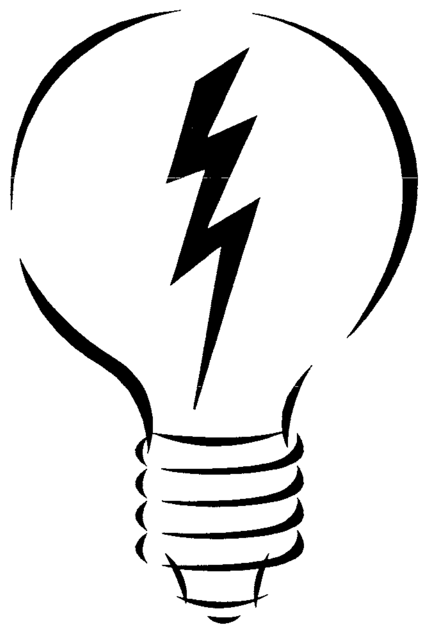
YEAR 2004

ANNUAL REPORT

OF

NorthWestern Energy

ELECTRIC UTILITY



TO THE
PUBLIC SERVICE COMMISSION
STATE OF MONTANA
1701 PROSPECT AVENUE
P.O. BOX 202601
HELENA, MT 59620-2601

ELECTRIC ANNUAL REPORT

TABLE OF CONTENTS

Sch. 1

IDENTIFICATION

Legal Name of Respondent:	NorthWestern Corporation
Name Under Which Respondent Does Business:	NorthWestern Energy
Date Utility Service First Offered in Montana:	Electricity - Dec 12, 1912 Natural Gas - Jan 01, 1933 Propane - Oct 13, 1995
Person Responsible for Report:	Patrick Corcoran
Telephone Number for Report Inquiries:	(406) 497-2202
Address for Correspondence Concerning Report:	40 East Broadway Street Butte, MT 59701

If direct control over respondent is held by another entity, provide below the name, address, means by which control is held and percent ownership of controlling entity.

Sch. 2	BOARD OF DIRECTORS	
	Director's Name & Address (City, State)	Remuneration
2	See Northwestern Corporation's Annual Report on Form 10-K	
3	to the SEC for the Corporate Board of Directors.	

Sch. 3

OFFICERS

	Title	Department Supervised	Name
1	President (former Chief Operating Officer)	Operations	Michael J. Hanson
2			
3	Vice President,	Human Resources	Roger Schrum
4	Human Resources & Communications	Communications	
5		Benefits & Compensation	
6		Investor, Community & Employee Relations	
7			
8	Chief Financial Officer	Tax, Internal Audit/Compliance	Brian Bird
9		Financial Planning & Analysis	
10		Controller & Treasury Functions	
11			
12	General Counsel	Legal	Thomas J. Knapp
13			
14			
15	Vice President	IT Applications & Infastructure	Bart Thielbar
16	Information Technology	Systems Continuity	
17		Licensing & Leasing	
18		Telecommunications	
19			
20	Vice President,	Distribution Planning, Operations & Maintenance	Curt Pohl
21	Distribution Operations	Distribution Engineering & Performance	
22		General Construction & Maintenance	
23			
24	Vice President,	Transmission Contracts & Scheduling	David G. Gates
25	Transmission Operations	Electric & Gas Transmission & Storage	
26		General Production & Generation	
27		Transmission Operations & Regional Issues	
28			
29	Vice President,	Regulatory Affairs	Patrick R. Corcoran
30	Regulatory & Governmental Affairs	Energy Supply	
31			
32	Vice President,	Support Services	Greg Trandem
33	Support Services	Safety/Health/Environmental	
34		Process Improvement	
35			
36	Vice President,	Revenue Collections	Bobbi Schroeppel
37	Customer Care	Call Center	
38		Systems Infastructure & Support	
39		Customer/Supplier Relations	
40			
41	Vice President,	Legal	Alan Dietrich
42	Legal Administration & Corporate		
43	Secretary		
44			
45	Internal Audit/	Internal Audit	Michael Nieman
46	Compliance Officer	Compliance	
47			
48	Controller	Financial/SEC Reporting	Kendall Kliewer
49		Accounting	
50		Fixed Assets	
51		Accounts Payable	
52			
53	Treasurer	Treasury Functions	Paul Evans
54			
55	Former President &	Executive	Gary G. Drook
56	Chief Executive Officer		
57			
58	Former Vice President	Government Relations	Dennis Lopach
59	Administration	State, Local & Community Relations	
60			
61	Former Director,	Legal	Eric Jacobsen
62	Strategic Development		

Reflects activie officers as of December 31, 2004.

Sch. 4

CORPORATE STRUCTURE

Subsidiary/Company Name	Line of Business	Earnings (000)	% of Total
Regulated Operations (Jurisdictional & Non-Jurisdictional)		**$ 554,289**	**101.81%**
NorthWestern Corporation	Parent Company		
Montana Utility Operations	Electric Utility Wholesale Electric Natural Gas Utility Natural Gas Pipeline Propane Utility Natural Gas Funding Trust - (Bond Transition Financing) 1/		
South Dakota Utility Operations	Electric Utility Natural Gas Utility		
Unregulated Operations		**$ (9,856)**	**-1.81%**
Direct Subsidiaries:			
NorthWestern Services Company	Natural gas marketing, natural gas pipeline company, HVAC services, and property management.		
Clarkfoot and Blackfoot, LLC	Milltown hydroelectric facility		
NorthWestern Investments, LLC	Investment Corporation		
Risk Partners Assurance, Ltd.	Captive insurance company		
Indirect Subsidiaries:			
NorthWestern Energy Development, LLC	Non-regulated energy interest		
NorthWestern Generation I, LLC	Holds interest in MT Megawatts I, LLC		
Montana Megawatts I, LLC	Interest in MT First Megawatts project		
NorthWestern Energy Marketing, LLC	Non-regulated energy marketing		
Nekota Resources Inc.	Non-regulated intrastate natural gas pipeline		
Netexit, Inc.	Discontinued communications services		
Blue Dot Services, Inc.	Discontinued HVAC services		
Total Corporation		**$ 544,433**	**100.00%**

1/ While the Natural Gas Funding Trust (the Trust) is regulated by the MPSC and information pertaining to the Trust is reported to the MPSC on a semi-annual basis, it is reflected on the equity basis in this presentation.

Sch. 5

CORPORATE ALLOCATIONS

Departments Allocated	Description of Services	$ to MT El & Gas Utilities	MT %	$ to Other
Utility Administration Executive Department	Includes the following departments: CEO; COO; Corp Aircraft	$3,506,525	69.90%	$1,510,284
Legal Department	Includes the following departments: Chief Legal, Record Mgmt,Insurance	$16,265,051	75.41%	$5,303,078
Communications &Human Resources	Includes the following departments: Human Resources; Benefits Admin.; Compensation & Labor Relations; Employment; Payroll	13,735,541	84.29%	2,559,147
Finance / Accounting	Includes the following departments: CFO Treasury, FP&A, Controller, Fixed Assets, Accounting; Tax & Financial Reporting	7,759,674	71.28%	3,126,247
Asset Management	Includes the following departments: Administrative; Mailing Services & Printing Services	1,681,021	69.60%	734,223
Information Technology	Includes the following departments: IT Sr; VP/CIO; IT Applications Infrastructure, Licensing & Leasing	6,888,067	68.25%	3,204,604
Regulatory and Gov't Affairs	Includes the following departments: Regulatory Affairs, Load Research Government Affairs, Reg Support Services	2,910,679	84.26%	543,828
Customer Service	Includes the following departments: Customer Care Common, Customer Care Combined, Costmer Care MT Only	13,026,819	73.98%	4,581,182
Audit & Controls	Includes the following departments: Audit and Controls, Internal Auditing Project Office	1,496,545	68.91%	675,128
TOTAL		$67,269,922	75.16%	$22,237,721

Company Name: SCHEDULE 6

AFFILIATE TRANSACTIONS - PRODUCTS & SERVICES PROVIDED TO UTILITY

Line No.	(a) Affiliate Name	(b) Products & Services	(c) Method to Determine Price	(d) Charges to Utility	(e) % Total Affil. Revs.	(f) Charges to MT Utility
1	Nonutility Subsidiaries					
2						
3						
4						
5						
6	Colstrip Unit 4 - Lease Management Division	Purchased Power	Market Rates	22,587,754	25.37%	22,587,754
7						
8						
31						
32	**TOTAL Nonutility Subs**			22,587,754		22,587,754
33	**Total Nonutility Subs Revenues**			89,022,205		
34						
35	**Utility Subsidiaries**					
36	**Total Utility Subsidiaries**					
37	**Total Utility Sub Revenues**			3,759,302		
38	**TOTAL AFFILIATE TRANSACTIONS**			22,587,754		22,587,754

Sch. 7

AFFILIATE TRANSACTIONS - PRODUCTS & SERVICES PROVIDED BY UTILITY

	Affiliate Name	Products & Services	Method to Determine Price	Charges to Affiliate	% of Total Affil. Exp.	Revenues to MT Utility
1						
2	**Nonutility Subsidiaries**					
3						$0
4	This schedule no longer applies.					
5						
6						0
7						0
8						0
9	**Total Nonutility Subsidiaries**			-		-
10	**Total Nonutility Subsidiaries Expenses**					
11						
12						
13	**Utility Subsidiaries**					
14						-
15	**Total Utility Subsidiaries**			-		-
16	**Total Utility Subsidiaries Expenses**					
17	**TOTAL AFFILIATE TRANSACTIONS**			$0		$0

Sch. 8	MONTANA UTILITY INCOME STATEMENT - ELECTRIC					
	Account Number & Title	This Year Cons. Utility	Non Jurisdictional Adjustments	This Year Montana	Last Year Montana	% Change
1						
2	400 Operating Revenues	$ 672,901,157	$ 154,630,344	$ 518,270,813	$ 498,923,164	3.88%
3						
4	**Total Operating Revenues**	672,901,157	154,630,344	518,270,813	498,923,164	3.88%
5						
6	**Operating Expenses**					
7						
8	401 Operation Expenses	473,340,367	119,000,951	354,339,416	313,361,639	13.08%
9	402 Maintenance Expense	26,635,603	9,379,351	17,256,252	13,585,858	27.02%
10	403 Depreciation Expense	57,298,612	14,648,540	42,650,072	41,804,899	2.02%
11	404-405 Amort. of Electric Plant	4,333,307	1,557,432	2,775,875	2,544,573	9.09%
12	406 Amort. of Plant Acquisition Adj.	(4,998,960)	(5,093,874)	94,914	94,914	0.00%
13	408.1 Taxes Other Than Income Taxes	52,226,871	6,868,653	45,358,218	44,614,576	1.67%
14	409.1 Income Taxes - Federal	2,668,059	4,524,262	(1,856,203)	(8,162,848)	77.26%
15	- Other	383,302	1,454,347	(1,071,045)	(874,190)	-22.52%
16	410.1 Deferred Income Taxes-Dr.	70,339,870	5,942,716	64,397,154	24,742,282	160.27%
17	411.1 Deferred Income Taxes-Cr.	(70,326,758)	(20,699,554)	(49,627,204)	(243,007)	>-300.00%
18	411.4 Investment Tax Credit Adj.	(342,287)	(342,287)	-	3,489	-100.00%
19	411.6 Gain from Disposition of Property					
20	411.7 Loss from Disposition of Property					
21	411.8 SO2 Allowances	(5,733)	(5,733)	-	-	-
22						
23	**Total Operating Expenses**	611,552,253	137,234,804	474,317,449	431,472,185	9.93%
24	**NET OPERATING INCOME**	$ 61,348,904	$ 17,395,540	$ 43,953,364	$ 67,450,979	-34.84%

This financial statement is presented on the basis of the accounting requirements of the Federal Energy Regulatory Commission (FERC) as set forth in its applicable Uniform System of Accounts. As such, in accordance with FERC requirements, subsidiaries are presented using the equity method of accounting. The amounts presented are consistent with the presentation in FERC Form 1, plus Canadian Montana Pipeline Corporation.

The financial results reported include income taxes that are based upon NorthWestern's tax basis for plant assets purchased from the Montana Power Company. This tax basis differs from amounts included in the most recently decided rate proceeding and results in a lower deferred tax credit. This change was made in order to prevent any possible violation of the normalization requirements of the federal income tax code. The change results in an increase in the reported rate base.

Sch. 9	MONTANA REVENUES - ELECTRIC					
	Account Number & Title	This Year Cons. Utility	Non Jurisdictional Adjustments	This Year Montana	Last Year Montana	% Change
1						
2	**Sales to Ultimate Consumers**					
3						
4	440 Residential	$ 201,959,017	$ 35,848,644	$ 166,110,373	$ 161,632,796	2.77%
5	442 Commercial	259,147,901	52,134,318	207,013,583	185,875,252	11.37%
6	Industrial	38,254,762	-	38,254,762	31,133,628	22.87%
7	444 Public Street, Highway Lighting					
8	& Other Sales to Public Authorities	14,286,608	1,707,069	12,579,539	11,872,179	5.96%
9	448 Interdepartmental Sales	950,348	-	950,348	899,134	5.70%
10						
11	**Total Sales to Ultimate Consumers**	514,598,636	89,690,031	424,908,605	391,412,989	8.56%
12	447 Sales for Resale	114,608,124	60,089,218	54,518,906	60,947,720	-10.55%
13						
14	**Total Sales of Electricity**	629,206,760	149,779,249	479,427,511	452,360,709	5.98%
15	449.1 Provision for Rate Refunds			-		-
16						
17	**Total Revenue Net of Rate Refunds**	629,206,760	149,779,249	479,427,511	452,360,709	5.98%
18						
19	**Other Operating Revenues**					
20						
21	451 Miscellaneous Service Revenue	120,127	128,040	(7,913)	1,971	>-300.00%
22	453 Sales of Water & Water Power	-	-	-	-	-
23	454 Rent From Electric Property	7,484,775	4,783,945	2,700,830	2,128,957	26.86%
24	456 Other Electric Revenues	36,089,495	(60,890)	36,150,385	44,431,527	-18.64%
25						
26	**Total Other Operating Revenue**	43,694,397	4,851,095	38,843,302	46,562,455	-16.58%
27	**TOTAL OPERATING REVENUE**	$ 672,901,157	$ 154,630,344	$ 518,270,813	$ 498,923,164	3.88%

Sch. 10	MONTANA OPERATION & MAINTENANCE EXPENSES - ELECTRIC					
	Account Number & Title	This Year Cons. Utility	Non Jurisdictional Adjustments	This Year Montana	Last Year Montana	% Change
1	**Power Production Expenses**					
2	**Steam Power Generation-Operation**					
3	500 Supervision & Engineering	$ 592,841	$ 592,841	$ -	$ -	-
4	501 Fuel	32,252,303	32,252,303	-	-	-
5	502 Steam Expenses	2,231,424	2,231,424	-	-	-
6	503 Steam from Other Sources	-	-	-	-	-
7	505 Electric Plant	853,108	853,108	-	-	-
8	506 Miscellaneous Steam Power	2,064,661	2,064,661	-	-	-
9	507 Rents	35,729,839	35,729,839	-	-	-
10	**Total Operation-Steam Power Gen.**	73,724,176	73,724,176	-	-	-
11	**Steam Power Generation-Maintenance**					
12	510 Supervision & Engineering	637,712	637,712	-	-	-
13	511 Structures	632,524	632,524	-	-	-
14	512 Steam Boiler Plant	3,691,781	3,691,781	-	-	-
15	513 Electric Plant	1,285,490	1,285,490	-	-	-
16	514 Miscellaneous Steam Plant	699,559	699,559	-	-	-
17	**Total Maintenance-Steam Power Gen.**	6,947,066	6,947,066	-	-	-
18	**Total Steam Power Generation**	80,671,242	80,671,242	-	-	-
19	**Hydro Power Generation-Operation**					
20	535 Supervision & Engineering	-	-	-	-	-
21	536 Water for Power	-	-	-	-	-
22	537 Hydraulic Expenses	-	-	-	-	-
23	538 Electric Expenses	-	-	-	-	-
24	539 Miscellaneous Hydraulic Power	-	-	-	-	-
25	540 Rents	-	-	-	-	-
26	**Total Operation-Hydro Power Gen.**	-	-	-	-	-
27	**Hydro Power Generation-Maintenance**					
28	541 Supervision & Engineering	-	-	-	-	-
29	542 Structures	-	-	-	-	-
30	543 Reservoirs, Dams & Waterways	-	-	-	-	-
31	544 Electric Plant	-	-	-	-	-
32	545 Miscellaneous Hydro Plant	-	-	-	-	-
33	**Total Maintenance-Hydro Power Gen.**	-	-	-	-	-
34	**Total Hydraulic Power Generation**	-	-	-	-	-
35	**Other Power Generation-Operation**					
36	546 Supervision & Engineering	42,020	42,020	-	-	-
37	547 Fuel	389,309	389,309	-	-	-
38	548 Generation Expenses	333,883	333,883	-	-	-
39	549 Miscellaneous Other Power	20,709	20,709	-	-	-
40	**Total Operation-Other Power Gen.**	785,921	785,921	-	-	-
41	**Other Power Generation-Maintenance**					
42	551 Supervision & Engineering	42,473	42,473	-	-	-
43	552 Structures	-	-	-	-	-
44	553 Generating & Electric Plant	58,650	58,650	-	-	-
45	554 Miscellaneous Other Power Plant	82,846	82,846	-	-	-
46	**Total Maintenance-Other Power Gen.**	183,969	183,969	-	-	-
47	**Total Other Power Generation**	969,890	969,890	-	-	-
48	**Other Power Supply Expenses**					
49	555 Purchased Power	262,964,290	(10,094,933)	273,059,223	271,416,059	0.61%
50	556 System Control & Load Dispatch	169,419	169,419	-	-	-
51	557 Other Expenses	4,309,979	-	4,309,979	650,079	>300.00%
52	**Total Other Power Supply Expenses**	267,443,688	(9,925,514)	277,369,202	272,066,138	1.95%
53	**Total Power Production Expenses**	349,084,820	71,715,618	277,369,202	272,066,138	1.95%

Sch. 10	MONTANA OPERATION & MAINTENANCE EXPENSES - ELECTRIC					
	Account Number & Title	This Year Cons. Utility	Non Jurisdictional Adjustments	This Year Montana	Last Year Montana	% Change
1						
2	**Transmission Expenses**					
3						
4	**Transmission-Operation**					
5	560 Supervision & Engineering	2,541,556	425,186	2,116,370	1,883,097	12.39%
6	561 Load Dispatching	1,814,072	238,731	1,575,341	1,484,590	6.11%
7	562 Station Expenses	557,206	62,602	494,604	460,804	7.33%
8	563 Overhead Lines	572,104	142,280	429,824	444,014	-3.20%
9	564 Underground Lines	-	-	-	-	-
10	565 Transmission of Elec. by Others	11,336,121	4,249,460	7,086,661	4,447,475	59.34%
11	566 Miscellaneous Transmission	1,790,110	1,442,913	347,197	(2,344,583)	114.81%
12	567 Rents	802,711	373,584	429,127	2,783,961	-84.59%
13	**Total Operation-Transmission**	19,413,880	6,934,756	12,479,124	9,159,358	36.24%
14	**Transmission-Maintenance**					
15	568 Supervision & Engineering	472,763	242,952	229,811	218,755	5.05%
16	569 Structures	66,303	2,105	64,198	14,180	>300.00%
17	570 Station Equipment	2,498,427	140,435	2,357,992	2,132,324	10.58%
18	571 Overhead Lines	2,686,557	118,279	2,568,278	1,284,998	99.87%
19	572 Underground Lines	(221)	-	(221)	-	-
20	573 Miscellaneous Transmission Plant	-	-	-	-	-
21	**Total Maintenance-Transmission**	5,723,829	503,771	5,220,058	3,650,257	43.01%
22	**Total Transmission Expenses**	25,137,709	7,438,527	17,699,182	12,809,615	38.17%
23						
24	**Distribution Expenses**					
25						
26	**Distribution-Operation**					
27	580 Supervision & Engineering	1,392,844	213,304	1,179,540	1,327,876	-11.17%
28	581 Load Dispatching	-	-	-	-	-
29	582 Station Expenses	901,153	223,257	677,896	543,713	24.68%
30	583 Overhead Lines	1,682,721	198,156	1,484,565	1,664,040	-10.79%
31	584 Underground Lines	1,984,795	418,660	1,566,135	2,663,351	-41.20%
32	585 Street Lighting & Signal Systems	1,118,675	5,366	1,113,309	558,728	99.26%
33	586 Meters	2,492,494	348,097	2,144,397	1,905,944	12.51%
34	587 Customer Installations	980,489	116,577	863,912	695,526	24.21%
35	588 Miscellaneous Distribution	7,952,607	1,177,988	6,774,619	5,023,936	34.85%
36	589 Rents	36,239	-	36,239	37,122	-2.38%
37	**Total Operation-Distribution**	18,542,017	2,701,405	15,840,612	14,420,236	9.85%
38	**Distribution-Maintenance**					
39	590 Supervision & Engineering	695,970	197,887	498,083	368,076	35.32%
40	591 Structures	9,266	-	9,266	110,619	-91.62%
41	592 Station Equipment	1,065,922	153,496	912,426	773,431	17.97%
42	593 Overhead Lines	6,034,374	872,258	5,162,116	3,807,029	35.59%
43	594 Underground Lines	1,084,776	121,303	963,473	637,776	51.07%
44	595 Line Transformers	804,789	41,059	763,730	594,012	28.57%
45	596 Street Lighting, Signal Systems	208,866	92,886	115,980	403,756	-71.27%
46	597 Meters	866,401	16,929	849,472	609,986	39.26%
47	598 Miscellaneous Distribution Plant	35,948	35,948	-	-	-
48	**Total Maintenance-Distribution**	10,806,312	1,531,766	9,274,546	7,304,685	26.97%
49	**Total Distribution Expenses**	29,348,329	4,233,171	25,115,158	21,724,921	15.61%

Sch. 10	MONTANA OPERATION & MAINTENANCE EXPENSES - ELECTRIC					
	Account Number & Title	This Year Cons. Utility	Non Jurisdictional Adjustments	This Year Montana	Last Year Montana	% Change
1						
2	**Customer Accounts Expenses**					
3						
4	**Customer Accounts-Operation**					
5	901 Supervision	-	-	-	-	-
6	902 Meter Reading	2,625,645	1,657,870	967,775	933,633	3.66%
7	903 Customer Records & Collection	5,332,357	945,314	4,387,043	4,789,133	-8.40%
8	904 Uncollectible Accounts	1,127,751	427,307	700,444	1,016,312	-31.08%
9	905 Miscellaneous Customer Accts.	86,962	84,201	2,761	1,375	100.89%
10	**Total Customer Accounts Expenses**	9,172,715	3,114,692	6,058,023	6,740,453	-10.12%
11						
12	**Customer Service & Information**					
13						
14	**Customer Service-Operation**					
15	907 Supervision	-	-	-	-	-
16	908 Customer Assistance	3,631,717	1,185,659	2,446,058	2,235,931	9.40%
17	909 Inform. & Instruct. Advertising	676,964	133,078	543,886	513,243	5.97%
18	910 Misc. Customer Service & Info.	628,076	8,132	619,944	605,505	2.38%
19	**Total Customer Service & Info. Expense**	4,936,757	1,326,869	3,609,888	3,354,679	7.61%
20						
21	**Sales Expenses**					
22						
23	**Sales-Operation**					
24	911 Supervision	680,210	-	680,210	720,743	-5.62%
25	912 Demonstrating & Selling	207,721	-	207,721	290,308	-28.45%
26	913 Advertising	7,331	-	7,331	99,911	-92.66%
27	916 Miscellaneous Sales	-		-	-	-
28	**Total Sales Expenses**	895,262	-	895,262	1,110,962	-19.42%
29						
30	**Administrative & General Expenses**					
31						
32	**Admin. & General-Operation**					
33	920 Admin. & General Salaries	22,756,889	6,471,976	16,284,913	14,128,747	15.26%
34	921 Office Supplies & Expenses	7,034,754	2,628,684	4,406,070	2,602,733	69.29%
35	922 Admin. Expense Transferred-Cr.	(8,046,775)	(1,738,353)	(6,308,422)	(5,876,502)	-7.35%
36	923 Outside Services Employed	33,440,352	29,235,009	4,205,343	4,479,944	-6.13%
37	924 Property Insurance	1,016,244	626,391	389,853	377,453	3.29%
38	925 Injuries & Damages	7,784,721	1,602,118	6,182,603	2,484,396	148.86%
39	926 Employee Pensions & Benefits	3,789,210	591,154	3,198,056	(991,450)	>300.00%
40	927 Franchise Requirements	-	-	-	-	-
41	928 Regulatory Commission Expenses	521,043	78,352	442,691	635,675	-30.36%
42	407 Amortization of Property Losses	(1,238,551)	131,745	(1,370,296)	(20,841,229)	93.43%
43	929 Duplicate Charges-Cr.	-	-	-	-	-
44	930 Miscellaneous General Expenses	9,928,299	305,446	9,622,853	8,756,831	9.89%
45	931 Rents	1,439,765	406,124	1,033,641	753,215	37.23%
46	**Total Operation-Admin. & General**	78,425,951	40,338,646	38,087,305	6,509,813	>300.00%
47	**Admin. & General-Maintenance**					
48	935 General Plant	2,974,427	212,779	2,761,648	2,630,916	4.97%
49	**Total Maintenance-Admin. & General**	2,974,427	212,779	2,761,648	2,630,916	4.97%
50	**Total Admin. & General Expenses**	81,400,378	40,551,425	40,848,953	9,140,729	>300.00%
51	**TOTAL OPER. & MAINT. EXPENSES**	$ 499,975,970	$ 128,380,302	$ 371,595,668	$ 326,947,497	13.66%

Sch.11	MONTANA TAXES OTHER THAN INCOME - ELECTRIC (EXCLUDES UNIT 4)			
	Description	This Year	Last Year	% Change
1				
2	Taxes associated with Payroll/Labor	2,829,552	$2,272,036	24.54%
3	Real Estate & Personal Property	39,406,283	39,401,060	0.01%
4	Montana Beneficial Use Tax	206,860	193,331	7.00%
5	Crow Tribe Railroad & Utility Tax	35,749	34,416	3.87%
6	Electric Energy Producer's License	3,120	1,639	90.36%
7	Consumer Counsel	383,510	307,767	24.61%
8	Public Service Commission	1,205,599	905,598	33.13%
9	Wholesale Energy Transaction	1,287,545	1,498,729	-14.09%
10				
11				
12				
13				
14				
15				
16				
17	**TOTAL TAXES OTHER THAN INCOME**	$45,358,218	$44,614,576	1.67%
18				
19				

Sch. 12	PAYMENTS FOR SERVICES TO PERSONS OTHER THAN EMPLOYEES 1/		
	Name of Recipient	Nature of Service	Total
1	A M Welles Inc	Contractor	379,928
2	Accenture	Strategic Consultant	284,661
3	Alliance Data System	IT Support Services	1,624,835
4	Areva T&D Corporation	Energy Mgmt System Software & Maintenance	311,395
5	Asplundh Tree Experts	Tree Trimming	3,170,751
6	Automotive Rentals	Fleet Management	4,700,443
7	Bill Field Trucking	Equipment Transportation	259,521
8	Central Air Service	Aerial Patrol Services	134,408
9	Computer Associates	Maintenance	155,452
10	COP Construction LLC	Contractor	241,767
11	Dept of Health and Human Services	USBC Services	1,319,379
12	Dolphin IT Project	Consulting	272,369
13	ELM Locating	Locating Services	1,876,772
14	Energy Share of Montana	USBC Services	229,204
15	Express Services Inc	Temporary Employment Services	105,664
16	First Data Integrated Systems	Customer Service	159,381
17	Graves Law Offfices	Legal Services	1,004,744
18	Gregory & Cook Inc	Contractor	3,861,629
19	Heath Consultants	Natural Gas Leakage Surveys	150,765
20	Independent Inspection Company	Electric Line Inspection	645,099
21	Itron, Inc	Hardware/Software Maintenance	893,458
22	Kema, Inc	Energy Audit Programs & Services	1,392,515
23	Lands Energy Consultants	Consulting	176,544
24	Liberty Consulting	Operations Audit Services	191,195
25	Little Bear Construction	Contractor	150,744
26	Mark Thompson	Consultant	157,523
27	Mercer Human Resources	Actuarial & Consulting Services	196,489
28	Merrill Communications	Printing Services	347,770
29	Nat'l Center for Appropriate Technology	Lab Testing	1,011,959
30	Natural Gas Services	Natural Gas Service Work	123,319
31	Northwest Energy Efficiency	Energy Services	525,056
32	Orcom Solutions	Programming & Implementation	1,100,373
33	PAR Electric Contractors	Contractor	2,240,082
34	Power Engineers Inc	Engineering Services	189,087
35	Power Resource Managers	Power Scheduling & Dispatch	312,000
36	Rod Tabbert Construction	Contractor	397,997
37	Russell Reynolds Associates	Legal Services	282,825
38	Special Response Corporation	Security Services	342,005
39	Spherion Corporation	Temporary Employment Services	152,517
40	Spiker Communication	Advertising	154,243
41	State Line Contractors	Contractor	374,925
42	Teamworks USA	Strike Contingency Employment Services	719,493
43	Technology Unlimited	Software Support & Maintenance	164,541
44	Tony Laslovich	Contractor	151,034
45	Trademark Electric	Contractor	146,166
46	Utility Consulting Services	Contractor	146,139
47	Varsity Contractors	Janitorial Services	191,436
48	Zacha Underground	Contractor	144,786
49			
50	**Total of Payments Set Forth Above**		33,264,388
51			
52	1/ Due to the multiple % allocations, it is not practical to separately identify amounts charged to the electric or gas utility.		
53	Consistent with prior years' presentations, this schedule contains payments of $100,000 or more.		

Sch. 13	POLITICAL ACTION COMMITTEES / POLITICAL CONTRIBUTIONS
	NorthWestern Energy does not make any contributions to Political Action Committees (PACs) or candidates.
	There are two employee PACs, one called Citizens for Responsible Government / Employees of NorthWestern Energy, and one called NorthWestern Public Service Employee's Political Action Committee. These are organizations of employees and shareholders of NorthWestern Energy. All of the money contributed by members goes to support political candidates. No company funds may be spent in support of a political candidate. Nominal administrative costs for such things as duplicating, postage and meeting expenses are paid by the company. These costs are charged to shareholder expense.

Sch. 14	PENSION COSTS			
	Description	Last Year	This Year	% Change
1	Plan Name: Retirement Plan for Employees			
2	of the Montana Power Company			
3	Defined Benefit Plan	Yes	Yes	
4	Defined Contribution Plan (See Schedule 14A)			
5	Is the Plan overfunded?	No - 2/	No - 3/	
6				
7				
8	Actuarial Cost Method			
9	IRS Code			
10	Annual Contribution by Employer	9,700,000	10,000,000	3.09%
11				
12	Accumulated Benefit Obligation	292,261,554	319,159,467	9.20%
13	Projected Benefit Obligation	300,852,204	319,159,467	6.09%
14	Fair Value of Plan Assets	188,693,229	202,894,634	7.53%
15				
16	Discount Rate for Benefit Obligations	6.00%	5.50%	
17	Expected Long-Term Return on Assets	8.50%	8.50%	
18				
19	Net Periodic Pension Cost:			
20	Service Cost	4,325,666	6,519,118	50.71%
21	Interest Cost	17,729,155	16,957,046	-4.36%
22	Return on Plan Assets *(Expected)*	(13,419,317)	(15,574,032)	16.06%
23	Net Amortization	1,919,570	1,919,570	0.00%
24	Recognized net actuarial loss	4,268,343	2,962,566	-30.59%
25	Special Termination Benefit Charge			0.00%
26	Curtailment Charge			0.00%
27	Settlement Charge			0.00%
28	Total Net Periodic Pension Cost	14,823,417	12,784,268	-13.76%
29		0	0	
30	Minimum Required Contribution	0	0	
31	Actual Contribution	5,700,000	10,000,000	75.44%
32	Maximum Amount Deductible	54,597,991	48,227,380	-11.67%
33	Benefit Payments	16,956,612	15,208,268	-10.31%
34				
35	Montana Intrastate Costs:			
36	Pension Costs		NOT AVAILABLE	
37	Pension Costs Capitalized			
38	Accumulated Pension Asset (Liability) at Year End			
39				
40	Number of Company Employees : 1/			
41	Covered by the Plan			
42	Active	1,070	1,043	-2.52%
43	Retired	1,222	1,209	-1.06%
44	Vested Former Employees (Deferred Inactive)	870	893	2.64%
45	Total Covered by the Plan	3,162	3,145	-0.54%
46	Total Not Covered by the Plan			

1/ Obtained from The Actuarial Valuation Report of the Retirement Plan for Employees of The Montana Power Company, prepared as of January 1, 2003 and 2004 respectively.

2/ As of December 31, 2003, the fair value of assets was $188.7 million and the projected benefit obligation was $300.9 million. However, there was an unrecognized net loss of $74.5 million that has not been fully amortized pursuant to SFAS Statement No. 87. There is a pension liability of $12.4 million as of December 31, 2003.

3/ As of December 31, 2004, the fair value of assets was $202.9 million and the projected benefit obligation was $319.2 million. However, there was an unrecognized net loss of $64.7 million that has not been fully amortized pursuant to SFAS Statement No. 87. There is a pension liability of $125.4 million as of December 31, 2004.

Sch. 14A	PENSION COSTS			
	Description	Last Year	This Year	% Change
1	Plan Name: Retirement Savings Plan			
2				
3	Defined Benefit Plan (See Schedule 14)			
4	Defined Contribution Plan	Yes	Yes	
5	Is the Plan overfunded?			
6				
7				
8	Actuarial Cost Method			
9	IRS Code			
10	Annual Contribution by Employer			
11				
12	Accumulated Benefit Obligation			
13	Projected Benefit Obligation			
14	Fair Value of Plan Assets 4/	103,986,249	154,802,831	48.87%
15				
16	Discount Rate for Benefit Obligations			
17	Expected Long-Term Return on Assets			
18				
19	Net Periodic Pension Cost:			
20	Service Cost			
21	Interest Cost		NOT APPLICABLE	
22	Return on Plan Assets (Actual)			
23	Net Amortization			
24	Total Net Periodic Pension Cost			
25				
26	Minimum Required Contribution			
27	Actual Contribution		NOT APPLICABLE	
28	Maximum Amount Deductible			
29	Benefit Payments			
30				
31	Montana Intrastate Costs:			
32	Pension Costs		NOT APPLICABLE	
33	Pension Costs Capitalized			
34	Accumulated Pension Asset (Liability) at Year End			
35			5/	
36	Number of Company Employees :			
37	Covered by the Plan -- Eligible	1,015	1,444	42.27%
38	Not Covered by the Plan	0	0	
39	Active -- Participating	1,005	1,167	16.12%
40	Retired			
41	Vested Former Employees, Retirees and	355	363	2.25%
42	Active-Noncontributing			
43	Total Covered by the Plan	1,015	1,444	42.27%
44	Total Not Covered by the Plan	0	0	
45				
46	4/ On December 31, 2004 the NorthWestern Corporation 401k plan was merged into the NorthWestern Energy			
47	401k plan.			
48				
49	5/ Number of Company Employees reported at December 31, 2004 now include NorthWestern Corporation			
50	401k plan participants.			
51				
52				
53				
54				
55				

Sch 15 OTHER POST EMPLOYMENT BENEFITS (OPEBS)

Line	Description	Last Year	This Year	% Change
1	**General Information**	1/	2/	
2	Discount Rate for Benefit Obligations	6.50%	5.50%	-15.38%
3	Expected Long-Term Return on Assets	8.50%	8.50%	0.00%
4	Medical Cost Inflation Rate 3/	12.0%,5.0%:9	11.0%,5.0%:9	
5	Actuarial Cost Method	Projected Unit Credit Actuarial		
6		Cost Method allocated from date of hire to		
7		full eligibility date.		
8	List each method used to fund OPEBs (ie: VEBA, 401(h)):			
9	Method - Tax Advantaged (Yes or No) YES			
10	Union Employees - VEBA			
11	Non-Union Employees - 401(h)			
12	Describe Changes to the Benefit Plan: None.			
13				
14	**Total Company**	4/	4/	
15				
16	Accumulated Post Retirement Benefit Obligation (APBO)	46,434,906	43,457,500	-6.41%
17	Fair Value of Plan Assets	5,433,986	8,333,378	53.36%
18				
19	List the amount funded through each funding method:			
20	VEBA - 6/	3,845,324	1,392,282	-63.79%
21	401(h) - 6/	1,394,967	0	-100.00%
22	Other: Cash - 6/	402,710	3,596,134	792.98%
23	Total Amount Funded	5,643,001	4,988,416	-11.60%
24				
25	List amount that was tax deductible for each type of funding:			
26	VEBA - 6/	3,845,324	1,392,282	-63.79%
27	401(h) - 6/	1,394,967	0	-100.00%
28	Other: Cash - 6/	402,710	3,596,134	792.98%
29	Total Amount Tax Deductible	5,643,001	4,988,416	-11.60%
30				
31	Net Periodic Post Retirement Benefit Cost:			
32	Service Cost	814,420	822,705	1.02%
33	Interest Cost	2,827,953	2,428,920	-14.11%
34	Return on Plan Assets *(Expected)*	(261,309)	(369,209)	41.29%
35	Amort. of Transition Oblig. & Regulatory Asset	788,960	788,960	0.00%
36	Amortization of Prior Service Cost	28,211	28,211	0.00%
37	Amortization of Gains or Losses	1,444,766	1,288,829	-10.79%
38	Curtailment charge	0	0	0.00%
39	Special Termination Benefit Charge	0	0	0.00%
40	Total Net Periodic Post Retirement Benefit Cost	5,643,001	4,988,416	-11.60%
41	Benefit Cost Expensed	4,250,228	3,887,356	-81.25%
42	Benefit Cost Capitalized	1,013,615	796,734	-69.98%
43	Benefit Cost Charged to MPC Subs & Colstrip Owners - 5/	379,158	304,326	-19.74%
44	Total Benefit Costs	5,643,001	4,988,416	-11.60%
45	Benefit Payments 6/	402,710	3,596,134	792.98%
46				
47	Number of Company Employees :			
48	Covered by the Plans			
49	Active	1,070	1,043	-2.52%
50	Retired	1,034	977	-5.51%
51	Retired Spouse/Dependents	71	120	69.01%
52	Total Covered by the Plans	2,175	2,140	-1.61%
53	Total Not Covered by the Plans	125	121	-3.20%
54	1/ Obtained from NorthWestern Energy-Montana's 2003 FASB 106 Valuation. Assumptions and data are as of December 31, 2003.			
55	2/ Obtained from NorthWestern Energy-Montana's 2004 FASB 106 Valuation. Assumptions and data are as of December 31, 2004.			
56	3/ First Year, Ultimate, Years to Reach Ultimate.			

Sch 15A	OTHER POST EMPLOYMENT BENEFITS (OPEBS)			
	Description	Last Year	This Year	% Change
1	**General Information**	4/	4/	
2	Discount Rate for Benefit Obligations			
3	Expected Long-Term Return on Assets			
4	Medical Cost Inflation Rate			
5	Actuarial Cost Method			
6				
7				
8	List each method used to fund OPEBs (ie: VEBA, 401(h)):			
9	Method - Tax Advantaged (Yes or No) YES			
10	Union Employees - VEBA			
11	Non-Union Employees - 401(h)			
12	Describe Changes to the Benefit Plan: None.			
13				
14	**Montana**	4/	4/	
15				
16	Accumulated Post Retirement Benefit Obligation (APBO)			
17	Fair Value of Plan Assets			
18				
19	List the amount funded through each funding method:			
20	VEBA			
21	401(h)			
22	Other: Cash			
23	Total Amount Funded			
24				
25	List amount that was tax deductible for each type of funding:			
26	VEBA			
27	401(h)			
28	Other: Cash			
29	Total Amount Tax Deductible			
30				
31	Net Periodic Post Retirement Benefit Cost:			
32	Service Cost			
33	Interest Cost			
34	Return on Plan Assets - Estimated			
35	Amort. of Transition Oblig. & Regulatory Asset			
36	Amortization of Gains or Losses			
37	Total Net Periodic Post Retirement Benefit Cost			
38	Benefit Cost Expensed			
39	Benefit Cost Capitalized			
40	Benefit Cost Charged to MPC Subs & Colstrip Owners			
41	Total Benefit Costs			
42	Benefit Payments			
43				
44	Number of Company Employees :			
45	Covered by the Plans			
46	Active			
47	Retired			
48	Retired Spouse/Dependents			
49	Total Covered by the Plans			
50	Total Not Covered by the Plans			
51	4/ Substantially all of the amounts are subject to the MPSC jurisdiction. Actual amounts that will be			
52	expensed, will reflect reductions for amounts billed to others or allocated to Yellowstone National Park.			
53	5/ Due to the sale of our generating assets, there is no longer billing to Colstrip owners from 2000 forward.			
54	6/ 2004 Trust funding was made on January 31, 2005 in the amounts of:			
55				
	$0 for 401(h) and $1,392,282 for VEBA. Due to 401(h) deductibility limits, the company was unable to directly fund the 401(h) Trust. All post-retirement benefits for FAS 106 obligation were paid out of company funds during 2004.			

Note: This schedule includes the ten most highly compensated employees assigned or allocated to Montana that are not already included on Sch 17.

TOP TEN MONTANA COMPENSATED EMPLOYEES (ASSIGNED OR ALLOCATED)

Line No.	Name/Title	Base Salary (Wages)	Bonuses 1/	Other 2/	Total Compensation	Total Compensation Reported Last Year	% Increase Total Compensation
1	John R. Van Camp Former Vice President, Organization & Staffing	103,654	78,933 A	5,654 B 7,803 C 253,800 D 4,500 E 749 I	455,093	287,676	58%
2	Maurice H. Worsfold Former Vice President, Audit & Control	142,423	64,000 A	13,048 B 11,531 C 130,000 D	361,002	N/A	0%
3	Eric R. Jacobsen Former Chief Legal Officer	310,000	302,400 A	17,863 C 350,000 D 749 I	981,012	346,229	183%
4	William M. Austin Former Chief Restructuring Officer	284,615	1,200,000 A	15,385 B 17,341 C 749 I 10,000 J	1,528,090	300,895	408%
5	Dennis Lopach Vice President, Administration	208,000	112,320 A	6,240 A 16,121 C 124,000 D 7,800 E	474,481	229,655	107%
6	Michael J. Young Senior Corporate Counsel	190,000	57,000 A	5,700 A 16,315 C	269,015	N/A	0%
7	Curtis T. Pohl Vice President, Distribution Operations	185,000	44,400 A	5,550 A 16,582 C 2,250 E	253,782	245,196	4%
8	Gregory G. Trandem Vice President, Support Services	182,000	43,680 A	5,460 A 16,445 C 2,748 E	250,333	221,838	13%
9	Bart A. Thielbar Vice President, Information Technology	185,000	44,400 A	5,550 A 17,501 C 2,969 E	255,420	211,360	21%
10	Christian P. Fonss Director, Tax	157,500	33,075 A	4,725 A 11,995 C 7,424 F	214,719	N/A	0%

TOP TEN MONTANA COMPENSATED EMPLOYEES (ASSIGNED OR ALLOCATED)

Line No.	Name/Title	Base Salary	Bonuses 1/	Other 2/	Total Compensation	Total Compensation Reported Last Year	% Increase Total Compensation
1	1/ Bonuses consist of the following:						
2							
3	A> Discretionary Bonus & Incentives						
4							
5	2/ All Other Compensation for named employees consists of the following:						
6							
7	A> Merit Cash						
8							
9	B> Vacation Sellbacks / Vacation Payout						
10							
11	C>Employer Contributions to Benefits-Medical, Dental, Vision, EAP/Carewise, Term Life, Group Term Life, 401k						
12							
13	D> Severance Payment						
14							
15	E> Vehicle Payment / Car Allowance						
16							
17	F> Payment for Relocation Expenses						
18							
19	I> Country Club Dues (benefit discontinued effective February 2004)						
20							
21	J> Benefit Offset Payment						
22	**PLEASE NOTE THE FOLLOWING:**						
23	**ERIC JACOBSEN 1/A BONUS INCLUDES A $100,800 INCENTIVE PAYMENT EARNED IN 2004 AND PAID 01/31/2005. IN ITEM 2/D, THE $350,000 SEVERANCE PAYMENT WAS EARNED IN 2004 AND PAID 01/07/2005. BOTH OF THESE PAYMENTS WERE PART OF THE COURT-APPROVED INCENTIVE COMPENSATION AND SEVERANCE PLAN.						
24	**WILLIAM AUSTIN 1/A BONUS INCLUDES A $133,333 INCENTIVE EARNED IN 2004 - TO BE PAID 03/15/2005 - AS PART OF A COURT-APPROVED INCENTIVE AGREEMENT.						
25	** DENNIS LOPACH 1/A BONUS INCLUDES A $56,160 INCENTIVE PAYMENT EARNED IN 2004 AND PAID 01/31/2005. IN ITEM 2/D, THE $124,000 SEVERANCE PAYMENT WAS EARNED IN 2004 AND PAID 01/07/2005. BOTH OF THESE PAYMENTS WERE PART OF THE COURT-APPROVED INCENTIVE COMPENSATION AND SEVERANCE PLAN						
26	** MAURICE WORSFOLD 1/A BONUS INCLUDES A $21,334 INCENTIVE PAYMENT EARNED IN 2004 UNDER THE COURT-APPROVED INCENTIVE COMPENSATION AND SEVERANCE PLAN AND PAID 02/02/2005.						

CHEDULE 17

Note: This schedule contains the five most highly compensated corporate officers who are assigned or allocated to Montana.

TOP FIVE MONTANA COMPENSATED EMPLOYEES (ASSIGNED OR ALLOCATED)

Line No.	Name/Title	Base Salary (Wages)	Bonuses 1/		Other 2/		Total Compensation	Total Compensation Reported Last Year	% Increase Total Compensation
1	Gary G. Drook President and Chief Executive Officer	565,000	565,000	A	19,758 11,688 5,792 60,950	C E F H	1,228,188	1,361,098	-10%
2	Michael J. Hanson Chief Operating Officer	350,000	233,334	A	16,028 7,978 7,533	C E H	614,873	383,525	60%
3	Brian B. Bird Chief Financial Officer	275,000	350,000	A	12,081 31,000	C G	668,081	N/A	0%
4	Roger P. Schrum Vice President, HR & Communications	175,000	93,334	A	12,668 14,043	C F	295,045	N/A	0%
5	Thomas J. Knapp General Counsel	224,038	66,000	A	6,600 16,926	A C	313,564	N/A	0%

Line No.	Name/Title	Base Salary	Bonuses 1/	Other 2/	Total Compensation	Total Compensation Reported Last Year	% Increase Total Compensation
1	1/ Bonuses consist of the following:						
2							
3	A> Discretionary Bonus and Incentive Payments earned in the year reported						
4							
5	2/ All Other Compensation for named employees consists of the following:						
6							
7	A> Merit Cash						
8							
9	C> Employer Contributions to Benefits-Medical, Dental, Vision, EAP/Carewise, Term Life, Group Term Life, 401k						
10							
11	E> Vehicle Payment / Car Allowance						
12							
13	F> Payment for Relocation Expenses						
14							
15	G> Imputed Income						
16							
17	H> Personal Airplane Use and Gross-Up						

Sch. 18	BALANCE SHEET 1/			
	Account Title	This Year	Last Year	% Change
1	**Assets and Other Debits**			
2	**Utility Plant**			
3	101 Plant in Service	$2,276,328,081	$2,199,781,929	3.48%
5	105 Plant Held for Future Use	4,900	4,900	0.00%
6	107 Construction Work in Progress	13,779,680	18,786,479	-26.65%
7	108 Accumulated Depreciation Reserve	(1,078,749,693)	(1,023,054,596)	5.44%
8	111 Accumulated Amortization & Depletion Reserves	(25,676,187)	(20,677,875)	24.17%
9	114 Electric Plant Acquisition Adjustments	378,735,895	378,904,323	-0.04%
10	115 Accumulated Amortization-Electric Plant Acq. Adj.	(2,631,714)	(2,536,800)	3.74%
11	116 Utility Plant Adjustment - Goodwill	59,445,977	-	-
12	117 Gas Stored Underground-Noncurrent	32,146,287	32,629,132	-1.48%
13	**Total Utility Plant**	1,653,383,226	1,583,837,492	4.39%
14	**Other Property and Investments**			
15	121 Nonutility Property	11,198,240	12,833,284	-12.74%
16	122 Accumulated Depr. & Amort.-Nonutililty Property	(6,085,819)	(5,619,814)	8.29%
17	123.1 Investments in Assoc Companies and Subsidiaries	(91,950,151)	(695,472,793)	-86.78%
18	124 Other Investments	6,195,600	6,515,146	-4.90%
19	128 Miscellaneous Special Funds	830,917	3,822,955	-78.27%
20	**Total Other Property & Investments**	(79,811,213)	(677,921,222)	-88.23%
21	**Current and Accrued Assets**			
22	131 Cash	16,109,544	15,117,132	6.56%
23	134 Other Special Deposits	1,946,151	5,755,423	-66.19%
24	135 Working Funds	40,380	41,220	-2.04%
25	136 Temporary Cash Investments	-	11,361	-100.00%
26	141 Notes Receivable	43,763	11,025,052	-99.60%
27	142 Customer Accounts Receivable	63,230,761	51,768,859	22.14%
28	143 Other Accounts Receivable	9,655,448	17,723,871	-45.52%
29	144 Accumulated Provision for Uncollectible Accounts	(2,093,048)	(1,874,895)	11.64%
30	145 Notes Receivable-Associated Companies	-	-	-
31	146 Accounts Receivable-Associated Companies	306,887,206	946,495,565	-67.58%
32	151 Fuel Stock	2,768,454	2,723,561	1.65%
33	154 Plant Materials and Operating Supplies	13,037,903	12,322,391	5.81%
34	164 Gas Stored - Current	11,773,839	10,898,348	8.03%
35	165 Prepayments	31,154,708	61,009,630	-48.93%
36	171 Interest and Dividends Receivable	-	343,763	-100.00%
38	172 Rents Receivable	81,198	366,662	-77.85%
39	173 Accrued Utility Revenues	58,090,886	40,394,293	43.81%
40	174 Miscellaneous Current & Accrued Assets	1,604,762	945,973	69.64%
41	**Total Current & Accrued Assets**	514,331,955	1,175,068,209	-56.23%
42	**Deferred Debits**			
43	181 Unamortized Debt Expense	13,269,662	52,491,591	-74.72%
44	182 Regulatory Assets	191,936,748	163,173,732	17.63%
45	183 Preliminary Survey and Investigation Charges	-	-	-
46	184 Clearing Accounts	29,084	26,366	10.31%
47	185 Temporary Facilities	78	78	0.00%
48	186 Miscellaneous Deferred Debits	940,038	11,392,664	-91.75%
49	189 Unamortized Loss on Reacquired Debt	2,207,780	3,281,974	-32.73%
50	190 Accumulated Deferred Income Taxes	327,995,937	300,354,317	9.20%
51	191 Unrecovered Purchased Gas Costs	3,102,173	18,490,083	-83.22%
52	**Total Deferred Debits**	539,481,500	549,210,805	-1.77%
53	**TOTAL ASSETS and OTHER DEBITS**	$ 2,627,385,468	$ 2,630,195,284	-0.11%

Sch. 18	cont.	BALANCE SHEET 1/			
		Account Title	This Year	Last Year	% Change
1		**Liabilities and Other Credits**			
2		**Proprietary Capital**			
3	201	Common Stock Issued	$ 355,000	$ 65,940,167	-99.46%
4	204	Preferred Stock Issued	-	-	-
5	207	Premium on capital stock	-	-	-
6	211	Miscellaneous Paid-In Capital	715,900,934	301,454,875	137.48%
7	213	Discount on Capital Stock	-	-	-
8	214	Capital Stock Expense	-	-	-
9	215	Appropriated Retained Earnings	-	-	-
10	216	Unappropriated Retained Earnings	(6,943,543)	(947,274,476)	-99.27%
12	217	Reacquired capital stock	-	-	-
13	219	Accumulated Other Comprehensive Income	23,006	(6,071,353)	-100.38%
14		**Total Proprietary Capital**	709,335,397	(585,950,787)	-221.06%
15		**Long Term Debt**			
16	221	Bonds	687,306,000	1,288,752,000	-46.67%
17	223	Advances in Associated Companies	-	309,990,784	-100.00%
18	224	Other Long Term Debt	100,000,000	504,100,000	-80.16%
19	226	Unamortized Discount on Long Term Debt-Debit	(2,168,257)	(3,336,258)	-35.01%
20		**Total Long Term Debt**	785,137,743	2,099,506,526	-62.60%
21		**Other Noncurrent Liabilities**			
22	227	Obligations Under Capital Leases-Noncurrent	5,048,631	6,223,761	-18.88%
23	228.1	Accumulated Provision for Property Insurance	227,831	482,612	-52.79%
24	228.2	Accumulated Provision for Injuries and Damages	15,310,625	12,843,728	19.21%
25	228.3	Accumulated Provision for Pensions and Benefits	61,625,542	45,289,697	36.07%
26	228.4	Accumulated Miscellaneous Operating Provisions	177,297,557	186,971,975	-5.17%
27		**Total Other Noncurrent Liabilities**	259,510,186	251,811,773	3.06%
28		**Current and Accrued Liabilities**			
29	231	Notes Payable	-	-	-
30	232	Accounts Payable	87,597,918	73,369,179	19.39%
31	233	Notes Payable to Associated Companies	-	-	-
32	234	Accounts Payable to Associated Companies	12,936,880	9,396,670	37.68%
33	235	Customer Deposits	7,252,925	4,335,422	67.29%
34	236	Taxes Accrued	129,230,181	135,290,206	-4.48%
35	237	Interest Accrued	8,879,509	56,441,937	-84.27%
37	238	Dividends Declared	-	-	-
38	241	Tax Collections Payable	(87,755)	(68,226)	28.62%
39	242	Miscellaneous Current and Accrued Liabilities	19,541,983	19,677,804	-0.69%
40	243	Obligations Under Capital Leases-Current	1,707,791	2,818,994	-39.42%
41		**Total Current and Accrued Liabilities**	267,059,432	301,261,986	-11.35%
42		**Deferred Credits**			
43	252	Customer Advances for Construction	25,269,519	22,840,988	10.63%
44	253	Other Deferred Credits	147,144,511	182,225,840	-19.25%
45	254	Regulatory Liabilities	33,488,677	17,308,100	93.49%
46	255	Accumulated Deferred Investment Tax Credits	5,099,450	5,634,274	-9.49%
47	257	Unamortized Gain on Reacquired Debt	-	-	-
48	281-283	Accumulated Deferred Income Taxes	395,340,553	335,556,584	17.82%
49		**Total Deferred Credits**	606,342,710	563,565,786	7.59%
50		**TOTAL LIABILITIES and OTHER CREDITS**	$ 2,627,385,468	$ 2,630,195,284	-0.11%
51					

52 1/ This financial statement is presented on the basis of the accounting requirements of the Federal Energy Regulatory
53 Commission (FERC) as set forth in its applicable Uniform System of Accounts. As such, in accordance with FERC
54 requirements, subsidiaries are presented using the equity method of accounting. The amounts presented are consistent with
55 the presentation in FERC Form 1, plus Canadian Montana Pipeline Corp.
56
57 The financial results reported include income taxes that are based upon NorthWestern's tax basis for plant assets purchased
58 from the Montana Power Company. This tax basis differs from amounts included in the most recently decided rate proceeding and
59 results in a lower deferred tax credit. This change was made in order to prevent any possible violation of the normalization
60 requirements of the federal income tax code. The change results in an increase in the reported rate base.

NOTES TO FINANCIAL STATEMENTS

(1) Management's Statement

The financial statements for the periods included herein have been prepared by NorthWestern Corporation (NorthWestern, we or us), pursuant to the rules and regulations of the Federal Energy Regulatory Commission (FERC) as set forth in its applicable Uniform System of Accounts.

In 2002, our financial condition was significantly and negatively affected by the poor performance of our nonenergy businesses, in combination with our significant indebtedness. In early 2003, we unsuccessfully attempted to refinance, reduce and extend the maturities of our debt. On September 14, 2003 (the Petition Date), we filed a voluntary petition for relief under the provisions of Chapter 11 of the Federal Bankruptcy Code (the Bankruptcy Code) in the United States Bankruptcy Court for the District of Delaware (Bankruptcy Court). On October 19, 2004, the Bankruptcy Court entered an order confirming our Plan of Reorganization (Plan), which became effective on November 1, 2004.

(2) Nature of Operations

We are one of the largest providers of electricity and natural gas in the Upper Midwest and Northwest, serving approximately 617,000 customers in Montana, South Dakota and Nebraska. We have generated and distributed electricity in South Dakota and distributed natural gas in South Dakota and Nebraska since 1923 and have distributed electricity and natural gas in Montana since 2002 under the trade name "NorthWestern Energy."

(3) Emergence from Bankruptcy and Fresh-Start Reporting

Plan of Reorganization

The Bankruptcy Court entered a written order confirming our Plan on October 19, 2004, and the Plan became effective on November 1, 2004. The consummation of the Plan resulted in, among other things, a new capital structure, the satisfaction or disposition of various types of claims against the Predecessor Company, the assumption or rejection of certain contracts, and the establishment of a new board of directors. In general, the terms of our Plan provided for the following:

- Holders of our senior unsecured notes (Class 7 claimants) received 28.3 million shares of new common stock in exchange for $898.3 million in allowed claims;
- Holders of TOPrS (Class 8a claimants) received 2.3 million shares of new common stock and warrants for an additional 4.4 million shares of common stock in exchange for $321.1 million in allowed claims. The warrants may be exercised for a period of three years from the effective date;
- Holders of QUIPs (Class 8b claimants), were allowed to select either of the following: (i) receive a pro rata share of 0.5 million shares of new common stock, plus warrants with the same terms as the warrants distributed to the TOPrS, in exchange for their claims, including any litigation claims, or (ii) continue the litigation against us generally referred to as the QUIPs Litigation and will receive a distribution based on a Class 9 claim, if any, based only upon final resolution of the QUIPs Litigation;
- We established a reserve of approximately 4.4 million shares of common stock from the shares allocated to holders of our trade vendor claims in excess of $20,000 (Class 9 claimants) and holders of senior unsecured notes. The shares held in this reserve will be distributed pro rata to holders of allowed trade vendor and general unsecured claims in excess of $20,000, and may be used to resolve various outstanding litigation matters, such as the QUIPs Litigation, certain litigation with PPL Montana and other unliquidated litigation claims;
- Secured debt was not impaired and has been assumed; and
- Common stock existing prior to November 1, 2004 was cancelled and there were no distributions to prior shareholders.

Under Chapter 11, certain claims against us in existence prior to the filing of the petition for relief under the Bankruptcy Code were stayed while we continued operations as a debtor-in-possession. Prior to the application of fresh-start reporting, the Predecessor Company's October 31, 2004 balance sheet included related balances subject to compromise (refer to table below). However, the adoption of fresh-start reporting results in the settlement of such balances based on the estimated payment amounts pursuant to the Plan with the difference recorded as a reorganization gain in the statement of income (loss) for the 10-months ended October 31, 2004. Determination by the Bankruptcy Court (or agreed to by parties in interest) of remaining disputed unsecured prepetition claims as allowed claims for contingencies and other disputed amounts may impact these results. Remaining disputed unsecured claims, when allowed, will receive shares out of the reserve set aside upon emergence.

Reorganization Items

The results of operations have been impacted by Reorganization Items, including continued costs incurred related to our reorganization since we filed for protection under Chapter 11 and the impact of fresh-start reporting. The following table provides detail of the reorganization charges incurred (in thousands):

	2004	2003
Reorganization Items		
Outside services - professional fees (923)	$ 39,271	$ 8,280
Interest earned on accumulated cash (419)	(381)	(14)
Miscellaneous nonoperating income - Effects of the Plan and fresh-start reporting adjustments (421)	(571,953)	—
Total Reorganization Items	$ (533,063)	$ 8,266

Included in Reorganization Items for 2004 was the Predecessor Company's gain recognized from the effects of the Plan and fresh-start reporting. The gain results from the difference between the Predecessor Company's carrying value of unsecured debt and the issuance of new common stock and the discharge of liabilities subject to compromise pursuant to the Plan. The gain from the effects of the Plan and the application of fresh-start reporting is comprised of the following (in thousands):

	Gain
Effects of the Plan and fresh-start reporting	
Issuance of new common stock and warrants	$713,782
Discharge of financing debt subject to compromise	(904,809)
Discharge of company obligated mandatorily redeemable preferred securities subject to compromise	(367,026)
Cancellation of indebtedness income	(558,053)
Discharge of other liabilities subject to compromise	(13,900)
	$(571,953)

Fresh-Start Reporting

In connection with our emergence from Chapter 11, we reflected the terms of the Plan in our December 31, 2004 financial statements, applying fresh-start reporting under SOP 90-7. Fresh-start reporting is required if (1) the reorganization value of the emerging entity's assets immediately before the date of confirmation is less than the total of all postpetition liabilities and allowed claims, and (2) holders of existing voting shares immediately before confirmation receive less than 50% of the voting shares of the emerging entity. Upon applying fresh-start reporting, a new reporting entity (the Successor Company) is deemed to be created and the recorded amounts of assets and liabilities are adjusted to reflect their estimated fair values.

To facilitate the calculation of the enterprise value of the Successor Company as defined in SOP 90-7, we developed a set of financial projections and engaged an independent financial advisor to assist in the determination. The enterprise value was determined using various valuation methods including,

(i) reviewing historical financial information (ii) comparing the company and its projected performance to the market values of comparable companies, (iii) performing industry precedent transaction analysis, and (iv) considering certain economic and industry information relevant to the operating business. The resulting enterprise value was calculated using a 7% discount rate to be within an approximate range of $1.415 billion to $1.585 billion. We selected the midpoint value of the range, $1.5 billion, as the reorganization value. This value is consistent with the Voting Creditors and Bankruptcy Court approval of our Plan.

In applying fresh-start reporting, we followed these principles:

- The reorganization value was allocated to the assets in conformity with the procedures specified by Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*. The enterprise value exceeded the sum of the amounts assigned to assets and liabilities, with the excess allocated to utility plant adjustment.
- Deferred taxes were reported in conformity with applicable income tax accounting standards, principally SFAS No. 109, *Accounting for Income Taxes*. Deferred taxes assets and liabilities have been recognized for differences between the assigned values and the tax basis of the recognized assets and liabilities (see Note 13).
- Adjustment of our qualified pension and other postretirement benefit plans to their projected benefit obligation by recognition of all previously unamortized actuarial gains and losses.
- Reversal of all items included in other comprehensive loss, including recognition of the Predecessor Company's minimum pension liability, recognition of all previously unrecognized cumulative translation adjustments and removal of a hedge gain associated with unsecured debt.
- Changes in existing accounting principles that otherwise would have been required in the financial statements of the emerging entity within the 12 months following the adoption of fresh-start reporting were adopted at the fresh-start reporting date.
- Each liability existing as of the Plan confirmation date, other than deferred taxes, was recorded at the present value of amounts to be paid determined at our computed incremental borrowing rate.

The following table identifies the adjustments made to our balance sheet as a result of implementing the Plan and applying fresh-start reporting on October 31, 2004 (in thousands):

	Effects of Plan and Fresh-Start Reporting	
Notes receivable (141)	$ 4,091	(1)
Utility plant adjustment (116)	59,276	(2)
Unamortized debt expense (181)	(24,252)	(4)
Regulatory assets (182.3)	26,799	(1)(3)
Miscellaneous deferred debits (186)	(7,016)	(1)
Total assets	$ 58,898	
Financing debt (221, 224, 226)	$ (929,114)	(6)
Advances from associated companies (223)	(300,550)	(6)
Accumulated provision for pensions and benefits (228.3)	11,437	(3)
Accumulated provision for injuries and damages (228.2)	2,861	(1)
Accumulated provision for operating expenses (228.4)	(12,373)	(1)
Accrued interest (237)	(46,917)	(1)(4)
Accounts payable (232)	(406)	(1)
Miscellaneous current and accrued liabilities (242)	(27,700)	(1)(3)
Deferred income taxes (283)	45,292	(5)
Other deferred credits (253)	(22,376)	(5)
Total liabilities	(1,279,846)	
Proprietary capital	1,338,744	(6)(7)
Total liabilities and shareholders' equity (deficit)	$ 58,898	

(1) Represents adjustments to assets and liabilities resulting from the fair value provisions of fresh-start reporting.

(2) Reflects the excess reorganization value pursuant to the valuation under our Plan and in accordance with fresh-start reporting. Based on certain regulatory considerations, our property, plant and equipment should be kept at historical book value less adjustments which reduce these assets to the amount included in the utility rate base, therefore management has applied the entire excess reorganization value to goodwill.

(3) Reflects the adjustment of our pension and other postretirement benefit obligations to fair value based on independent actuarial reports.

(4) Reflects the removal of unamortized deferred financing costs and accrued interest related to debt extinguished upon emergence.

(5) Reflects the adjustment of deferred tax assets and liabilities as a result of the impact of the gain related to cancellation of indebtedness and the fair value adjustments in accordance with the Plan.

(6) Reflects the conversion of our unsecured debt and company obligated mandatorily redeemable preferred securities into equity pursuant to the Plan.

(7) Represents the elimination of historical shareholders' deficit and issuance of new common stock pursuant to the Plan.

(4) Significant Accounting Policies

Financial Statement Presentation and Basis of Accounting

The financial statements are presented on the basis of the accounting requirements of the Federal Energy Regulatory Commission (FERC) as set forth in its applicable Uniform System of Accounts. This report differs from GAAP due to FERC requiring the presentation of subsidiaries on the equity method of accounting which differs from Statement of Financial Accounting Standards No. 94 "Consolidation of All Majority-Owned Subsidiaries" (SFAS No. 94). SFAS No. 94 requires that all majority-owned subsidiaries be consolidated (see note 5). The other significant differences consist of the following:

- Comparative statements of net income per share are not presented;
- Removal costs of transmission and distribution assets are reflected in the balance sheets as a component of accumulated depreciation of $132.9 million and $123.0 million as of December 31, 2004 and 2003, respectively, in accordance with regulatory treatment as compared to regulatory liabilities for GAAP purposes (see Note 7);
- Goodwill resulting from the 2002 acquisition of the Montana operations is reflected in the balance sheets as a plant acquisition adjustment of $375.8 million as of December 31, 2004 and 2003, respectively, and $59.4 million of goodwill resulting from the application of fresh-start reporting is reflected in the December 31, 2004 balance sheet as a utility plant adjustment, as compared to goodwill for GAAP purposes;
- The write-down of plant values associated with the 2002 acquisition of the Montana operations is reflected in the balance sheets as a component of accumulated depreciation of $193.9 and $192.8 million as of December 31, 2004 and 2003, respectively, in accordance with regulatory treatment as compared to plant for GAAP purposes;
- Gas stored underground is reflected in the balance sheets on separate current and non-current lines, whereas the current portion is reflected in materials and supplies and the non-current portion is reflected in plant for GAAP purposes. The following table provides the detail of these items in thousands:

	December 31, 2004	December 31, 2003
Gas stored underground – Current.	$ 11,774	$ 10,898
Gas stored underground – Non-current.	32,146	32,629

- Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts of $65.0 million as of December 31, 2003, is classified as other long-term debt and the respective dividends are classified as interest expense, whereas SFAS No. 150, Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity, which requires the same classifications, was effective July 1, 2003. Prior to that, for GAAP purposes, the trusts were classified as preferred stock and the respective dividends were classified as preferred dividends. The preferred securities were converted into equity pursuant to the Plan of Reorganization (see Note 3);
- Current and long-term debt is classified in the balance sheets as all long-term debt in accordance with regulatory treatment (see Note 10), while GAAP presentation reflects current and long-term debt on separate lines;
- Accumulated deferred taxes assets and liabilities are classified in the balance sheets as gross deferred debits and credits, respectively, while GAAP presentation reflects either a net deferred tax asset or liability; and
- We adopted fresh-start reporting under SOP 90-7 in connection with our emergence from Chapter 11 as of the close of business on October 31, 2004. Upon applying fresh-start reporting, a new reporting entity was deemed to be created and the recorded amounts of assets and liabilities were adjusted to reflect their estimated fair values. While our GAAP financial statement presentation reflects operations from January 1, 2002 through October 31, 2004, representing our "Predecessor Company", and operations from November 1, 2004 through December 31, 2004, representing our "Successor Company" after emergence from bankruptcy, our FERC financial statement presentation reflects the twelve months ended December 31, 2004. See Note 3 for the further information regarding the effects of fresh-start reporting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for such items as long-lived asset values and impairment charges, long-lived asset useful lives, tax provisions, uncollectible accounts, environmental costs, unbilled revenues and actuarially determined benefit costs. We revise the recorded estimates when we get better information or when we can determine actual amounts. Those revisions can affect operating results.

Revenue Recognition

For our South Dakota and Nebraska operations, as prescribed by the respective regulatory authorities, electric and natural gas utility revenues are based on billings rendered to customers. For our Montana operations, as prescribed by the MPSC, operating revenues are recorded monthly on the basis of consumption or services rendered. Customers are billed monthly on a cycle basis. To match revenues with associated expenses, we accrue unbilled revenues for electrical and natural gas services delivered to the customers but not yet billed at month-end.

Cash Equivalents

We consider all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents.

Accrued Utility Revenues

Accrued unbilled utility revenues included in customer accounts receivable totaled $58.1 million and $40.4 million at December 31, 2004 and 2003.

Inventories

Inventories are stated at average cost. Inventory consisted of the following (in thousands):

	December 31, 2004	December 31, 2003
Fuel stock	$ 2,768	$ 2,724
Plant material and operating supplies	13,038	12,322
Gas stored underground	43,920	43,527
	$ 59,726	$ 58,573

Regulation of Utility Operations

Our regulated operations are subject to the provisions of Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulations (SFAS No. 71). Our financial statements reflect the effects of the different rate making principles followed by the jurisdiction regulating us. The economic effects of regulation can result in regulated companies recording costs that have been, or are expected to be, allowed in the ratemaking process in a period different from the period in which the costs would be charged to expense by an unregulated enterprise. When this occurs, costs are deferred as regulatory assets on the balance sheet and recorded as expenses in the periods when those same amounts are reflected in rates. Additionally, regulators can impose liabilities upon a regulated company for amounts previously collected from customers and for amounts that are expected to be refunded to customers (regulatory liabilities).

If all or a separable portion of our operations becomes no longer subject to the provisions of SFAS No. 71, an evaluation of future recovery of the related regulatory assets and liabilities would be necessary. In addition, we would determine any impairment to the carrying costs of deregulated plant and inventory assets.

Investments

Investments consisted of life insurance contracts and other investments in the amount of $6.2 million and $6.5 million at December 31, 2004 and 2003, respectively.

Life insurance contracts are carried at their cash surrender value. Investments in life insurance contracts of $3.7 million and $3.6 million are held in trust and restricted for postretirement benefits as of December 31, 2004 and 2003, respectively. In addition, investments in life insurance contracts of $1.5 million and $1.7 million are unrestricted as of December 31, 2004 and 2003, respectively.

Derivative Financial Instruments

In the past, we have managed risk using derivative financial instruments for changes in electric and natural gas supply prices and interest rate fluctuations. We have also periodically used commodity futures contracts to reduce the risk of future price fluctuations for electric and natural gas contracts. Increases or decreases in contract values are reported as gains and losses in our Statements of Income (Loss) unless the commodities are specifically subject to supply tracking mechanisms within the regulatory environment.

In December 2004, we adopted a formal energy risk management policy to govern our electricity and natural gas commodity purchases and sales. Under the language of the policy, we are precluded from using derivative financial instruments to manage our commodity price volatility risk unless specifically authorized by our internal energy supply board. The policy, however, does not preclude the use of derivative financial instruments to mitigate interest rate fluctuations.

Property, Plant and Equipment

Property, plant and equipment are stated at original cost, including contracted services, direct labor and material, allowance for funds used during construction (AFUDC), and indirect charges for engineering, supervision and similar overhead items. All expenditures for maintenance and repairs of utility property, plant and equipment are charged to the appropriate maintenance expense accounts. A betterment or replacement of a unit of property is accounted for as an addition and retirement of utility plant. At the time of such a retirement, the accumulated provision for depreciation is charged with the original cost of the property retired and also for the net cost of removal. Also included in plant and equipment are assets under capital lease, which are stated at the present value of minimum lease payments. Plant and equipment under capital lease were $10.9 million and $10.5 million as of December 31, 2004 and 2003, respectively.

AFUDC represents the cost of financing construction projects with borrowed funds and equity funds. While cash is not realized currently from such allowance, it is realized under the ratemaking process over the service life of the related property through increased revenues resulting from a higher rate base and higher depreciation expense. The component of AFUDC attributable to borrowed funds is included as a reduction to interest expense, while the equity component is included in other income. We determine the rate used to compute AFUDC in accordance with a formula established by the FERC. This rate averaged 9.0% and 8.9% for Montana for 2004 and 2003, and 7.9% and 10.7% for South Dakota for 2004 and 2003, respectively. Interest capitalized totaled $1.2 million and $0.9 million for the years ended December 31, 2004 and 2003, respectively for Montana and South Dakota combined.

We record provisions for depreciation at amounts substantially equivalent to calculations made on a straight-line method by applying various rates based on useful lives of the various classes of properties (ranging from three to forty years) determined from engineering studies. As a percentage of the depreciable utility plant at the beginning of the year, our provision for depreciation of utility plant was approximately 3.5% and 3.5% for 2004 and 2003, respectively.

Internal labor and overhead costs capitalized for other property, plant and equipment were $30.6 million and $29.2 million for the years ended December 31, 2004 and 2003, respectively.

Depreciation rates include a provision for our share of the estimated costs to decommission three coal-fired generating plants at the end of the useful life of each plant. The annual provision for such costs is included in depreciation expense, while the accumulated provisions are included in noncurrent regulatory liabilities.

Stock-based Compensation

The Successor Company prospectively adopted SFAS No. 123-R, *Share-Based Payment,* upon emergence, with no impact to the financial statements or disclosure required as stock-based compensation consists of restricted shares of common stock. The Predecessor Company had a nonqualified stock option plan to provide for the granting of stock-based compensation to certain employees and directors, which was terminated upon our emergence from bankruptcy. The Predecessor Company accounted for this plan in accordance with the intrinsic value based method of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting. No compensation cost is recognized as the option exercise price is equal to the market price of the underlying stock on the date of grant.

If compensation costs had been recognized based on the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, there would have been no change to our net income (loss) as reported for 2004 and 2003.

Income Taxes

Deferred income taxes relate primarily to the difference between book and tax methods of depreciating property, amortizing tax-deductible goodwill, the difference in the recognition of revenues and expenses for book and tax purposes, certain natural gas costs, which are deferred for book purposes but expensed currently for tax purposes, and net operating loss carry forwards.

Environmental Costs

We record environmental costs when it is probable we are liable for the costs and we can reasonably estimate the liability. We may defer costs as a regulatory asset based on our expectation that we will recover these costs from customers in future rates. Otherwise, we expense the costs. If an environmental expense is related to facilities we currently use, such as pollution control equipment, then we capitalize and depreciate the costs over the life of the plant, assuming the costs are recoverable in future rates or future cash flow.

We record estimated remediation costs, excluding inflationary increases and probable reductions for insurance coverage and rate recovery. The estimates are based on our experience, our assessment of the current situation and the technology currently available for use in the remediation. We regularly adjust the recorded costs as we revise estimates and as remediation proceeds. If we are one of several designated responsible parties, then we estimate and record only our share of the cost. We treat any future costs of restoring sites where operation may extend indefinitely as a capitalized cost of plant retirement. The depreciation expense levels we can recover in rates include a provision for these estimated removal costs.

New Accounting Standards

In December 2004, the FASB issued a revision to SFAS No. 123, *Accounting for Stock-Based Compensation*, SFAS No. 123-R. SFAS No. 123-R requires companies to record compensation expense for all share-based awards granted subsequent to the adoption of the statement. In addition, SFAS 123-R requires the recording of compensation expense for the unvested portion of previously granted awards that remain outstanding at the date of adoption. In accordance with SOP 90-7 and the provisions of fresh-start reporting, we early adopted the provisions of SFAS 123-R prospectively as of October 31, 2004. As all stock-based compensation of the Predecessor Company was cancelled upon emergence, adoption of the statement did not impact our financial condition or results of operations.

Reclassifications

Certain 2003 amounts have been reclassified to conform to the 2004 presentation. Such reclassifications had no impact on net income (loss) or total proprietary capital as previously reported.

(5) Equity Investments

The following table presents our equity investments reflected in the investments in associated companies on the Balance Sheets (in thousands):

	December 31, 2004	December 31, 2003
Clark Fork & Blackfoot, L.L.C.	$ (4,963)	$ (1,093)
Natural Gas Funding Trust	785	903
NorthWestern Services Corporation	15,966	15,693
NorthWestern Investments, LLC	(103,738)	(719,892)
NorthWestern Capital Financing I	-	962
NorthWestern Capital Financing II	-	3,288
NorthWestern Capital Financing III	-	3,154
NWPS Capital Financing I	-	1,512
Total Investments in Associated Companies	$ (91,950)	$ (695,473)

(6) Property, Plant and Equipment

The following table presents the major classifications of our property, plant and equipment (in thousands):

	December 31, 2004	December 31, 2003
Land and improvements	$ 37,870	$ 37,344
Building and improvements	130,103	131,204
Storage, distribution, transmission and generation	1,976,549	1,903,474
Construction work in process	13,780	18,787
Other equipment	602,139	539,297
	2,761,441	2,630,106
Less accumulated depreciation	(1,107,058)	(1,046,269)
	$1,653,383	$1,583,837

(7) Asset Retirement Obligations

We have identified, but have not recognized, asset retirement obligation, or ARO, liabilities related to our electric and natural gas transmission and distribution assets. Many of these assets are installed on easements over property not owned by us. The easements are generally perpetual and only require remediation action upon abandonment or cessation of use of the property for the specified purpose. The ARO liability is not estimable for such easements as we intend to utilize these properties indefinitely. In the event we decide to abandon or cease the use of a particular easement, an ARO liability would be recorded at that time.

Our regulated utility operations recognize removal costs of transmission and distribution assets as a component of depreciation in accordance with regulatory treatment. These amounts do not represent Statement of Financial Accounting Standards (SFAS) No. 143 legal retirement obligations. As of December 31, 2004 and 2003, we have recognized accrued removal costs of $132.9 million and $123.0 million, respectively, which are classified as accumulated depreciation in the balance sheets.

For our generation properties, we have accrued decommissioning costs since the generating units were first put into service in the amount of $12.3 million and $11.9 million as of December 31, 2004 and 2003, respectively, which is classified as accumulated depreciation. These amounts also do not represent SFAS No. 143 legal retirement obligations.

(8) Acquisition and Utility Plant Adjustments

Effective January 1, 2002, we adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 changed the accounting for goodwill from a model that required amortization of goodwill, supplemented by impairment tests, to an accounting model that is based solely upon impairment tests. We review goodwill for impairment annually during the fourth quarter, or more frequently if changes in circumstances or the occurrence of events suggest an impairment exists.

We retained a third party to conduct a valuation analysis in connection with our fresh-start reporting. Our consolidated enterprise value was estimated at $1.5 billion, providing for an equity value of $710 million. Upon the adoption of fresh-start reporting on October 31, 2004, we adjusted our assets and liabilities to their fair values and valued our equity to $710 million. Since we are a regulated utility, our regulated property, plant and equipment is kept at values included in utility rate base, and the excess of reorganization value over the fair value of assets and liabilities on the date of our emergence of $435.1 million has been recorded as an acquisition adjustment of $378.7 as of December 31, 2004 and 2003, respectively, with the remaining balance of $59.4 recorded as a utility plant adjustment.

(9) Related-Party Transactions

Accounts receivable from and payables to associated companies primarily include intercompany billings for direct charges, overhead, and income tax obligations. The following table reflects our accounts receivable from and accounts payable to associated companies, (in thousands):

	December 31, 2004	December 31, 2003
Accounts Receivable from Associated Companies:		
Netexit, Inc.	$ 224,016	$ 224,025
Montana Megawatts I, LLC	77,177	78,884
Natural Gas Funding Trust	40	7
Nekota Resources, Inc.	4,458	3,364
NorthWestern Capital Corporation	—	51,608
NorthWestern Energy Marketing, LLC	1,179	1,767
NorthWestern Investments, LLC	—	586,815
Risk Partners Assurance, Ltd.	18	26
	$ 306,888	$ 946,496
Accounts Payable to Associated Companies:		
Blue Dot Services Inc.	$ 1,273	$ 1,520
Clark Fork & Blackfoot, L.L.C.	1,544	6,625
NorCom Advanced Technologies Inc.	85	—
NorthWestern Services Corporation	10,035	1,252
	$ 12,937	$ 9,397

(10) Long-Term Debt

Long-term debt consisted of the following (in thousands):

	Due	December 31, 2004	December 31, 2003
Secured Debt:			
Senior Secured Term Loan	2006	$—	$386,100
Senior Secured Term Loan B	2011	100,000	—
Mortgage bonds—			
South Dakota—7.10%	2005	60,000	60,000
South Dakota—7.00%	2023	55,000	55,000
Montana—7.30%	2006	150,000	150,000
Montana—8.25%	2007	365	365
Montana—8.95%	2022	—	1,446
Montana—7.00%	2005	5,386	5,386
South Dakota & Montana—5.875%	2014	225,000	—

Pollution control obligations—			
South Dakota—5.85%	2023	7,550	7,550
South Dakota—5.90%	2023	13,800	13,800
Montana—6.125%	2023	90,205	90,205
Montana—5.90%	2023	80,000	80,000
Secured medium term notes—			
7.25%	2008	—	13,000
Discount on Notes and Bonds	—	(2,168)	(3,180)
Unsecured Debt Subject to Compromise:			
Senior Unsecured Notes—7.875%	2007	$—	$250,000
Senior Unsecured Notes—8.75%	2012	—	470,000
Senior Unsecured debt—6.95%	2028	—	105,000
Unsecured medium term notes—			
7.07%	2006	—	15,000
7.875%	2026	—	20,000
7.96%	2026	—	5,000
Discount on Notes and Bonds	—	—	(156)
		$785,138	$1,789,516

Pre-petition Unsecured Debt

In connection with our emergence from bankruptcy, pre-petition unsecured debt holders were issued shares in satisfaction of their claim, including principal and interest through the petition date, and we have no further obligation. All deferred financing costs and original issue discounts related to unsecured debt were written-off upon emergence in accordance with SOP 90-7 (see Note 3).

Successor Company Long-Term Debt

On November 1, 2004 in connection with our emergence from bankruptcy, we entered into a new $225 million credit facility secured by our utility assets. The credit facility consists of a $125 million, five-year revolving tranche and a $100 million, seven-year term tranche (Senior Secured Term Loan B), which bears interest at a variable rate tied to the London Interbank Offered Rate (approximately 4% as of December 31, 2004). The revolving tranche replaced our DIP Facility and is available to us for general corporate purposes and for the issuance of letters of credit. Concurrently with the establishment of the new credit facility, we issued $225 million of our 5.875% senior secured notes due November 1, 2014. Borrowings under the term portion of the new credit facility, together with the net proceeds of the notes offering and available cash, were used to repay our $390 million senior secured term loan facility. As of December 31, 2004 we had $26.0 million in letters of credit outstanding and no borrowings under the revolving tranche of the facility. Commitment fees for the revolving tranche were approximately $63,000 for the two-months ended December 31, 2004. Commitment fees for the DIP facility were approximately $218,000 for the 10-months ended October 31, 2004 and $102,000 for the year ended December 31, 2003.

The new credit facility includes covenants, which require us to meet certain financial tests, including a minimum interest coverage ratio and a maximum debt to capitalization ratio. The facility also contains covenants which, among other things, limit our ability to incur additional indebtedness, create liens, engage in any consolidation or merger or otherwise liquidate or dissolve, dispose of property, make restricted payments, make loans or advances, enter into transactions with affiliates, engage in business activities other than specified activities, and engage in other matters customarily restricted in such agreements. As of December 31, 2004 we are in compliance with these covenants.

The South Dakota Mortgage Bonds are two series of general obligation bonds we issued under our South Dakota indenture, and the South Dakota Pollution Control Obligations are three obligations under our South Dakota indenture. All of such bonds are secured by substantially all of our South Dakota and Nebraska electric and natural gas assets.

The Montana First Mortgage Bonds, Montana Pollution Control Obligations, and Montana Natural Gas Transition Bonds are secured by substantially all of our Montana electric and natural gas assets.

The aggregate minimum principal maturities of long-term debt, during the next five years are $73.4 million in 2005, $157.6 million in 2006, $7.9 million in 2007, $7.4 million in 2008 and $7.0 million in 2009.

(11) Comprehensive Income (Loss)

The Financial Accounting Standards Board defines comprehensive income as all changes to the equity of a business enterprise during a period, except for those resulting from transactions with owners. For example, dividend distributions are excepted. Comprehensive income consists of net income and other comprehensive income (OCI). Net income may include such items as income from continuing operations, discontinued operations, extraordinary items, and cumulative effects of changes in accounting principles. OCI may include foreign currency translations, adjustments of minimum pension liability, and unrealized gains and losses on certain investments in debt and equity securities. Due to our emergence from bankruptcy we made adjustments for fresh-start reporting in accordance with SOP 90-7 as discussed in Note 3. These adjustments resulted in removal of items recorded in accumulated OCI of $6.0 million. Comprehensive income (loss) is calculated as follows (in thousands):

	December 31,	
	2004	2003
Net income (loss)	$544,433	$(128,670)
Other comprehensive income:		
Net unrealized gain (loss) on available-for-sale securities, net of tax of $(188) and $713 in 2003 and 2002, respectively	—	(352)
Net unrealized gain on derivative instruments qualifying as hedges, net of tax of $(224) and $2,757 in 2003 and 2002, respectively	—	(416)
Minimum pension liability adjustment	—	(1,465)
Foreign currency translation adjustment	23	298
Total other comprehensive income (loss)	23	(1,935)
Total comprehensive income (loss)	$544,456	$(130,605)

The after tax components of accumulated other comprehensive loss as of December 31, 2004 and December 31, 2003, were as follows (in thousands):

	December 31, 2004	2003
Balance at end of period,		
Unrealized gain on derivative instruments qualifying as hedges	$—	$3,849
Minimum pension liability adjustment	—	(10,224)
Foreign currency translation adjustment	23	303
Accumulated other comprehensive income (loss)	$23	$(6,072)

(12) Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*. The estimated fair-value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we would realize in a current market exchange.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

- The carrying amounts of cash and working funds, special deposits and other investments approximate fair value due to the short maturity of the instruments. The fair value of life insurance contracts is based on cash surrender value.
- Fair values for debt were determined based on interest rates that are currently available to us for issuance of debt with similar terms and remaining maturities, except for publicly traded debt, which is based on market prices.
- The fair value of preferred securities of subsidiary trusts is based on current market prices.
- The fair-value estimates presented herein are based on pertinent information available to us as of December 31, 2004 and December 31, 2003. Although we are not aware of any factors that would significantly affect the estimated fair-value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

The estimated fair value of financial instruments is summarized as follows (in thousands):

	December 31, 2004		December 31, 2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and working funds	$16,110	$16,110	$15,117	$15,117
Special deposits	1,946	1,946	5,755	5,755
Investments	6,196	6,196	6,515	6,515
Liabilities:				
Long-term debt (including current portion)	785,138	791,399	1,789,516	1,682,372

(13) Income Taxes

Income tax benefit applicable to continuing operations is comprised of the following (in thousands):

	Year Ended December 31, 2004	2003
Federal		
Current	$(787)	$6,730
Deferred	(3,936)	60,795
Investment tax credits	(535)	(535)
State	800	6,619
	$(4,458)	$73,609

The following table reconciles our effective income tax rate to the federal statutory rate:

	Year Ended December 31, 2004	2003
Federal statutory rate	35.0%	(35.0)%
State income, net of federal provisions	2.6	(3.9)
Amortization of investment tax credit	(0.1)	(0.8)
Depreciation of flow through items	(0.6)	1.3
Affiliated stock loss on disposition	—	(163.2)
Minority interest preferred stock	—	(7.3)
Dividends received deduction and other investments	—	(0.1)
Prior year tax return refund	(0.2)	(8.5)
Valuation allowance	(31.2)	221.8
Prior year permanent return to accrual adjustments	(8.5)	(7.3)
Prior year permanent IRS examination adjustments	—	2.0
Other, net	1.9	0.9
	(1.1)%	(0.1)%

The components of the net deferred income tax liability recognized in our Balance Sheets are related to the following temporary differences (in thousands):

	December 31, 2004	2003
Excess tax depreciation	$(115,219)	$(103,549)
Regulatory assets	169	(6,867)
Regulatory liabilities	(30,191)	4,040
Unbilled revenue	3,971	1,346
Unamortized investment tax credit	2,746	2,751
Compensation accruals	2,654	(3,878)
Reserves and accruals	49,776	16,024
Goodwill impairment/amortization	(24,636)	(11,083)
Net operating loss carryforward (NOL)	257,961	224,934
AMT credit carryforward	3,186	228
Deferred revenue	—	18,811
Reorganization income exclusion	(207,029)	—
Valuation allowance	(10,376)	(181,587)
Other, net	(357)	3,628
	$(67,345)	$(35,202)

The income tax benefit applicable to equity in earnings of subsidiary companies totaled $1.8 million in 2004 and $73.6 million in 2003. A valuation allowance is recorded when a company believes that it will not generate sufficient taxable income of the appropriate character to realize the value of their deferred tax assets. We have a valuation allowance of $12.8 million as of December 31, 2004 against capital loss carryforwards and certain state NOL carryforwards as we do not believe these assets will be realized. The Predecessor Company recorded a valuation allowance of $181.6 million as of December 31, 2003, because prior to our emergence from bankruptcy it was considered more likely than not that all deferred tax assets would not be realized.

At December 31, 2004 we have a total NOL carryforward of $683.7 million. We expect to utilize approximately $583 million of these NOLs to offset cancellation of indebtedness income. If unused, $87.9 million of the NOL will expire in the year 2022, $490.5 million will expire in the year 2023 and $105.3 million will expire in the year 2024. Management believes it is more likely than not that sufficient taxable income will be generated to utilize these NOL carryforwards except as noted above.

We have elected under Internal Revenue Code 46(f)(2) to defer investment tax credit benefits and amortize them against expense and customer billing rates over the book life of the underlying plant.

An IRS audit of our federal income tax returns for the years 2000 through 2003 is currently in process. Management believes that the final results of these audits will not have a material adverse effect on our financial position or results of operations.

Exposures exist related to various tax filing positions, which may require an extended period of time to resolve and may result in income tax adjustments by taxing authorities. Management has established a liability based on our best estimate of future probable adjustments related to these exposures. On a quarterly basis, management evaluates the liability in light of any additional information and adjusts the balance as necessary to reflect the best estimate of the future outcomes. We believe our established liability is appropriate for estimated exposures, however, actual results may differ from these estimates. The resolution of tax matters in a particular future period could have a material impact on our statement of operations and provision for income taxes.

(14) Jointly Owned Plants

We have an ownership interest in three electric generating plants, all of which are coal fired and operated by other utility companies. We have an undivided interest in these facilities and are responsible for our proportionate share of the capital and operating costs while being entitled to our proportionate share of the power generated. Our interest in each plant is reflected in the Balance Sheets on a pro rata basis and our share of operating expenses is reflected in the Statements of Income (Loss). The participants each finance their own investment.

Information relating to our ownership interest in these facilities is as follows (in thousands):

	Big Stone (S.D.)	Neal #4 (Iowa)	Coyote I (N.D.)
December 31, 2004			
Ownership percentages	23.4%	8.7%	10.0%
Plant in service	$49,700	$28,106	$42,494
Accumulated depreciation	32,370	17,697	22,479
December 31, 2003			
Ownership percentages	23.4%	8.7%	10.0%
Plant in service	$49,619	$28,037	$42,441
Accumulated depreciation	30,916	16,858	21,354

(15) Operating Leases

We have six years remaining under an operating lease agreement for a generation facility, which requires lease payments of $32.2 million annually. We also lease vehicles, office equipment, an airplane and office and warehouse facilities under various long-term operating leases. At December 31, 2004, future minimum lease payments under non-cancelable lease agreements are as follows (in thousands):

2005	$33,303
2006	32,995
2007	32,638
2008	32,279
2009	32,235

Lease and rental expense incurred was $39.3 million and $40.1 million for the years ended December 31, 2004 and December 31, 2003, respectively.

In January 2005, we exercised an option to extend the term of our Colstrip Unit 4 generation facility lease an additional eight years. By extending the lease term, our annual lease payment remains at $32.2 million through 2010 and decreases to $14.5 million for the remainder of the lease. Beginning in 2005 our lease expense will be reduced to $22.1 million annually based on a straight-line calculation over the full term of the lease.

(16) Employee Benefit Plans

Pension and Other Postretirement Benefit Plans

We sponsor and/or contribute to pension and postretirement health care and life insurance benefit plans for employees. Pension costs in Montana and other postretirement benefit costs in South Dakota are included in rates on a pay as you go basis for regulatory purposes. Pension costs in South Dakota and other postretirement benefit costs in Montana are included in rates on an accrual basis for regulatory purposes. (See Note 18, Regulatory Assets and Liabilities, for the regulatory assets related to our pension and other postretirement benefit plans.) The prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligation or the market-related value of assets are amortized over the average remaining service period of active participants. As a result of fresh-start reporting (see Note 3), we adjusted our qualified pension and other postretirement benefit plans to their projected benefit obligation by recognition of all previously unamortized actuarial gains and losses upon emergence. The generation of any future amounts subsequent to emergence will be amortized under the same method as discussed above.

Benefit Obligations

Following is a reconciliation of the changes in plan benefit obligations and fair value and a statement of the funded status (in thousands):

	Pension Benefits		Other Postretirement Benefits	
	December 31,		December 31,	
	2004	2003	2004	2003
Reconciliation of Benefit Obligation				
Obligation at beginning of period	$356,373	$329,980	$66,948	$103,352
Service cost	7,551	5,165	823	1,350
Interest cost	20,300	21,080	3,325	5,455
Actuarial (gain) loss	14,045	23,446	(2,463)	(387)
Plan amendments	—	—	—	(4,164)
Curtailments	—	—	—	(3,077)
Settlement cost	—	—	—	(16,566)
Special termination benefits	—	785	—	—
Fresh-start reporting adjustments	(4,727)	—	(11,354)	—
Gross benefits paid	(19,563)	(24,083)	(4,888)	(19,015)
Benefit obligation at end of period	$373,979	$356,373	$52,391	$66,948

The total projected benefit obligation and fair value of plan assets for the pension plans with projected benefit obligations in excess of plan assets were $374.0 million and $244.6 million, respectively, as of December 31, 2004. The total accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $371.8 million and $244.6 million, respectively, as of December 31, 2004.

The total projected benefit obligation and fair value of plan assets for the pension plans with projected benefit obligations in excess of plan assets were $356.4 million and $229.8 million, respectively, as of December 31, 2003. The total accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $346.0 million and $229.8 million, respectively, as of December 31, 2003.

Balance Sheet Recognition

The accrued pension and other postretirement benefit obligations recognized in the accompanying Balance Sheets are computed as follows (in thousands):

	Pension Benefits		Other Postretirement Benefits	
	December 31,		December 31,	
	2004	2003	2004	2003
Prepaid benefit cost	$—	$ 2,683	$—	$—
Accrued benefit cost	(140,097)	(66,880)	(44,714)	(43,965)
Additional minimum liability	—	(52,055)	—	—
Intangible asset	—	1,597	—	—
Regulatory asset	—	40,234	—	—
Accumulated other comprehensive income	—	10,224	—	—
Net amount recognized	$(140,097)	$ (64,197)	$(44,714)	$(43,965)

Amounts previously recorded in accumulated other comprehensive income, regulatory assets and intangible assets were reclassified to long-term liabilities to reflect the adoption of fresh-start reporting (see Note 3).

Plan Assets and Funded Status

	Pension Benefits December 31,		Other Postretirement Benefits December 31,	
	2004	2003	2004	2003
Reconciliation of Fair Value of Plan Assets				
Fair value of plan assets at beginning of period	$229,771	$201,202	$5,434	$4,794
Actual return on plan assets	24,221	41,727	576	385
Employer contributions	10,214	10,925	7,211	35,836
Settlements	—	—	—	(16,566)
Gross benefits paid	(19,563)	(24,083)	(4,888)	(19,015)
Fair value of plan assets at end of period	$244,643	$229,771	$8,333	$5,434
Funded Status	$(129,335)	$(126,602)	$(44,058)	$(61,514)
Unrecognized transition amount	—	309	—	—
Unrecognized net actuarial (gain) loss	(10,762)	60,808	(656)	17,549
Unrecognized prior service cost	—	1,288	—	—
Accrued benefit cost	$(140,097)	$(64,197)	$(44,714)	$(43,965)

Our investment goals with respect to managing the pension and other postretirement assets is to achieve and maintain a fully funded status for the pension plans, improve the status of the health and welfare plan, minimize contribution requirements, and seek long-term growth by placing primary emphasis on capital appreciation and secondary emphasis on income, while minimizing risk.

The company's investment policy for fixed income investments are oriented toward risk adverse, investment-grade securities rated "A" or higher and are required to be diversified among individual securities and sectors (with the exception of U.S. Government securities, in which the plan may invest the entire fixed income allocation) and there is no limit on the maximum maturity of securities held. In addition, the NorthWestern Corporation pension plan assets also includes a participating group annuity contract in the John Hancock General Investment Account, which consists primarily of fixed-income securities, reflected at current market values with a market adjustment.

Equity investments per the investment policy can include convertible securities, and are required to be diversified among industries and economic sectors. Limitations are placed on the overall allocation to any individual security at both cost and market value and international equities investments are diversified by country. In addition, there are limitations on investments in emerging markets.

Our investment policy prohibits short sales, margin purchases and similar speculative transactions as well as any transactions that would threaten tax exempt status of the fund, actions that would create a conflict of interest or transactions between fiduciaries and parties in interest as defined under ERISA. With respect to international investments, foreign currency hedging is allowed under the policy for the purpose of hedging currency risk and to effect securities transactions. Permissible investments include foreign currencies in both spot and forward markets, options, futures, and options on futures in foreign currencies.

The current investment strategy provides for the following asset allocation policies, within an allowable range of plus or minus 5%:

	Pension Benefits	Other Benefits
Debt securities	30.0%	30.0%
Domestic equity securities	60.0	60.0
International equity securities	10.0	10.0

The percentage of fair value of plan assets held in the following investment types by the NorthWestern Energy pension plan, NorthWestern Corporation pension plan and NorthWestern Energy Health and Welfare Plan as of December 31, 2004 and 2003, respectively, are as follows:

	NorthWestern Energy Pension		NorthWestern Corporation Pension		NorthWestern Energy Health and Welfare	
	December 31.,		December 31.,		December 31.,	
	2004	2003	2004	2003	2004	2003
Cash and cash equivalents	2.0%	1.4%	0.9%	0.6%	—%	2.8%
Debt securities	31.6	28.5	—	11.6	27.5	27.5
Domestic equity securities	55.8	58.9	50.4	38.7	71.9	68.3
International equity securities	10.6	11.2	9.5	4.5	0.6	1.4
Participating group annuity contracts	—	—	39.2	44.6	—	—
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

We review the asset mix of the funds on a quarterly basis. Generally, the fund's asset mix will be rebalanced to the target mix as individual portfolios approach their minimum or maximum levels.

We are still evaluating the potential for liquidating and reinvesting the assets held in participating group annuity contracts as rebalancing and diversification opportunities are currently limited with respect to this portion of plan assets.

Actuarial Assumptions

The measurement dates used for the plans each year is December 31. The actuarial assumptions used to compute the net periodic pension cost and postretirement benefit cost are based upon information available as of the beginning of the year, specifically, market interest rates, past experience and management's best estimate of future economic conditions. Changes in these assumptions may impact future benefit costs and obligations. In computing future costs and obligations, we must make assumptions about such things as employee mortality and turnover, expected salary and wage increases, discount rate, expected return on plan assets, and expected future cost increases. Two of these items generally have the most impact on the level of cost: (1) discount rate and (2) expected rate of return on plan assets.

Annually, we set the discount rate based upon our review of the Citigroup Pension Index and Moody's Aa bond rate index. The expected long-term rate of return assumption on plan assets for both the NorthWestern Energy and NorthWestern Corporation pension and postretirement plans was determined based on the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension and postretirement portfolios. Over the 15-year period ending December 31, 2004, the returns on these portfolios, assuming they were invested at the current target asset allocation in prior periods, would have been a compound annual average of approximately 10.5%. Considering this information and the potential for lower future returns due to a generally lower interest rate environment, we selected an 8.5% long-term rate of return on assets assumption.

The weighted-average assumptions used in calculating the preceding information are as follows:

	Pension Benefits Year ended December 31,		Other Post-retirement Benefits Year Ended December 31,	
	2004	2003	2004	2003
Discount rate	5.50%	6.00%	5.50%	6.0-6.75%
Expected rate of return on assets	8.50%	8.50%	8.50%	8.50%
Long-term rate of increase in compensation levels (nonunion)	3.37%	3.97%	3.37%	4.00%
Long-term rate of increase in compensation levels (union)	3.30%	3.50%	3.30%	4.00%

The postretirement benefit obligation is calculated assuming that health care costs increased by 11% in 2004 and the rate of increase in the per capita cost of covered health care benefits thereafter was assumed to decrease gradually to 5% by the year 2009.

Net Periodic Cost

The components of the net costs for our pension and other postretirement plans are as follows (in thousands):

	Pension Benefits Year Ended December 31,		Other Post-retirement Benefits Year Ended December 31,	
	2003	2003	2003	2003
Components of Net Periodic Benefit Cost				
Service cost	$7,551	$5,165	$823	$1,350
Interest cost	20,300	21,080	3,325	5,455
Expected return on plan assets	(18,988)	(16,329)	(369)	(261)
Amortization of transitional obligation	129	155	—	675
Amortization of prior service cost	311	505	—	—
Recognized actuarial (gain) loss	1,068	2,724	467	467
	10,371	13,300	4,246	7,686
Additional (income) or loss recognized:				
Curtailment	—	—	—	13,511
Special termination benefits	—	785	—	—
Settlement cost	—	—	—	(13,586)
Net Periodic Benefit Cost	$10,371	$14,085	$4,246	$7,611

Assumed health care cost trend rates have a significant effect on the amounts reported for the costs each year as well as on the accumulated postretirement benefit obligation. The following table sets forth the sensitivity of retiree welfare results (in thousands):

Effect of a one percentage point increase in assumed health care cost trend	
on total service and interest cost components	$36
on postretirement benefit obligation	2,142
Effect of a one percentage point decrease in assumed health care cost trend	
on total service and interest cost components	$(31)
on postretirement benefit obligation	(1,930)

In May 2004, the FASB issued Staff Position No. 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*. The impact of this Medicare prescription legislation has been analyzed and determined to have minimal impact due to the limited post-age 65 liability under the post-retirement benefit plan.

Cash Flows

We anticipate making contributions of approximately $25.7 million to our pension and other benefit plans in 2005. Pension funding is based upon annual actuarial studies prepared for each plan. For our postretirement welfare benefits, our policy is to contribute an amount equal to the annual actuarially determined cost that is also recoverable in rates. We generally fund our 401(h) and VEBA trusts monthly, subject to our liquidity needs and the maximum deductible amounts allowed for income tax purposes.

We estimate the plans will make future benefit payments to participants as follows (in thousands):

	Pension Benefits	Other Post-retirement Benefits
2005	$19,961	$4,093
2006	19,770	4,082
2007	19,902	4,055
2008	20,276	3,965
2009	20,426	3,990
2010-2014	116,081	17,996

Predecessor Company

The Predecessor Company sponsored two nonqualified, unfunded defined benefit pension plans, and three other postretirement benefit plans for certain officers and other employees. We have filed motions with the Bankruptcy Court to terminate these plans. Upon the determination of the motions, assuming the Bankruptcy Court permits termination, participants in these plans will receive allowed claims that will be paid in shares from the claims reserve. In accordance with SOP 90-7 and fresh-start reporting, these liabilities were removed from the balance sheet upon emergence and the impact of the termination is reflected in the tables above.

In May 2003, the Predecessor Company terminated or amended various employee benefit plans. The nonqualified supplemental 401(k) plan was terminated effective May 6, 2003. Any investment elections in our common stock were presented as Treasury Stock, other investments as part of Investments, and an offsetting liability for both as part of Other Noncurrent Liabilities in the Balance Sheets. In June 2003, plan assets were distributed to participants and no further liability remains. The Predecessor Company's contributions to the plan were $11,000 in 2003. The Predecessor Company's employee stock purchase plan was also terminated, with no impact to operating results. In addition, two nonqualified postretirement defined benefit plans were amended effective May 6, 2003 to permit vested participants the option of continuing the current benefits level or take a present value lump sum distribution. A third nonqualified postretirement defined benefit plan was terminated effective May 6, 2003. The impact of the amendments and termination are presented in the tables above.

During 2003, the Predecessor Company made an early retirement program available to select employees. The impact of that reduction in participants resulted in the special termination benefits presented in the tables above.

Defined Contribution Plans

Through December 31, 2004 we sponsored two employee savings plans, which permit employees to defer receipt of compensation as provided in Section 401(k) of the Internal Revenue Code. Under the plans, the employees may elect to direct a percentage of their gross compensation to be contributed to the plans. We contribute various percentage amounts of the employee's gross compensation contributed to the plan. Costs incurred under these plans were $3.3 million and $3.1 million in 2004 and 2003, respectively. On December 31, 2004, the NorthWestern Corporation savings plan was merged into the NorthWestern Energy savings plan.

(17) Employee Incentive Plans

Successor Company

In connection with the confirmation of our plan of reorganization, the Bankruptcy Court and Creditors Committee approved a New Incentive Plan to be established and administered by the new Board of Directors. The plan of reorganization reserved 2,265,957 shares of new common stock for the New Incentive Plan. In addition, upon emergence 228,315 restricted shares were issued (Special Recognition Grants) under the New Incentive Plan to certain officers and key employees. The fair value at the date of issuance for these Special Recognition Grants was $4.6 million. Fifty percent, or 114,158 shares of the Special Recognition Grants vested upon emergence. The remaining shares vest on November 1, 2005 for non-officers. For officers, the remaining shares vest 10% on November 1, 2005, 20% on November 1, 2006 and 20% on November 1, 2007. Compensation expense recognized in 2004 for these Special Recognition Grants was $2.5 million.

Predecessor Company Stock Option and Incentive Plan

All common stock options under the NorthWestern Stock Option and Incentive Plan (Option Plan) were cancelled upon emergence from bankruptcy. Under the Option Plan, the Predecessor Company had reserved 3,424,595 shares for issuance to officers, key employees and directors as either incentive-based options or nonqualified options. The Compensation Committee (Committee) of our Board of Directors administered the Option Plan.

Information regarding the Predecessor Company's options granted and outstanding is summarized below:

	Shares	Option Price Per Share	Weighted Average Option Price
Balance December 31, 2001	1,884,492	$21.19-26.13	$23.26
Issued	786,200	15.26-20.70	20.61
Canceled	(1,132,527)	20.30-26.13	22.45
Balance December 31, 2002	1,538,165	15.26-26.13	22.49
Issued	500,623	2.05-4.90	3.97
Canceled	(679,600)	20.30-26.13	22.23
Balance December 31, 2003	1,359,188		15.81
Application of fresh-start reporting (Note 3)	(1,359,188)		
Balance December 31, 2004 (Successor Company)	—		

The Predecessor Company had also issued 283,333 shares of common stock in 2003 under a restricted stock plan with a fair value at date of issuance of $1.2 million. These shares were also cancelled upon emergence. The Predecessor Company had previously issued 33,480 shares of common stock in 2001 under this restricted stock plan with a fair value at date of issuance of $0.7 million. Compensation expense recognized was $0.4 million for the 10-months ended October 31, 2004 and $0.3 million for the year ended December 31, 2003. The Predecessor Company's Employee Stock Ownership Plan (ESOP) was terminated effective July 19, 2003, and the shares were distributed to participants during 2003.

(18) Regulatory Assets and Liabilities

We prepare our financial statements in accordance with the provisions of SFAS No. 71, as discussed in Note 4 to the Financial Statements. Pursuant to this pronouncement, certain expenses and credits, normally reflected in income as incurred, are recognized when included in rates and recovered from or refunded to the customers. Accordingly, we have recorded the following major classifications of regulatory assets and liabilities that will be recognized in expenses and revenues in future periods when the matching revenues are collected or refunded. We have specific orders to cover approximately 98% of our regulatory assets and approximately 96% of our regulatory liabilities.

	Note Ref.	Remaining Amortization Period	December 31, 2004	2003
Pension	16	Undetermined	$135,358	$95,260
Competitive transition charges		9 Years	(398)	548
SFAS No. 106	16	Undetermined	35,567	27,150
Income taxes	13	Plant Lives	7,642	28,832
Other		Various	13,768	11,384
Total regulatory assets			$191,937	$163,174
Gas storage sales		35 Years	$14,615	$15,036
Supply costs		1 Year	16,621	-
Other		Various	2,253	2,272
Total regulatory liabilities			$ 33,489	$17,308

Through fresh-start reporting we adjusted our qualified pension and other postretirement benefit plans to their projected benefit obligation by recognition of all previously unamortized actuarial gains and losses. See Note 3 for further information regarding the impacts of fresh-start reporting. A pension regulatory asset has been recognized for the obligation that will be included in future cost of service. Historically, the MPSC rates have allowed recovery of pension costs on a cash basis. The SDPUC allows recovery of pension costs on an accrual basis. A regulatory asset has been recognized for the SFAS No. 106 fair value adjustments resulting from fresh-start reporting. The MPSC allows recovery of SFAS No. 106 costs on an accrual basis. Competitive transition charges relate to natural gas properties and earn a rate of return sufficient to meet the debt service requirements of the Montana natural gas transition bonds. Tax assets and liabilities primarily reflect the effects of plant related temporary differences such as removal costs, capitalized interest and contributions in aid of construction that we will recover or refund in future rates.

A gas storage sales regulatory liability (cushion gas) was established in 2000 and 2001 based on gains on natural gas sales in Montana. This gain is being flowed to customers over a period that matches the depreciable life of surface facilities that were added to maintain deliverability from the field after the withdrawal of the gas and was fully amortized through rates in 2003. A regulatory liability has been recorded to reflect the future refunding of energy supply costs through the ratemaking process.

(19) Deregulation and Regulatory Matters

Deregulation

The electric and natural gas utility businesses in Montana are operating in a competitive market in which commodity energy products and related services are sold directly to wholesale and retail customers.

Electric

Montana's Electric Utility Industry Restructuring and Customer Choice Act (Electric Act), was passed in 1997. Various energy-related legislation revised and refined the Act during the legislative sessions that followed. The 2003 Legislature established us as the permanent default supplier and set the transition period for all customers to be able to choose their electric supplier to end July 1, 2027. As default supplier, we are obligated to continue to supply electric energy to customers in our service territory who have not chosen, or have not had an opportunity to choose, other power suppliers. The 2003 legislation also requires smaller customers to remain as default supply customers and established a specific set of guidelines, requirements and procedures that guide default supply power procurement and their cost recovery. This provides adequate assurances of recovering our costs of acquiring default supply power.

On January 23, 2003, we filed our first biennial Electric Default Supply Resource Procurement Plan with the MPSC, which fulfills the requirements established by law and describes the planning we are doing on behalf of our electric default supply customers to provide adequate, reliable and efficient annual and long-term electricity supply services at the lowest long-term cost. We have a substantial portion of the portfolio covered by the existing PPL Montana base-load contracts and the QF contracts.

Natural Gas

Montana's Natural Gas Utility Restructuring and Customer Choice Act, also passed in 1997, provides that a natural gas utility may voluntarily offer its customers choice of natural gas suppliers and provide open access. We have opened access on our gas transmission and distribution systems, and all of our natural gas customers have the opportunity of gas supply choice. We are also the default supplier for the remaining natural gas customers.

Regulatory Matters

The MPSC, the SDPUC, and the Nebraska Public Service Commission (NPSC) regulate our bundled transmission and distribution services and approve the rates that we charge for these services, while the FERC regulates our transmission services. There have been no significant regulatory issues in South Dakota or Nebraska during the past three years. Current regulatory issues are discussed below.

On August 12, 2003, the Montana Consumer Counsel (MCC) filed a Petition for Investigation, Adoption of Additional Regulatory Controls and Related Relief with the MPSC. On August 22, 2003, the MPSC issued an order initiating an investigation of us relating to, among others, finances, corporate structure, capital structure, cash management practices, and affiliated transactions. The relief sought includes adoption of new regulatory controls that would specifically apply to us including additional reporting, cost allocation and financing rules and requirements, and examination of affiliate transactions necessary to ensure that we are not operating our energy division, and will not in the future operate, in a manner that would prejudice our ability to furnish reasonably adequate service and facilities at reasonable and just charges as required under Montana law. On July 8, 2004, we reached a Stipulation and Settlement Agreement with the MCC that was approved by the MPSC that led to the resolution of this financial investigation. The investigation is closed with the exception of the ongoing review related to an infrastructure audit.

Electric Rates

On June 16, 2003, we filed our annual electric supply cost tracker request with the MPSC for the 12-month period ended June 30, 2003. On July 15, 2003, an interim order was approved by the MPSC for the projected electric supply cost. On June 1, 2004, we filed our annual electric supply cost tracker request with the MPSC for any unrecovered actual electric supply costs for the 24-month period ended June 30, 2004, and for projected costs for the 12-month period ended June 30, 2005. On July 28, an interim order was approved by the MPSC for the projected electric supply cost.

On November 17, 2004, we filed with the MPSC for an automatic rate adjustment of $0.7 million under a Montana statute allowing the recovery of increased state and local taxes and fees. On December 29, 2004, an interim order was approved by the MPSC however the amount was reduced for the net incremental income tax amount of $0.3 million.

On December 13, 2004, we and our non-regulated power marketing subsidiary, NorthWestern Energy Marketing, LLC, filed with the FERC an updated generation market power study to satisfy our respective triennial rate review compliance filing obligation. This triennial filing obligation arises from our and our subsidiary's FERC authorization to sell power at market-based rates. The filing set forth our arguments as to why our subsidiary and we do not possess generation market power and why there are no affiliate abuse concerns arising from our Montana operations.

Natural Gas Rates

On May 28, 2004, we filed an annual gas cost tracker request with the MPSC for any unrecovered actual gas costs for the 12-month period ended June 30, 2004, and for the projected gas costs for the 12-month period ending June 30, 2005. On July 8, 2004, the MPSC issued an interim order, with respect to our recovery of gas costs.

The MPSC issued a final order relating to the 8-month period ending June 30, 2003, which included a disallowance of $6.2 million of actual natural gas costs. The MPSC also rejected a motion for reconsideration filed by us. We filed suit in district court on July 28, 2003, seeking to overturn the MPSC's decision to disallow recovery of these costs. $6.2 million was written off during June 2003 to comply with the final order. We filed a motion for reconsideration regarding the disallowance of purchased gas cost with the MPSC on July 14, 2003, which was denied. We filed suit in Montana state court on July 28, 2003, seeking to overturn the MPSC's decision to disallow recovery of these costs. At this time, this matter has been suspended pending settlement discussion.

On June 2, 2003, we filed an annual gas cost tracker request with the MPSC for the projected gas costs for the 12-month period ending June 30, 2004. The MPSC granted an interim order on July 3, 2003, for the projected gas cost adjusted for 4,200 MDKT at a fixed price of $3.50 as opposed to the market price submitted in the original filing, which was at a higher price. The disallowance on 4,200 MDKT at market price resulted in the Company under collecting $4.6 million for the period July 1, 2003 through June 30, 2004.

On December 6, 2004, MCC and we filed a stipulation for approval by the MPSC. This stipulation settled recovery of gas costs for the 2003 and 2004 annual gas costs trackers. The MPSC approved this stipulation on April 14, 2005. However, approval is contingent upon settlement of the lawsuit discussed above regarding the disallowance of purchased gas costs between us and the MPSC.

On November 17, 2004, we filed with the MPSC for an automatic rate adjustment of $.2 million under a Montana statute allowing the recovery of increased state and local taxes and fees. On December 29, 2004, an interim order was approved by the MPSC however the amount was reduced for the net incremental income tax amount of $0.1 million.

In Nebraska, where natural gas companies have been regulated by the municipalities in which they serve, the 2003 Nebraska Unicameral Legislature enacted a new law during the second quarter of 2003, shifting the regulation to the NPSC. Under the new law, the NPSC regulates rates and terms and conditions of service for natural gas companies, however, the law provides that a natural gas company and the cities in which it serves have the ability to negotiate rates for natural gas service when the natural gas company files an application for increased rates. If the cities and the company choose not to negotiate or they are unable to reach an agreement, then the NPSC will review the rate filing. Our initial tariffs, including our rates, terms and conditions for service consistent with those formerly filed with the municipalities, were filed with and accepted by the NPSC.

(20) Guarantees, Commitments and Contingencies

Qualifying Facilities Liability

In Montana we have certain contracts with Qualifying Facilities, or QFs. The QFs require us to purchase minimum amounts of energy at prices ranging from $65 to $138 per megawatt hour through 2029. Our gross contractual obligation related to the QFs is approximately $1.7 billion through 2029. A portion of the costs incurred to purchase this energy is recoverable through rates, totaling approximately $1.3 billion through 2029. Upon adoption of fresh-start reporting, we computed the fair value of the remaining liability of approximately $367.9 million to be approximately $143.8 million based on the net present value (using a 7.75% discount factor) of the difference between our obligations under the QFs and the related amount recoverable. At December 31, 2004, the liability was $143.4 million.

The following summarizes the estimated gross contractual obligation less amounts recoverable through rates (in thousands):

	Gross obligation	Recoverable amounts	Net
2005	$54,347	$ (52,061)	$2,286
2006	56,175	(52,061)	4,114
2007	58,284	(52,567)	5,717
2008	60,537	(53,060)	7,477
2009	62,656	(53,583)	9,073
Thereafter	1,406,260	(1,067,032)	339,228
Total	$1,698,259	$(1,330,364)	$367,895

Long Term Supply and Capacity Purchase Obligations

We have entered into various commitments, largely purchased power, coal and natural gas supply and natural gas transportation contracts. These commitments range from one to 30 years. Costs incurred under these contracts were approximately $331.5 million and $281.6 million for the years ended December 31, 2004 and 2003, respectively. As of December 31, 2004 our commitments under these contracts are $341.2 million in 2005, $228.7 million in 2006, $154.7 million in 2007, $96.2 million in 2008, $89.0 million in 2009 and $271.1 million thereafter. These commitments are not reflected in our Financial Statements.

Employment Contracts

We have an Employment Agreement with Chief Financial Officer Brian B. Bird, which, as amended and approved by the Bankruptcy Court in its Order dated January 13, 2004, provides for him to serve as Chief Financial Officer, commencing December 1, 2003, and extends until the earlier of his termination of employment or December 1, 2005. For the first year of Mr. Bird's compensation package, he received a sign-on bonus, a base salary, performance-based incentive of up to 100% of his annual salary and a housing and commuting allowance. Mr. Bird's future incentive compensation is to be determined by the Board. Mr. Bird is also entitled to participate in our benefit plans available to executives, including, among other things, health, retirement, disability and life insurance benefits. The agreement also provides for severance if Mr. Bird is terminated for any reason other than Cause.

Environmental Liabilities

We are subject to numerous state and federal environmental regulations. Because laws and regulations applicable to our businesses are continually developing and are subject to amendment, reinterpretation and varying degrees of enforcement, we may be subject to, but can not predict with certainty the nature and amount of future environmental liabilities. The Clean Air Act Amendments of 1990 (the Act) stipulate limitations on sulfur dioxide and nitrogen oxide emissions from coal-fired power plants. We believe we can comply with such sulfur dioxide emission requirements at the generating plants serving our South Dakota operations and that we are in compliance with all presently applicable environmental protection requirements and regulations with respect to these plants. We also are subject to other environmental statutes and regulations including those that relate to former manufactured gas plant sites and other past and present operations and facilities. In addition, we may be subject to financial liabilities related to the investigation and remediation from activities of previous owners or operators of our industrial and generating facilities. The range of exposure for environmental remediation obligations at present is estimated to range between $45.3 million to $84.1 million. Our environmental reserve accrual is $45.3 million as of December 31, 2004.

Our subsidiary, CFB owns the Milltown Dam hydroelectric facility, a two megawatt generation facility located at the confluence of the Clark Fork and Blackfoot Rivers. In April 2003, the Environmental Protection Agency (EPA) announced its proposed remedy to address the mining waste contamination located in the Milltown Reservoir. This remedy proposed partial removal of the contaminated sediments located within the Milltown Reservoir, together with the removal of the Milltown Dam and powerhouse (this remedy was incorporated into the EPA's formal Record of Decision issued on December 20, 2004). In light of this announcement, we commenced negotiations with the Atlantic Richfield Company or Atlantic Richfield, to prevent a challenge from Atlantic Richfield to our statutorily exempt status under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) as a potentially responsible party. On September 10, 2003, we executed a confidential settlement agreement with Atlantic Richfield which, among other things, capped our maximum contribution towards remediation of the Milltown Reservoir superfund site. A motion to approve the settlement agreement with Atlantic Richfield was filed with the Bankruptcy Court on October 17, 2003. On April 7, 2004 we entered into a stipulation (Stipulation) with Atlantic Richfield, the EPA, the Department of the Interior, the State of Montana and the Confederated Salish and Kootenai Tribes (collectively the Government Parties), which is intended to resolve both our liability with Atlantic Richfield in general accordance with the previously negotiated settlement agreement and establish a framework to resolve our liability with the Government Parties for their claims, including natural resource restoration claims, against NorthWestern as they relate to remediation of the Milltown Site. The Stipulation caps NorthWestern's and CFB's collective liability to Atlantic Richfield and the Government Parties at $11.4 million. On June 22, 2004 the Bankruptcy Court approved the Stipulation and the funding of the Atlantic Richfield settlement, as modified by the Stipulation. The amount of the stipulated liability has been fully accrued in the accompanying financial statements. Pursuant to the Stipulation, commencing in August 2004 and each month thereafter, we pay $500,000 alternately into two escrow accounts, one for the State of Montana and one for Atlantic Richfield, until the total agreed amount is funded. No interest will accrue on the unpaid balance due, and the escrow accounts will remain funded until a final, nonappealable consent decree is entered by the United States District Court. If, however, a consent decree (i) is not executed by the relevant parties, (ii) is not approved by the United States District Court, or (iii) does not become fully effective, then all funds in the escrow accounts will continue to be held in trust pending further court order. The Stipulation incorporates appropriate releases and indemnifications from Atlantic Richfield under the previously negotiated settlement agreement. There can be no assurance that the settlement set forth in the Stipulation will become effective, as the parties to this matter continue to negotiate the terms and conditions of the consent decree.

In anticipation of completion of the consent decree negotiations, CFB filed an application to amend its FERC operating license to allow for the commencement of Stage 1 of the EPA's proposed plan for the remediation of the Milltown Reservoir superfund site. Stage 1 activities anticipated the permanent drawdown of the Milltown Reservoir and the construction of: (i) the Clark Fork River bypass channel, (ii) a railroad spur to facilitate loading of contaminated sediments to be removed from the reservoir, and (iii) certain equipment access roads. All such construction activity was to take place within FERC jurisdictional areas. On January 19, 2005, the FERC issued an order dismissing CFB's application, and issuing a notice of intent to accept surrender of CFB's operating license. Based on certain incorrect assumptions made by the FERC (particularly with respect to the existence of a completed and executed consent decree for the Milltown Reservoir superfund site as of the date of the order), the FERC transferred its complete jurisdiction over the Milltown facility to the EPA and concluded that, based on certain actions to take place during the Stage 1 activities, that such actions demonstrate CFB's intent to surrender its operating license. Moreover, based upon the operation of Section 121(e) of CERCLA, the FERC concluded that CFB need not file a formal license surrender application. Due to the FERC's reliance upon certain incorrect assumptions, all relevant parties to the Milltown superfund consent decree negotiations concluded that the order created certain unacceptable risks due, in large part, to the fact that a consent decree addressing the rights and obligations of the various parties with respect to implementation of the Milltown remedial action and restoration plan has not been fully negotiated and approved by the federal district court in Montana. As a result, EPA, the State of Montana, the Atlantic Richfield Company and CFB all filed comments with the FERC on February 18, 2005, requesting that the FERC modify its order to continue jurisdiction over the Milltown facility until entry of a final consent decree.

Legal Proceedings

As a result of the Chapter 11 filing for the period from September 14, 2003 through November 1, 2004, attempts by third parties to collect, secure or enforce remedies with respect to most prepetition claims against us were subject to the automatic stay provisions of Section 362(a) of Chapter 11.

On October 19, 2004 the Bankruptcy Court entered a written order confirming our plan of reorganization. On October 25, 2004 Magten Asset Management Corporation (Magten) filed a notice of appeal of such order seeking, among other things, a reversal of the confirmation order. In connection with this appeal, Magten filed motions with the Bankruptcy Court and the United States District Court for the District of Delaware seeking a stay of the enforcement of the confirmation order to prevent our plan of reorganization from becoming effective. On October 25, 2004 the Bankruptcy Court denied Magten's motion for a stay, and on October 29, 2004, the Delaware District Court denied Magten's motion for a stay. With no stay imposed, our plan of reorganization became effective November 1, 2004. On December 31, 2004 a notice was filed that our plan of reorganization has been substantially consummated. In March 2005, we filed a motion to dismiss the appeal on equitable mootness grounds. While we cannot currently predict the impact or resolution of Magten's appeal of the confirmation order, we intend to vigorously defend against the appeal.

On May 4, 2004, Netexit and its subsidiaries filed for bankruptcy protection under chapter 11 of the U.S. Bankruptcy Code. A creditors committee has been formed which is composed of creditors who had pending lawsuits and claims against Netexit at the time of filing for bankruptcy. Netexit and its subsidiaries filed a liquidating plan of reorganization on February 28, 2005 and a hearing on the disclosure statement is scheduled for April 5, 2005. The creditors committee has sent NorthWestern and Netexit a notice that it will be seeking bankruptcy court approval to file an avoidance or subordination claim against NorthWestern if Netexit and its subsidiaries do not. We intend to vigorously defend against the creditors committee claim if filed in Netexit's bankruptcy case, but we cannot currently predict the impact or resolution of such creditors committee action on NorthWestern's claim in Netexit's bankruptcy case.

We, and certain of our present and former officers and directors, were named as defendants in numerous complaints purporting to be class actions which were filed in the United States District Court for the District of South Dakota, Southern Division, alleging violations of Sections 11, 12 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. In June 2003, the complaints were consolidated in the United States District Court for the District of South Dakota and given the caption *In Re NorthWestern Corporation Securities Litigation*, Case No. 03-4049, and Carpenters Pension Trust for Southern California, Oppenheim Investment Management, LLC, and Richard C. Slump were named as co-lead plaintiffs (the "Lead Plaintiffs"). In July 2003, the Lead Plaintiffs filed a consolidated amended class action complaint naming NorthWestern, NorthWestern Capital Financing II and III, Blue Dot, Expanets, certain of our present and former officers and directors, along with a number of investment banks that participated in the securities offerings. The amended complaint alleges that the defendants misrepresented and omitted material facts concerning the business operations and financial performance of NorthWestern, Expanets, Blue Dot and CornerStone, overstated NorthWestern's revenues and earnings by, among other things, maintaining insufficient reserves for accounts receivable at Expanets, failing to disclose billing problems and lapses and data conversion problems, failing to make full disclosures of problems (including the billing and data conversion issues) arising from the implementation of Expanets' EXPERT system, concealing losses at Expanets and Blue Dot by improperly allocating losses to minority interest shareholders, maintaining insufficient internal controls, and profiting from improper related-party transactions. We, and certain of our present and former officers and directors, were also named as defendants in two complaints purporting to be class actions which were filed in the United States District Court for the Southern District of New York, entitled Sanford & Beatrice Golman Family Trust, et al. v. NorthWestern Corp., et al., Case No. 03CV3223, and Arthur Laufer v. Merle Lewis, et al., Case No. 03CV3716, which were brought on behalf of the purchasers of our 7.20%, 8.25%, and 8.10% trust preferred securities which were offered and sold pursuant to our registration statement on Form S-3 filed on July 12, 1999. The plaintiffs' claims are based on similar allegations of material misrepresentations and omissions of fact relating to the registration statement in violation of Sections 11 and 12 of the Securities Act of 1933, and they seek unspecified compensatory damages, rescission and attorneys', accountants' and experts' fees. In July 2003, Arthur Laufer v. Merle Lewis, et al. was transferred to the District of South Dakota and consolidated with the consolidated actions pending in that court. In September 2003, Sanford & Beatrice Golman Family Trust, et al. v. NorthWestern Corp., et al. was also transferred to the District of South Dakota and consolidated with the consolidated actions. In February 2004, the Golman Family Trust action was also consolidated with the actions pending in that court. The actions have been stayed as to NorthWestern Corporation due to its bankruptcy filing. In October 2003, Expanets, Blue Dot, and certain of NorthWestern's present and former officers and directors filed motions to dismiss the consolidated amended class action complaint for failure to state a claim, which are currently pending in the District of South Dakota.

Certain of our present and former officers, former directors and NorthWestern, as a nominal defendant, have been named in two shareholder derivative actions commenced in the United States District Court for the District of South Dakota, Southern Division, entitled Deryl Lusty, et al. v. Richard R. Hylland, et al., Case No. CIV034091 and Jerald and Betty Stewart, et al. v. Richard R. Hylland, et al., Case No. CIV034114. These shareholder derivative lawsuits allege that the defendants breached various fiduciary duties based upon the same general set of alleged facts and circumstances as the federal shareholder suits. The plaintiffs seek unspecified compensatory damages, restitution of improper salaries, insider trading profits and payments from NorthWestern, and disgorgement under the Sarbanes-Oxley Act of 2002. In July 2003, the complaints were consolidated in the United States District Court for the District of South Dakota and given the caption In re NorthWestern Corporation Derivative Litigation, Case No. 03-4091. In October 2003, the action was stayed pending a ruling on defendants' motions to dismiss in the related securities class action, *In re NorthWestern Corporation Securities Litigation*. On November 6, 2003, the Bankruptcy Court entered an order preliminarily enjoining the plaintiffs in *In re NorthWestern Corporation Derivative Litigation* from prosecuting the litigation against NorthWestern, its subsidiaries and its current and former officers and directors until further order of the Bankruptcy Court. On February 15, 2005, the Bankruptcy Court vacated its preliminary injunction order. The federal court has been advised of the Bankruptcy Court's order.

On February 7, 2004, the parties to the above consolidated securities class actions and consolidated derivative litigation, together with certain other affected persons and parties, reached a tentative settlement of the litigation. On April 19, 2004, the parties and other affected persons signed a memorandum of understanding (MOU) which memorialized the tentative settlement. On June 16, 2004, the parties and other affected persons signed a settlement agreement memorializing the tentative settlement and addressing various issues necessary for federal court approval. We obtained approval of the MOU in the NorthWestern and Netexit bankruptcy cases on October 7, 2004 and September 15, 2004, respectively. Prior to those approvals from the Bankruptcy Court in both the NorthWestern and Netexit bankruptcy cases, the federal court in Sioux Falls granted preliminary approval of the settlement agreement pending a fairness hearing on December 13, 2004. On January 14, 2004 the federal court finally approved the settlement *In Re NorthWestern Securities Litigation* and no timely appeals have been filed. The federal court delayed its final approval on *In Re NorthWestern Derivative Litigation* pending bankruptcy court dismissal of its stay of the derivative litigation. Among the terms of the settlement, we, Expanets, Blue Dot and other parties and persons are released from all claims to these cases, a settlement fund in the amount of $41 million (of which approximately $37 million would be contributed by our directors and officers liability insurance carriers, and $4 million would be contributed from other persons and parties) is established, and the plaintiffs have a $20 million liquidated securities claim against Netexit. Claims by our current and former officers and directors for indemnification for these proceedings will be channeled into the Directors and Officers Trust under the Plan.

On October 26, 2004 Magten filed a notice of appeal of the Bankruptcy Court's approval of the MOU. Magten's appeal of the confirmation order and the order approving the MOU have been consolidated. In March 2005 we moved to dismiss both appeals on equitable mootness grounds. While we cannot currently predict the impact or resolution of the appeals and our motion to dismiss, we intend to vigorously prosecute our dismissal motion and defend against the appeals as noted.

In December 2003, the SEC notified NorthWestern that it had issued a formal order of private investigation and subsequently subpoenaed documents from NorthWestern, NorthWestern Communications Solutions, Expanets and Blue Dot. This development followed the SEC's requests for information made in connection with the previously disclosed SEC informal inquiry into questions regarding the restatements and other accounting and financial reporting matters. Since December 2003, we have periodically received and continue to receive subpoenas from the SEC requesting documents and testimony from employees regarding these matters. The SEC investigation will continue and any claims alleging violations of federal securities laws made by the SEC will not be extinguished pursuant to our plan of reorganization. In addition, certain of our directors and several employees of NorthWestern and our subsidiary affiliates have been interviewed by representatives of the Federal Bureau of Investigation (FBI) concerning certain of the allegations made in the class action securities and derivative litigation matters. We have not been advised that NorthWestern is the subject of any FBI investigation. We understand that the FBI and the Internal Revenue Service (IRS) have contacted former employees of ours or our subsidiaries. As of the date hereof, we are not aware of any other governmental inquiry or investigation related to these matters. We are cooperating with the SEC's investigation and intend to cooperate with the FBI and IRS if we are contacted in connection with any investigation. We cannot predict whether or not any other governmental inquiry or investigation will be commenced. We cannot predict when the SEC investigation will be completed or its outcome. If the SEC determines that we have violated federal securities laws and institutes civil enforcement proceedings against us, for which we can provide no assurance, we may face sanctions, including, but not limited to, monetary penalties and injunctive relief and any monetary liability incurred by us may be material to our financial position or results of operations.

In January 2004, two of the QFs—Colstrip Electric Limited Partnership (CELP) and Yellowstone Electric Limited Partnership (YELP)—initiated adversary proceedings against NorthWestern in our Chapter 11 proceedings. In the CELP adversary proceeding, CELP seeks additional payment for capacity contracted to be provided to NorthWestern under its existing power purchase agreement. In addition, we intervened in a FERC proceeding, which places at issue the QF status of CELP. A FERC judge initially has ruled that CELP is a QF; we filed an appeal with the FERC on October 12, 2004 and the FERC's response is pending. In the YELP adversary proceeding, YELP seeks a determination of when and who has the right to determine the scheduling of maintenance on the power facility. We have obtained approval in our bankruptcy case for assumption of an amended agreement with YELP and a settlement with YELP which resolves prepetition claims, lowers the overall energy cost and eliminates the distinction in the previous agreement between summer and winter pricing. We intend to vigorously defend against the CELP adversary proceedings. In the opinion of management, the amount of ultimate liability with respect to the CELP adversary proceedings will not materially affect our financial position or results of operations.

On April 16, 2004 Magten and Law Debenture Trust Company of New York (Law Debenture) initiated an adversary proceeding, the QUIPs Litigation, against NorthWestern seeking among other things, to void the transfer of certain assets of CFB to us. In essence, Magten and Law Debenture are asserting that the transfer of the transmission and distribution assets acquired from the Montana Power Company was a fraudulent conveyance because such transfer left CFB insolvent and unable to pay certain claims. The plaintiffs also assert that they are creditors of CFB as a result of Magten owning a portion of the Series A 8.5% Quarterly Income Preferred Securities for which Law Debenture serves as the Indenture Trustee. By its adversary proceeding, the plaintiffs seek, among other things, the avoidance of the transfer of assets, declaration that the assets were fraudulently transferred and are not property of our bankruptcy estate, the imposition of constructive trusts over the transferred assets and the return of such assets to CFB. In August 2004, the Bankruptcy Court granted in part, but denied in part our motion to dismiss the QUIPs Litigation. (In addition to the adversary proceeding filed by Magten and Law Debenture, the plaintiffs in the class action lawsuit entitled McGreevey, et al v. Montana Power Company, et al received approval in our bankruptcy case to initiate similar adversary proceedings. Under the terms of the settlement with the plaintiffs in the McGreevey case discussed below, they would not file such proceeding.) On April 19, 2004, Magten also filed a complaint against certain former and current officers of CFB in U.S. District Court in Montana, seeking compensatory and punitive damages for breaches of fiduciary duties by such officers. Those officers have requested CFB to indemnify them for their legal fees and costs in defending against the lawsuit and any settlement and/or judgment in such lawsuit. On February 9, 2005 we agreed to settlement terms with Magten and Law Debenture to release all claims, including Magten and Law Debenture's fraudulent conveyance action pending against each other for Magten and Law Debenture receiving the distribution of new common stock and warrants from Class 8(b) in the same amounts as if they had voted to accept the Plan and a distribution from Class 9 of new common stock in the amount of approximately $17.4 million. Prior to seeking approval from the Bankruptcy Court, certain major shareholders and the Plan Committee objected to the settlement on both its economic terms and asserting that the structure of the settlement violated the Plan. After reviewing the objections and undertaking our own analysis of the potential Plan violation, we informed Magten and Law Debenture as well as the Plan Committee and the objecting major shareholders that we would not proceed with the settlement. Magten and Law Debenture have filed a motion with our Bankruptcy Court seeking approval of the settlement. A hearing was held on such motion on March 8, 2005. The Bankruptcy Court took this matter under advisement and entered an order denying the motion filed by Magten and Law Debenture on March 10, 2005. At this time, we cannot predict the impact of the resolution of any of these lawsuits or reasonably estimate a range of possible loss, which could be material. The resolution of these lawsuits could harm our business and have a material adverse impact on our financial condition. We intend to vigorously defend against the adversary proceeding and any subsequently filed similar litigation. The plaintiffs' claims with respect to the QUIPs Litigation will be treated as general unsecured, or Class 9, claims and will be satisfied out of the share reserve that we established with respect to the Class 9 disputed claims reserve under the plan of reorganization.

We are one of several defendants in a class action lawsuit entitled McGreevey, et al. v. The Montana Power Company, et al, now pending in U.S. District Court in Montana. The lawsuit, which was filed by former shareholders of The Montana Power Company (most of whom became shareholders of Touch America Holdings, Inc. as a result of a corporate reorganization of the Montana Power Company), claims that the disposition of various generating and energy-related assets by The Montana Power Company were void because of the failure to obtain shareholder approval for the transactions. Plaintiffs thus seek to reverse those transactions, or receive fair value for their stock as of late 2001, when plaintiffs claim shareholder approval should have been sought. NorthWestern is named as a defendant due to the fact that we purchased Montana Power LLC, which plaintiffs claim is a successor to the Montana Power Company.

On November 6, 2003, the Bankruptcy Court approved a stipulation between NorthWestern and the plaintiffs in McGreevey, et al. v. The Montana Power Company, et al. The stipulation provides that litigation, as against NorthWestern, CFB, The Montana Power Company, Montana Power LLC and Jack Haffey, shall be temporarily stayed for 180 days from the date of the stipulation. The stay has been extended. Pursuant to the stipulation and after providing notice to NorthWestern, the plaintiffs may move the Bankruptcy Court for termination of the temporary stay. On July 10, 2004, we and the other insureds under the applicable directors and officers liability insurance policies along with the plaintiffs in the McGreevey case, plaintiffs in the *In Re Touch America Holdings, Inc. Securities Litigation* and the Touch America Creditors Committee reached a tentative settlement through mediation. Among the terms of the tentative settlement, we, CFB and other parties will be released from all claims in this case, the plaintiffs in McGreevey will dismiss their claims against the third party purchasers of the generation assets and non-regulated energy assets of Montana Power Company including PPL Montana, and a settlement fund in the amount of $67 million (all of which will be contributed by the former Montana Power Company directors and officers liability insurance carriers) will be established. The settlement is subject to the occurrence of several conditions, including approval of the proposed settlement by the Bankruptcy Court in our bankruptcy proceeding, and approval of the proposed settlement by the Federal District Court for the District of Montana, where the class actions are pending. We cannot predict the ultimate outcome of this litigation in the event that the settlement is not approved, or does not take effect for any other reason. If for any reason the settlement is not approved, then we intend to vigorously defend against this lawsuit. If we are unsuccessful in defending against this class action lawsuit, the plaintiffs' litigation claims would be subordinated to our other debt under our Plan, and such claims would be treated as securities, or Class 14, claims under our plan of reorganization, and would be entitled to no recovery against NorthWestern under our Plan. Claims by our current and former officers and directors (and the former officers and directors of The Montana Power Company) for indemnification for these proceedings would be channeled into the Directors and Officers Trust established by the Plan. The plaintiffs could elect to proceed directly against CFB and the assets owned by such entity, which as of December 31, 2004 were not material to our operations or financial position. We cannot currently predict the impact or resolution of this litigation or reasonably estimate a range of possible loss, which could be material, and the resolution of this lawsuit may harm our business and have a material adverse impact on our financial condition.

In NorthWestern Corporation vs. PPL Montana, LLC vs. NorthWestern Corporation and Clark Fork and Blackfoot, LLC, No. CV-02-94-BU-SHE, (D. MT), we are pursuing claims against PPL Montana, LLC (PPL) due to its refusal to purchase the Colstrip transmission assets under the Asset Purchase Agreement (APA) executed by and between The Montana Power Company (MPC) and PP&L Global, Inc. (PPL Global). NorthWestern claims PPL (PPL Global's successor-in-interest under the APA) is required to purchase the Colstrip transmission assets for $97.1 million. PPL has also asserted a number of counterclaims against NorthWestern and CFB based in large part upon PPL's claim that MPC and/or NorthWestern Energy breached two Wholesale Transition Service Agreements and certain indemnification obligations under the APA in the approximate amount of $120 million. PPL also filed a proof of claim and an amended proof of claim against NorthWestern's bankruptcy estate which asserts substantially the same claims as the PPL counterclaim. PPL moved the Bankruptcy Court for relief from the automatic stay to pursue its counterclaims. NorthWestern objected to PPL's motion to lift the automatic stay and has also filed a motion to transfer the venue of the entire litigation to the United States District Court for the District of Delaware. On March 19, 2004 the federal court in Montana denied our motion to transfer the entire case. Thereafter, our Bankruptcy Court transferred all the claims for resolution to the federal court in Montana. We intend to vigorously defend against the PPL claims in federal court as well as vigorously prosecute our claims against PPL. We cannot currently predict the impact or resolution of the claims or this litigation or reasonably estimate a range of possible loss on the counterclaims, which could be material to the disputed claims reserve. PPL's counterclaims with respect to this litigation will be treated as general unsecured, or Class 9, claims and will be satisfied out of the share reserve that we established with respect to the Class 9 disputed claims reserve under the plan of reorganization.

We are also one of several defendants in a class action lawsuit entitled *In Re Touch America ERISA Litigation*, which is currently pending in U.S. District Court in Montana. The lawsuit was filed by participants in the former Montana Power Company retirement savings plan and alleges that there was a breach of fiduciary duty in connection with the employee stock ownership aspects of the plan. The court has recently entered orders indefinitely staying the ERISA litigation because of Touch America

Holdings Inc.'s bankruptcy filing. We intend to vigorously defend against these lawsuits. We cannot currently predict the impact or resolution of this litigation or reasonably estimate a range of possible loss, which could be material, and the resolution of this lawsuit may harm our business and have a material adverse impact on our financial condition. We believe that in the event of a judgment against us in this litigation, we will be able to make claims against The Montana Power Company's fiduciary insurance policy. Any judgment against us in excess of policy limits would be treated as unsecured general, or Class 9, claims and would be satisfied out of the share reserve that we have established.

We, and certain of our former officers and directors, were named as defendants in certain complaints filed against CornerStone Propane Partners, LP and other defendants purporting to be class actions filed in the United States District Court for the Northern District of California by purchasers of units of CornerStone Propane Partners alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. Through November 1, 2002, we held an economic equity interest in a subsidiary that serves as the managing general partner of CornerStone Propane Partners, LP. Certain former officers and directors of NorthWestern who are named as defendants in certain of these actions have also been sued in their capacities as directors of the managing general partner. These complaints allege that defendants sold units of CornerStone Propane Partners based upon false and misleading statements and failed to disclose material information about CornerStone Propane Partners' financial condition and future prospects, including overpayment for acquisitions, overstating earnings and net income, and that it lacked adequate internal controls. All of the lawsuits have now been consolidated and Gilbert H. Lamphere has been named as lead plaintiff. The actions have been stayed as to NorthWestern due to its bankruptcy filing. On October 27, 2003, the plaintiffs filed an amended consolidated class action complaint. The new complaint does not name NorthWestern as a defendant, although it alleges facts relating to NorthWestern's conduct. Certain of our former officers and directors are named as defendants in the amended consolidated complaint. The plaintiffs seek compensatory damages, prejudgment and postjudgment interest and costs, injunctive relief, and other relief. On November 6, 2003, the Bankruptcy Court entered an order approving a stipulation between NorthWestern and plaintiffs in this litigation. The stipulation provides that litigation as against NorthWestern shall be temporarily stayed for 180 days from the date of the stipulation. The stay has been extended. Pursuant to the stipulation and after providing notice to NorthWestern, the plaintiffs may move the Bankruptcy Court for termination of the temporary stay. On March 2, 2004, the plaintiffs filed a corrected consolidated amended complaint against CornerStone and the individual defendants, which also did not name NorthWestern. In June 2004, CornerStone Propane Partners, LP along with its subsidiaries and affiliates filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. As a result of that filing this case is now stayed against CornerStone Propane Partners and other named subsidiaries and affiliates. If we are named in the lawsuit, we intend to vigorously defend any claims asserted against us by these lawsuits. To the extent such claims are prepetition claims, such claims would be extinguished under the confirmation order. If the claims are not extinguished, the plaintiffs' claims with respect to this litigation would be treated as securities, or Class 14, claims and would be entitled to no recovery under the plan of reorganization. Any claims in this litigation for indemnification from our officers and directors, would be channeled into the Directors and Officers Trust to the extent that they are indemnification claims.

We were named in a complaint filed against us, CornerStone Propane GP, Inc., CornerStone Propane Partners LP and other defendants in a lawsuit entitled Leonard S. Mewhinney, Jr. v. NorthWestern Corporation, et al. in the circuit court of the city of St. Louis, state of Missouri. The complaint alleges that the plaintiff purchased units of Cornerstone Propane Partners, LP between March 13, 1998 and November 29, 2001 and that NorthWestern owned and controlled all or the majority of stock or other indicia of ownership of Cornerstone Propane, GP, Inc. and all other entities that were the general partners of Cornerstone Propane Partners, LP. According to the plaintiff, NorthWestern, Cornerstone Propane GP, Inc., Coast Gas, Inc. and Cornerstone Propane Partners, LP breached fiduciary duties to the plaintiff by engaging in certain misconduct, including mismanaging Cornerstone Propane Partners, LP and transferring its assets for less than market value and other activities. The complaint further alleges that the defendants fraudulently failed to disclose material information regarding the value of units of Cornerstone Propane Partners, LP and violated the Florida Securities Act in connection with the sale of such units. The plaintiff seeks compensatory damages, punitive damages and costs. The complaint was amended to add a state class action claim. All defendants filed a petition to remove the case to the federal court in St. Louis, Missouri, but the federal court granted plaintiff's motion to remand. The case has now been stayed against NorthWestern and CornerStone due to their bankruptcy filings. Any claim arising from this lawsuit has been channeled to the Directors and Officers Trust under the confirmation order.

Certain of our present and former officers and directors, and CornerStone Propane Partners, LP, as a nominal defendant, are among other defendants named in two derivative actions commenced in the Superior Court for the State of California, County of Santa Cruz, entitled Adelaide Andrews v. Keith G. Baxter, et al., Case No. CV146662 and Ralph Tyndall v. Keith G. Baxter, et al., Case No. CV146661. These derivative lawsuits allege that the defendants breached various fiduciary duties based upon the same general set of alleged facts and circumstances as the federal unitholder suits. The plaintiffs seek unspecified compensatory damages, treble damages pursuant to the California Corporations Code, injunctive relief, restitution, disgorgement, costs, and other relief. The case has now been stayed against CornerStone due to its bankruptcy filing. Claims by our current and former officers and directors for indemnification with respect to these proceedings would be channeled into the Directors and Officers Trust under the terms of the Plan.

On April 30, 2003, Mr. Richard Hylland, our former President and Chief Operating Officer, filed a demand for arbitration of contract claims under his employment agreement, as well as tort claims for defamation, infliction of emotional distress and tortious interference and a claim for punitive damages. Mr. Hylland is seeking relief in the amount of $25 million, plus interest, attorney's fees, costs, and punitive damages. Mr. Hylland has also filed claims in our bankruptcy case similar to the claims in his arbitration demand. We dispute Mr. Hylland's claims and intend to vigorously defend the arbitration and object to Mr. Hylland's claims in our bankruptcy case. On May 6, 2003, based on the recommendations of the Special Committee of the NorthWestern Board of Directors formed to evaluate Mr. Hylland's performance and conduct in connection with the management of NorthWestern and its subsidiaries, the Board determined that Mr. Hylland's performance and conduct as President and Chief Operating Officer warranted termination under his employment contract. This arbitration will proceed under the terms of the order confirming the Plan, and we have obtained a timetable from the arbitrator. Mr. Hylland's claims with respect to this proceeding would be treated as unsecured general, or Class 9, claims and would be satisfied out of the share reserve that we have established.

On August 12, 2003, the Montana Consumer Counsel (MCC) filed a Petition for Investigation, Adoption of Additional Regulatory Controls and Related Relief with the Montana Public Service Commission (MPSC). On August 22, 2003, the MPSC issued an order initiating an investigation of NorthWestern Energy relating to, among others, finances, corporate structure, capital structure, cash management practices and affiliated transactions. The relief sought includes adoption of new regulatory controls that would specifically apply to NorthWestern, including additional reporting, cost allocation and financing rules and requirements, and examination of affiliate transactions necessary to ensure that we are not operating our energy division, and will not in the future operate, in a manner that would prejudice our ability to furnish reasonably adequate service and facilities at reasonable and just charges as required under Montana law. We have entered into a settlement of this matter with the MPSC and MCC, which was approved by the Bankruptcy Court on July 15, 2004, and thereafter by the MPSC, and this proceeding will be closed except for the ongoing review and consideration of recommendations related to an infrastructure audit conducted by a consultant. We are currently reviewing these recommendations and have not yet determined the estimated financial impact they may have on our results of operations. As part of the settlement, we agreed to pay approximately $2.8 million of professional fees incurred by the MPSC, the MCC and the Montana Attorney General in connection with our bankruptcy filing. These fees were paid upon emergence from bankruptcy.

Expanets and NorthWestern have been named defendants in two complaints filed with the Supreme Court of the State of New York, County of Bronx, alleging violations of New York's prevailing wage laws, breach of contract, unjust enrichment, willful failure to pay wages, race, ethnicity, national origin and/or age discrimination and retaliation. In the complaint entitled Felix Adames et al. v. Avaya, Expanets, NorthWestern et al., Supreme Court of the State of New York, Bronx County, Index No. 8664-04, which has not yet been served upon Expanets, 14 former employees of Expanets seek damages in the amount of $27,750,000, plus interest, penalties, punitive damages, costs, and attorney's fees. In the complaint entitled Wayne Belnavis and David Daniels v. Avaya, Expanets, NorthWestern et al., Supreme Court of the State of New York, Bronx County, Index No. 8729-04, two former employees of Expanets seek damages in the amount of $12,500,000, plus interest, penalties, punitive damages, costs, and attorney's fees. Avaya Inc. has sent NorthWestern and subsidiaries a notice seeking indemnification and defense for these lawsuits under the asset purchase agreement. We have responded by accepting in part and rejecting in part the indemnification request. As a result of the Netexit bankruptcy, the cases were removed to federal court in New York and Netexit was dismissed from the lawsuit. NorthWestern and Avaya were dismissed as defendants by the plaintiffs. These claims against Netexit will be subject to the claims process of the Netexit bankruptcy proceeding. We intend to vigorously defend against the allegations made in these claims. We cannot currently predict the impact or resolution of these claims or reasonably estimate a range of possible loss.

Netexit is also subject to an investigation by the New York City Comptroller's Office over the same prevailing wage allegations set forth in the Adames and Belnavis lawsuits. The Comptroller's Office scheduled a hearing before the Office of Administrative Trials and Hearings, which hearing is now stayed pending the Bankruptcy Court's decision on its rule to show cause why the Comptroller's Office should not be held in contempt of court. The Comptroller's Office also filed claims in the Netexit bankruptcy and will be subject to the claims process in the bankruptcy case. Avaya Inc. has sent NorthWestern and subsidiaries a notice seeking indemnification and defense for these lawsuits under the asset purchase agreement. We have responded by accepting in part and rejecting in part the indemnification request. We intend to vigorously defend against the allegations made in these claims. We cannot currently predict the impact or resolution of these claims or reasonably estimate a range of possible loss.

On March 17, 2004, certain minority shareholders of Expanets filed a lawsuit against Avaya Inc., Expanets, NorthWestern Growth Corporation, and Merle Lewis, Dick Hylland and Dan Newell entitled Cohen et al. v Avaya Inc., et al. in U.S. District Court in Sioux Falls, South Dakota contending that (i) the defendants fraudulently induced the shareholders to sell their businesses to Expanets during 1998 and 1999 in exchange for Expanets stock which would have value only if Expanets went public, when in fact no IPO was intended, and (ii) the defendants and NorthWestern (a) hid the true financial condition of NorthWestern, NorthWestern Growth and Expanets, (b) permitted internal controls to lapse, (c) failed to document loans by NorthWestern to Expanets, and (d) allowed the individual defendants to realize millions of dollars in bonus payments at the expense of Expanets and its minority shareholders. The lawsuit alleges federal and state securities laws violations and breaches for fiduciary duties. The plaintiffs have recently filed an amended complaint that reflects one less plaintiff and a clarification on the damages that they seek. In addition, Avaya Inc. has sent NorthWestern a notice seeking indemnification and defense for this lawsuit under the terms of the asset purchase agreement. We have responded by accepting in part and rejecting in part the indemnification request. The case has now been stayed against Expanets due to its bankruptcy filing. The defendants, including NorthWestern Growth Corporation, have filed motions to dismiss, which are pending and we have filed a formal objection to the claim the defendants filed in the bankruptcy case. Claims by our former officers and directors for indemnification for these proceedings would be channeled in to the Directors and Officers Trust established pursuant to NorthWestern's Plan. The plaintiff's litigation claims against Netexit would be subordinated to NorthWestern's debt and claims of general unsecured creditors in the Netexit bankruptcy, and therefore such claims would not be entitled to recovery. NorthWestern Growth Corporation intends to vigorously defend against this lawsuit. We cannot currently predict the impact or resolution of this litigation or reasonably estimate a range of possible loss, which could be material.

Relative to Colstrip Unit 4's long-term coal supply contract with Western Energy Company, Mineral Management Service of the United States Department of Interior issued orders to Western Energy Company (WECO) in 2002 and 2003 to pay additional royalties concerning coal sold to Colstrip Units 3 and 4. The orders assert that additional royalties are owed as a result of WECO not paying royalties under a coal transportation agreement from 1991 through 2001. WECO has appealed these orders and we are monitoring the process. WECO has asserted that any potential judgment would be considered a pass-through cost under the coal supply agreement. Based on our review, we do not believe any potential judgment would qualify as a pass-through cost under the terms of the coal supply agreement. Neither the outcome of this matter nor the associated costs can be predicted at this time.

Each year we submit a natural gas tracker filing for recovery of natural gas costs. The MPSC reviews such filings and makes a determination as to whether or not our natural gas procurement activities were prudent. If the MPSC finds that we have not exercised prudence, it can disallow such costs. For the tracker period ending June 30, 2003, the MPSC issued a final order relating to that period, which included a disallowance of $6.2 million of natural gas costs. We filed a motion for reconsideration regarding the disallowance of purchased natural gas cost with the MPSC on July 14, 2003, which was denied. Since we believe that the natural gas procurement activities in question were not imprudent we filed suit in district court on July 28, 2003, seeking to overturn the MPSC's decision to disallow recovery of these costs. At this time, this matter has been suspended pending settlement discussions with the MPSC.

We are also subject to various other legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect our financial position or results of operations.

Disputed Claims Reserve

Upon consummation of our plan of reorganization, we established a reserve of approximately 4.4 million shares of common stock from the shares allocated to holders of our trade vendor claims in excess of $20,000 and holders of Class 9 unsecured claims. The shares held in this reserve may be used to resolve various outstanding unsecured claims and unliquidated litigation claims, as these claims were not resolved or deemed allowed upon consummation of our plan of reorganization. If these claims ultimately exceed the reserve, then such claimants could request the bankruptcy court to amend our plan of reorganization to allow for payment of the claims in excess of the reserve. We have surrendered control over the common stock provided and the shares reserve is administered by our transfer agent; therefore we recognized the issuance of the common stock upon emergence. If excess shares remain in the reserve after satisfaction of all obligations, such amounts would be reallocated pro rata to the allowed Class 7 and 9 claimants.

(21) Capital Stock

The Predecessor Company's Plan became effective and the Predecessor Company emerged from bankruptcy on November 1, 2004. The Predecessor Company applied fresh-start reporting effective October 31, 2004 and, as a result, reflected all shares of NorthWestern Corporation common stock as cancelled in accordance with the Plan.

Successor Company

The Successor Company is a Delaware corporation and filed a new certificate of incorporation (New Articles). The New Articles authorized 250,000,000 shares consisting of 200,000,000 shares of common stock with a $0.01 par value and 50,000,000 shares of preferred stock with a $0.01 par value. As a result of the Predecessor Company's emergence from bankruptcy, the Successor Company issued 35,500,000 shares of common stock in settlement of claims. Pursuant to the Plan, such stock had an agreed value of $710.0 million. Accordingly, the Successor Company recorded common stock and additional paid-in capital of $355,000 and $709.6 million, respectively, in the Balance Sheet as of October 31, 2004. In addition, the Plan reserved 2,265,957 shares of new common stock for the New Incentive Plan, of which 228,315 shares were issued for Special Recognition Grants (see Note 17).

In addition, concurrent with our emergence from bankruptcy we issued 4,620,333 warrants, each entitling the holder thereof to purchase one share of common stock, to certain holders of class 8(a) and 8(b) claims in settlement of their allowed claim. These warrants are exercisable from November 1, 2004 through November 1, 2007 at a strike price of $28.48. We recognized $3.8 million of expense associated with these warrants as a reduction of cancellation of indebtedness income.

Sch.19	MONTANA PLANT IN SERVICE - ELECTRIC (EXCLUDES UNIT 4)					
	Account Number & Title	This Year MT Cons. Utility	Yellowstone National Park	This Year Montana	Last Year Montana	% Change
1						
2	**Intangible Plant**					
3	301 Organization	$19,995	$ -	$19,995	$19,995	0.00%
4	302 Franchises and Consents	2,004	-	2,004	2,004	0.00%
5	303 Miscellaneous Intangible Plant	1,701,123	-	1,701,123	1,659,191	2.53%
6	**Total Intangible Plant**	1,723,122	-	1,723,122	1,681,190	2.49%
7						
8	**Production Plant**					
9						
10	**Steam Production**					
11	310 Land and Land Rights	-	-	-	-	-
12	311 Structures and Improvements	-	-	-	-	-
13	312 Boiler Plant Equipment	-	-	-	-	-
14	313 Engines, Engine Driven Generator	-	-	-	-	-
15	314 Turbogenerator Units	-	-	-	-	-
16	315 Accessory Electric Equipment	-	-	-	-	-
17	316 Misc. Power Plant Equipment	-	-	-	-	-
18	**Total Steam Production Plant**	-	-	-	-	-
19						
20	**Nuclear Production**					
21	320 - 325 Not Applicable	-	-	-	-	-
22	**Total Nuclear Production Plant**	-	-	-	-	-
23						
24	**Hydraulic Production**					
25	330 Land and Land Rights	-	-		2,082	-100.00%
26	331 Structures and Improvements	-	-	-	-	-
27	332 Reservoirs, Dams and Waterways	-	-	-	-	-
28	333 Water Wheel, Turbine, Generators	-	-	-	-	-
29	334 Accessory Electric Equipment	-	-	-	-	-
30	335 Misc. Power Plant Equipment	-	-	-	-	-
31	336 Roads, Railroads and Bridges	-	-	-	-	-
32	**Total Hydraulic Production Plant**	-	-	-	2,082	-100.00%
33						
34	**Other Production**					
35	340 Land and Land Rights					
36	341 Structures and Improvements	30,746	30,746	-	-	-
37	342 Reservoirs, Dams and Waterways	112,084	112,084	-	-	-
38	343 Water Wheel, Turbine, Generators	-	-	-	-	-
39	344 Accessory Electric Equipment	2,255,293	2,255,293	-	-	-
40	345 Misc. Power Plant Equipment	261,038	261,038	-	-	-
41	346 Roads, Railroads and Bridges	7,554	7,554	-	-	-
42	**Total Other Production Plant**	2,666,715	2,666,715	-	-	-
43	**Total Production Plant**	2,666,715	2,666,715	-	2,082	-100.00%

Sch. 19 cont.	MONTANA PLANT IN SERVICE - ELECTRIC (EXCLUDES UNIT 4)					
	Account Number & Title	This Year MT Cons. Utility	Yellowstone National Park	This Year Montana	Last Year Montana	% Change
1						
2	**Transmission Plant**					
3	350 Land and Land Rights	15,601,400	-	15,601,400	15,505,900	0.62%
4	352 Structures and Improvements	5,101,802	-	5,101,802	4,623,541	10.34%
5	353 Station Equipment	129,083,900	-	129,083,900	127,538,305	1.21%
6	354 Towers and Fixtures	23,506,203	-	23,506,203	23,243,555	1.13%
7	355 Poles and Fixtures	126,907,039	710,022	126,197,017	123,228,145	2.41%
8	356 Overhead Conductors & Devices	111,140,744	594,293	110,546,451	109,161,399	1.27%
9	357 Underground Conduit	137,878	102,286	35,592	35,592	0.00%
10	358 Undergrnd Conductors & Devices	1,410,535	554,036	856,499	856,499	0.00%
11	359 Roads and Trails	2,009,387	44,906	1,964,481	2,409,862	-18.48%
12	**Total Transmission Plant**	414,898,888	2,005,543	412,893,345	406,602,798	1.55%
13						
14	**Distribution Plant**					
15	360 Land and Land Rights	3,776,436	601	3,775,835	3,846,131	-1.83%
16	361 Structures and Improvements	5,255,893	141,867	5,114,026	5,000,743	2.27%
17	362 Station Equipment	99,579,977	1,975,474	97,604,503	94,215,027	3.60%
18	363 Storage Battery Equipment	-	-	-	-	-
19	364 Poles, Towers, and Fixtures	122,244,884	292,078	121,952,806	117,324,917	3.94%
20	365 Overhead Conductors & Devices	75,104,490	373,565	74,730,925	71,410,871	4.65%
21	366 Underground Conduit	32,994,559	163,415	32,831,144	27,915,543	17.61%
22	367 Undergrnd Conductors & Devices	83,933,541	2,610,332	81,323,209	77,155,728	5.40%
23	368 Line Transformers	138,688,593	715,091	137,973,502	133,401,854	3.43%
24	369 Services	69,005,110	223,061	68,782,049	65,269,120	5.38%
25	370 Meters	46,143,782	67,145	46,076,637	44,351,479	3.89%
26	371 Installations on Cust. Premises	-	-	-	-	-
27	372 Leased Property on Cust. Premises	-	-	-	-	-
28	373 Street Lighting and Signal Systems	44,846,572	19,872	44,826,700	40,454,934	10.81%
29	**Total Distribution Plant**	721,573,837	6,582,501	714,991,336	680,346,347	5.09%
30						
31	**General Plant**					
32	389 Land and Land Rights	402,661	-	402,661	407,767	-1.25%
33	390 Structures and Improvements	7,517,880	80,910	7,436,970	7,439,195	-0.03%
34	391 Office Furniture and Equipment	877,996	-	877,996	933,996	-6.00%
35	392 Transportation Equipment	22,406,865	87,696	22,319,169	20,946,865	6.55%
36	393 Stores Equipment	409,268	-	409,268	424,954	-3.69%
37	394 Tools, Shop & Garage Equipment	4,164,055	30,016	4,134,039	4,128,298	0.14%
38	395 Laboratory Equipment	3,698,913	5,645	3,693,268	3,942,295	-6.32%
39	396 Power Operated Equipment	2,270,415	-	2,270,415	2,153,450	5.43%
40	397 Communication Equipment	17,643,255	74,172	17,569,083	17,057,603	3.00%
41	398 Miscellaneous Equipment	199,769	52,026	147,743	150,665	-1.94%
42	399 Other Tangible Equipment	-	-	-	-	-
43	**Total General Plant**	59,591,077	330,465	59,260,612	57,585,088	2.91%
44	**Total Plant in Service**	1,200,453,639	11,585,224	1,188,868,415	1,146,217,505	3.72%
45						
46	4101 El Plant Allocated from Common	55,574,513	-	55,574,513	54,458,817	2.05%
47	105 El Plant Held for Future Use	-	-	-	-	-
48	107 El Construction Work in Progress	7,736,444	-	7,736,444	9,841,703	-21.39%
49	114.2 El Plant Acquisition Adjustment	3,106,285	-	3,106,285	3,106,285	-
50						
51	TOTAL ELECTRIC PLANT	$1,266,870,881	$11,585,224	$1,255,285,657	$1,213,624,310	3.43%

Sch. 20	MONTANA DEPRECIATION SUMMARY - ELECTRIC (EXCLUDES UNIT 4)						
	Functional Plant Class	Montana Plant Cost	This Year MT Cons. Utility	Yellowstone National Park	This Year Montana	Last Year Montana	Current Avg. Rate
1	**Accumulated Depreciation**						
2							
3	Steam Production	$ -	$ -	$ -	$ -	$ -	
4							
5	Nuclear Production	-	-	-	-	-	
6							
7	Hydraulic Production	-	-	-	-	-	
8							
9	Other Production	-	1,749,223	1,749,223	-	-	
10							
11	Transmission	405,636,124	157,660,152	1,378,497	156,281,655	145,119,351	2.95%
12							
13	Distribution	678,563,651	306,209,526	3,047,736	303,161,790	279,737,467	3.83%
14							
15	General and Intangible	58,836,511	31,535,455	217,639	31,317,816	28,117,816	6.81%
16							
17	Common	52,509,042	17,872,802	-	17,872,802	15,120,460	6.60%
18							
19	**TOTAL DEPRECIATION**	$1,195,545,328	$515,027,158	$6,393,095	$508,634,063	$468,095,094	3.67%
20							
21							
22							
23							

Sch. 21	MONTANA MATERIALS & SUPPLIES (ASSIGNED & ALLOCATED)- ELECTRIC (EXCLUDES UNIT 4)					
	Account Number & Title	This Year Cons. Utility	Yellowstone National Park	This Year Montana	Last Year Montana	% Change
1						
2	151 Fuel Stock	$ -		$ -	$ -	-
3						
4	154 Plant Materials & Operating Supplies					
5	Assigned and Allocated to:					
6	Operation & Maintenance	-		-	-	-
7	Construction	-		-	-	-
8	Production Plant	-		-	12	-100.00%
9	Transmission Plant	2,514,580		2,514,580	2,274,893	10.54%
10	Distribution Plant	4,354,401		4,354,401	3,806,454	14.40%
11						
12						
13	**TOTAL MATERIALS & SUPPLIES**	$6,868,981		$6,868,981	$6,081,359	12.95%

MONTANA REGULATORY CAPITAL STRUCTURE & COSTS - ELECTRIC

	% Capital Structure	% Cost Rate	Weighted Cost
Commission Accepted - Most Recent 1/			
Docket Number: 2000.8.113			
Order Number : 6271c			
Common Equity	43.00%	10.75%	4.62%
Preferred Stock	6.97%	6.40%	0.45%
QUIPS Preferred	7.86%	8.54%	0.67%
Long Term Debt	42.17%	6.46%	2.72%
Other			
TOTAL	100.00%		8.46%

1/ Docket 2000.8.113, Order 6271c specifies the authorized capital structure and associated costs for the regulated electric utility effective May 8, 2001.

Actual Corporate Consolidated 2/	% Capital Structure	% Cost Rate	Weighted Cost
Common Equity	48.16%	10.75%	5.18%
Long Term Debt	51.84%	6.32%	3.28%
TOTAL	100.00%		8.46%

2/ This information reflects the capital struture of the consolidated NorthWestern Energy Corporation. The capital structure reflects the outcome of the company's recent bankruptcy filing. A method to allocate capital between Montana, South Dakota, Nebraska, and other operations has not been determined.

Sch. 23

STATEMENT OF CASH FLOWS

	Description	This year	Last year	% Change
1	Increase/(decrease) in Cash & Cash Equivalents:			
2	**Cash Flows from Operating Activities:**			
3	Net Income	$ 544,432,692	$ (128,670,080)	>300.00%
4	Depreciation	71,845,113	69,917,276	2.76%
5	Amortization, net	(831,823)	(1,555,150)	46.51%
6	Deferred Income Taxes - Net	(13,150,181)	60,794,580	-121.63%
7	Investment Tax Credit Adjustments - Net	534,824	534,725	0.02%
8	Other Non-cash charges to net income-net	(580,569,066)	14,582,994	>-300.00%
9	Change in Receivables - Net	23,049,987	(26,401,203)	187.31%
10	Change in Materials, Supplies & Inventories - Net	(1,635,896)	(648,663)	-152.20%
11	Change in Payables & Accrued Expenses - Net	54,721,511	73,765,862	-25.82%
12	Allowance for Funds Used During Construction (AFUDC)	(454,548)	(475,960)	4.50%
13	Change in Other Current Assets & Liabilities - Net	44,748,607	(93,881,217)	147.67%
14	Other Operating Activities:			
15	Undistributed Earnings from Subsidiary Companies	9,855,962	(12,471,008)	179.03%
16	Other (net)	(14,893,440)	4,424,860	>-300.00%
17	Change in Regulatory Assets	(1,963,851)	5,442,175	-136.09%
18	Change in Regulatory Liabilities	16,180,577	(38,445,538)	142.09%
19	**Net Cash Provided by/(Used in) Operating Activities**	151,870,468	(73,086,348)	>300.00%
20	**Cash Inflows/Outflows From Investment Activities:**			
21	Construction/Acquisition of Property, Plant and Equipment	(79,371,496)	(65,844,359)	-20.54%
22	(net of AFUDC)			
23	Contributions In and Advances to Affiliates	-	121,169	-100.00%
24	Other Investing Activities:			
25	Proceeds from sales of Assets and Investments	15,579,037	31,943,769	-51.23%
26	Additional Investments		(1,084,073)	100.00%
27	**Net Cash Provided by/(Used in) Investing Activities**	(63,792,459)	(34,863,493)	-82.98%
28	**Cash Flows from Financing Activities:**			
29	Proceeds from Issuance of:			
30	Long-Term Debt	325,000,000	390,000,000	-16.67%
31	Credit Facilities Borrowings, net	-	(255,000,000)	100.00%
32	Debt Financing Costs	(11,551,798)	(27,944,351)	58.66%
33	Payment for Retirement of:			
34	Long-Term Debt	(400,546,000)	(23,600,000)	>-300.00%
35	Capital Lease Obligations	-	(2,760,547)	100.00%
36	**Net Cash Provided by (Used in) Financing Activities**	(87,097,798)	80,695,102	-207.93%
37	**Net Increase/(Decrease) in Cash and Cash Equivalents**	980,211	(27,254,739)	103.60%
38	**Cash and Cash Equivalents at Beginning of Year**	15,169,713	27,914,771	-45.66%
39	**Cash and Cash Equivalents at End of Year**	$ 16,149,924	$ 15,169,713	6.46%
40				

41 This financial statement is presented on the basis of the accounting requirements of the Federal Energy Regulatory
42 Commission (FERC) as set forth in its applicable Uniform System of Accounts. As such, in accordance with FERC
43 requirements, subsidiaries are presented using the equity method of accounting. The amounts presented are consistent with
44 the presentation in FERC Form 1, plus Canadian Montana Pipeline Corp.
45

46 The financial results reported include income taxes that are based upon NorthWestern's tax basis for plant assets purchased from
47 the Montana Power Company. This tax basis differs from amounts included in the most recently decided rate proceeding and
48 results in a lower deferred tax credit. This change was made in order to prevent any possible violation of the normalization
49 requirements of the federal income tax code. The change results in an increase in the reported rate base.

Sch. 24

MONTANA LONG TERM DEBT 1/

	Description	Issue Date	Maturity Date	Principal Amount	Net Proceeds	Outstanding	Yield to Maturity	Annual Net Cost Inc. Prem./Disc.	Total Cost %
1									
2	**First Mortgage Bonds**								
3	8.25% Series, Due 2007	12/05/91	02/01/07	55,000,000	54,550,100	364,985	8.260%	30,167	8.27%
4	7.30% Series, Due 2006	11/27/01	12/01/06	150,000,000	148,670,240	149,674,065	7.426%	11,289,296	7.54%
5	5.875% Series, Due 2014	11/01/04	11/01/14	161,000,000	161,000,000	161,000,000	5.875%	9,786,582	6.08%
6	**Total First Mortgage Bonds**			$366,000,000	$364,220,340	$311,039,050		$21,106,045	6.79%
7									
8	**Pollution Control Bonds**								
9	6-1/8% Series, Due 2023	06/30/93	05/01/23	$90,205,000	$88,199,743	$88,972,719	6.428%	$5,604,531	6.30%
10	5.90% Series, Due 2023	12/30/93	12/01/23	80,000,000	79,040,800	79,390,797	5.841%	4,763,619	6.00%
11	**Total Pollution Control Bonds**			$170,205,000	$167,240,543	$168,363,516		$10,368,150	6.16%
12									
13	**Other Long Term Debt**								
14	Variable Rate Credit Facility, Due 2011	11/01/04	11/01/11	72,000,000	72,000,000	71,280,000	n/a	3,190,953	4.43%
15	Revolver, Due 2006	11/01/04	11/01/09	90,000,000		-		253,500	N/A
16	Cost Associated with Prior Debt Retirements	N/A	N/A					184,978	N/A
17	**Total Other Long Term Debt**			$162,000,000	$72,000,000	$71,280,000		$3,629,431	N/A
18	**TOTAL LONG TERM DEBT**			$698,205,000	$603,460,883	$550,682,566		$35,103,626	6.37%

20 1/ Total Long-Term Debt does not include amounts due within 1 year - $5,385,177 on March 31, 2005 and $720,000 (quarterly payments) due in 2005.

PREFERRED STOCK

	Series	Issue Date Mo./Yr.	Shares Issued	Par Value	Call Price	Net Proceeds	Cost of Money	Principal Outstanding	Annual Cost	Embed. Cost %
1										
2										
3										
4										
5										
6										
7	NOT APPLICABLE									
8										
9										
10										
11										
12										
13										
14										
15										
16										
17										
18										
19										
20										
21										
22										
23										
24										
25										
26										
27										
28										
29										
30										
31										
32	TOTAL									

Sch. 26

COMMON STOCK

	Avg. Number of Shares Outstanding 1/	Book Value Per Share	Earnings Per Share 2/	Dividends Per Share (Declared)	Retention Ratio	Market Price High	Market Price Low	Price/ Earnings Ratio
January								
February								
March								
April								
May								
June								
July								
August								
September								
October								
November	35,614,158	19.87				26.62	24.80	
December	35,614,158	19.92	(0.19)			28.19	25.01	
TOTAL Year End	35,614,158	$19.92	($0.19)	$0.00	100.00%	$28.00		n/a

In connection with the consummation of our Plan of Reorganization from bankruptcy on November 1, 2004, all shares of our old common stock were canceled. Due to this cancellation, per share results have not been presented for the months prior to November.

1/ Monthly shares are actual shares outstanding at month-end. Total year-end shares are average shares for the two months ended December 31, 2004.

2/ For the two month period ending December 31, 2004.

Sch. 27

MONTANA EARNED RATE OF RETURN - ELECTRIC

Account	Description	This Year	Last Year	% Change
	Rate Base			
101	Plant in Service	$1,220,751,407	$1,175,715,732	3.83%
108	Accumulated Depreciation	(491,535,381)	(456,119,496)	-7.76%
	Net Plant in Service	$729,216,026	$719,596,236	1.34%
	Additions:			
154, 156	Materials & Supplies	$5,518,981	$5,347,611	3.20%
165	Prepayments			
	Other Additions 1/	33,086,017	35,628,502	-7.14%
	Total Additions	$38,604,998	$40,976,113	-5.79%
	Deductions:			
190	Accumulated Deferred Income Taxes 2/	$48,942,187	$39,234,981	24.74%
252	Customer Advances for Construction	20,249,876	18,271,047	10.83%
255	Accumulated Def. Investment Tax Credits			
	Other Deductions	5,931,064	11,352,159	-47.75%
	Total Deductions	$75,123,127	$68,858,187	9.10%
	Total Rate Base	$692,697,897	$691,714,162	0.14%
	Net Earnings	$43,953,364	$67,450,979	-34.84%
	Rate of Return on Average Rate Base	6.345%	9.751%	-34.93%
	Rate of Return on Average Equity 3/	4.446%	10.332%	-56.97%
	Major Normalizing and Commission Ratemaking Adjustments			
	Rate Schedule Revenues	$5,562,550	$1,276,760	>300.00%
	Power Supply Contract Write-Off	2,100,000	0	100.00%
	Supply Tracker Write-Off	383,156	0	100.00%
	Insurance Settlement	(400,000)	0	-100.00%
	Restricted Stock Expense	1,251,754	0	100.00%
	Inventory Receipts Adjustment	0	185,244	-100.00%
	CIS Project Write-Off	0	357,049	-100.00%
	A & G Not Previously Allocated 4/	0	(8,265,882)	100.00%
	Non-Allowables:			
	Advertising	15,258	165,471	-90.78%
	Benefit Restoration Plan	119,460	(702,512)	117.00%
	Dues, Contributions, Other	82,219	66,432	23.76%
	Associated Income Taxes 5/	($8,632,271)	($5,527,070)	-56.18%
	Total Adjustments	$482,126	($12,444,508)	103.87%
	Revised Net Earnings	$44,435,490	$55,006,471	-19.22%
	Adjusted Rate of Return on Average Rate Base	6.415%	7.952%	-19.33%
	Adjusted Rate of Return on Average Equity 3/	6.042%	9.119%	-33.74%

1/ Other additions includes a FAS 109 Regulatory Asset that is based on NWE tax basis. This provides an offset to the accumulated deferred taxes.

2/ The financial results reported include income taxes that are based upon NorthWestern's tax basis for plant assets purchased from the Montana Power Company. This tax basis differs from amounts included in the most recently decided rate proceeding and results in a lower deferred tax credit. This change was made in order to prevent any possible violation of the normalization requirements of the federal income tax code. The change results in an increase in the reported rate base. 2003 has been revised to reflect a true up to actuals.

3/ Return on Equity calculated using the capital structure approved in Docket D2000.8.113.

4/ A & G expenses adjusted do not include any restructuring costs or amounts attributable to Non-Utility operations.

5/ Associated Income taxes include an interest synchronization adjustment based upon the approved capital structure in Docket D2000.8.113.

Sch. 27 cont.

MONTANA EARNED RATE OF RETURN - ELECTRIC

	Description	This Year	Last Year	% Change
1				
2	**Detail - Other Additions**			
3	FAS 109 Regulatory Asset	$27,816,355	$28,546,468	-2.56%
4	Cost of Refinancing Debt	2,440,237	2,712,277	-10.03%
5	ORCOM Development Costs	0	853,687	-100.00%
6	SAP Development Costs	2,829,425	3,264,721	-13.33%
7	1999 Severance Plan	0	125,696	-100.00%
8	1997 &1998 Severance Plan	0	125,653	-100.00%
9	**Total Other Additions**	$33,086,017	$35,628,502	-7.14%
10				
11	**Detail - Other Deductions**			
12	Personal Injury and Property Damage	($6,717,813)	($6,054,936)	-10.95%
13	Unamortized Gain on Reacquired Debt	0	892	-100.00%
14	Gross Cash Requirements	9,347,931	12,724,540	-26.54%
15	Storm Damage Reserve	349,066	182,612	91.15%
16	Met Life Refund	0	144,724	-100.00%
17	USBC Expenses	2,951,880	4,354,327	-32.21%
18				
19	**Total Other Deductions**	$5,931,064	$11,352,159	-47.75%

Sch. 28	MONTANA COMPOSITE STATISTICS - ELECTRIC (EXCLUDES UNIT 4 & YNP)		
	Description		Amount
1			
2		**Plant (Intrastate Only)**	
3			
4	101	Plant in Service (Includes Allocation from Common)	$ 1,244,442,928
5	105	Plant Held for Future Use	-
6	107	Construction Work in Progress	7,736,444
7	114	Plant Acquisition Adjustments	3,106,285
8	151-163	Materials & Supplies	6,868,981
9		(Less):	
10	108, 111	Depreciation & Amortization Reserves	508,634,063
11	252	Contributions in Aid of Construction	20,306,121
12	**NET BOOK COSTS**		733,214,454
13			
14		**Revenues & Expenses**	
15			
16	400	Operating Revenues	518,270,813
17			
18	**Total Operating Revenues**		518,270,813
19			
20	401-402	Other Operating Expenses	371,595,668
21	403-407	Depreciation & Amortization Expenses	45,520,861
22	408.1	Taxes Other than Income Taxes	45,358,218
23	409-411	Federal & State Income Taxes	11,842,702
24			
25	**Total Operating Expenses**		474,317,449
26	**Net Operating Income**		43,953,364
27			
28	415-421.1	Other Income	3,129,930
29	421.2-426.5	Other Deductions	13,542,075
30	**NET INCOME BEFORE INTEREST EXPENSE**		33,541,219
31			
32		**Average Customers (Intrastate Only)**	
33		Residential	248,599
34		Commercial & Industrial	55,698
35		Other	3,833
36			
37	**TOTAL AVERAGE NUMBER OF CUSTOMERS**		308,130
38			
39		**Other Statistics (Intrastate Only)**	
40		Average Annual Residential Use (Kwh)	8,120
41		Average Annual Residential Cost per (Kwh)	$0.082
42		Average Residential Monthly Bill	$55.68
43			
44		Plant in Service (Gross) per Customer	$4,039

Sch. 29	Montana Customer Information- Electric, 1/					
	City	Population Census 2000	Residential	Commercial	Industrial & Other	Total
1	Absarokee	1,234	451	117	3	571
2	Alberton	374	364	79	12	455
3	Alder	116	188	68	15	271
4	Amsterdam		91	26	6	123
5	Anaconda	9,417	4,142	748	52	4,942
6	Armington		1	-	-	1
7	Arrow Creek		4	3	-	7
8	Augusta	284	230	89	2	321
9	Avon	124	90	53	1	144
10	Barber		50	9	1	60
11	Basin	255	160	63	1	224
12	Bearcreek	83	55	15	4	74
13	Belfry	219	198	67	19	284
14	Belgrade	5,728	5,812	1,159	74	7,045
15	Belt	633	621	216	19	856
16	Benchland		7	7	-	14
17	Big Sandy	703	344	137	4	485
18	Big Sky	1,221	2,098	420	11	2,529
19	Big Timber	1,650	1,168	356	27	1,551
20	Billings	89,847	40,785	6,876	701	48,362
21	Black Eagle		441	140	15	596
22	Bonner	1,693	81	23	3	107
23	Boulder	1,300	749	221	22	992
24	Box Elder	794	122	69	7	198
25	Bozeman	27,509	19,963	3,968	284	24,215
26	Brady		90	37	4	131
27	Bridger	745	395	133	13	541
28	Broadview	150	209	146	3	358
29	Buffalo			1	2	3
30	Butte	33,892	13,746	2,225	304	16,275
31	Cameron		225	87	4	316
32	Canyon Creek		162	30	7	199
33	Carter	62	118	68	4	190
34	Cascade	819	1,003	258	26	1,287
35	Centerville		13	11	1	25
36	Checkerboard		55	12	1	68
37	Chester	871	484	263	14	761
38	Chinook	1,386	819	301	16	1,136
39	Choteau	1,781	961	352	21	1,334
40	Churchill		468	89	18	575
41	Clancy	1,406	880	139	13	1,032
42	Clinton	549	96	37	3	136
43	Coffee Creek		55	23	1	79
44	Colstrip	2,346	944	189	32	1,165
45	Columbus	1,748	925	296	21	1,242
46	Conrad	2,753	1,241	476	22	1,739
47	Corbin		-	1	-	1
48	Corvallis	443	679	148	38	865

Sch. 29	Montana Customer Information- Electric, 1/					
	City	Population Census 2000	Residential	Commercial	Industrial & Other	Total
1	Craig		85	26	3	114
2	Custer	145	-	3	-	3
3	Darby	710	737	219	16	972
4	De Borgia		137	31	-	168
5	Deer Lodge	3,421	2,002	503	76	2,581
6	Denton	301	187	76	2	265
7	Dillon	3,752	1,816	492	49	2,357
8	Divide		56	9	4	69
9	Dodson	122	115	57	7	179
10	Drummond	318	361	194	23	578
11	Dutton	389	252	120	4	376
12	East Helena	1,642	2,470	319	28	2,817
13	Edgar		239	74	9	322
14	Elliston	225	196	64	2	262
15	Ennis	840	1,479	462	31	1,972
16	Fairfield	659	397	147	19	563
17	Florence	901	337	121	13	471
18	Floweree		111	55	1	167
19	Fort Balknap	1,262	446	99	26	571
20	Fort Benton	1,594	800	327	34	1,161
21	Fort Harrison		1	86	2	89
22	Fromberg	486	298	70	8	376
23	Gallatin Gateway		959	260	16	1,235
24	Gardiner	851	722	268	12	1,002
25	Garrison	112	108	50	8	166
26	Geraldine	284	275	149	2	426
27	Geyser		66	33	2	101
28	Gildford	185	94	67	2	163
29	Glasgow	3,253	1,690	596	72	2,358
30	Glen		2	-	1	3
31	Gold Creek		58	31	5	94
32	Gransdale		25	4	1	30
33	Great Falls	56,690	26,819	4,744	399	31,962
34	Greycliff	56	51	30	9	90
35	Hall		201	62	14	277
36	Hamilton	3,705	4,766	1,216	124	6,106
37	Hardin	3,384	1,424	430	24	1,878
38	Harlem	848	450	188	23	661
39	Harlowton	1,062	653	256	7	916
40	Harrison	162	161	53	17	231
41	Haugan	69	72	33	3	108
42	Havre	10,594	4,851	1,088	188	6,127
43	Helena	45,819	20,325	4,148	348	24,821
44	Hingham	157	106	65	1	172
45	Hinsdale		141	49	7	197
46	Hobson	244	155	51	8	214
47	Huson		114	31	3	148
48	Iverness	103	42	26	1	69
49	Jardine		1	2	-	3
50	Jeffers		2	1	-	3
51	Jefferson City	295	236	40	5	281

Sch. 29	Montana Customer Information- Electric, 1/					
	City	Population Census 2000	Residential	Commercial	Industrial & Other	Total
1	Joliet	575	368	95	12	475
2	Joplin	210	100	53	2	155
3	Judith Gap	164	89	43	5	137
4	Kremlin	126	68	37	1	106
5	Laurel	6,255	2,902	425	24	3,351
6	Lavina	209	181	92	10	283
7	Lennep		18	11	-	29
8	Lewistown	5,813	3,222	864	52	4,138
9	Lincoln	1,100	997	209	20	1,226
10	Livingston	6,851	4,260	986	54	5,300
11	Logan		51	14	1	66
12	Lohman		23	16	6	45
13	Lolo	3,388	1,195	173	17	1,385
14	Loma	92	72	42	3	117
15	Lothair		15	10	-	25
16	Malta	2,120	1,321	439	49	1,809
17	Manhattan	1,396	1,071	244	69	1,384
18	Martinsdale		111	67	6	184
19	Marysville		57	29	2	88
20	Maxville		1	-	-	1
21	McAllister		145	33	4	182
22	Melrose		1	-	-	1
23	Melstone	136	157	284	8	449
24	Melville		80	51	3	134
25	Milltown		78	24	5	107
26	Missoula	57,053	30,696	5,557	628	36,881
27	Moccasin		46	27	2	75
28	Molt		23	20	-	43
29	Monarch		326	48	5	379
30	Montana City		732	118	-	850
31	Moore	186	103	36	2	141
32	Musselshell	60	65	27	1	93
33	Nashua	325	204	57	4	265
34	Neihart	91	180	29	2	211
35	Nevada city		1	5	-	6
36	Norris		56	30	2	88
37	Nye		43	5	-	48
38	Paradise	184	153	55	7	215
39	Park City	870	384	56	5	445
40	Philipsburg	914	1,570	269	28	1,867
41	Plains	1,126	1,378	388	25	1,791
42	Pony		125	25	2	152
43	Power	171	82	42	5	129
44	Pray		18	1	1	20
45	Radersburg	70	76	25	2	103
46	Ramsay		51	25	1	77
47	Raynesfort		65	34	3	102
48	Red Lodge	2,177	1,708	360	17	2,085
49	Reedpoint	185	149	58	4	211
50	Ringling		44	30	3	77

Sch. 29	Montana Customer Information- Electric, 1/					
	City	Population Census 2000	Residential	Commercial	Industrial & Other	Total
1	Rocker		18	13	2	33
2	Rocvale		2	-	-	2
3	Roscoe		77	9		86
4	Roundup	1,931	1,090	390	18	1,498
5	Rudyard	275	154	67	2	223
6	Ryegate	268	142	63	8	213
7	Saco	224	159	92	3	254
8	Saint Marie	183	168	46	4	218
9	Saint Regis	315	402	141	16	559
10	Saltese		33	22	1	56
11	Sand Coulee		144	40	6	190
12	Sapphire Village		61	4	-	65
13	Shawmut		45	27	2	74
14	Sheridan	659	797	204	27	1,028
15	Silesia		31	7	1	39
16	Silverbow		15	4	2	21
17	Springdale		37	15	6	58
18	Square Butte		43	25	2	70
19	Stanford	454	334	184	5	523
20	Stevensville	1,553	1,743	490	62	2,295
21	Stockett		163	48	2	213
22	Sumatra		-	3	-	3
23	Superior	893	793	261	30	1,084
24	Taft		-	1	-	1
25	Tampico		13	7	-	20
26	Thompson Falls	1,321	974	319	33	1,326
27	Three Forks	1,728	1,234	422	59	1,715
28	Toston	105	49	37	21	107
29	Townsend	1,867	1,074	271	20	1,365
30	Tracy		94	13	4	111
31	Trident		1	-	-	1
32	Twin Bridges	400	305	138	20	463
33	Twodot		49	44	4	97
34	Ulm	750	376	112	8	496
35	Utica		2	4	1	7
36	Valier	498	357	177	22	556
37	Vaughn	701	221	37	8	266
38	Victor	859	750	233	24	1,007
39	Virginia City	130	144	84	3	231
40	Wagner		44	18	1	63
41	Walkerville		251	29	3	283
42	Warm Springs		-	2	-	2
43	Washoe		13	3		16
44	White Sulphur Springs	984	763	323	49	1,135
45	Whitehall	1,044	930	253	50	1,233
46	Wickes		1	-	-	1
47	Williamsburg		1	1	-	2
48	Willow Creek	209	133	53	14	200
49	Windham		51	29	1	81
50	Winston	73	95	28	3	126

Sch. 29						-
	City	Population Census 2000	Residential	Commercial	Industrial & Other	Total
1	Wolf Creek		391	138	10	539
2	Zurich		97	65	10	172
3						
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Total		446,046	248,599	54,340	5,179	308,118

1/ Customer populations represent an average of the 12 month period from 01/01/04 through 12/31/04. YNP customer counts have been excluded.

Sch. 30	MONTANA EMPLOYEE COUNTS 1/		
Department	Year Beginning	Year End	Average
Utility Operations			
Executive	1	1	1
Financial, Risk Mgmt. & Information Services	120	112	116
Human Resources & Administration	33	31	32
Utility Services & Division Administration	620	635	627
Business Development & Regulatory Affairs	24	25	24
Transmission	150	160	155
Legal	5	5	5
TOTAL EMPLOYEES	953	969	960

1/ Part time employees have been converted to full time equivalents.

Sch. 31	MONTANA CONSTRUCTION BUDGET 2005 (ASSIGNED & ALLOCATED)		
	Project Description	Total Company	Total Montana
1			
2	**Electric Operations**		
3			
4	Three Rivers Substation 230kV Auto yr 2 of 2	$4,417,299	$4,417,299
5	Three Rivers Jackrabbit 161kV Line yr 3 of 3	5,278,177	5,278,177
6	Bozeman Sourdough Substation Rebuil	1,229,571	1,229,571
7	Restoration of Path 18 capacity Dillon Salmon	1,174,319	1,174,319
8	Helena Golf Course Bank #2	1,079,870	1,079,870
9			
10	All Other Projects < $1 Million Each	30,593,689	30,593,689
11			
12	**Total Electric Utility Construction Budget**	43,772,925	43,772,925
13			
14	**Natural Gas Operations**		
15	Basin Creek Generation	967,844	967,844
16	Gas Transmission Pipeline Integrity Management	882,216	882,216
17			
18			
19	All Other Projects < $1 Million Each	8,534,397	8,534,397
20			
21	**Total Natural Gas Utility Construction Budget**	10,384,457	10,384,457
22			
23	**Common**		
24	Customer Care ADS/Orcom ECIS replacement	2,000,000	2,000,000
25			
26	All Other Projects < $1 Million Each	3,833,879	3,833,879
27	(Includes IS, Communications, Facillities, Cust Serv, Fleet)		
28			
29			
30	**Total Common Utility Construction Budget**	5,833,879	5,833,879
31			
32	Feedwater Heater 3-7	832,500	832,500
33			
34	All Other Projects < $1 Million Each	1,550,550	1,550,550
35			
36			
37			
38	**Total Colstrip Unit 4 Construction Budget**	2,383,050	2,383,050
39	**TOTAL CONSTRUCTION BUDGET**	$62,374,311	$62,374,311

Sch. 32	TOTAL SYSTEM & MONTANA PEAK AND ENERGY					
		System Peak and Energy				
		Peak Day	Peak Hour	Peak Day Volume Megawatts	Total Monthly Volumes Energy (Mwh)	Non-Requirements Sales For Resale (Mwh)
1	January	5	1900	1,547	256,369	184,089
2	February	3	1900	1,369	787,048	179,971
3	March	2	2000	1,309	881,784	193,668
4	April	1	2000	1,205	822,435	140,157
5	May	11	2200	1,215	612,020	84,367
6	June	29	1400	1,350	559,313	90,611
7	July	14	1600	1,521	725,478	101,593
8	August	2	1600	1,410	767,477	156,810
9	September	1	1600	1,295	875,620	151,801
10	October	25	2000	1,267	625,497	167,534
11	November	29	1900	1,444	699,968	119,773
12	December	23	1800	1,524	1,133,722	107,518
13	**TOTALS**				8,746,731	1,677,892
14		Montana Peak and Energy				
15 16		Peak Day	Peak Hour	Peak Day Volume Megawatts	Total Monthly Volumes Energy (Mwh)	Non-Requirements Sales For Resale (Mwh)
17	January					
18	February					
19	March					
20	April					
21	May					
22	June					
23	July			SAME AS ABOVE		
24	August					
25	September					
26	October					
27	November					
28	December					
29	**TOTALS**				-	-

Sch. 33	MONTANA SYSTEM SOURCES & DISPOSITION OF ENERGY			
	Sources	Megawatthours	Dispositions	Megawatthours
1	Generation (Net of Station Use)			
2	Steam	1,604,822		
3	Nuclear	-	**Sales to Ultimate Consumers**	5,344,188
4	Hydro - Conventional	15,601	(Include Interdepartmental) 1/	
5	Hydro - Pumped Storage	-		
6	Other	545	Sales for Resale	
7	(Less) Energy for Pumping	-	Requirement Sales	1,055,602
8	**Net Generation**	1,620,968	Non-Requirement Sales	1,677,892
9	**Purchases**	6,916,425	**Sales for Resale**	2,733,494
10	Power Exchanges		Energy Furnished w/o Charge	
11	Received	1,149,118		
12	Delivered	1,144,452		-
13	**Net Power Exchanges**	4,666	**Energy Furnished**	-
14	Transmission Wheeling for Others		Energy Used Within Utility	
15	Received	7,585,369	Electric Department	
16	Delivered	7,380,697	(Less) Station Use	-
17	**Net Transmission Wheeling**	204,672	**Net Energy Used Within Util.**	-
18	**Transmission by Others Losses**	-	**Energy Losses**	669,049
19	**TOTAL SOURCES**	8,746,731	**TOTAL DISPOSITIONS**	8,746,731

1/ The megawatts hours listed above do not include sales to billed choice customers, consistent with the presentation used in the corresponding schedule on FERC Form 1, and does include Colstrip Unit 4 in the Generation and Sales for Resale sections.

Sch. 34	SOURCES OF MONTANA ELECTRIC SUPPLY /1				
	Type	Plant Name	Location	Annual Peak (MW)	Annual Energy (Mwh)
1	Hydro	Milltown	Missoula, MT		
2	Subtotal			2.5	15,601.0
3	Internal Combustion	Lake	Yellowstone Nat'l Park	0.0	181.0
4	Internal Combustion	Old Faithful	Yellowstone Nat'l Park	0.0	145.0
5	Internal Combustion	Tower Falls	Yellowstone Nat'l Park	0.0	8.0
6	Internal Combustion	Grant Village	Yellowstone Nat'l Park	0.0	211.0
7	Subtotal			0.0	545.0
8	Purchases	Small Power Producers	Colstrip Energy, Ltd.	0.0	293,569.0
9	Purchases	Small Power Producers	Billings Generation, Inc.	0.0	442,950.0
10	Purchases	Small Power Producers	State of Montana - DNRC	0.0	44,675.0
11	Purchases	Small Power Producers	Others	0.0	15,046.0
12	Subtotal			0.0	796,240.0
13	Purchases	Nonassociated Utilities	PPL Montana	0.0	3,311,333.0
14	Subtotal			0.0	3,311,333.0
15	Default Supply Purch Power		City of Seattle	0.0	34,748.0
16	Default Supply Purch Power		Avista QF Replacement	0.0	83,430.0
16	Default Supply Purch Power		Tiber Dam	0.0	25,202.0
17	Default Supply Purch Power		Calpine Energy Services	0.0	10.0
18	Default Supply Purch Power		Avista Energy	0.0	738,529.0
19	Default Supply Purch Power		Benton County PUD	0.0	10,524.0
20	Default Supply Purch Power		Coral Energy	0.0	95,200.0
21	Default Supply Purch Power		Franklin County PUD	0.0	5,890.0
22	Default Supply Purch Power		Puget Sound Energy	0.0	3,905.0
23	Default Supply Purch Power		Avista Utility	0.0	10,800.0
24	Default Supply Purch Power		Grays Harbor PUD	0.0	9,470.0
25	Default Supply Purch Power		Duke Energy	0.0	369,665.0
26	Default Supply Purch Power		BPA	0.0	24,412.0
27	Default Supply Purch Power		Energy West	0.0	459.0
28	Default Supply Purch Power		Portland General Electric	0.0	657,009.0
29	Default Supply Purch Power		Powerex	0.0	372,972.0
30	Default Supply Purch Power		WAPA	0.0	118.0
31	Default Supply Purch Power		Rainbow Energy	0.0	193,068.0
32	Default Supply Purch Power		Colstrip Unit 4	0.0	93,200.0
33	Default Supply Purch Power		Estimate Energy	0.0	(69,481.0)
34	Subtotal			0.0	2,659,130.0
35	Imbalance Transactions	Investor Owned	Avista	0.0	102,149.0
36	Imbalance Transactions	Investor Owned	Idaho Power	0.0	44,231.0
37	Subtotal			0.0	146,380.0
38	Reserve Sharing				3,342.0
39	Total				6,932,571.0
40					
41	\1 An outage report does not accompany Schedule 34 because of the sale of almost all of our generation assets				
42	in December 1999.				

Sch. 35

MONTANA CONSERVATION & DEMAND SIDE MANAGEMENT PROGRAMS

2004 Electric USB Program Expenditures and Contractual Commitments

USB Categories	Revenue Allocation: PSC Guidelines Order 5986i	Revenue Allocation: Reallocation *	2004 Spent in 2004	Contracted - 2004 Complete 2005/2006	Allocation & Expenses
Local Conservation	**1,704,748**	**(131,484)**	1,300,495	272,770	**1,573,264**
E+ Residential Audit/Sm. Comm Audit			895,559	38,406	933,965
E+ Business Partners / Irrigation Projects			139,784	221,864	361,648
Irrigation Audits			87,500	12,500	100,000
NWE Promotion			114,613		114,613
NWE Labor			55,652		55,652
NWE Admin. Non-labor			9,968		9,968
USB Interest & Svc Chg			(2,582)		(2,582)
Local Conservation Summary			1,300,495	272,770	1,573,264
Market Transformation	**1,069,860**	**24,832**	1,026,608	68,084	**1,094,692**
E+ Commercial Lighting			386,364	68,084	454,449
NW Energy Efficiency Alliance			525,056		525,056
Building Operator Certification			39,578		39,578
NWE Promotion			26,528		26,528
NWE Labor			44,406		44,406
NWE Admin. Non-labor			6,296		6,296
USB Interest & Svc Chg			(1,621)		(1,621)
Market Transformation Summary			1,026,608	68,084	1,094,692
Renewable Resources	**1,051,686**	**(191,460)**	527,226	333,000	**860,226**
Generation/Education			493,741	333,000	826,741
Green Power Product Offering			(15,250)		(15,250)
NWE Promotion			3,498		3,498
NWE Labor			43,246		43,246
NWE Admin. Non-labor			3,584		3,584
USB Interest & Svc Chg			(1,593)		(1,593)
Renewable Resources Summary			527,226	333,000	860,226
Research & Development	**212,437**	**(67,556)**	144,881	-	**144,881**
R&D/ Infrastructure			125,967		125,967
NWE Promotion			10,718		10,718
NWE Labor			7,528		7,528
NWE Admin. Non-labor			990		990
USB Interest & Svc Chg			(322)		(322)
Research & Development Summary			144,881	-	144,881
Low Income	**1,866,219**	**381,479**	2,247,698	-	**2,247,698**
Bill Assistance			1,225,943		1,225,943
Free Weatherization			576,090		576,090
Energy Share			225,000		225,000
Low-Income Security Deposit Pilot			30,000		30,000
Renewables			95,000		95,000
NWE Promotion			56,824		56,824
NWE Labor			34,431		34,431
NWE Admin. Non-labor			7,236		7,236
USB Interest & Svc Chg			(2,827)		(2,827)
Low Income Summary			2,247,698	-	2,247,698
Large Customer	**2,981,806**	**(15,812)**	1,996,706	969,287	**2,965,994**
Self-Directed Energy Reduction			1,809,068	953,310	2,762,378
Self-Directed to Low Income			174,546	15,977	190,523
USB Interest & Svc Chg			(4,517)		(4,517)
Unspent $ Reallocated by NWE					
-NWE Labor			17,609		17,609
-NWE Admin. Non-labor					
Large Customer Summary			1,996,706	969,287	2,965,994
Totals	8,886,755	(0)	7,243,614	1,643,141	8,886,755
2004 USB Revenues less Expenses and Contractual Commitments					(0)

** 2004 Electric USB funds were reallocated to accommodate increased pressure on the 15% Low-Income Discount. Increased participation combined with higher electricity supply costs caused discount expense to exceed business plan estimates. Increased participation in the Commercial Lighting Program required the reallocation of funds from Conservation to Market Transformation.*

MONTANA CONSERVATION & DEMAND SIDE MANAGEMENT PROGRAMS

2004 Electric USB Funding Summary
Savings Estimates and Participation Summary

2004 USB FUNDING AND EXPENDITURE SUMMARY

USB Category	Allocation of 2004 funds based on Order 5986i	Percentage by Category	Allocation of 2004 funds to meet LI Discount *(a)*	Percentage by Category	Allocation w/Lrg Cust funds self-directed to LI *(b)*	Percentage by Category	Total Electric USB Funds Spent in 2004	2004 Electric USB Funds Contracted to Spend in 2005
Local Conservation	$ 1,704,748	19%	$ 1,573,264	18%	$ 1,573,264	18%	$ 1,300,495	$ 272,770
Market Transformation	$ 1,069,860	12%	$ 1,094,692	12%	$ 1,094,692	12%	$ 1,026,608	$ 68,084
Renewables	$ 1,051,686	12%	$ 860,226	10%	$ 860,226	10%	$ 527,226	$ 333,000
Research & Development	$ 212,437	2%	$ 144,881	2%	$ 144,881	2%	$ 144,881	$ -
Low Income	$ 1,866,219	21%	$ 2,247,698	25%	$ 2,438,221	27%	$ 2,422,243	$ -
Large Customer	$ 2,981,806	34%	$ 2,965,994	33%	$ 2,775,471	31%	$ 1,822,161	$ 969,287
	$ 8,886,756	**100%**	**$ 8,886,755**	**100%**	**$ 8,886,755**	**100%**	**$ 7,243,614**	**$ 1,643,141**

2004 LOW-INCOME FUNDING SUMMARY

Low-Income Category	
Bill Assistance	$ 1,225,943
Free Weatherization	$ 576,090
Energy Share	$ 225,000
Low-Income Security Deposit Pilot	$ 30,000
Low-Income Renewables	$ 95,000
NWE Promotion	$ 56,824
NWE Labor	$ 34,431
NWE Admin. Non-labor	$ 7,236
Self-Directed Large Customer	$ 174,546
Low-Income USB Funding from all 2004 Electric USB sources :	**$ 2,425,070**
Low-Income share of 2004 Electric USB revenues :	**27.3%**

2004 ENERGY SAVINGS & RENEWABLE RESOURCES ESTIMATES

Savings & Resources acquired in 2004 w/ 2004 $

	aMW	MWH	MW
Local Conservation	0.3394	2,973	0.709
Market Transformation *(c)*	1.7096	14,976	3.432
Renewables	0.0103	90	0.048
Research & Development	NA	NA	NA
Low Income	0.0558	489	0.365
Large Cust - Low Income	NA	NA	NA
Large Customer *(d)*	NA	NA	NA
	2.1151	**18,528**	**4.553**

Projected Savings & Resources to acquire in 2005 w/ 2004 $ *(e)*

	aMW	MWH	MW
Local Conservation	0.0172	151	0.027
Market Transformation	0.1714	1,501	0.482
Renewables	0.0126	110	0.068
Research & Development	NA	NA	NA
Low Income	-	-	-
Large Cust - Low Income	NA	NA	NA
Large Customer *(d)*	NA	NA	NA
	0.2011	**1,762**	**0.577**
Total Savings & Resources	**2.3162**	**20,290**	**5.130**

2004 ELECTRIC USB PARTICIPATION SUMMARY

Electric USB Activity by Category	Quantity	Units
Conservation		
Residential Onsite Audits	1,808	homes
Residential Mailout Audits	2,621	homes
Business Appraisals	248	businesses
Business Partners	18	projects
Irrigation Audits	61	irrigation systems
Market Transformation		
Commercial Lighting	175	projects
NW Energy Efficiency Alliance		
- Energy Star Windows	29,007	sqft
- Energy Star Residential Lighting	125,106	CFLs
- Energy Star Washers	5,082	washers
- Energy Star Dishwashers	1,448	dishwashers
- Energy Star Refrigerators	6,062	refrigerators
- Energy Star Room A/C	1,271	air conditioners
- Building Operator Certification	3	people
NWE Building Operator Certification	54	people
Renewables		
Generation / Education	26	projects
Research & Development		
Solar & Wind Site Assesments	160	sites
Solar & Wind Seminars/Workshops	645	attendees
Electrician Workshops	5	workshops
Low-Income		
Bill Assistance	11,021	households
Free Weatherization	429	homes
Energy Share	443	households
Low-Income Security Deposit Pilot	225	households
Low-Income Renewables	19	apartments

(a) In 2004, low-income bill assistance expense increased due to higher electricity supply costs and more customers signing up for energy assistance. Upward pressure on the discount, combined with other low-income program commitments, required that electric USB funds be diverted from other electric USB categories to make up the shortfall in the low income category. Also, participation in the Commercial Lighting Program was up in 2004. Rather than suspend the program and turn customers away, the Conservation category budget was reduced, and the funds were added to the Market Transformation budget.

(b) Large Customers may self-direct their USB dollars to energy saving and renewable activities in their own facilities, or to Low-Income activities. In 2004, Large Customers self-directed a total of $190,523 to Low-Income, $174,546 of which was spent in 2004, and $15,977 of which will be spent in 2005.

(c) Market Transformation includes energy savings estimates provided by the Northwest Energy Efficiency Alliance. NWE adjusted the savings estimates provided by the Alliance to account for the prevalence of natural gas space and water heating in the Company's service territory.

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

(e) Projected Savings & Resources are based on contracts that were in place at the end of 2004. Actual results will be reported in 2005.

Sch. 36

MONTANA CONSUMPTION AND REVENUES - ELECTRIC (EXCLUDES UNIT 4 & YNP)

		Operating Revenues		MWH Sold		Average Customers	
		Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
1	**Sales of Electricity**						
2							
3	Residential	$166,110,373	$161,632,796	2,018,659	2,088,299	248,599	244,503
4	Commercial & Industrial	245,268,345	217,008,880	5,931,672	5,534,168	55,698	54,788
5	Public Street & Highway Lighting	12,579,539	11,872,179	60,823	60,676	3,821	3,823
6	Sales to Other Utilities	54,518,906	60,947,720	1,611,946	1,782,506	12	15
7	Interdepartmental	950,348	899,134	-	-	-	-
8							
9	**TOTAL SALES**	$479,427,511	$452,360,709	9,623,100	9,465,649	308,130	303,129
10							
11							
12							
13							
14							
15							
16							