement, dated as of April 11, 2013 between PPLM and Local Union

No. 44 (Butte, Montana) of the International Brotherhood of Electrical Workers, AFL-CIO, effective May 1, 2013 through April 30, 2017.

Original Plant Cost

Q. Why is it necessary to compute the original plant cost?

A. The Hydros are unique assets. Except for additions, they were first dedicated to public service by The Montana Power Company ("MPC"), then they were removed from public service more than 15 years ago by statutory requirement, and after they are purchased by NorthWestern they will again be dedicated to public service. NorthWestern is required to account for the purchase of the Hydros in accordance with the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts ("USOA"). USOA requires Electric Plant purchases to be charged to Account 102 – Electric Plant Purchased or Sold at the original cost of the plant, with any remaining amount greater than the original cost charged to Account 114 – Electric Plant Acquisition Adjustments. This FERC accounting requirement is guided by Definition No. 23, which reads as follows:

> Original cost, as applied to electric plant, means the cost of such property to the person first devoting it to public service.

Accordingly, NorthWestern has allocated $346,921,775 to an Acquisition Adjustment as further described below.

1 **Q. Does FERC prohibit including an Acquisition Adjustment in rate**
2 **base?**
3 **A.** No.
4
5 **Q. Please describe how the original cost balance was calculated.**
6 **A.** NorthWestern received from MPC the retained files from the 1999 MPC
7 sale of the generation facilities to PPLM.[1] Those files show MPC's original
8 cost for each individual hydro facility by FERC plant account as of
9 December 17, 1999. PPLM supplied the plant additions, retirements, and
10 transfers by individual facility by FERC plant account for the years 2000
11 through June 2013. PPLM also provided additional plant cost activity
12 grouped by the Great Falls plants, the Missouri-Madison plants, and the
13 remainder of the Hydros. PPLM also supplied the capitalized interest
14 costs for the hydro plant additions during this same period. Starting with
15 the December 17, 1999 balances and factoring in the 2000 through June
16 2013 plant activity resulted in an original cost balance of $514,877,976 for
17 the Hydros. This $514,877,976 plant balance was used to develop three
18 percentage tables so that the PPLM common costs could be assigned to
19 individual hydro facilities. Next, the PPLM capitalized interest costs were
20 allocated to each individual hydro facility which produced a total June
21 2013 original cost balance of $571,596,565 for the Hydros. The June
22 2013 original plant cost work papers for the Hydros are attached as

[1] On October 31, 1998 MPC sold the Hydros to PP&L Global, Inc. ("PPL Global") pursuant to the terms of the Asset Purchase Agreement ("APA"). PPL Global assigned the APA to PP&L Montana, LLC on December 17, 1999. PP&L Montana, LLC later changed its name to PPL Montana, LLC.

Exhibit__(KGK-1). To this number, NorthWestern added the intangible plant cost of $63,853,971. In addition to the hydro plants, NorthWestern also purchased the associated step-up transformers and some small transmission line segments, which were also included in the 1999 MPC generation sale. The original cost of the transmission facilities is $6,950,711 at June 2013 and is attached as Exhibit__(KGK-2). As a result, the total original cost for the hydro plant and associated transmission facilities is calculated to be $642,402,247 as shown on page 8, line 42 of the rate base Exhibit__(PJD-1), attached to the DiFronzo Direct Testimony. The difference between this calculated original cost and the purchase price of $900 million results in a preliminary Acquisition Adjustment of $257,598,753.

The calculated original cost includes the Kerr Dam and facilities, but, as discussed in the Prefiled Direct Testimony of Joseph M. Stimatz, it is expected that the Kerr project will be sold to the Confederated Salish and Kootenai Tribes ("CSKT") in September 2015. As CSKT is currently disputing PPLM's estimated conveyance price calculation under the FERC license for the Kerr project, NorthWestern did not want to assume any risk associated with the ultimate outcome of this purchase price dispute. Accordingly, NorthWestern assumed a $30 million value for the Kerr project in the PSA and further provided in the PSA that if the conveyance price is determined to be more than $30 million, then NorthWestern must

pay the excess amount to PPLM upon NorthWestern's receipt of those proceeds from CSKT; conversely if the conveyance price is determined to be less than $30 million, then PPLM must pay the difference to NorthWestern.

The $30 million value assumed by NorthWestern does not represent NorthWestern's view of what the conveyance price should be or how it should be calculated, nor does it represent any expectation by NorthWestern as to the actual outcome of the arbitration. Rather this amount was chosen simply as a reference price somewhere in the middle of the range of possible outcomes of the dispute. Because PPLM is retaining control over the arbitration and NorthWestern has no ability to influence its outcome, and because NorthWestern did not wish the dispute to interfere with the transaction negotiations, NorthWestern's strategy in structuring the transaction was to utilize this reference-price approach in order to allow PPLM to control the arbitration and either harvest the gain or make up the loss if the arbitration outcome comes out above or below the reference price, while also providing NorthWestern certainty regarding the amount it will ultimately receive upon conveyance of Kerr to CSKT.

Therefore, NorthWestern is including the Kerr project in rate base at $30 million. Since the calculated original cost of the Kerr project, $119,323,022, is higher than $30 million, NorthWestern has adjusted the

Acquisition Adjustment by the difference of $89,323,022. This results in a total Acquisition Adjustment of $346,921,775 related to the purchase of the Hydros. See the hydro assets purchase summary attached as Exhibit__(KGK-3). Also see Exhibit__(PJD-1) page 3 attached to the DiFronzo Direct Testimony for rate base information.

Depreciation Expense

Q. How was the test period depreciation expense calculated?

A. NorthWestern calculated the test period depreciation expense for the hydro accounts by applying an accrual factor of 2.50% to the depreciable value and calculated the depreciation expense for the transmission facilities by applying NorthWestern's 2012 Montana Depreciation Study accrual rates to the transmission plant balances. NorthWestern proposes to use a 40-year life for the Hydros and that equates to an annual accrual rate of 2.50%. The Acquisition Adjustment is also being amortized over a 40-year period, which results in an annual amortization expense of $8,673,044. MPC's 1995 depreciation study reflected an average service life of 56 years, with a remaining life of 33 years for these assets. PPLM has made substantial improvements to these assets over the last 13 years. NorthWestern believes a 40-year life is reasonable until these assets can be included in a future comprehensive depreciation study.

As shown on the depreciation work paper, attached as Exhibit__(KGK-4), the original costs associated with the Kerr project are not included in the depreciation expense calculation due to the expected sale of this project as discussed above. Also see Exhibit__(PJD-1) page 3 attached to the DiFronzo Direct Testimony for rate base information.

Working Capital

Q. What is working capital?

A. Working capital is the amount of capital required to fund the day-to-day operations of a company to account for the timing differences between when service is provided to customers and revenues are received and when NorthWestern receives and pays for services from vendors.

Q. Please describe the computation of working capital associated with the gross cash requirement on Exhibit__(PJD-1) line 25.

A. The test period gross cash requirement related to including the Hydros in rate base was calculated using the net lag days from the 2008 Lead/Lag study, the test period O&M and A&G expenses, and NorthWestern's proposed capital structure components. The gross cash requirement computation is reflected on Exhibit__(PJD-1) page 4.

The Production Tax Credit

Q. Do any of the Hydros qualify for the PTC?

1 **A.** Yes. Part of the electricity generated at the Kerr, Cochran, Ryan, and
2 Mystic Lake facilities qualifies for the PTC.
3
4 **Q. For how long will the facilities qualify for the PTC?**
5 **A.** The PTC expires for Kerr in 2017, for Cochran in 2018, for Ryan in 2023,
6 and for Mystic Lake in 2018.
7
8 **Q. What is the PTC?**
9 **A.** The PTC is a federal regular income tax credit that a taxpayer can use to
10 reduce the taxpayer's current federal income tax expense. The PTC is
11 authorized pursuant to Internal Revenue Code ("IRC"), Section 45 and
12 applies to certain renewable electric generation property, including
13 qualified incremental hydropower electric generation. Qualified
14 incremental hydropower electric generation includes efficiency
15 improvements or additions of capacity. Under current tax law,
16 construction of the qualified incremental hydropower electric generation
17 property must begin before January 1, 2014. The original enactment date
18 for the PTC related to hydropower generation was August 8, 2005.
19
20 **Q. How is the PTC calculated?**
21 **A.** The computation of the PTC for the test period is reflected on
22 Exhibit__(PJD-1) page 11. The PTC is calculated by multiplying the PTC
23 rate of $11 (Exhibit__(PJD-1) page 11, Column L) by each qualified hydro

facility's annual megawatt-hour ("MWh") of qualified incremental hydropower electric generation for its first 10 years of operational life. Each year's MWh of qualified incremental hydropower electric generation is computed by multiplying that qualified facility's MWh of total production (Column I) by the percentage of average annual hydropower production (Column J) for the qualified facility that is attributable to the efficiency improvements or additions of capacity placed in service. The percentage of average annual hydropower production attributable to efficiency improvements or additions of capacity ("Qualified Percentage") is determined by using the same water flow information that is used to determine a historic average annual hydropower production baseline ("Historic Baseline") for that facility. The Qualified Percentage and Historic Baseline are certified by FERC. The PTC MWh rate of $11 is subject to annual adjustment for inflation and is published annually by the Internal Revenue Service.

Q. How does the PTC affect the Revenue Requirement?

A. In accordance with the Montana Public Service Commission's ("Commission") long-established tax accounting treatment, the federal income tax benefits of tax credits that are not subject to mandatory normalization under the IRC flow through to customers in the form of a reduction of approximately $750,000, grossed up for income taxes, in total Revenue Requirement.

1 **Deferred Income Taxes**

2 **Q. Please explain the provisions for deferred income taxes.**

3 **A.** The detail of the deferred income taxes and how they are calculated are
4 included on Exhibit__(PJD-1) page 2, lines 76–95. Described below are
5 the deferrals shown in that exhibit.

6

7 **Q. Please explain accelerated tax depreciation.**

8 **A.** Accelerated tax depreciation is the depreciation deductible for income tax
9 purposes as computed pursuant to the IRC. Accelerated tax depreciation
10 generates deferred income taxes. The deferred income taxes are driven
11 by the tax effect of the difference between accelerated tax depreciation
12 claimed on the tax return and normalized tax depreciation computed using
13 book lives and book methods applied to the tax basis of assets in
14 accordance with the normalization requirements of the IRC. The IRC and
15 its regulations require that deferred income taxes be calculated in this
16 manner pursuant to normalization requirements in order for NorthWestern
17 to remain qualified to use accelerated methods of tax depreciation on its
18 federal tax return. More simply put, in the case of the Hydros, deferred
19 income taxes reflect the federal deferred income tax impact related to the
20 differences between accelerated tax depreciation and book depreciation.

21

22 **Q. Please describe the Net Operating Loss ("NOL") deferred tax liability.**

1 **A.** An NOL is created when the tax deductions exceed the taxable income
2 within a given tax year, thus creating a tax loss. An NOL Deferred Tax
3 Asset ("DTA") represents the amount of tax benefit from stand-alone utility
4 tax losses (i.e., NOLs) that have been deferred as NOL tax receivables
5 from the taxing authorities. The NOL DTA is a rate base offset to the
6 reductions to rate base and revenue requirements related to accelerated
7 bonus tax depreciation tax benefits that have not yet been realized by the
8 utility. The PPL Hydro rate base does not include a DTA; rather, it
9 includes an NOL Deferred Tax Liability ("NOL DTL"). The NOL DTL is the
10 reflection of consistency in reporting to reflect that the general rate base of
11 NorthWestern contains an NOL DTA and that NOL DTA should be
12 reduced by the taxable income impacts related to PPL Hydro, which act to
13 offset the overall general rate base NorthWestern NOL DTA. Additionally,
14 the NOL DTA included in general rate base reduces the current tax
15 expense embedded in PPL Hydro revenue requirements since cash tax
16 payments will not be currently remitted to the taxing authorities. Rate
17 base has been adjusted for the accumulated deferrals in accordance with
18 the normalization requirements of the IRC as shown on Exhibit__(PJD-1)
19 page 1, lines 20 and 21; cost of service has been adjusted on line 40.
20

1 **Computation of Current Income Taxes**

2 **Q. Have income taxes in this filing been calculated in a manner**
3 **consistent with the methodology approved by the Commission in**
4 **prior rate proceedings?**

5 **A.** Yes. The income taxes included in this filing have been calculated
6 utilizing the partial flow-through method that the Commission has
7 approved in prior dockets. See MPC's Final Order No. 5709d in Docket
8 No. 93.6.24.

9

10 **Q. Please explain Current Income Taxes shown on Exhibit__(PJD-1)**
11 **page 1, line 41.**

12 **A.** The computations of the federal income and Montana corporation license
13 taxes are shown on Exhibit__(PJD-1) page 2, lines 48–74. As shown, the
14 taxable income is derived by reducing taxable revenue by all expenses
15 except book depreciation (e.g., operating expenses, property and other
16 taxes, and Commission and Montana Consumer Counsel revenue taxes).
17 Next, accelerated tax depreciation is deducted, as well as Montana
18 corporate income tax and interest expense. Then the applicable statutory
19 tax rates are applied to taxable income to derive current income tax
20 expense before tax credits. Finally, the PTC is applied for federal
21 purposes only to derive a reduced current income tax expense.

22

1 **Property and Other Taxes**

2 **Q. Please explain the Property Taxes included on Exhibit__(PJD-1) page**
3 **1, line 37.**

4 **A.** An estimated cost-to-market factor based on prior years' experience was
5 used to arrive at the appraised value for the Hydros. Estimated mill levies
6 based on prior years' experience were used to calculate the property tax
7 expense. Please refer to Exhibit__(PJD-1) page 12 for the supporting
8 computation.

9

10 **Q. Please explain the Electrical Energy License Tax ("EELT") included**
11 **on Exhibit__(PJD-1) page 1, line 37.**

12 **A.** The EELT is based on the net generation of MWh from the Hydros at a
13 rate of $0.20/MWh. The computation of the EELT is shown on
14 Exhibit__(PJD-1) page 12, lines 19–22.

15

16 **Q. Please explain the Wholesale Energy Transaction ("WET") tax**
17 **included on Exhibit__(PJD-1) page 1, line 37.**

18 **A.** The WET tax is based on the excess generation delivered out of state
19 from the Hydros less a 5% reduction factor for transmission line losses per
20 § 15-72-104(1)(b), MCA. The computation of the WET tax is shown on
21 Exhibit__(PJD-1) page 12, lines 26–37.

22 **Q. Does this complete your testimony?**

23 **A.** Yes, it does.

NORTHWESTERN ENERGY - PPL HYDRO ASSETS PURCHASE

	BLACK EAGLE	Plant Balance 12/17/1999	PPL Additions 2000 Thru June 2013	PPL retirements by Specific Plant	Plant Balance Sub-Total	Allocated Costs	Capitalized Interest	Grand Total June 2013
E330.1	LAND - GENERATION	391,699.33	0.00	0.00	391,699.33	0.00	0.00	391,699.33
E330.3	LAND - RECREATION	0.00	0.00	0.00	0.00	0.00	0.00	0.00
E331.1	STRUCTURES - GENERATION	448,612.77	5,930.00	0.00	454,542.77	64,627.00	0.00	519,169.77
E331.3	STRUCTURES - RECREATION	4,844.14	0.00	0.00	4,844.14	0.00	0.00	4,844.14
E332.1	DAMS - GENERATION	2,457,878.88	608,368.00	7,282.00	3,058,964.88	4,156.00	824,055.00	3,887,175.88
E332.2	DAMS - RECREATION	12,262.98	0.00	0.00	12,262.98	0.00	0.00	12,262.98
E333	TURBINES & GENERATORS	1,235,630.15	399,600.00	390,307.00	1,244,923.15	211,977.00	0.00	1,456,900.15
E334	ACCESSORY EQUIPMENT	454,658.75	7,919,087.00	827,880.00	7,545,865.75	45,376.00	0.00	7,591,241.75
E335.1	MISC - GENERATION	199,370.93	79,353.00	2,064.00	276,659.93	68,445.00	0.00	345,104.93
E335.3	MISC - RECREATION	2,391.66	0.00	0.00	2,391.66	0.00	0.00	2,391.66
E336	ROADS & BRIDGES	27,508.08	0.00	0.00	27,508.08	0.00	0.00	27,508.08
	TOTAL BLACK EAGLE	5,234,857.67	9,012,338.00	1,227,533.00	13,019,662.67	394,581.00	824,055.00	14,238,298.67

	MORONY	Plant Balance 12/17/1999	PPL Additions 2000 Thru June 2013	PPL retirements by Specific Plant	Plant Balance Sub-Total	Allocated Costs	Capitalized Interest	Grand Total June 2013
E330.1	LAND - GENERATION	238,300.02	0.00	0.00	238,300.02	0.00	0.00	238,300.02
E330.3	LAND - RECREATION	0.00	0.00	0.00	0.00	0.00	0.00	0.00
E331.1	STRUCTURES - GENERATION	453,238.86	249,816.00	46,946.00	656,108.86	90,435.00	0.00	746,543.86
E331.3	STRUCTURES - RECREATION	4,443.55	0.00	0.00	4,443.55	0.00	0.00	4,443.55
E332.1	DAMS - GENERATION	2,862,714.81	726,915.00	0.00	3,589,629.81	5,799.00	1,098,740.00	4,694,168.81
E332.2	DAMS - RECREATION	0.00	0.00	0.00	0.00	0.00	0.00	0.00
E333	TURBINES & GENERATORS	1,631,376.47	179,005.00	4,356.00	1,806,025.47	282,636.00	0.00	2,088,661.47
E334	ACCESSORY EQUIPMENT	834,029.35	12,876,724.00	451,159.00	13,259,594.35	62,596.00	0.00	13,322,190.35
E335.1	MISC - GENERATION	175,029.73	554,850.00	19,499.00	710,380.73	91,784.00	0.00	802,164.73
E335.3	MISC - RECREATION	7,344.66	0.00	0.00	7,344.66	0.00	0.00	7,344.66
E336	ROADS & BRIDGES	3,929.74	0.00	0.00	3,929.74	0.00	0.00	3,929.74
	TOTAL MORONY	6,210,407.19	14,587,310.00	521,960.00	20,275,757.19	533,250.00	1,098,740.00	21,907,747.19

	RAINBOW	Plant Balance 12/17/1999	PPL Additions 2000 Thru June 2013	PPL retirements by Specific Plant	Plant Balance Sub-Total	Allocated Costs	Capitalized Interest	Grand Total June 2013
E330.1	LAND - GENERATION	637,078.26	0.00	0.00	637,078.26	0.00	0.00	637,078.26
E330.3	LAND - RECREATION	3,017.21	0.00	0.00	3,017.21	0.00	0.00	3,017.21
E331.1	STRUCTURES - GENERATION	2,491,274.36	105,705,580.00	2,607,171.00	105,589,683.36	878,105.00	0.00	106,467,788.36
E331.3	STRUCTURES - RECREATION	32,973.69	0.00	0.00	32,973.69	0.00	0.00	32,973.69
E332.1	DAMS - GENERATION	11,864,740.45	18,758,082.00	4,560,725.00	26,062,097.45	56,149.00	10,163,338.00	36,281,584.45
E332.2	DAMS - RECREATION	7,730.85	0.00	0.00	7,730.85	0.00	0.00	7,730.85
E333	TURBINES & GENERATORS	1,005,357.87	55,284,396.00	4,070,211.00	52,219,542.87	2,614,390.00	0.00	54,833,932.87
E334	ACCESSORY EQUIPMENT	617,932.45	8,661,365.00	1,124,251.00	8,155,046.45	599,421.00	0.00	8,754,467.45
E335.1	MISC - GENERATION	727,179.70	510,558.00	102,205.00	1,135,532.70	854,118.00	0.00	1,989,650.70
E335.3	MISC - RECREATION	3,585.61	0.00	0.00	3,585.61	0.00	0.00	3,585.61
E336	ROADS & BRIDGES	3,791.96	0.00	0.00	3,791.96	0.00	0.00	3,791.96
	TOTAL RAINBOW	17,394,662.41	188,919,981.00	12,464,563.00	193,850,080.41	5,002,183.00	10,163,338.00	209,015,601.41

NORTHWESTERN ENERGY - PPL HYDRO ASSETS PURCHASE

		Plant Balance 12/17/1999	PPL Additions 2000 Thru June 2013 by Specific Plant	PPL retirements	Plant Balance Sub-Total	Allocated Costs	Capitalized Interest	Grand Total June 2013
	RYAN							
E330.1	LAND - GENERATION	1,188,627.38	0.00	0.00	1,188,627.38	0.00	0.00	1,188,627.38
E330.3	LAND - RECREATION	7,794.24	0.00	0.00	7,794.24	0.00	0.00	7,794.24
E331.1	STRUCTURES - GENERATION	1,184,028.17	1,007,087.00	48,758.00	2,142,357.17	155,062.00	0.00	2,297,419.17
E331.3	STRUCTURES - RECREATION	193,403.01	0.00	0.00	193,403.01	0.00	0.00	193,403.01
E332.1	DAMS - GENERATION	4,837,052.78	1,831,484.00	86,251.00	6,582,285.78	9,956.00	1,922,794.00	8,515,035.78
E332.2	DAMS - RECREATION	986.42	0.00	0.00	986.42	0.00	0.00	986.42
E333	TURBINES & GENERATORS	2,082,918.50	6,230,558.00	1,654,224.00	6,659,252.50	494,613.00	0.00	7,153,865.50
E334	ACCESSORY EQUIPMENT	1,615,729.93	15,553,813.00	701,892.00	16,467,650.93	107,972.00	0.00	16,575,622.93
E335.1	MISC - GENERATION	195,241.18	758,986.00	13,837.00	940,370.18	160,229.00	0.00	1,100,599.18
E335.3	MISC - RECREATION	26,010.49	0.00	0.00	26,010.49	0.00	0.00	26,010.49
E336	ROADS & BRIDGES	30,734.77	0.00	0.00	30,734.77	0.00	0.00	30,734.77
	TOTAL RYAN	11,362,526.87	25,381,908.00	2,504,962.00	34,239,472.87	927,832.00	1,922,794.00	37,090,098.87

		Plant Balance 12/17/1999	PPL Additions 2000 Thru June 2013 by Specific Plant	PPL retirements	Plant Balance Sub-Total	Allocated Costs	Capitalized Interest	Grand Total June 2013
	COCHRANE							
E330.1	LAND - GENERATION	63,375.56	0.00	0.00	63,375.56	0.00	0.00	63,375.56
E330.3	LAND - RECREATION	0.00	0.00	0.00	0.00	0.00	0.00	0.00
E331.1	STRUCTURES - GENERATION	1,016,037.66	42,528.00	0.00	1,058,565.66	103,231.00	0.00	1,161,796.66
E331.3	STRUCTURES - RECREATION	81,842.80	0.00	0.00	81,842.80	0.00	0.00	81,842.80
E332.1	DAMS - GENERATION	5,715,657.99	65,702.00	0.00	5,781,359.99	6,570.00	1,098,740.00	6,886,669.99
E332.2	DAMS - RECREATION	0.00	0.00	0.00	0.00	0.00	0.00	0.00
E333	TURBINES & GENERATORS	3,433,574.31	4,458,330.00	669,894.00	7,222,010.31	282,636.00	0.00	7,504,646.31
E334	ACCESSORY EQUIPMENT	1,058,744.50	6,714,258.00	375,005.00	7,397,997.50	68,877.00	0.00	7,466,874.50
E335.1	MISC - GENERATION	334,923.01	441,921.00	3,406.00	773,438.01	93,358.00	0.00	866,796.01
E335.3	MISC - RECREATION	167.82	0.00	0.00	167.82	0.00	0.00	167.82
E336	ROADS & BRIDGES	93,873.65	0.00	0.00	93,873.65	0.00	0.00	93,873.65
	TOTAL COCHRANE	11,798,197.30	11,722,739.00	1,048,305.00	22,472,631.30	554,672.00	1,098,740.00	24,126,043.30

		Plant Balance 12/17/1999	PPL Additions 2000 Thru June 2013 by Specific Plant	PPL retirements	Plant Balance Sub-Total	Allocated Costs	Capitalized Interest	Grand Total June 2013
	MYSTIC LAKE							
E330.1	LAND - GENERATION	43,316.88	22,899.00	0.00	66,215.88	0.00	0.00	66,215.88
E330.3	LAND - RECREATION	0.00	0.00	0.00	0.00	0.00	0.00	0.00
E331.1	STRUCTURES - GENERATION	1,051,906.67	194,821.00	21,191.00	1,225,536.67	867.00	0.00	1,226,403.67
E331.3	STRUCTURES - RECREATION	31,577.79	0.00	0.00	31,577.79	0.00	0.00	31,577.79
E332.1	DAMS - GENERATION	10,278,576.03	1,140,292.00	1,585.00	11,417,283.03	396.00	1,098,740.00	12,516,419.03
E332.2	DAMS - RECREATION	3,391.22	0.00	0.00	3,391.22	0.00	0.00	3,391.22
E333	TURBINES & GENERATORS	1,255,491.68	1,428,508.00	42,781.00	2,641,218.68	282,636.00	0.00	2,923,854.68
E334	ACCESSORY EQUIPMENT	563,437.39	2,624,246.00	350,339.00	2,837,344.39	18,624.00	0.00	2,855,968.39
E335.1	MISC - GENERATION	128,583.21	2,520,040.00	30,381.00	2,618,242.21	80,766.00	0.00	2,699,008.21
E335.3	MISC - RECREATION	883.95	0.00	0.00	883.95	0.00	0.00	883.95
E336	ROADS & BRIDGES	1,453,510.70	0.00	0.00	1,453,510.70	0.00	0.00	1,453,510.70
	TOTAL MYSTIC LAKE	14,810,675.52	7,930,806.00	446,277.00	22,295,204.52	383,289.00	1,098,740.00	23,777,233.52

	HEBGEN							
E330.1	LAND - GENERATION	51,648.56	0.00	0.00	51,648.56	0.00	0.00	51,648.56
E330.3	LAND - RECREATION	0.00	0.00	0.00	0.00	0.00	0.00	0.00

NORTHWESTERN ENERGY - PPL HYDRO ASSETS PURCHASE

		Plant Balance 12/17/1999	PPL Additions 2000 Thru June 2013	PPL retirements by Specific Plant	Plant Balance Sub-Total	Allocated Costs	Capitalized Interest	Grand Total June 2013
E331.1	STRUCTURES - GENERATION	20,000.48	100,272.00	0.00	120,272.48	650.00	0.00	120,922.48
E331.3	STRUCTURES - RECREATION	1,043.50	0.00	0.00	1,043.50	0.00	0.00	1,043.50
E332.1	DAMS - GENERATION	2,051,677.27	13,321,707.00	216.00	15,373,168.27	297.00	824,055.00	16,197,520.27
E332.2	DAMS - RECREATION	6,085.15	0.00	0.00	6,085.15	0.00	0.00	6,085.15
E333	TURBINES & GENERATORS	0.00	8,399.00	0.00	8,399.00	211,977.00	0.00	220,376.00
E334	ACCESSORY EQUIPMENT	0.00	0.00	0.00	0.00	13,968.00	0.00	13,968.00
E335.1	MISC - GENERATION	45,686.36	17,780.00	0.00	63,466.36	3,740,947.00	0.00	3,804,413.36
E335.3	MISC - RECREATION	5,473.24	0.00	0.00	5,473.24	0.00	0.00	5,473.24
E336	ROADS & BRIDGES	1,043.50	0.00	0.00	1,043.50	0.00	0.00	1,043.50
	TOTAL HEBGEN	2,182,658.06	13,448,158.00	216.00	15,630,600.06	3,967,839.00	824,055.00	20,422,494.06

	MADISON	Plant Balance 12/17/1999	PPL Additions 2000 Thru June 2013	PPL retirements by Specific Plant	Plant Balance Sub-Total	Allocated Costs	Capitalized Interest	Grand Total June 2013
E330.1	LAND - GENERATION	827,064.43	0.00	0.00	827,064.43	0.00	0.00	827,064.43
E330.3	LAND - RECREATION	0.00	0.00	0.00	0.00	0.00	0.00	0.00
E331.1	STRUCTURES - GENERATION	678,273.95	282,822.00	1,865.00	959,230.95	1,083.00	0.00	960,313.95
E331.3	STRUCTURES - RECREATION	11,507.45	0.00	982.00	10,525.45	0.00	0.00	10,525.45
E332.1	DAMS - GENERATION	14,037,509.53	2,803,784.00	0.00	16,841,293.53	496.00	1,373,424.00	18,215,213.53
E332.2	DAMS - RECREATION	666.64	0.00	0.00	666.64	0.00	0.00	666.64
E333	TURBINES & GENERATORS	962,509.15	1,910,793.00	64,376.00	2,808,926.15	353,295.00	0.00	3,162,221.15
E334	ACCESSORY EQUIPMENT	139,904.02	2,597,097.00	150,392.00	2,586,609.02	23,280.00	0.00	2,609,889.02
E335.1	MISC - GENERATION	133,302.15	245,268.00	57,925.00	320,645.15	5,884,399.00	0.00	6,205,044.15
E335.3	MISC - RECREATION	2,088.21	0.00	0.00	2,088.21	0.00	0.00	2,088.21
E336	ROADS & BRIDGES	587,380.29	0.00	0.00	587,380.29	0.00	0.00	587,380.29
	TOTAL MADISON	17,380,205.82	7,839,764.00	275,540.00	24,944,429.82	6,262,553.00	1,373,424.00	32,580,406.82

	HAUSER	Plant Balance 12/17/1999	PPL Additions 2000 Thru June 2013	PPL retirements by Specific Plant	Plant Balance Sub-Total	Allocated Costs	Capitalized Interest	Grand Total June 2013
E330.1	LAND - GENERATION	242,223.84	0.00	0.00	242,223.84	0.00	0.00	242,223.84
E330.3	LAND - RECREATION	0.00	0.00	0.00	0.00	0.00	0.00	0.00
E331.1	STRUCTURES - GENERATION	597,971.20	392,282.00	15,439.00	974,814.20	867.00	0.00	975,681.20
E331.3	STRUCTURES - RECREATION	20,970.27	0.00	0.00	20,970.27	0.00	0.00	20,970.27
E332.1	DAMS - GENERATION	6,471,515.21	3,346,956.00	70,902.00	9,747,569.21	396.00	1,098,740.00	10,846,705.21
E332.2	DAMS - RECREATION	874.05	0.00	0.00	874.05	0.00	0.00	874.05
E333	TURBINES & GENERATORS	540,525.75	3,263,747.00	38,448.00	3,765,824.75	282,636.00	0.00	4,048,460.75
E334	ACCESSORY EQUIPMENT	209,642.73	5,492,931.00	113,182.00	5,589,391.73	18,624.00	0.00	5,608,015.73
E335.1	MISC - GENERATION	308,954.29	69,912.00	28,316.00	350,550.29	4,987,929.00	0.00	5,338,479.29
E335.3	MISC - RECREATION	948.64	0.00	0.00	948.64	0.00	0.00	948.64
E336	ROADS & BRIDGES	39,494.03	0.00	0.00	39,494.03	0.00	0.00	39,494.03
	TOTAL HAUSER	8,433,120.01	12,565,828.00	266,287.00	20,732,661.01	5,290,452.00	1,098,740.00	27,121,853.01

NORTHWESTERN ENERGY - PPL HYDRO ASSETS PURCHASE

		Plant Balance 12/17/1999	PPL Additions 2000 Thru June 2013	PPL retirements by Specific Plant	Plant Balance Sub-Total	Allocated Costs	Capitalized Interest	Grand Total June 2013
	HOLTER							
E330.1	LAND - GENERATION	221,756.13	0.00	0.00	221,756.13	0.00	0.00	221,756.13
E330.3	LAND - RECREATION	-1,203.75	0.00	0.00	-1,203.75	0.00	0.00	-1,203.75
E331.1	STRUCTURES - GENERATION	878,300.64	556,676.00	6,357.00	1,428,619.64	650.00	0.00	1,429,269.64
E331.3	STRUCTURES - RECREATION	34,558.25	0.00	0.00	34,558.25	0.00	0.00	34,558.25
E332.1	DAMS - GENERATION	5,106,485.01	1,590,735.00	401,472.00	6,295,748.01	297.00	824,055.00	7,120,100.01
E332.2	DAMS - RECREATION	438.20	0.00	0.00	438.20	0.00	0.00	438.20
E333	TURBINES & GENERATORS	954,800.83	1,344,960.00	145,429.00	2,154,331.83	211,977.00	0.00	2,366,308.83
E334	ACCESSORY EQUIPMENT	1,213,935.64	2,024,972.00	318,483.00	2,920,424.64	13,968.00	0.00	2,934,392.64
E335.1	MISC - GENERATION	256,350.86	24,322.00	13,167.00	267,505.86	3,215,179.00	0.00	3,482,684.86
E335.3	MISC - RECREATION	2,252.37	0.00	0.00	2,252.37	0.00	0.00	2,252.37
E336	ROADS & BRIDGES	5,550.46	0.00	0.00	5,550.46	0.00	0.00	5,550.46
	TOTAL HOLTER	8,673,224.64	5,541,665.00	884,908.00	13,329,981.64	3,442,071.00	824,055.00	17,596,107.64

		Plant Balance 12/17/1999	PPL Additions 2000 Thru June 2013	PPL retirements by Specific Plant	Plant Balance Sub-Total	Allocated Costs	Capitalized Interest	Grand Total June 2013
	THOMPSON FALLS							
E330.1	LAND - GENERATION	643,026.98	65,212.00	0.00	708,238.98	0.00	0.00	708,238.98
E330.3	LAND - RECREATION	1,331.64	0.00	0.00	1,331.64	0.00	0.00	1,331.64
E331.1	STRUCTURES - GENERATION	28,067,549.06	176,157.00	13,678.00	28,230,028.06	3,466.00	0.00	28,233,494.06
E331.3	STRUCTURES - RECREATION	28,385.49	0.00	0.00	28,385.49	0.00	0.00	28,385.49
E332.1	DAMS - GENERATION	8,360,004.59	10,272,272.00	85,567.00	18,546,709.59	1,586.00	4,394,958.00	22,943,253.59
E332.2	DAMS - RECREATION	6,292.05	0.00	0.00	6,292.05	0.00	0.00	6,292.05
E333	TURBINES & GENERATORS	23,941,799.30	3,786,298.00	922,640.00	26,805,457.30	1,130,545.00	0.00	27,936,002.30
E334	ACCESSORY EQUIPMENT	4,649,713.78	3,795,767.00	30,812.00	8,414,668.78	74,495.00	0.00	8,489,163.78
E335.1	MISC - GENERATION	310,676.71	711,834.00	56,255.00	966,255.71	323,065.00	0.00	1,289,320.71
E335.3	MISC - RECREATION	1,524.91	0.00	0.00	1,524.91	0.00	0.00	1,524.91
E336	ROADS & BRIDGES	102,408.11	0.00	0.00	102,408.11	0.00	0.00	102,406.83
	TOTAL THOMPSON FALLS	66,112,712.62	18,807,540.00	1,108,952.00	83,811,300.62	1,533,157.00	4,394,958.00	89,739,414.34

		Plant Balance 12/17/1999	PPL Additions 2000 Thru June 2013	PPL retirements by Specific Plant	Plant Balance Sub-Total	Allocated Costs	Capitalized Interest	Grand Total June 2013
	KERR							
E330.1	LAND - GENERATION	1,301,967.64	0.00	0.00	1,301,967.64	0.00	0.00	1,301,967.64
E330.3	LAND - RECREATION	0.00	0.00	0.00	0.00	0.00	0.00	0.00
E331.1	STRUCTURES - GENERATION	3,142,374.15	78,469.00	796.00	3,220,047.15	2,166.00	0.00	3,222,213.15
E331.3	STRUCTURES - RECREATION	195,081.97	0.00	0.00	195,081.97	0.00	0.00	195,081.97
E332.1	DAMS - GENERATION	6,848,789.84	195,630.00	16,290.00	7,028,129.84	991.00	2,746,849.00	9,775,969.84
E332.2	DAMS - RECREATION	1,259.28	0.00	0.00	1,259.28	0.00	0.00	1,259.28
E333	TURBINES & GENERATORS	7,152,598.03	9,112,937.00	772,303.00	15,493,232.03	706,592.00	0.00	16,199,824.03
E334	ACCESSORY EQUIPMENT	1,144,939.50	565,670.00	59,469.00	1,651,140.50	46,559.00	0.00	1,697,699.50
E335.1	MISC - GENERATION	357,987.52	20,234,677.00	21,327.00	20,571,337.52	201,915.00	0.00	20,773,252.52
E335.3	MISC - RECREATION	10,361.84	0.00	0.00	10,361.84	0.00	0.00	10,361.84
E336	ROADS & BRIDGES	803,635.87	0.00	0.00	803,635.87	0.00	0.00	803,635.87
	TOTAL KERR	20,958,995.64	30,187,383.00	870,185.00	50,276,193.64	958,223.00	2,746,849.00	53,981,265.64

NORTHWESTERN ENERGY - PPL HYDRO ASSETS PURCHASE

		Plant Balance 12/17/1999	PPL Additions 2000 Thru June 2013	PPL retirements by Specific Plant	Plant Balance Sub-Total	Allocated Costs	Capitalized Interest	Grand Total June 2013
E330.1	LAND - GENERATION	5,850,085.01	88,111.00	0.00	5,938,196.01	0.00	0.00	5,938,196.01
E330.3	LAND - RECREATION	10,939.34	0.00	0.00	10,939.34	0.00	0.00	10,939.34
E331.1	STRUCTURES - GENERATION	40,029,567.97	108,792,440.00	2,762,201.00	146,059,806.97	1,301,209.00	0.00	147,361,015.97
E331.3	STRUCTURES - RECREATION	640,631.91	0.00	982.00	639,649.91	0.00	0.00	639,649.91
E332.1	DAMS - GENERATION	80,892,602.39	54,661,927.00	5,230,290.00	130,324,239.39	87,089.00	27,468,488.00	157,879,816.39
E332.2	DAMS - RECREATION	39,986.84	0.00	0.00	39,986.84	0.00	0.00	39,986.84
E333	TURBINES & GENERATORS	44,196,582.04	87,407,531.00	8,774,969.00	122,829,144.04	7,065,910.00	0.00	129,895,054.04
E334	ACCESSORY EQUIPMENT	12,502,668.04	68,825,930.00	4,502,864.00	76,825,734.04	1,093,760.00	0.00	77,919,494.04
E335.1	MISC - GENERATION	3,173,285.65	26,169,481.00	348,382.00	28,994,384.65	19,702,134.00	0.00	48,696,518.65
E335.3	MISC - RECREATION	63,033.40	0.00	0.00	63,033.40	0.00	0.00	63,033.40
E336	ROADS & BRIDGES	3,152,861.16	0.00	0.00	3,152,861.16	0.00	0.00	3,152,859.88
	TOTAL HYDRO PLANTS	190,552,243.75	345,945,420.00	21,619,688.00	514,877,975.75	29,250,102.00	27,468,488.00	571,596,564.47
E303	INTANGIBLE PLANT - KERR	63,853,971.00	0.00	0.00	63,853,971.00	0.00	0.00	63,853,971.00
	GRAND TOTAL	254,406,214.75	345,945,420.00	21,619,688.00	578,731,946.75	29,250,102.00	27,468,488.00	635,450,535.47

NORTHWESTERN ENERGY - MONTANA ELECTRIC PPL HYDRO ASSETS PURCHASE
ALLOCATION OF HYDRO COMMON COSTS

	PLANT BALANCE SUB-TOTAL 2013	PERCENTAGE	COMMON COSTS	
TOTAL BLACK EAGLE	13,019,662.67	5%	107,114	
TOTAL MORONY	20,275,757.19	7%	149,960	
TOTAL RAINBOW	193,850,080.41	68%	1,456,757	
TOTAL RYAN	34,239,472.87	12%	257,075	
TOTAL COCHRANE	22,472,631.30	8%	171,383	
SUB-TOTAL GREAT FALLS	283,857,604.44	100	2,142,289	TABLE 1
TOTAL HEBGEN	15,630,600.06	21%	3,680,372	
TOTAL MADISON	24,944,429.82	33%	5,783,443	
TOTAL HAUSER	20,732,661.01	28%	4,907,161	
TOTAL HOLTER	13,329,981.64	18%	3,154,604	
SUB-TOTAL MISSOURI MADISON	74,637,672.53	100	17,525,580	TABLE 2
TOTAL MYSTIC LAKE	22,295,204.52			
TOTAL THOMPSON FALLS	83,811,300.62			
TOTAL KERR	50,276,193.64			
TOTAL HYDROS	514,877,975.75			

	Plant Balance SUB-TOTAL 2013	PERCENTAGE	COMMON COSTS	CAPITALIZED PPL INTEREST
TOTAL BLACK EAGLE	13,019,662.67	3%	287,467	824,055
TOTAL MORONY	20,275,757.19	4%	383,289	1,098,740
TOTAL RAINBOW	193,850,080.41	37%	3,545,428	10,163,338
TOTAL RYAN	34,239,472.87	7%	670,756	1,922,794
TOTAL COCHRANE	22,472,631.30	4%	383,289	1,098,740
TOTAL HEBGEN	15,630,600.06	3%	287,467	824,055
TOTAL MADISON	24,944,429.82	5%	479,112	1,373,424
TOTAL HAUSER	20,732,661.01	4%	383,289	1,098,740
TOTAL HOLTER	13,329,981.64	3%	287,467	824,055
TOTAL MYSTIC LAKE	22,295,204.52	4%	383,289	1,098,740
TOTAL THOMPSON FALLS	83,811,300.62	16%	1,533,157	4,394,958
TOTAL KERR	50,276,193.64	10%	958,223	2,746,849
TOTAL HYDROS	514,877,975.75	100	9,582,233	27,468,488
			TABLE 3	TABLE 3

NORTHWESTERN ENERGY - PPL HYDRO ASSETS PURCHASE
TRANSMISSION DATA ORIGINAL COST BALANCES AS OF 12/17/1999

Transmission	350.10	350.20	352.00	353.00	354.10	355.10	355.20	356.00	362.00	389.60	397.20	Total
75-24	417.50					45,063.16	961.11	39,727.44			724.30	86,893.51
75-25						1,843.58		2,151.51			1,313.33	5,308.42
75-26	712.20	271.40				51,754.76	1,930.70	52,251.94		1,055.16	91,039.39	199,015.55
75-27		240.60			1,629.37	27,880.00	643.71	46,444.65				76,838.33
80-23						58,575.56		15,281.49				73,857.05
65-21						4,911.14		5,301.34				10,212.48
93-03-88				73,592.78								73,592.78
93-06-105				85,275.59								85,275.59
93-02-40			4,684.86									4,684.86
93-02-52				13,505.68								13,505.68
93-02-60			79.65						65,849.24			65,928.89
02-41-27						14,155.90		4,595.83				18,751.73
Sub-total Transmission	1,129.70	512.00	4,764.51	172,374.05	1,629.37	204,184.10	3,535.52	165,754.20	65,849.24	1,055.16	93,077.02	713,864.87
Step-up transformers												
Black Eagle				186,899.19								186,899.19
Morony				256,677.62								256,677.62
Rainbow				115,490.30								115,490.30
Ryan				267,618.09								267,618.09
Cochrane				179,171.35								179,171.35
Mystic Lake				186,954.70								186,954.70
Madison				196,282.48								196,282.48
Hauser				184,134.24								184,134.24
Holter				1,352,937.29								1,352,937.29
Thompson Ffalls				1,822,896.04								1,822,896.04
Kerr				1,487,785.22								1,487,785.22
Sub-total Step-ups	0.00	0.00	0.00	6,236,846.52	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6,236,846.52
Grand Total	1,129.70	512.00	4,764.51	6,409,220.57	1,629.37	204,184.10	3,535.52	165,754.20	65,849.24	1,055.16	93,077.02	6,950,711.39

75-24	100kV H-FRAME RYAN PLT - RAINBOW
75-25	100kV H-FRAME RAINBOW PLT - RAINBOW SWYD
75-26	100kV H-FRAME MORONY PLT - RAINBOW SWYD
75-27	100kV H-FRAME COCHRANE PLT - RAINBOW SWYD
80-23	50kV SINGLE POLE MYSTIC LAKE - BILLINGS
65-21	100kV STEEL TOWER MADISON PLT - BUTTE
93-03-88	LINE CREEK SWITCHYARD
93-06-105	BRADLEY CREEK SWITCHYARD
93-02-40	BLACK EAGLE SUB
93-02-52	RYAN SUB
93-02-60	COCHRANE SUB
02-41-27	MORONY CAMP SUB

NORTHWESTERN ENERGY - MONTANA ELECTRIC PPL HYDRO ASSETS PURCHASE

	Plant Balance 12/17/1999	PPL Additions 2000 Thru June 2013	PPL Retirements	Allocated Common Costs: Great Falls Plants	Missouri Madison	All Hydro's	Capitalized Interest	Plant Balance June 2013
TOTAL BLACK EAGLE	5,234,857.67	9,012,338.00	1,227,533.00	107,114		287,467	824,055	14,238,298.67
TOTAL MORONY	6,210,407.19	14,587,310.00	521,960.00	149,960		383,289	1,098,740	21,907,746.19
TOTAL RAINBOW	17,394,662.41	188,919,981.00	12,464,563.00	1,456,757		3,545,428	10,163,338	209,015,603.41
TOTAL RYAN	11,362,526.87	25,381,908.00	2,504,962.00	257,075		670,756	1,922,794	37,090,097.87
TOTAL COCHRANE	11,798,197.30	11,722,739.00	1,048,305.00	171,383		383,289	1,098,740	24,126,043.30
TOTAL MYSTIC LAKE	14,810,675.52	7,930,806.00	446,277.00			383,289	1,098,740	23,777,233.52
TOTAL HEBGEN	2,182,658.06	13,448,158.00	216.00		3,680,372	287,467	824,055	20,422,494.06
TOTAL MADISON	17,380,205.82	7,839,764.00	275,540.00		5,783,443	479,112	1,373,424	32,580,408.82
TOTAL HAUSER	8,433,120.01	12,565,828.00	266,287.00		4,907,181	383,289	1,098,740	27,121,851.01
TOTAL HOLTER	8,673,224.64	5,541,665.00	884,908.00		3,154,604	287,467	824,055	17,596,107.64
TOTAL THOMPSON FALLS	66,112,712.62	18,807,540.00	1,108,952.00			1,533,157	4,394,958	89,739,414.34
TOTAL HYDROS - (EXCLUDING KERR)	169,593,248.11	315,758,037.00	20,749,503.00	2,142,289	17,525,580	8,624,010	24,721,639	517,615,298.83
TRANSMISSION LINES	713,864.87	0.00	0.00	0.00	0.00	0.00	0.00	713,864.87
STEP-UP TRANSFORMERS - (EX KERR)	4,749,061.30	0.00	0.00	0.00	0.00	0.00	0.00	4,749,061.30
TOTAL TRANSMISSION	5,462,926.17	0.00	0.00	0.00	0.00	0.00	0.00	5,462,926.17
SUB-TOTAL PLANT	175,056,174.28	315,758,037.00	20,749,503.00	2,142,289.00	17,525,580.00	8,624,010.00	24,721,639.00	523,078,225.00
TOTAL KERR HYDRO	20,958,995.64	30,187,383.00	870,185.00			958,223	2,746,849	53,981,265.64
TOTAL KERR STEP-UP TRANSFORMER	1,487,785.22	0.00	0.00			0.00	0.00	1,487,785.22
TOTAL KERR INTANGIBLE	63,853,970.78	0.00	0.00					63,853,970.78
TOTAL KERR	86,300,751.64	30,187,383.00	870,185.00			958,223.00	2,746,849.00	119,323,021.64
PURCHASE PRICE ADJUSTMENT TO KERR								-89,323,021.64
NET KERR								30,000,000.00
ELECTIC PLANT SUBTOTAL								553,078,225.00
ACQUISITION ADJUSTMENT								346,921,775.00
GRAND TOTAL	261,356,925.92	345,945,420.00	21,619,688.00	2,142,289.00	17,525,580.00	9,582,233.00	27,468,488.00	900,000,000.00

Note - PPL included all of the plant activity associated with the transmission lines and step-up transformers in the hydro accounts.
Therefore the transmission plant balance at 12/17/1999 remains unchanged through 2013.

NorthWestern Energy
PPL HYDRO ASSETS PURCHASE
Docket D2013.12.85
Plant Balance and Annual Book Depreciation - Statement I

		Plant Balance 12/31/2013	Less Kerr 12/31/2013	Depreciation Base 12/31/2013	Accrual %	2014 Accrual
E303	Intangible Plant - Kerr	63,853,971	63,853,971	0	0.0000	0
E330.1	Land	5,938,196	1,301,968	4,636,228	0.0000	0
E330.2	Land Rights	10,939	0	10,939	0.0000	0
E331.1	Structures - Generation	147,361,016	3,222,213	144,138,803	0.0250	3,603,470
E331.3	Structures - Recreation	639,650	195,082	444,568	0.0250	11,114
E332.1	Dams - Generation	157,879,816	9,775,970	148,103,846	0.0250	3,702,596
E332.2	Dams - Recreation	39,987	1,259	38,728	0.0250	968
E333	Turbines & Generators	129,895,054	16,199,824	113,695,230	0.0250	2,842,381
E334	Accessory Equipment	77,919,494	1,697,700	76,221,794	0.0250	1,905,545
E335.1	Misc - Generation	48,696,519	20,773,252	27,923,267	0.0250	698,082
E335.3	Misc - Recreation	63,033	10,362	52,671	0.0250	1,317
E336	Roads & Trails	3,152,861	803,636	2,349,225	0.0250	58,731
	Total Hydro Generation	571,596,565	53,981,266	517,615,299		12,824,203
E350.1	Land	1,130	0	1,130	0.0000	0
E350.2	Land Rights	512	0	512	0.0171	9
E352	Structures	4,765	0	4,765	0.0202	96
E353	Substation Equipment	6,409,221	1,487,785	4,921,436	0.0220	108,272
E354.1	Towers	1,629	0	1,629	0.0253	41
E355	Poles	204,184	0	204,184	0.0455	9,290
E355.2	Clearing Land	3,535	0	3,535	0.0216	76
E356	Conductor	165,754	0	165,754	0.0188	3,116
E362	Substation Equipment	65,849	0	65,849	0.0231	1,521
E389.6	Land	1,055	0	1,055	0.0000	0
E397.2	Communication	93,077	0	93,077	0.0667	6,208
	Total Transmission	6,950,711	1,487,785	5,462,926		120,901
	Total Intangible, Hydro & Transmission	642,401,247	119,323,022	523,078,225		12,945,104
	Acquisition Adjustment	257,598,753	-89,323,022	346,921,775	40 Years	8,673,044
	Grand Total	900,000,000	30,000,000	870,000,000		21,618,148

Note - Hydro accounts depreciated over 40 years = 2.5 % rate - Transmission accrual rates are from the 2012 Montana Depreciation Study

Department of Public Service Regulation
Montana Public Service Commission
Docket No. D2013.12.85
PPLM Hydro Assets Purchase
NorthWestern Energy

PREFILED DIRECT TESTIMONY OF

PATRICK J. DIFRONZO

ON BEHALF OF NORTHWESTERN ENERGY

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Exhibits

The Hydros Revenue Requirement	Exhibit__(PJD-1)
Illustrative Derivation of Rates	Exhibit__(PJD-2)
Illustrative Customer Bill Impact	Exhibit__(PJD-3)
Valuation Process – Initial Customer Bill Impact	Exhibit__(PJD-4)

1 **Witness Information**

2 **Q. Please state your name and business address.**

3 **A.** My name is Patrick J. DiFronzo. I work at 40 East Broadway, Butte MT
4 59701.

5

6 **Q. By whom are you employed and in what capacity?**

7 **A.** I am NorthWestern Energy's ("NorthWestern") Manager of Regulatory Affairs.

8

9 **Q. Please summarize your education and employment experience.**

10 **A.** I graduated from Montana State University with a Bachelor of Science Degree
11 in Accounting in 1981. In August 1983, I completed the requirements to
12 become a Certified Public Accountant. I have also attended several rate-
13 related courses since my employment at NorthWestern, which commenced in
14 July 1984.

15

16 The first position I held was Accountant in the Income Tax Department, from
17 1984 through 1989. During this time frame I worked on several Montana
18 Public Service Commission ("MPSC" or "Commission") and Federal Energy
19 Regulatory Commission ("FERC") rate filings preparing tax statements and
20 exhibits. I then spent a year in the Regulatory Affairs Department as part of a
21 cross-training program learning more about cost of service and other
22 regulatory matters. After this, I transferred into Internal Auditing where I spent
23 the next six years working on various financial and information system control

1 audits. In 1996, I transferred into the Financial Resources Department as a
2 Senior Analyst. In the Financial Resources Department I prepared annual
3 and forecasted business plans for NorthWestern and performed various
4 financial analyses. In May of 1999, I was promoted to Manager of Treasury
5 Services. In the Treasury Department, I worked on several Commission and
6 FERC rate filings preparing cost of capital statements and exhibits. In
7 October of 2000, I accepted a position in the Regulatory Affairs Department
8 as a Senior Analyst. In December of 2003, I was promoted to Manager of
9 Regulatory Affairs.
10
11 **Q. What are your responsibilities as Manager of Regulatory Affairs?**
12 **A.** I am the manager in charge of state and federal regulatory activities for
13 NorthWestern in Montana. In my present role, among other things, I
14 participate in the preparation and/or consideration of the testimony, exhibits,
15 and work papers in NorthWestern's proceedings before the Commission and
16 FERC.
17
18 **Purpose of Testimony**
19 **Q. What is the purpose of your testimony in this proceeding?**
20 **A.** My testimony:
21 1. Presents the development of the Generation Asset Cost of Service ("Test
22 Period Revenue Requirement") associated with NorthWestern's purchase

of 11 hydroelectric generating facilities and related assets (the "Hydros") from PPL Montana, LLC ("PPLM");

2. Discusses the Hydros derivation of rates and presents the customer bill impact based on the Test Period Revenue Requirement;
3. Discusses my involvement in the valuation process and the use of the first year revenue requirement from the Long-term 30-year Revenue Requirement Model ("LT Rev Req Model") to estimate rate impacts to customers using the First Year Rate Impact Model; and
4. Discusses the recovery of future Hydros costs, including Hydros property tax expense in NorthWestern's annual Electric Property Tax Tracker filing.

The Hydros Revenue Requirement

Q. Did you calculate a 2014 test period Revenue Requirement for the Hydros?

A. Yes, the test period Revenue Requirement amount is $128,402,190.

Q. Have you prepared an exhibit that presents the calculation of the Hydros Revenue Requirement for 2014?

A. Yes, Exhibit__(PJD-1) reflects the Revenue Requirement. Page 1 of this Exhibit presents a line-by-line summary of the return and cost of service elements that make up the revenue requirement, followed by work papers further supporting these line items.

Q. What methodology was used to develop the Hydros Cost of Service or Revenue Requirement?

A. Montana law defines Generation Asset Cost of Service as: "...construction, administration, operation, and maintenance of a plant or equipment owned or leased by a public utility and used for the production of electricity." § 69-8-103(13), MCA. Based on this statutory definition and this Commission's practices related to utility-owned assets, the standard regulated revenue requirement formula used to develop the Hydros Revenue Requirement is:

$$RR = [(AC - D) * RoR] + E$$

Where: RR = Revenue Requirement

AC = Asset Cost

D = Accumulated Depreciation adjusted for Deferred Income Taxes

RoR = Allowed Rate of Return

E = Expenses (i.e., Operation and Maintenance, Administrative and General, Depreciation, Taxes Other than Income and Income Taxes)

The Cost of Service or Standard Test Period Revenue Requirement Model ("Cost of Service Model") attached as Exhibit__(PJD-1) is used to perform this computation. The detailed elements of the above equation as they relate to the Hydros are explained below.

Detailed Hydros Revenue Requirement Elements

Q. Please identify each Cost of Service element on page 1 of Exhibit__(PJD-1).

A. Identification of each cost of service element is included below, and supporting detail is included on the work papers behind page 1 of Exhibit__(PJD-1).

Q. Please identify the asset value of the Hydros in the Revenue Requirement computation.

A. Referring to the Electric Utility Plant in Service section on page 1 of Exhibit__(PJD-1) lines 10 through 12, the total electric plant amount is $900,000,000, which is made up of $553,078,225 of electric plant[1] and $346,921,775 acquisition adjustment. The supporting detail for these amounts is shown on page 9 of Exhibit__(PJD-1). The Prefiled Direct Testimony of Kendall G. Kliewer ("Kliewer Direct Testimony") provides an explanation of NorthWestern's accounting requirements in regard to this acquisition and the determination of these values.

Q. Please describe the Accumulated Depreciation on line 15 of Exhibit__(PJD-1) page 1.

[1] This amount includes $523,078,225 of electric depreciable assets reflected on Exhibit__(PJD-1) page 9, column H, line 42 plus $30,000,000 for Kerr.

1 **A.** The computation of depreciation is addressed in the Kliewer Direct
2 Testimony. The depreciation accrual computation is reflected on page 9 of
3 Exhibit__(PJD-1), and the accumulated year-end balance and 13-month
4 average is shown on page 3 of that exhibit.
5
6 **Q. Please describe the Deferred Income Taxes – Accelerated Tax**
7 **Depreciation on line 20.**
8 **A.** As explained in the Kliewer Direct Testimony, this rate base adjustment
9 reflects the deferred income taxes resulting from the difference between book
10 and tax depreciation. See pages 9 and 10 of Exhibit__(PJD-1) for the
11 computation of book and tax depreciation, respectively; page 2, lines 76
12 through 82 shows the deferred tax computation. The 13-month average is
13 shown on page 3.
14
15 **Q. Please describe the Net Operating Loss ("NOL") Deferred Tax Liability**
16 **on line 21.**
17 **A.** The computation of this rate base adjustment is shown on page 2, lines 84
18 through 93 of Exhibit__(PJD-1); this deferred tax liability is described in the
19 Kliewer Direct Testimony. The 13-month average is shown on page 3.
20
21 **Q. Please describe the computation of Working Capital associated with the**
22 **Gross Cash Requirements on line 25.**

1 **A.** The gross cash requirement computation is reflected on page 4 of
2 Exhibit__(PJD-1). The Kliewer Direct Testimony provides explanation
3 regarding this computation.
4
5 **Q. Please describe how the Total Year End Rate Base on line 27 in Column**
6 **D was derived.**
7 **A.** The Total Year End Rate Base was derived by taking the Total Electric Plant
8 amount on line 12, minus the accumulated depreciation on line 15, minus the
9 customer-contributed capital amount on line 22 plus the gross cash
10 requirements on line 25.
11
12 **Q. Please describe how the 13-Month Average Rate Base on line 27 in**
13 **Column F was derived.**
14 **A.** This value represents the total of the 13-month average, for the period from
15 December 2013 through December 2014, of the rate base items shown in
16 Column D, lines 14, 16, 22, and 25. This figure is hypothetical in that the time
17 period for which it is computed has yet to occur.
18
19 **Q. Please describe the Rate of Return on line 29 of page 1.**
20 **A.** The computation of the 7.14% rate of return is shown on page 5. The Prefiled
21 Direct Testimony of Brian B. Bird ("Bird Direct Testimony") provides
22 explanation of the rate of return and support for its components.
23

1 **Q. Please describe how the Authorized Return on page 1, line 31 was**
2 **developed.**
3 **A.** The authorized return is computed by multiplying the 13-Month Average Rate
4 Base, Column F, line 27, by the rate of return of 7.14% on line 29.
5
6 **Q. Please describe the Operation and Maintenance ("O&M") Expense on**
7 **line 34 of page 1.**
8 **A.** This represents the estimated annual costs to operate and maintain the
9 Hydros. The Prefiled Direct Testimony of Joseph M. Stimatz ("Stimatz Direct
10 Testimony") provides an explanation of the source of these expenses. The
11 O&M test period expense amounts were allocated by FERC account based
12 on the 9 months of actual and 3 months of forecasted costs from PPLM's
13 2013 expenses. The test period expenses are detailed on Exhibit__(PJD-1)
14 page 6.
15
16 **Q. Please describe the Administrative and General ("A&G") Expense on**
17 **line 35 of page 1.**
18 **A.** This represents the estimated annual A&G costs including A&G labor,
19 employee benefits, and insurance costs relating to the Hydros operations.
20 The test period expenses are detailed on Exhibit__(PDJ-1) page 6. The
21 Prefiled Direct Testimony of Travis E. Meyer ("Meyer Direct Testimony")
22 provides further explanation of these A&G costs.
23

1 **Q. Please explain the Depreciation entry on page 1, line 36.**

2 **A.** This represents the first-year depreciation expense under NorthWestern's
3 ownership and was developed as described in the Kliewer Direct Testimony.
4 The depreciation accrual computation is reflected on Exhibit__(PJD-1) page
5 9, Column L. Line 46 reflects the total Depreciation Expense for the test year.
6
7 **Q. Describe the Property Taxes included on page 1, line 37.**

8 **A.** The Kliewer Direct Testimony describes the property tax computation. The
9 computation details are reflected on page 12 of Exhibit__(PJD-1).
10
11 **Q. What are the Other Taxes included with Property Taxes on page 1, line**
12 **37?**

13 **A.** Other Taxes include the Electrical Energy License Tax and Wholesale Energy
14 Transaction tax. The Kliewer Direct Testimony also supports and describes
15 the derivation of these Other Taxes which are shown on Exhibit__(PJD-1)
16 page 12.
17
18 **Q. What are the Montana Consumer Counsel ("MCC") and MPSC taxes on**
19 **page 1, line 38 and how were they computed?**

20 **A.** The MCC and MPSC taxes are levied by the Montana Department of
21 Revenue and fund the operation of these agencies. These taxes were
22 computed based on the latest tax rates from October 1, 2013, approved in
23 Commission Order Nos. 7313 and 7314. These tax rates are applied to the

Total Revenue Requirement which is shown on page 1, line 44 to derive the amount of taxes. These taxes are included in the Total Revenue Requirement amount on line 44.

Q. What are the Revenue Credits included on page 1, line 39?

A. The revenue credits represent the sale of excess generation. This figure is derived on Exhibit__(PJD-1), pages 7 and 8, and is further supported in the Stimatz Direct Testimony.

Q. Describe the Deferred Income Taxes on page 1, line 40.

A. This reflects the level of Deferred Income Taxes resulting from the timing difference between book and tax depreciation and the NOL. This figure is derived on Exhibit__(PJD-1) page 2, lines 76 to 95 and is supported in the Kliewer Direct Testimony.

Q. Please describe the computation of Current Income Taxes shown on page 1, line 41.

A. Current federal and state income tax rates are used to compute income taxes for this filing. The details of the income tax calculations are shown on lines 48 through 74 on page 2. The Kliewer Direct Testimony discusses these tax-related computations.

Q. What is the Total Cost of Service on page 1, line 42?

1 **A.** This is the total of the expenses shown on page 1, lines 34 through 41.

2 **Q. What is the Total Revenue Requirement shown on page 1, line 44?**

3 **A.** This total includes the Total Cost of Service plus the Authorized Return
4 shown on page 1, line 31.

5

6 **<u>The Hydros Derivation of Rates</u>**

7 **Q. When does NorthWestern propose that Electricity Supply rates be**
8 **adjusted to include the approved Hydros Revenue Requirement?**

9 **A.** NorthWestern proposes that the electric supply rates be adjusted to
10 implement the approved Hydros Revenue Requirement in conjunction with
11 the most practical monthly electricity supply tracker filing made subsequent to
12 the Commission's order in this docket.

13

14 **Q. What are the loads NorthWestern proposes to use to compute and**
15 **implement final rates following a Commission order in this docket?**

16 **A.** NorthWestern proposes to use forecasted loads included in the monthly
17 electricity supply tracker filing in which the approved Revenue Requirement is
18 first implemented into rates. These same forecasted loads would be used to
19 compute rates until such time as there is an updated Revenue Requirement
20 approved by the Commission.

21

22 **Q. Has NorthWestern computed illustrative rates as part of this filing?**

1 **A.** Yes. Refer to Exhibit__(PJD-2). Page 1 of this exhibit summarizes the
2 estimated total electricity supply rates that include the Hydros. The fixed
3 rates for the Hydros are based on the total Revenue Requirement as reflected
4 on Exhibit__(PJD-1) page 1, line 44, and forecasted loads from
5 NorthWestern's November 2013 monthly electric supply tracker filing (see
6 Docket No. D2013.7.53). The derivation of the estimated Hydros fixed rates
7 is shown on page 2. The rates for Colstrip Unit 4, Dave Gates Generating
8 Station and Spion Kop Wind Generation Facility shown on page 1 are from
9 the November 2013 monthly electric supply tracker filing. The electric supply
10 rates shown in Column D of page 1 have been adjusted to reflect the impact
11 of the Hydros on spot purchases as well as the associated termination of
12 certain PPLM supply contracts as shown on page 3. The electricity supply
13 costs shown on page 3 reflect the estimated costs for the period October
14 2014 through September 2015. The Stimatz Direct Testimony provides
15 further support for estimated electricity supply costs. NorthWestern's current
16 electric supply rates for November 2013, which are used for comparative
17 purposes, are shown on page 7.
18
19 **Q. Has NorthWestern computed rate impacts of this transaction to**
20 **customers as part of this filing?**
21 **A.** Yes. Refer to Exhibit__(PJD-3). This illustrates the bill impact to residential
22 electric customers based on NorthWestern's November 2013 monthly

electricity supply tracker filing. This bill impact is based on using the Revenue Requirement as reflected in Exhibit__(PJD-1) page 1, line 44.

Valuation Process

Q. Were you involved in the modeling that supported the hydro assets market evaluation described in the Bird Direct Testimony?

A. Yes. As described by Mr. Bird, I used the first year revenue requirement from the LT Rev Req Model described and supported in the Meyer Direct Testimony to estimate rate impacts to customers using the First Year Rate Impact Model.

Q. What were the results?

A. The valuation revenue requirement from the LT Rev Req Model resulted in an estimated 6% increase to the total bill for the typical residential electric customer for the first year compared to current rates at July 2013. Refer to Exhibit__(PJD-4) for the First Year Rate Impact Model.

Q. The bill impact for the typical residential electric customer on Exhibit__(PJD-3) is estimated to be approximately 4.2%. Why is that bill impact lower than the bill impact shown on Exhibit__(PJD-4)?

A. As discussed previously in my testimony, Exhibit__(PJD-3) is based on the Revenue Requirement proposed in this filing. The proposed Revenue Requirement is lower than the valuation first year Revenue Requirement, and

a lower revenue requirement produces a lower rate impact. As described in the Meyer Direct Testimony, the difference in the revenue requirement is a result of further refinements to the revenue requirement computation based on knowledge gained by NorthWestern subsequent to the valuation. Additionally, the computation methodology used to compute the revenue requirement in the LT Rev Req Model is a slightly simplified version of the more detailed approach used to compute the proposed Revenue Requirement. The primary differences and the related impacts are addressed in the Meyer Direct Testimony.

Treatment of Future Hydros Costs

Q. Are there future Hydros costs, in addition to those presented in this filing, that will likely be incurred and included in future electric energy supply rates?

A. Yes, future costs will include the normal course of business activities, including, for example, expenses and capital costs related to maintenance, future plant additions, inflationary cost adjustments, increased property taxes, and other increased costs.

Q. How would future costs like these or others be included in the Hydros cost of service?

A. As described below, the annual state and local tax expense, excluding income tax adjustments, will be addressed in the annual Electric Tax Tracker

filing. All other changes in the cost of service for the Hydros would be included in future revenue requirement filings.

Property Tax Expense Treatment

Q How would future adjustments in property tax expense be recovered?

A. As provided by statute and Commission order, 60% of the annual state and local tax change will be included in NorthWestern's annual Electric Property Tax Tracker filing. When future Hydros Revenue Requirement filings are made, 100% of the then-current property tax expense will be included in the cost of service, establishing a new base to be used in subsequent property tax tracker filings. This is the process currently used in NorthWestern's property tax tracker and Delivery Services revenue requirement filings.

Q. Does this conclude your testimony?

A. Yes, it does.

	A	B	C	D	E	F
1		**NorthWestern Energy**				
2		**PPLM Hydro Assets Purchase**				
3		**Docket D2013.12.85**				
4		**Revenue Requirement Analysis**				
5						
6						
7				**2014**		
8		**Description**		**Year End**		**13-Month Ave**
9		**Electric Utility Plant in Service**				
10		Electric Plant		$ 553,078,225		$ 553,078,225
11		Acquisition Adjustment		346,921,775		346,921,775
12		Total Electric Plant		$ 900,000,000		$ 900,000,000
13						
14		Less:				
15		Accumulated Depreciation		21,618,148		10,809,074
16		Total Net Plant		$ 878,381,852		$ 889,190,926
17						
18		Less: Customer Contributed Capital				
19		Deferred Income Taxes				
20		Accelerated Tax Depreciation Deferred Tax Liability		$ 3,791,369		$ 1,895,684
21		NOL Deferred Tax Liablity		$ 21,943,007		$ 10,971,503
22		Total Customer Contributed Capital		$ 25,734,375		$ 12,867,188
23						
24		Plus: Working Capital				
25		Gross Cash Requirements		$ (10,339,304)		$ (10,339,304)
26						
27		Total Year End Rate Base		$ 842,308,172		$ 865,984,434
28						
29		**Rate of Return**				7.14%
30						
31		***Authorized Return (Avg. Rate Base * Rate of Return)***				$ 61,831,289
32						
33		***Cost of Service:***				
34		Operation & Maintenance Expense		$ 41,816,411		
35		Administrative and General Expense		5,807,975		
36		Depreciation		21,618,148		
37		Property & Other Taxes		14,983,335		
38		MPSC & MCC Revenue Tax	0.53%	680,532		
39		Revenue Credits		(43,311,313)		
40		Deferred Income Taxes		25,734,375		
41		Current Income Taxes		(758,561)		
42		***Total Cost of Service***				$ 66,570,901
43						
44		**Total Revenue Requirement**				$ 128,402,190
45						

	A	B	C	D	E	F
46		**Statement - J**				
47						
48		***Income Tax Computation:***	**Rate**			
49		Revenues		$ 128,402,190		
50		Operation & Maintenance Expense		41,816,411		
51		Administrative and General Expense		5,807,975		
52		Property & Other Taxes		14,983,335		
53		MPSC & MCC Revenue Tax		680,532		
54		Revenue Credits		(43,311,313)		
55		Tax Depreciation (Ref. Exhibit__(PJD-1), Page 10)		32,450,630		
56		Montana Corporate Income Tax		3,760,464		
57		Interest Expense (Based on Avg. Rate Base)	2.34%	20,264,036		
58		Federal Taxable Income		$ 51,950,120		
59						
60		Federal Income Tax @ 35%	35.00%	18,182,542		
61		Federal NOL Dfd for Credit Against Current Tax Expense		(18,182,542)		
62		Federal Current Tax Expense before Tax Credits		$ 0		
63		Production Tax Credit (Ref. Exhibit__(PJD-1), Page 11)		(758,561)		
64		Federal Current Tax Expense With Production Tax Credit		$ (758,561)		
65						
66		Federal Taxable Income		$ 51,950,120		
67		Montana Corporate Income Tax		3,760,464		
68		Montana Corporate Taxable		$ 55,710,585		
69						
70		Montana Corporate Income Tax @ 6.75%	6.75%	3,760,464		
71		Montana NOL Dfd for Credit Against Current Tax Expense		(3,760,464)		
72		Montana Current Tax Expense		$ 0		
73						
74		Total Current Income Tax Expense		$ (758,561)		
75						
76		***Deferred Income Tax Computation:***	**Rate**			
77		***Accelerated Tax Depreciation***				
78		Tax Depreciation		$ 32,450,630		
79		Less Book Depreciation		(21,618,148)		
80		Net Deferred Taxable Income		$ 10,832,482		
81		Federal Income Tax Rate		35%		
82		Federal Deferred Income Tax Expense-Accelerated Tx Deprec		$ 3,791,369		
83						
84		***Net Operating Loss ("NOL")***				
85		Federal Taxable Income offset by NOL		$ 51,950,120		
86		Federal Income Tax Rate		35%		
87		Federal Deferred Income Tax Expense-NOL		$ 18,182,542		
88						
89		Montana Taxable Income offset by NOL		$ 55,710,585		
90		Montana Income Tax Rate		6.75%		
91		Montana Deferred Income Tax Expense-NOL		$ 3,760,464		
92						
93		Total Deferred Income Tax Expense - NOL		$ 21,943,007		
94						
95		Total Deferred Income Tax Expense-Accel Deprec & NOL		$ 25,734,375		

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
1								NorthWestern Energy									
2								PPLM Hydro Assets Purchase									
3								Docket D2013.12.85									
4																	
5								Rate Base 13-Month Average									
6																	
7								Statement C									
8																	
9				Electric Plant			Accumulated Depreciation			Acquisition Adjustment			Accelerated Tax Depreciation			NOL Deferred Tax Liability	
10				Net Activity	Ending Balance		Net Activity	Ending Balance		Net Activity	Ending Balance		Net Activity	Ending Balance		Net Activity	Ending Balance
11																	
12	1	December	2013	0.00	553,078,225		0.00	0.00		0.00	346,921,775		0.00	0.00		0.00	0.00
13																	
14	2	January	2014	0.00	553,078,225		1,801,512	1,801,512		0	346,921,775		315,947	315,947		1,828,584	1,828,584
15																	
16	3	February	2014	0.00	553,078,225		1,801,512	3,603,025		0	346,921,775		315,947	631,895		1,828,584	3,657,168
17																	
18	4	March	2014	0.00	553,078,225		1,801,512	5,404,537		0	346,921,775		315,947	947,842		1,828,584	5,485,752
19																	
20	5	April	2014	0.00	553,078,225		1,801,512	7,206,049		0	346,921,775		315,947	1,263,790		1,828,584	7,314,336
21																	
22	6	May	2014	0.00	553,078,225		1,801,512	9,007,562		0	346,921,775		315,947	1,579,737		1,828,584	9,142,919
23																	
24	7	June	2014	0.00	553,078,225		1,801,512	10,809,074		0	346,921,775		315,947	1,895,684		1,828,584	10,971,503
25																	
26	8	July	2014	0.00	553,078,225		1,801,512	12,610,587		0	346,921,775		315,947	2,211,632		1,828,584	12,800,087
27																	
28	9	August	2014	0.00	553,078,225		1,801,512	14,412,099		0	346,921,775		315,947	2,527,579		1,828,584	14,628,671
29																	
30	10	September	2014	0.00	553,078,225		1,801,512	16,213,611		0	346,921,775		315,947	2,843,526		1,828,584	16,457,255
31																	
32	11	October	2014	0.00	553,078,225		1,801,512	18,015,124		0	346,921,775		315,947	3,159,474		1,828,584	18,285,839
33																	
34	12	November	2014	0.00	553,078,225		1,801,512	19,816,636		0	346,921,775		315,947	3,475,421		1,828,584	20,114,423
35																	
36	13	December	2014	0.00	553,078,225		1,801,512	21,618,148		0	346,921,775		315,947	3,791,369		1,828,584	21,943,007
37																	
38																	
39		13-Month Average			553,078,225			10,809,074			346,921,775			1,895,684			10,971,503

	A	B	C	D	E	F	G	H
1			NorthWestern Energy					
2			PPLM Hydro Assets Purchase					
3			Docket D2013.12.85					
4								
5			Calculation of Working Capital					
6								
7			Statement - E					
8								
9								
10				12-Month Ended		[1]Net Lag		Cash
11	Line No.			Expenses		Days		Working Capital
12	1	Operation & Maintenance Expense		$ 41,816,411				
13	2	Administrative and General Expense		5,807,975				
14	3	Property & Other Taxes		14,983,335				
15	4	Montana Corporate Income Taxes		0				
16	5	Federal Income Taxes		0				
17	6	Subtotal		$ 62,607,721		-43.21		$ (7,411,725)
18	7							
19	8							
20	9	13-Month Ave. Rate Base without Working Capital	$ 876,323,738					
21	10							
22	11	[2]Weighted Cost of Debt	2.34%					
23	12							
24	13	Interest Expense in Return		$ 20,505,975		-52.11		-2,927,579
25	14							
26	15	Total Cash Working Capital						$ (10,339,304)
27								
28								
29								
30								
31		[1]Net Lag Days fom Management Application Corp. 2008 Lead/Lag Update						
32		Per MPSC Final Order No. 7046h Docket No. D2009.9.129						
33								
34		[2]Weighted Cost of Debt based on proposed capital structure in this filing.						

	A	B	C	D	E	F	G
1		**NorthWestern Energy**					
2		**PPLM Hydro Assets Purchase**					
3		**Docket D2013.12.85**					
4		**Capital Structure**					
5							
6		**Statement F**					
7							
8							
9				**Percent**	**Rate of**		
10		**Capital Structure**	**Rate**	**Capitalization**	**Return**		
11		Equity	10.00%	48.00%	4.80%		
12		Debt	4.50%	52.00%	2.34%		
13							
14		Total		100.00%	7.14%		

	A	B	C	D
1		**NorthWestern Energy**		
2		**PPLM Hydro Assets Purchase**		
3		**Docket D2013.12.85**		
4		**Annual Operations and Maintenance (O&M) Expenditures**		
5				
6		**Statement G**		
7				
8				
9		Account Number & Title		
10	Hydro Power Generation-Operation			
11	535	Supervision & Engineering	$ 8,295,450	
12	536	Water for Power	-	
13	537	Hydraulic Expenses	621,368	
14	538	Electric Expenses	1,781,736	
15	539	Miscellaneous Hydraulic Power	2,880,114	
16	540	Rents	21,121,451	
17	Total Operation-Hydro Power Gen.		$ 34,700,119	
18	Hydro Power Generation-Maintenance			
19	541	Supervision & Engineering	$ 13,353	
20	542	Structures	1,919,858	
21	543	Reservors, Dams & Waterways	979,156	
22	544	Electric Plant	1,857,386	
23	545	Miscellaneous Hydro Plant	2,193,214	
24	546	General Operations Supervision & Engineering	153,324	
25	Total Maintenance-Hydro Power Gen.		$ 7,116,292	
26	Other Power Supply Expenses			
27	555	Purchased Power	$ -	
28	Total Other Power Supply Expenses		$ -	
29	Administrative & General-Operation			
30	920	Admin. & General Salaries	$ 2,915,464	
31	921	Office Supplies & Expenses	776,215	
32	922	Admin. Expenses Transferred-Cr	-	
33	923	Outside Services Employed	668,315	
34	924	Property Insurance	95,278	
35	925	Injuries & Damages	574,442	
36	926	Employee Pensions & Benefits	220,495	
37	927	Franchise Requirements	-	
38	928	Regulatory Commission Expenses	116,082	
39	929	Duplicate Charges-Cr	-	
40	930	Miscellaneous General Expenses	253,730	
41	931	Rents	187,955	
42	Total Operation-Admin. General		$ 5,807,975	
43	Admin. & General-Maintenance			
44	935	General Plant	$ -	
45	Total Maintenance-Admin. General		$ -	
46	Total Admin. & General Expenses		$ 5,807,975	
47	Total Oper. & Maint. Expenses		$ 47,624,386	

	A	B	L	M	N	O	P	Q	R	S	T	U	V	W
1	NorthWestern Energy													
2	PPLM Hydro Assets Purchase													
3	Docket D2013.12.85													
4	Statement - H													
5	Revenue Credits													
6	Market Purchases & Sales - Hydro Assets													
7	Volumes In MWh		Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
8		Peak Hours	432	384	416	416	384	416	416	400	416	416	416	400
9		Off-Peak Hours	312	337	328	328	288	327	304	344	304	328	328	320
10	On Peak													
11	April 2013 Update	Default Supply Load (incl DSM)	337,286	320,285	378,583	375,813	340,154	337,962	317,286	297,647	335,335	382,605	367,324	315,039
12														
13														
14	Existing Resources													
15	Fixed Price	Colstrip Unit 4	87,264	77,568	84,032	84,032	77,568	84,032	84,032	80,800	84,032	84,032	84,032	80,800
16	Rate Based Assets	Dave Gates Generating Station	3,024	2,688	2,912	2,912	2,688	2,912	2,912	2,800	2,912	2,912	2,912	2,800
17		Spion Kop	8,208	7,680	6,656	9,984	6,144	6,656	6,656	4,800	4,992	4,576	4,576	5,200
18		PPL 7 Year Contract	-	-	-	-	-	-	-	-	-	-	-	-
19		Judith Gap	27,216	27,648	30,368	33,280	25,728	23,712	23,712	21,200	15,808	14,144	14,976	17,200
20		Other Small PPAs	4,752	6,912	7,488	7,488	6,912	7,488	7,488	4,400	4,576	4,576	4,576	4,400
21	Competitive Solicitations	Base Fixed Price Purchases	21,600	19,200	20,800	20,800	19,200	20,800	20,800	20,000	20,800	20,800	20,800	20,000
22		QF Tier II	40,608	35,712	41,600	37,856	37,632	39,104	41,184	41,200	39,520	34,112	30,368	36,000
23		QF-1 Tariff	8,692	9,024	9,776	10,608	8,256	8,528	7,759	7,750	7,489	6,632	7,488	6,775
24		Term Fixed Price Purchases	-	-	-	-	-	-	-	-	-	-	-	-
25	Index Price	Basin Creek	864	384	832	1,248	384	416	832	400	2,912	2,912	3,328	1,200
26	Competitive Solicitations	Base Index Price Purchases	43,200	38,400	41,600	41,600	38,400	41,600	41,600	40,000	41,600	31,200	31,200	30,000
27	Competitive Solicitations	Term Index Price Purchases	-	-	-	-	-	-	-	-	-	-	-	-
28		DSM (included in load forecast)												
29		2012 CREP RFP Project	4,803	4,880	7,095	5,915	2,969	5,881	4,727	3,853	4,268	3,641	3,426	3,354
30		RRS/CREP	-	-	-	-	-	-	-	-	-	-	-	-
31		Total Existing Peak Resources	250,231	230,096	253,159	255,723	225,881	241,129	241,702	227,203	228,908	209,536	207,676	207,729
32														
33	New Resources													
34		On Peak Hydro	149,224	148,024	171,093	165,358	157,549	158,772	171,810	194,296	210,176	188,301	152,594	99,714
35														
36														
37														
38		Total New Resources	149,224	148,024	171,093	165,358	157,549	158,772	171,810	194,296	210,176	188,301	152,594	99,714
39														
40		Total Peak Resources	399,455	378,120	424,252	421,081	383,430	399,901	413,512	421,498	439,085	397,837	360,270	307,442
41														
42	Purchases & Sales													
43		Net Long Position	62,169	57,835	45,669	45,268	43,277	61,940	96,226	123,851	103,749	15,232	-	-
44		Net (Short) Position	-	-	-	-	-	-	-	-	-	-	(7,054)	(7,597)
45														
46														
47														
48		On-System Peak Market Forecast	$36.66	$36.81	$39.80	$39.52	$37.49	$35.03	$27.12	$27.12	$26.71	$40.05	$40.05	$40.05
49		Single Basis Peak Market Forecast	$35.07	$35.21	$38.18	$37.87	$35.86	$33.42	$25.59	$25.59	$25.18	$38.40	$38.40	$38.40
50														
51		On-System Peak Market Purchases	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$282,490	$304,234
52		Single Basis Peak Market Sales	$2,180,028	$2,036,500	$1,743,642	$1,714,453	$1,552,074	$2,070,034	$2,462,504	$3,169,453	$2,612,482	$584,820	$0	$0
53														
54														
55														

	A	B	L	M	N	O	P	Q	R	S	T	U	V	W
1	NorthWestern Energy													
2	PPLM Hydro Assets Purchase													
3	Docket D2013.12.85													
4	Statement - H													
5	Revenue Credits													
6	Market Purchases & Sales - Hydro Assets													
7	Volumes in MWh		Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
56														
57	Off Peak													
58	April 2013 Update	Default Supply Load (Incl DSM)	177,728	215,641	235,667	231,384	196,475	200,996	173,678	191,297	174,548	212,245	203,610	181,899
59														
60														
61	Existing Resources													
62	Fixed Price	Colstrip Unit 4	63,024	67,872	66,256	66,256	58,176	66,256	38,404	45,348	38,404	66,256	66,256	64,640
63	Rate Based Assets	Dave Gates Generating Station	2,184	2,352	2,296	2,296	2,016	2,296	2,128	2,408	2,128	2,296	2,296	2,240
64		Spion Kop	5,928	6,720	5,248	7,872	4,608	5,232	4,864	4,128	3,648	3,608	3,608	4,160
65		PPL 7 Year Contract	-	-	-	-	-	-	-	-	-	-	-	-
66		Judith Gap	16,224	20,832	20,664	22,632	15,840	19,352	15,200	13,416	10,032	8,528	10,824	10,880
67		Other Small PPAs	3,432	6,066	5,904	5,904	5,184	5,886	5,472	3,784	3,344	3,608	3,608	3,520
68	Competitive Solicitations	Base Fixed Price Purchases	-	-	-	-	-	-	-	-	-	-	-	-
69		QF Tier II	29,328	31,248	32,800	29,848	28,224	30,832	30,096	35,432	28,880	26,896	23,944	28,800
70		QF-1 Tariff	6,277	7,900	7,708	8,364	6,192	6,705	5,670	6,665	5,472	5,229	5,904	5,420
71		Term Fixed Price Purchases	-	-	-	-	-	-	-	-	-	-	-	-
72	Index Price	Basin Creek	-	-	-	-	-	-	-	-	-	-	-	-
73	Competitive Solicitations	Base Index Price Purchases	39,000	42,125	41,000	24,600	21,600	24,525	22,800	25,800	22,800	16,400	16,400	16,000
74	Competitive Solicitations	Term Index Price Purchases	-	-	-	-	-	-	-	-	-	-	-	-
75		DSM (included in load forecast)												
76		2012 CREP RFP Project	3,469	4,283	5,594	4,664	2,227	4,623	3,454	3,038	3,414	2,871	2,697	2,683
77		RRS/CREP	-	-	-	-	-	-	-	-	-	-	-	-
78		Total Existing Peak Resources	168,866	189,398	187,470	172,436	144,067	165,706	128,088	140,019	118,123	135,691	135,537	138,343
79														
80	New Resources													
81		Off Peak Hydro	107,773	129,906	134,901	130,378	118,162	124,804	125,554	167,094	153,591	148,468	120,314	79,771
82														
83														
84														
85		Total New Resources	107,773	129,906	134,901	130,378	118,162	124,804	125,554	167,094	153,591	148,468	120,314	79,771
86														
87		Total Off-Peak Resources	276,639	319,304	322,370	302,814	262,229	290,511	253,642	307,113	271,713	284,159	255,851	218,114
88														
89	Purchases & Sales													
90		Net Long Position	98,911	103,663	86,703	71,430	65,754	89,514	79,964	115,816	97,165	71,915	52,241	36,214
91		Net (Short) Position	-	-	-	-	-	-	-	-	-	-	-	-
92														
93														
94														
95		On-System Off-Peak Market Forecast	$31.01	$31.16	$34.16	$33.46	$31.73	$29.62	$13.56	$13.56	$13.33	$26.89	$26.89	$26.89
96		Single Basis Off-Peak Market Forecast	$29.47	$29.62	$32.58	$31.87	$30.15	$28.06	$12.15	$12.15	$11.93	$25.36	$25.36	$25.36
97														
98		On-System Off-Peak Market Purchases	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
99		Single Basis Peak Market Sales	$2,915,025	$3,070,223	$2,825,216	$2,276,569	$1,982,559	$2,511,710	$971,530	$1,407,115	$1,158,898	$1,823,530	$1,324,663	$918,284
100														
101														
102														
103		Total Monthly Market Purchases	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$282,490	$304,234
104		Total Monthly Market Sales	$5,095,054	$5,106,723	$4,568,858	$3,991,022	$3,534,634	$4,581,744	$3,434,033	$4,576,568	$3,771,380	$2,408,350	$1,324,663	$918,284
105		12-Month Revenue Credits												311,313

	A	B	C	D	E	F	G	H	I	J	K	L
1						NorthWestern Energy						
2						PPLM Hydro Assets Purchase						
3						Docket D2013.12.85						
4						Plant Balance and Annual Book Depreciation						
5												
6						Statement - I						
7												
8				Plant Balance		Less Kerr		Depreciation Base				
9				12/31/2013		12/31/2013		12/31/2013		Accrual %		2014 Accrual
10	E303	Intangible Plant		$ 63,853,971		$ 63,853,971		$ -		0.0000		$ -
11												
12		Total Intangible		$ 63,853,971		$ 63,853,971		$ -				$ -
13												
14	E330.1	Land		$ 5,938,196		$ 1,301,968		$ 4,636,228		0.0000		$ -
15	E330.2	Land Rights		10,939		0		10,939		0.0000		0
16	E331.1	Structures - Generation		147,361,016		3,222,213		144,138,803		0.0250		3,603,470
17	E331.3	Structures - Recreation		639,650		195,082		444,568		0.0250		11,114
18	E332.1	Dams - Generation		157,879,816		9,775,970		148,103,846		0.0250		3,702,596
19	E332.2	Dams - Recreation		39,987		1,259		38,728		0.0250		968
20	E333	Turbines & Generators		129,895,054		16,199,824		113,695,230		0.0250		2,842,381
21	E334	Accessory Equipment		77,919,494		1,697,700		76,221,794		0.0250		1,905,545
22	E335.1	Misc - Generation		48,696,519		20,773,252		27,923,267		0.0250		698,082
23	E335.3	Misc - Recreation		63,033		10,362		52,671		0.0250		1,317
24	E336	Roads & Trails		3,152,861		803,636		2,349,225		0.0250		58,731
25												
26		Total Hydro Generation		$ 571,596,565		$ 53,981,266		$ 517,615,299				$ 12,824,203
27												
28	E350.1	Land		$ 1,130		$ -		$ 1,130		0.0000		$ -
29	E350.2	Land Rights		512		0		512		0.0171		9
30	E352	Structures		4,765		0		4,765		0.0202		96
31	E353	Substation Equipment		6,409,221		1,487,785		4,921,436		0.0220		108,272
32	E354.1	Towers		1,629		0		1,629		0.0253		41
33	E355	Poles		204,184		0		204,184		0.0455		9,290
34	E355.2	Clearing Land		3,535		0		3,535		0.0216		76
35	E356	Conductor		165,754		0		165,754		0.0188		3,116
36	E362	Substation Equipment		65,849		0		65,849		0.0231		1,521
37	E389.6	Land		1,055		0		1,055		0.0000		0
38	E397.2	Communication		93,077		0		93,077		0.0667		6,208
39												
40		Total Transmission		$ 6,950,711		$ 1,487,785		$ 5,462,926				$ 120,901
41												
42		Total Intangible, Hydro & Transmission		$ 642,401,247		$ 119,323,022		$ 523,078,225				$ 12,945,104
43												
44		Acquisition Adjustment		$ 257,598,753		$ (89,323,022)		$ 346,921,775		40 Years		$ 8,673,044
45												
46		Grand Total		$ 900,000,000		$ 30,000,000		$ 870,000,000				$ 21,618,148
47												
48		Note - Hydro accounts depreciated over 40 years = 2.5 % rate - Transmission accrual rates are from the 2012 Montana Depreciation Study										

	A	B	C	D	E	F	G
1		NorthWestern Energy					
2		PPLM Hydro Assets Purchase					
3		Docket D2013.12.85					
4		Tax Depreciation Summary					
5							
6		Statement - J					
7						Tax Depreciation	
8				Tax		Method - MACRS	
9		Description	Plant Balance	Depreciation		Year	Rate
10	E330.1	Land	$ 4,636,228	$ -		1	3.750%
11	E330.2	Land Rights	10,939	-		2	7.219%
12	E331.1	Structures - Generation	144,138,803	5,405,205		3	6.677%
13	E331.3	Structures - Recreation	444,568	16,671		4	6.177%
14	E332.1	Dams - Generation	148,103,846	5,553,894		5	5.713%
15	E332.2	Dams - Recreation	38,728	1,452		6	5.285%
16	E333	Turbines & Generators	113,695,230	4,263,571		7	4.888%
17	E334	Accessory Equipment	76,221,794	2,858,317		8	4.522%
18	E335.1	Misc - Generation	27,923,267	1,047,123		9	4.462%
19	E335.3	Misc - Recreation	52,671	1,975		10	4.461%
20	E336	Roads & Trails	2,349,225	88,096		11	4.462%
21						12	4.461%
22		Total Hydro Generation	$ 517,615,299	$ 19,236,305		13	4.462%
23						14	4.461%
24	E350.1	Land	$ 1,130	$ -		15	4.462%
25	E350.2	Land Rights	512	-		16	4.461%
26	E352	Structures	4,765	179		17	4.462%
27	E353	Substation Equipment	4,921,436	184,554		18	4.461%
28	E354.1	Towers	1,629	61		19	4.462%
29	E355	Poles	204,184	7,657		20	4.461%
30	E355.2	Clearing Land	3,535	133		21	2.231%
31	E356	Conductor	165,754	6,216			
32	E362	Substation Equipment	65,849	2,469			
33	E389.6	Land	1,055	-			
34	E397.2	Communication	93,077	3,490			
35							
36		Total Transmission	$ 5,462,926	$ 204,759			
37							
38		Total Hydro & Transmission	$ 523,078,225	$ 19,441,064			
39							
40		Acquisition Adjustment	$ 346,921,775	$ 13,009,567			
41							
42		Total	$ 870,000,000	$ 32,450,630			

	A	B	I	J	K	L	M	N	O	P	Q	R	S
1	**NorthWestern Energy**												
2	**PPLM Hydroelectric Generating Assets Purchase**												
3	**Docket D2013.12.85**												
4	**Production Tax Credit**												
5													
6	**Statement - J**												
7													
8	Estimated Production per Plant F		Total	% Related to									
9			Production	Incremental		2013*	2014						
10	Hydro Generation Allocation		kWh	Production	Total	PTC Rate	Est. PTC						
11	[1]Kerr		1,078,634,568	3.31%	35,748,163	0.011	$ 393,230						
15	[2]Cochrane		310,572,492	0.44%	1,369,191	0.011	$ 15,061						
16	[3]Ryan		444,065,354	6.00%	26,646,351	0.011	$ 293,110						
19	[4]Mystic Lake		45,793,383	11.35%	5,196,424	0.011	$ 57,161						
22	Total Hydro						$ 758,561						
23													
24													
25													
26	* 2014 Rates not yet published by the IRS												
27													
28	*[1] Project No. 5-083 - FERC Order Certifying Incremental Hydro Generation of Production Tax Credit on December 11, 2007. (PTC Yrs: 2007-2017.)*												
29	*[2] Project No. 2188-187 - FERC Order Certifying Incremental Hydro Generation of Production Tax Credit on January 27, 2010. (PTC Yrs: 2008-2018.)*												
30	*[3] Project No. 2188-208 - FERC Order Certifying Incremental Hydro Generation of Production Tax Credit on April 11, 2013. (PTC Yrs: 2013-2023.)*												
31	*[4] Project No. 2301-029 - FERC Order Certifying Incremental Hydro Generation of Production Tax Credit on April 11, 2013. (PTC Yrs: Unit 1: 2007-2017, Unit 2: 2008-2018.)*												

	A	B	C	D	E	F	G	H
1		NorthWestern Energy						
2		PPLM Hydro Assets Purchase						
3		Property & Taxes Other than Income						
4								
5		Statement K						
6								
7		**Description**		**Rate**				
8								
9		***Montana Property Tax:***						
10		Total Plant Value			$ 900,000,000			
11		Estimated Cost to Market Factor			53.1351%			
12		Taxable Base			$ 478,215,499			
13		Taxable		6%	$ 28,692,930			
14		Estimated Mill Levy			0.489679			
15		Total Property Tax			$ 14,050,317			
16								
17								
18								
19		***Electrical Energy License Tax (EELT):***						
20		Net Generation MWH			3,507,627			
21		EELT Tax Rate (Per MWh)			$ 0.20			
22		EELT Total			$ 701,525			
23								
24								
25								
26		***Wholesale Energy Tax (WET):***						
27		**Distribution Service Provider Delivered in State**						
28		Kerr	(MWh)		1,013,811			
29		All other Hydro			2,493,816			
30		Total Production			3,507,627			
31								
32		Total Electricity Produced in MT Delivered in MT			1,883,120			
33		Excess Generation From Hydro Facilities Del Out of State			1,624,507			
34		[1]Reduce for losses (.05%)			81,225			
35		Taxable Base	(MWh)		1,543,282			
36		Tax Rate (Per MWh)			$ 0.15			
37		WET Total			$ 231,492			
38								
39								
40		**Total Property & Other Taxes**			$ 14,983,335			
41								
42								
43		*[1] Per MCA 15-72-104 (b) The amount of kilowatt hours subject to tax must be reduced by 5% to compensate for transmission line losses.*						

NorthWestern Energy
Electric Utility
Total Estimated Electric Supply Rate
PPLM Hydro Assets Purchase
Year 2014

	Estimated Electric Supply Rates [1]	Colstrip Unit 4 Current Fixed Rates [2]	Colstrip Unit 4 Current Variable Rates [3]	Dave Gates Gen Station Current Fixed Rates [4]	Dave Gates Gen Station Current Variable Rates [5]	Spion Kop Current Fixed Rates [7]	Spion Kop Current Variable Rates [7]	PPL Hydro Assets Estimated Fixed Rates [8]	Estimated Total Supply Rates
Residential									
Residential	0.023423	0.012734	0.003687	0.004795	0.002049	0.001047	0.000014	0.021507	0.069256
Residential Employee	0.014054	0.007640	0.002212	0.002877	0.001230	0.000628	0.000008	0.012904	0.041553
Total Residential									
General Service 1									
GS-1 Sec Non-Demand	0.023423	0.012734	0.003687	0.004795	0.002049	0.001048	0.000014	0.021507	0.069257
GS-1 Sec Demand	0.023423	0.012734	0.003687	0.004795	0.002049	0.001048	0.000014	0.021507	0.069257
GS-1 Pri Non-Demand	0.022782	0.012385	0.003586	0.004664	0.001993	0.001020	0.000014	0.020918	0.067362
GS-1 Pri Demand	0.022782	0.012385	0.003586	0.004664	0.001993	0.001020	0.000014	0.020918	0.067362
Total GS-1									
General Service 2									
GS-2 Substation	0.022585	0.012278	0.003555	0.004624	0.001975	0.001011	0.000014	0.020738	0.066780
GS-2 Transmission	0.022449	0.012204	0.003534	0.004596	0.001964	0.001005	0.000014	0.020613	0.066379
Total GS-2									
Irrigation									
Irrigation	0.023423	0.012734	0.003687	0.004795	0.002049	0.001048	0.000014	0.021507	0.069257
Total Irrigation									
Lighting									
Lighting	0.023423	0.012734	0.003687	0.004795	0.002049	0.001048	0.000014	0.021507	0.069257
Total Lighting									
Average Billed Rate	**0.023324**	**0.012680**	**0.003671**	**0.004775**	**0.002040**	**0.001043**	**0.000014**	**0.021416**	**0.068964**
Total Supply Rate	**23.324**		**16.352**		**6.815**		**1.057**	**21.430**	**68.978**

[1] Source: Exhibit__(PJD-2), Page 3 of 7.
[2] Source: Fixed rates approved in Docket No. D2010.5.50 Order No. 7093c, effective 04/01/2010.
[3] Source: Appendix H Sep 2013
[4] Source: Fixed rates (based on 2nd yr rev req) approved in Docket No. D2008.8.95 Order No.6943e, effective 01/01/2012.
[5] Source: Variable rates proposed in annual tracker filing on Exhibit_(CAH-6)13-14, effective 07/01/2013.
[6] Source: Fixed rates (based on 1st yr rev req) approved in Docket No. D2011.5.41 Order No.7159i, effective 12/1/2012.
[7] Source: Variable rates proposed in annual tracker filing on Exhibit_(CAH-6)13-14, effective 07/01/2013.
[8] Source: Estimated rates in Exhibit__(PJD-2), Page 2 of 7. Based on 2014 PPL Hydro Assets Cost of Service Exhibit__(PJD-1).

Northwestern Energy
PPLM Hydro Assets Purchase

Derivation of Rates
12 Months Ended December 2014

Customer Rate Class	Loss Factor	Nov13 to Oct14 Supply Retail kWh Sales	Sales Adjusted for Employee Discount	Sales Weighted by Losses	Electric Supply Rate After Losses	Electric Supply Revenue Check
Residential	8.5100%	2,352,338,705	2,352,338,705	2,552,522,729	$ 0.021507	$ 50,591,749
Residential Employee	8.5100%	3,769,776	2,261,866	2,454,350	$ 0.012904	$ 48,645
GS 1 Secondary NonDemand	8.5100%	278,903,805	278,903,805	302,638,519	$ 0.021507	$ 5,998,384
GS 1 Secondary Demand	8.5100%	2,490,746,678	2,490,746,678	2,702,709,220	$ 0.021507	$ 53,568,489
GS 1 Primary NonDemand	5.5400%	572,442	572,442	604,156	$ 0.020918	$ 11,974
GS 1 Primary Demand	5.5400%	357,204,874	357,204,874	376,994,024	$ 0.020918	$ 7,472,012
General Service Substation	4.6300%	232,669,987	232,669,987	243,442,607	$ 0.020738	$ 4,825,110
General Service Transmission	4.0000%	135,701,068	135,701,068	141,129,111	$ 0.020613	$ 2,797,206
Irrigation	8.5100%	86,094,805	86,094,805	93,421,473	$ 0.021507	$ 1,851,641
Lighting	8.5100%	57,613,774	57,613,774	62,516,706	$ 0.021507	$ 1,239,099
		5,995,615,914	5,994,108,004	6,478,432,895	$ 0.021422	$ 128,404,309
YNP Contract		19,233,936			Rounding Adjustment	$ (2,120)
Total Electric Supply Load		6,014,849,850				$ 128,402,190

PPLM Hydro Assets Purchase - 2014 Revenue Requirement	$ 128,402,190
less: YNP Contract Revenues	$ -
Supply Excluding Generation Assets Rate Design Revenues	$ 128,402,190
Electric Supply Cost Rate Before Losses	**$ 0.019820**
Electric Supply Cost Rate After Losses	**$ 0.021416**

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
1															
2															
3															
4															
5		**Northwestern Energy**													
6		**Electric Utility Derivation of Rates**													
7		**Electricity Supply Excluding Generation Assets - Prior to Cap Adjustment**													
8		**Tracker Period 2014**													
9															
10															
11						**Nov13 to Oct14**		**Sales Adjusted**				**Electricity**		**Electricity**	
12				**Loss**		**Supply Retail**		**for Employee**		**Sales Weighted**		**Supply Rate**		**Supply Revenue**	
13				**Factor**		**kWh Sales**		**Discount**		**by Losses**		**After Losses**		**Check**	
14		**Customer Rate Class**													
15		Residential		8.5100%		2,352,338,705		2,352,338,705		2,552,522,729		$ 0.023423		$ 55,098,829	
16		Residential Employee		8.5100%		3,769,776		2,261,866		2,454,350		$ 0.014054		$ 52,980	
17		GS 1 Secondary NonDemand		8.5100%		278,903,805		278,903,805		302,638,519		$ 0.023423		$ 6,532,764	
18		GS 1 Secondary Demand		8.5100%		2,490,746,678		2,490,746,678		2,702,709,220		$ 0.023423		$ 58,340,759	
19		GS 1 Primary NonDemand		5.5400%		572,442		572,442		604,156		$ 0.022782		$ 13,041	
20		GS 1 Primary Demand		5.5400%		357,204,874		357,204,874		376,994,024		$ 0.022782		$ 8,137,841	
21		General Service Substation		4.6300%		232,669,987		232,669,987		243,442,607		$ 0.022585		$ 5,254,852	
22		General Service Transmission		4.0000%		135,701,068		135,701,068		141,129,111		$ 0.022449		$ 3,046,353	
23		Irrigation		8.5100%		86,094,805		86,094,805		93,421,473		$ 0.023423		$ 2,016,599	
24		Lighting		8.5100%		57,613,774		57,613,774		62,516,706		$ 0.023423		$ 1,349,487	
25						5,995,615,914		5,994,108,004		6,478,432,895		$ 0.023330		$ 139,843,507	
26		YNP Contract				19,233,936						Rounding Adjustment		$ 2,661	
27		Total Electricity Supply Load				6,014,849,850								$ 139,846,168	
28															
29															
30		Electricity Supply Excluding Generation Assets Costs (Ref Line 52)								$ 141,063,676					
31		less: YNP Contract Revenues								$ (1,217,508)					
32		**Electricity Supply Excluding Generation Assets Rate Design Revenues**								**$ 139,846,168**					
33															
34		Electricity Supply Cost Rate Before Losses								$ 0.021586					
35		Electricity Supply Cost Rate After Losses								$ 0.023324					
36															
37		YNP Contract Load				19,233,936									
38		YNP May13-Apr14 Contract Supply Rate				0.063300									
39		YNP Supply Revenue				$ 1,217,508									
40															
41															
42		**Electric Supply Costs for period October 2014 through September 2015**													
43		Net Market Purchase Costs (Reference Page 5 Line 110)								$ 196,023,914					
44		DSM Lost Revenues	[1]							$ 6,395,592					
45		DSM Program Costs	[1]							$ 9,618,958					
46		Adm & General	[1]							$ 2,151,563					
47		Transmission	[1]							$ 757,748					
48		**Total Supply Tracker Costs Excluding Generation Cost of Service**								$ 214,947,775					
49															
50		Remove Spot Purchases With Mustang								$ (64,780,583)					
51		Remove Terminated PPL Contract								$ (9,690,240)					
52		Add Spot Purchases With PPL Hydro Assets Purchase								$ 586,724					
53		**Total Electric Supply Costs**								$ 141,063,676					
54															
55															
56		[1]Based on November 2013 Electric Monthly Supply Tracker Filing													

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
1	Electric Supply Cost Tracker														
2	Electric Tracker Projection				Note: compiled from Calendar 2014 and 2015										
3															
4	Volumes in MWh		Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Total
5			Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	
6	Off System Transactions														
7	Fixed Price														
8		Base Fixed Price Purchases													
9		Competitive Solicitations	103,800	99,725	103,400	29,000	26,400	28,975	28,400	28,600	28,400	29,000	29,000	28,000	562,700
10		Base Fixed Price Sales													
11		Competitive Solicitations	-	-	-	-	-	-	-	-	-	-	-	-	-
12		Term Fixed Price Purchases	32,400	28,800	31,200	66,200	60,000	66,125	64,400	65,800	64,400	66,200	66,200	64,000	675,725
13		Term Fixed Price Sales	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Index Price														
15		Base Index Price Purchases	-	-	-	-	-	-	-	-	-	-	-	-	-
16		Base Index Price Sales													
17		Competitive Solicitations	(29,400)	(27,625)	(29,000)	(29,000)	(26,400)	(28,975)	(28,400)	(28,600)	(28,400)	(10,400)	(10,400)	(10,000)	(286,600)
18		Term Index Price Purchases	-	-	-	-	-	-	-	-	-	-	-	-	-
19		Term Index Price Sales	(74,400)	(72,100)	(74,400)	-	-	-	-	-	-	-	-	-	(220,900)
20		Spot Purchases	-	-	-	-	-	-	-	-	-	-	-	-	-
21		Spot Sales	(32,400)	(28,800)	(31,200)	(66,200)	(60,000)	(66,125)	(64,400)	(65,800)	(64,400)	(84,800)	(84,800)	(82,000)	(730,925)
22															
23	On System Transactions														
24	Fixed Price														
25		Rate Based Assets													
26		Colstrip Unit 4	150,288	145,440	150,288	150,288	135,744	150,288	122,436	126,148	122,436	150,288	150,288	145,440	1,699,372
27		Dave Gates Generating Station	5,208	5,047	5,208	5,208	4,704	5,201	5,040	5,208	5,040	5,208	5,208	5,040	61,320
28		Spion Kop	14,196	14,400	11,904	17,856	10,752	11,888	11,520	8,928	8,640	8,184	8,184	9,360	135,752
29		Base Fixed Price Purchases													
30		PPL 7 Year Contract	-	-	-	-	-	-	-	-	-	-	-	-	-
31		Judith Gap	43,440	48,480	51,092	55,912	41,568	43,064	38,912	34,616	25,840	22,672	25,800	28,080	459,416
32		Other Small PPAs	8,184	12,978	13,392	13,392	12,096	13,374	12,960	8,184	7,920	8,184	8,184	7,920	126,768
33		Competitive Solicitations	21,600	19,200	20,800	20,800	19,200	20,800	20,800	20,000	20,800	20,800	20,800	20,000	245,600
34		QF Tier II	69,936	66,960	74,400	67,704	65,856	69,936	71,280	76,632	68,400	61,008	54,312	64,800	811,224
35		QF Tier II Adjustments													
36		QF-1 Tariff	14,969	16,924	17,484	18,972	14,448	15,233	13,429	14,415	12,961	11,861	13,392	12,195	176,282
37		CREP	8,272	9,163	12,688	10,579	5,196	10,504	8,181	6,891	7,682	6,511	6,117	6,037	97,820
38		Term Fixed Price Sales	-	-	-	-	-	-	-	-	-	-	-	-	-
39	Index Price														
40		Base Index Price Purchases													
41		Basin Creek	864	384	832	1,248	384	416	832	400	2,912	2,912	3,328	1,200	15,712
42		Competitive Solicitations	45,000	44,475	45,400	29,000	26,400	28,975	28,400	28,600	28,400	10,400	10,400	10,000	335,450
43		Term Index Price Purchases	123,600	112,850	120,400	37,200	33,600	37,150	36,000	37,200	36,000	37,200	37,200	36,000	684,400
44		Term Index Price Sales	-	-	-	-	-	-	-	-	-	-	-	-	-
45		Spot Purchases	9,517	39,625	90,421	179,038	166,681	132,129	121,174	121,723	162,853	249,622	227,722	150,867	1,651,371
46		Spot Sales	-	-	-	-	-	-	-	-	-	-	-	-	-
47		Imbalance, Current Month Estim	-	-	-	-	-	-	-	-	-	-	-	-	-
48		Imbalance, Prior Month True-up	-	-	-	-	-	-	-	-	-	-	-	-	-
49		Imbalance, Accounting & BA Exp	-	-	-	-	-	-	-	-	-	-	-	-	-
50															
51	Ancillary and Other														
52		Basin Creek Fixed Costs	-	-	-	-	-	-	-	-	-	-	-	-	-
53		Basin Creek Variable Costs	-	-	-	-	-	-	-	-	-	-	-	-	-
54		Op[illegible]ng Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
55	Total I[illegible]d Supply		515,014	535,926	614,250	607,197	536,628	538,9[illegible]	490,964	488,944	509,883	594,850	570,934	496,939	6,500,487

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
56	Electric Tracker Projection Excluding Generation Assets Cost of Service														
57	Total Supply Expense														
58															
59			Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Total
60			Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	
61	Off System Transactions														
62	Fixed Price														
63		Base Fixed Price Purchases													
64		Competitive Solicitations	$ 4,398,960	$ 4,183,460	$ 4,362,240	$ 1,671,800	$ 1,520,160	$ 1,670,240	$ 1,634,360	$ 1,652,140	$ 1,634,360	$ 1,671,800	$ 1,671,800	$ 1,614,700	$ 27,686,020
65		Base Fixed Price Sales													
66		Competitive Solicitations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
67		Term Fixed Price Purchases	$ 1,311,660	$ 1,165,920	$ 1,263,080	$ 2,390,810	$ 2,173,800	$ 2,388,569	$ 2,337,020	$ 2,362,990	$ 2,337,020	$ 2,390,810	$ 2,390,810	$ 2,309,200	$ 24,821,689
68		Term Fixed Price Sales	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
69	Index Price														
70		Base Index Price Purchases	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
71		Base Index Price Sales													
72		Competitive Solicitations	$ (1,171,590)	$ (1,105,000)	$ (1,248,450)	$ (1,241,612)	$ (1,075,770)	$ (1,107,915)	$ (857,410)	$ (863,448)	$ (845,439)	$ (450,840)	$ (450,840)	$ (433,500)	$ (10,851,815)
73		Term Index Price Purchases	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
74		Term Index Price Sales	$ (2,964,840)	$ (2,884,000)	$ (3,202,920)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (9,051,760)
75		Spot Purchases	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
76		Spot Sales	$ (1,291,140)	$ (1,152,000)	$ (1,343,160)	$ (2,834,301)	$ (2,444,931)	$ (2,528,418)	$ (1,944,268)	$ (1,986,535)	$ (1,917,123)	$ (3,676,080)	$ (3,676,080)	$ (3,554,700)	$ (28,348,736)
77															
78	On System Transactions														
79	Fixed Price														
80		Rate Based Assets													
81		Colstrip Unit 4													$ -
82		Dave Gates Generating Station													$ -
83		Spion Kop													$ -
84		Base Fixed Price Purchases													
85		PPL 7 Year Contract	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
86		Judith Gap	$ 1,379,220	$ 1,539,240	$ 1,620,266	$ 1,775,206	$ 1,319,784	$ 1,367,282	$ 1,235,456	$ 1,099,058	$ 820,420	$ 719,836	$ 819,150	$ 891,540	$ 14,586,458
87		Other Small PPAs	$ 503,562	$ 768,312	$ 782,502	$ 799,428	$ 722,064	$ 798,354	$ 773,640	$ 589,285	$ 441,605	$ 456,325	$ 513,509	$ 496,944	$ 7,635,529
88		Competitive Solicitations	$ 1,166,940	$ 1,037,280	$ 1,123,720	$ 1,123,720	$ 1,037,280	$ 1,123,720	$ 1,123,720	$ 1,080,500	$ 1,123,720	$ 1,123,720	$ 1,123,720	$ 1,080,500	$ 13,268,540
89		QF Tier II	$ 2,564,553	$ 2,455,423	$ 2,728,248	$ 2,482,706	$ 2,414,940	$ 2,564,553	$ 2,613,838	$ 2,810,095	$ 2,508,228	$ 2,237,163	$ 1,991,621	$ 2,376,216	$ 29,747,584
90		QF Tier II Adjustments													
91		QF-1 Tariff	$ 997,543	$ 1,127,815	$ 1,165,134	$ 1,264,294	$ 962,815	$ 1,015,094	$ 894,905	$ 960,586	$ 863,712	$ 790,397	$ 892,443	$ 812,665	$ 11,747,402
92		CREP	$ 322,600	$ 357,370	$ 494,850	$ 412,573	$ 202,630	$ 409,654	$ 319,067	$ 268,735	$ 299,591	$ 253,936	$ 238,546	$ 235,434	$ 3,814,986
93		Term Fixed Price Sales	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
94	Index Price														
95		Base Index Price Purchases													
96		Basin Creek	na	na	na	na	na	na	na	na	na	na	na	na	na
97		Competitive Solicitations	$ 1,697,550	$ 1,679,763	$ 1,855,770	$ 1,220,812	$ 1,056,570	$ 1,087,115	$ 836,610	$ 843,448	$ 824,639	$ 430,040	$ 430,040	$ 413,500	$ 12,375,858
98		Term Index Price Purchases	$ 4,685,100	$ 4,289,905	$ 4,946,940	$ 1,493,689	$ 1,280,362	$ 1,321,677	$ 992,058	$ 1,022,887	$ 976,884	$ 1,513,620	$ 1,513,620	$ 1,464,600	$ 25,501,341
99		Term Index Price Sales	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
100		Spot Purchases	$ 379,255	$ 1,584,989	$ 3,892,634	$ 7,665,373	$ 6,792,052	$ 5,052,221	$ 3,658,299	$ 3,674,874	$ 4,847,956	$ 10,821,118	$ 9,871,729	$ 6,540,083	$ 64,780,583
101		Spot Sales	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
102		Imbalance, Current Month Estim	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
103		Imbalance, Prior Month True-up	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
104		Imbalance, Accounting & BA Exp	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
105															
106	Ancillary and Other														
107		Basin Creek Fixed Costs	$ 351,048	$ 929,397	$ 351,048	$ 351,048	$ 361,128	$ 351,048	$ 354,408	$ 926,037	$ 354,408	$ 351,048	$ 351,048	$ 354,408	$ 5,386,076
108		Basin Creek Variable Costs	$ 25,920	$ 11,520	$ 24,960	$ 37,440	$ 11,520	$ 12,480	$ 24,960	$ 12,000	$ 87,360	$ 87,360	$ 99,840	$ 36,000	$ 471,360
109		Operating Reserves	$ 208,320	$ 201,600	$ 208,320	$ 208,320	$ 188,160	$ 208,320	$ 201,600	$ 208,320	$ 201,600	$ 208,320	$ 208,320	$ 201,600	$ 2,452,800
110	Total Delivered Supply		$ 14,564,661	$ 16,180,993	$ 19,025,182	$ 18,821,306	$ 16,522,563	$ 15,733,994	$ 14,198,263	$ 14,660,971	$ 14,558,940	$ 18,928,574	$ 17,989,277	$ 14,839,191	$ 196,023,914

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
111	Electric Tracker Projection Excluding Generation Assets Cost of Service														
112	Unit Costs														
113															
114			Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Total
115			Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	
116	Off System Transactions														
117	Fixed Price														
118		Base Fixed Price Purchases													
119		Competitive Solicitations	$ 42.38	$ 41.95	$ 42.19	$ 57.65	$ 57.58	$ 57.64	$ 57.55	$ 57.77	$ 57.55	$ 57.65	$ 57.65	$ 57.67	$ 49.20
120		Base Fixed Price Sales													
121		Competitive Solicitations	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
122		Term Fixed Price Purchases	$ 40.48	$ 40.48	$ 40.48	$ 36.11	$ 36.23	$ 36.12	$ 36.29	$ 35.91	$ 36.29	$ 36.11	$ 36.11	$ 36.08	$ 36.73
123		Term Fixed Price Sales	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
124	Index Price														
125		Base Index Price Purchases	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
126		Base Index Price Sales													
127		Competitive Solicitations	$ 39.85	$ 40.00	$ 43.05	$ 42.81	$ 40.75	$ 38.24	$ 30.19	$ 30.19	$ 29.77	$ 43.35	$ 43.35	$ 43.35	$ 37.86
128		Term Index Price Purchases	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
129		Term Index Price Sales	$ 39.85	$ 40.00	$ 43.05	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	$ 40.98
130		Spot Purchases	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
131		Spot Sales	$ 39.85	$ 40.00	$ 43.05	$ 42.81	$ 40.75	$ 38.24	$ 30.19	$ 30.19	$ 29.77	$ 43.35	$ 43.35	$ 43.35	$ 38.78
132															
133	On System Transactions														
134	Fixed Price														
135		Rate Based Assets													
136		Colstrip Unit 4													$ -
137		Dave Gates Generating Station													$ -
138		Spion Kop													$ -
139		Base Fixed Price Purchases													
140		PPL 7 Year Contract	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
141		Judith Gap	$ 31.75	$ 31.75	$ 31.75	$ 31.75	$ 31.75	$ 31.75	$ 31.75	$ 31.75	$ 31.75	$ 31.75	$ 31.75	$ 31.75	$ 31.75
142		Other Small PPAs	$ 61.53	$ 58.43	$ 58.43	$ 59.69	$ 59.69	$ 59.69	$ 59.69	$ 72.00	$ 55.76	$ 55.76	$ 62.75	$ 62.75	$ 60.23
143		Competitive Solicitations	$ 54.03	$ 54.03	$ 54.03	$ 54.03	$ 54.03	$ 54.03	$ 54.03	$ 54.03	$ 54.03	$ 54.03	$ 54.03	$ 54.03	$ 54.03
144		QF Tier II	$ 36.67	$ 36.67	$ 36.67	$ 36.67	$ 36.67	$ 36.67	$ 36.67	$ 36.67	$ 36.67	$ 36.67	$ 36.67	$ 36.67	$ 36.67
145		QF Tier II Adjustments	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
146		QF-1 Tariff	$ 66.64	$ 66.64	$ 66.64	$ 66.64	$ 66.64	$ 66.64	$ 66.64	$ 66.64	$ 66.64	$ 66.64	$ 66.64	$ 66.64	$ 66.64
147		Spot Purchases	$ 39.00	$ 39.00	$ 39.00	$ 39.00	$ 39.00	$ 39.00	$ 39.00	$ 39.00	$ 39.00	$ 39.00	$ 39.00	$ 39.00	$ 39.00
148		Spot Sales	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
149	Index Price														
150		Base Index Price Purchases													
151		Basin Creek	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
152		Competitive Solicitations	$ 37.72	$ 37.77	$ 40.88	$ 42.10	$ 40.02	$ 37.52	$ 29.46	$ 29.49	$ 29.04	$ 41.35	$ 41.35	$ 41.35	$ 36.89
153		Term Index Price Purchases	$ 37.91	$ 38.01	$ 41.09	$ 40.15	$ 38.11	$ 35.58	$ 27.56	$ 27.50	$ 27.14	$ 40.69	$ 40.69	$ 40.68	$ 37.26
154		Term Index Price Sales	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
155		Spot Purchases	$ 39.85	$ 40.00	$ 43.05	$ 42.81	$ 40.75	$ 38.24	$ 30.19	$ 30.19	$ 29.77	$ 43.35	$ 43.35	$ 43.35	$ 39.23
156		Spot Sales	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
157		Imbalance, Current Month Estim	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
158		Imbalance, Prior Month True-up	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
159		Imbalance, Accounting & BA Expense													
160															
161	Ancillary and Other														
162		Basin Creek Fixed Costs	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
163		Basin Creek Variable Costs	$ 30.00	$ 30.00	$ 30.00	$ 30.00	$ 30.00	$ 30.00	$ 30.00	$ 30.00	$ 30.00	$ 30.00	$ 30.00	$ 30.00	$ 30.00
164		Op[illegible]ng Reserves	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
165	Total	[illegible]d Supply	$ 28.28	$ 30.19	$ 30.97	$ 31.00	$ 30.79	$ 29.[illegible]	28.92	$ 29.98	$ 28.55	$ 31.82	$ 31.51	$ 29.86	$ 30.16

NorthWestern Energy
Electric Utility
Total Current Electric Supply Rate
November 1, 2013

	Proposed Electric Supply Rates [1]	Colstrip Unit 4 Current Fixed Rates [2]	Colstrip Unit 4 Current Variable Rates [3]	Dave Gates Gen Station Current Fixed Rates [4]	Dave Gates Gen Station Current Variable Rates [5]	Spion Kop Current Fixed Rates [7]	Spion Kop Current Variable Rates [7]	Proposed Total Supply Rates
Residential								
Residential	0.040222	0.012734	0.003687	0.004795	0.002049	0.001047	0.000014	0.064548
Residential Employee	0.024134	0.007640	0.002212	0.002877	0.001230	0.000628	0.000008	0.038729
Total Residential								
General Service 1								
GS-1 Sec Non-Demand	0.036387	0.012734	0.003687	0.004795	0.002049	0.001048	0.000014	0.060714
GS-1 Sec Demand	0.040222	0.012734	0.003687	0.004795	0.002049	0.001048	0.000014	0.064549
GS-1 Pri Non-Demand	0.039117	0.012385	0.003586	0.004664	0.001993	0.001020	0.000014	0.062779
GS-1 Pri Demand	0.035719	0.012385	0.003586	0.004664	0.001993	0.001020	0.000014	0.059381
Total GS-1								
General Service 2								
GS-2 Substation	0.038782	0.012278	0.003555	0.004624	0.001975	0.001011	0.000014	0.062239
GS-2 Transmission	0.038549	0.012204	0.003534	0.004596	0.001964	0.001005	0.000014	0.061866
Total GS-2								
Irrigation								
Irrigation	0.036387	0.012734	0.003687	0.004795	0.002049	0.001048	0.000014	0.060714
Total Irrigation								
Lighting								
Lighting	0.036387	0.012734	0.003687	0.004795	0.002049	0.001048	0.000014	0.060714
Total Lighting								
Average Billed Rate	**0.039579**	**0.012680**	**0.003671**	**0.004775**	**0.002040**	**0.001043**	**0.000014**	**0.063804**
Total Supply Rate	**39.579**		**16.352**		**6.815**		**1.057**	**63.803**

[1] Source: Appendix E Nov 2013.
[2] Source: Fixed rates approved in Docket No. D2010.5.50 Order No. 7093c, effective 04/01/2010.
[3] Source: Appendix H Sep 2013
[4] Source: Fixed rates (based on 2nd yr rev req) approved in Docket No. D2008.8.95 Order No.6943e, effective 01/01/2012.
[5] Source: Variable rates proposed in annual tracker filing on Exhibit_(CAH-6)13-14, effective 07/01/2013.
[6] Source: Fixed rates (based on 1st yr rev req) approved in Docket No. D2011.5.41 Order No.7159i, effective 12/1/2012.
[7] Source: Variable rates proposed in annual tracker filing on Exhibit_(CAH-6)13-14, effective 07/01/2013.

NorthWestern Energy

Typical Bill Calculation

Electric Residential Service

			Without PPL Hydro Assets		*With PPL Hydro Assets*
kWh per month		**750**			
			Current Rates 11/1/2013	Total Bill Amount	**Projected Rates 2014**	Total Bill Amount
Res. Dist.-Service Charge			$ 5.25	$ 5.25	$ 5.25	$ 5.25
Plus:						
Res. Supply-Energy			**$ 0.064548**	$ 48.41	**$ 0.069256**	$ 51.94
Res. Deferred Supply Costs			$ (0.000365)	$ (0.27)	$ (0.000365)	$ (0.27)
Res. CTC-QF			$ 0.003350	$ 2.51	$ 0.003350	$ 2.51
Res. Transmission-Energy			$ 0.009188	$ 6.89	$ 0.009188	$ 6.89
Res. Distribution-Energy			$ 0.028601	$ 21.45	$ 0.028601	$ 21.45
Res. USBC			$ 0.001334	$ 1.00	$ 0.001334	$ 1.00
Res. BPA-Credit			$ (0.002072)	$ (1.55)	$ (0.002072)	$ (1.55)
Total Kwh Charge			$ 0.104584	$ 78.44	$ 0.109292	$ 81.97
Total Bill			**$ 0.111584**	**$ 83.69**	**$ 0.116292**	**$ 87.22**
			Monthly Increase (Decrease)			$ 3.53
			Annual Increase (Decrease)			$ 42.36
			Percent Change			**4.22%**

NorthWestern Energy

Typical Bill Calculation

Scenario - $900M - Hydro With Kerr

Electric Residential Service

			Without Mustang			*Without Mustang*		*With Mustang*			
kWh per month	750							Year 2014			
			Current Rates 7/1/2013	Total Bill Amount		Projected Rates 2014	Total Bill Amount		Total Bill Amount	Percent Change from Current Rates	Percent Change from Projected Rates
Res. Dist.-Service Charge			$ 5.25	$ 5.25		$ 5.25	$ 5.25	$ 5.25	$ 5.25	0.00%	0.00%
Plus:											
Res. Supply-Energy			$ 0.065453	$ 49.09		$ 0.060771	$ 45.58	$ 0.072253	$ 54.19	10.39%	18.89%
Res. Deferred Supply Costs			$ (0.000365)	$ (0.27)		$ (0.000365)	$ (0.27)	$ (0.000365)	$ (0.27)		
Res. CTC-QF			$ 0.003350	$ 2.51		$ 0.003350	$ 2.51	$ 0.003350	$ 2.51		
Res. Transmission-Energy			$ 0.009188	$ 6.89		$ 0.009188	$ 6.89	$ 0.009188	$ 6.89	0.00%	0.00%
Res. Distribution-Energy			$ 0.028601	$ 21.45		$ 0.028601	$ 21.45	$ 0.028601	$ 21.45	0.00%	0.00%
Res. USBC			$ 0.001334	$ 1.00		$ 0.001334	$ 1.00	$ 0.001334	$ 1.00		
Res. BPA-Credit			$ (0.001187)	$ (0.89)		$ (0.001187)	$ (0.89)	$ (0.001187)	$ (0.89)		
Total Kwh Charge			$ 0.106374	$ 79.78		$ 0.101692	$ 76.27	$ 0.113174	$ 84.88	6.39%	11.29%
Total Bill			**$ 0.113374**	**$ 85.03**		**$ 0.108692**	**$ 81.52**	**$ 0.120174**	**$ 90.13**	6.00%	10.56%
			Monthly Increase (Decrease)				$ (3.51)			$ 5.10	$ 8.61
			Annual Increase (Decrease)				$ (42.12)			$ 61.20	$ 103.32
			Percent Change				-4.13%			6.00%	10.56%

	Purchase Price $'s	Incr (Decr) %'s	*Total Bill Impact*	Year 2014 Supply Rate	Total Bill	Total Bill Change	Total Bill % Change	Total Bill % Change
	$ 900,000	0%	Base Case Bid Price	$ 0.072253	$ 90.13	$ 5.10	6.0%	10.6%
	$ 850,000	-6%	Bid Price Change	$ 0.071201	$ 89.34	$ 4.31	5.1%	9.6%
	$ 800,000	-11%	Bid Price Change	$ 0.070147	$ 88.55	$ 3.52	4.1%	8.6%
	$ 750,000	-17%	Bid Price Change	$ 0.069095	$ 87.76	$ 2.73	3.2%	7.7%
	$ 700,000	-22%	Bid Price Change	$ 0.068042	$ 86.97	$ 1.94	2.3%	6.7%

NorthWestern Energy

Typical Bill Calculation

Scenario - $900M - Hydro With Kerr

Electric Residential Service

11						*Without Mustang*			*With Mustang*		
12	kWh per month		750						Year 2015		
13											
14						Projected Rates	Total Bill		Total Bill	Percent Change from	Percent Change from
15						2015	Amount		Amount	Current Rates	Projected Rates
16	Res. Dist.-Service Charge					$ 5.25	$ 5.25	$ 5.25	$ 5.25	0.00%	0.00%
17											
18	Plus:										
19	Res. Supply-Energy					$ 0.061999	$ 46.50	$ 0.069080	$ 51.81	5.54%	11.42%
20	Res. Deferred Supply Costs					$ (0.000365)	$ (0.27)	$ (0.000365)	$ (0.27)		
21	Res. CTC-QF					$ 0.003350	$ 2.51	$ 0.003350	$ 2.51		
22	Res. Transmission-Energy					$ 0.009188	$ 6.89	$ 0.009188	$ 6.89	0.00%	0.00%
23	Res. Distribution-Energy					$ 0.028601	$ 21.45	$ 0.028601	$ 21.45	0.00%	0.00%
24	Res. USBC					$ 0.001334	$ 1.00	$ 0.001334	$ 1.00		
25	Res. BPA-Credit					$ (0.001187)	$ (0.89)	$ (0.001187)	$ (0.89)		
26	Total Kwh Charge					$ 0.102920	$ 77.19	$ 0.110001	$ 82.50	3.41%	6.88%
27											
28	**Total Bill**					**$ 0.109920**	**$ 82.44**	**$ 0.117001**	**$ 87.75**	3.20%	6.44%
29											
30							$ (2.59)			$ 2.72	$ 5.31
31							$ (31.08)			$ 32.64	$ 63.72
32							**-3.05%**			**3.20%**	**6.44%**
33											
34											
35											
36											
37											
38			Purchase	Incr			Year 2015				
39			Price	(Decr)					Total	Total Bill	Total Bill
40			$'s	%'s			Supply Rate	Total Bill	Bill Change	% Change	% Change
41			$ 900,000	0%			$ 0.069080	$ 87.75	$ 2.72	3.2%	6.4%
42			$ 850,000	-6%			$ 0.068075	$ 87.00	$ 1.97	2.3%	5.5%
43			$ 800,000	-11%			$ 0.067072	$ 86.24	$ 1.21	1.4%	4.6%
44			$ 750,000	-17%			$ 0.066067	$ 85.49	$ 0.46	0.5%	3.7%
45			$ 700,000	-22%			$ 0.065062	$ 84.74	$ (0.29)	-0.3%	2.8%

NorthWestern Energy

Typical Bill Calculation

Scenario - $900M - Hydro With Kerr

Electric Residential Service

					Without Mustang		*With Mustang*			
kWh per month		750					Year 2016			
					Projected Rates 2016	Total Bill Amount		Total Bill Amount	Percent Change from Current Rates	Percent Change from Projected Rates
Res. Dist.-Service Charge					$ 5.25	$ 5.25	$ 5.25	$ 5.25	0.00%	0.00%
Plus:										
Res. Supply-Energy					$ 0.063351	$ 47.51	$ 0.070857	$ 53.14	8.25%	11.85%
Res. Deferred Supply Costs					$ (0.000365)	$ (0.27)	$ (0.000365)	$ (0.27)		
Res. CTC-QF					$ 0.003350	$ 2.51	$ 0.003350	$ 2.51		
Res. Transmission-Energy					$ 0.009188	$ 6.89	$ 0.009188	$ 6.89	0.00%	0.00%
Res. Distribution-Energy					$ 0.028601	$ 21.45	$ 0.028601	$ 21.45	0.00%	0.00%
Res. USBC					$ 0.001334	$ 1.00	$ 0.001334	$ 1.00		
Res. BPA-Credit					$ (0.001187)	$ (0.89)	$ (0.001187)	$ (0.89)		
Total Kwh Charge					$ 0.104272	$ 78.20	$ 0.111778	$ 83.83	5.08%	7.20%
Total Bill					$ 0.111272	$ 83.45	$ 0.118778	$ 89.08	4.76%	6.75%
						$ (1.58)			$ 4.05	$ 5.63
						$ (18.96)			$ 48.60	$ 67.56
						-1.86%			4.76%	6.75%

				Year 2016				
Purchase Price $'s	Incr (Decr) %'s	Supply Rate	Total Bill	Total Bill Change	Total Bill % Change	Total Bill % Change
$ 900,000	0%	$ 0.070857	$ 89.08	$ 4.05	4.76%	6.75%
$ 850,000	-6%	$ 0.069882	$ 88.35	$ 3.32	3.90%	5.87%
$ 800,000	-11%	$ 0.068907	$ 87.62	$ 2.59	3.05%	5.00%
$ 750,000	-17%	$ 0.067933	$ 86.89	$ 1.86	2.19%	4.12%
$ 700,000	-22%	$ 0.066958	$ 86.16	$ 1.13	1.33%	3.25%