



Fort Benton, Montana

2020 Third Quarter Earnings Webcast

October 22, 2020

NorthWestern[®]
Energy
Delivering a Bright Future



Bob Rowe,
President & CEO



Brian Bird,
Chief Financial Officer

Forward Looking Statements

During the course of this presentation, there will be forward-looking statements within the meaning of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements often address our expected future business and financial performance, and often contain words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” or “will.”

The information in this presentation is based upon our current expectations as of the date of this document unless otherwise noted. Our actual future business and financial performance may differ materially and adversely from our expectations expressed in any forward-looking statements. We undertake no obligation to revise or publicly update our forward-looking statements or this presentation for any reason. Although our expectations and beliefs are based on reasonable assumptions, actual results may differ materially. The factors that may affect our results are listed in certain of our press releases and disclosed in the Company’s 10-K and 10-Q along with other public filings with the SEC.



Third Quarter Highlights

- Net income for the third quarter increased \$7.8 million as compared to the same period in 2019. This increase was primarily due to higher gross margin, lower OG&A expense and favorable income tax expense. This is offset in part by higher depreciation and property tax expenses.
- Diluted earnings per share increased \$0.16 or 38.1% as compared to the same period in 2019.
- Diluted Non-GAAP earnings per share increased \$0.09 or 18.0% per share after adjusting for normal weather.
- The Board of Directors declared a quarterly dividend of \$0.60 per share payable December 31st to shareholders of record as of December 15th, 2020.

Employee safety and customer satisfaction remain at, or near, all-time highs even with COVID emergency operating structure in place.





Summary Financial Results

(Third Quarter)

(in millions except per share amounts)

Three Months Ended September 30,

	2020	2019	Variance	% Variance
Operating Revenues	\$ 280.6	\$ 274.8	\$ 5.8	2.1%
Cost of Sales	68.0	64.2	3.8	5.9%
Gross Margin ⁽¹⁾	212.6	210.6	2.0	0.9%
Operating Expenses				
Operating, general & administrative	73.3	77.0	(3.7)	(4.8%)
Property and other taxes	45.3	44.1	1.2	2.7%
Depreciation and depletion	44.3	43.2	1.1	2.5%
Total Operating Expenses	162.9	164.3	(1.4)	(0.9%)
Operating Income	49.7	46.4	3.3	7.1%
Interest Expense	(23.7)	(23.7)	-	(0.0%)
Other Income (Expense)	0.8	(0.4)	1.2	(300.0%)
Income Before Taxes	26.8	22.2	4.6	20.7%
Income Tax Benefit (Expense)	2.7	(0.6)	3.3	550.0%
Net Income	\$ 29.5	\$ 21.7	\$ 7.8	35.9%
Effective Tax Rate	(10.1%)	2.5%	(12.6%)	
Diluted Shares Outstanding	50.7	50.8	(0.1)	(0.2%)
Diluted Earnings Per Share	\$0.58	\$ 0.42	\$ 0.16	38.1%
Dividends Paid per Common Share	\$ 0.60	\$ 0.575	\$ 0.025	4.3%



Gross Margin

(Third Quarter)

(dollars in millions)

Three Months Ended September 30,

	2020	2019	Variance	
Electric	\$ 183.0	\$ 182.5	\$ 0.5	0.3%
Natural Gas	29.6	28.1	1.5	5.3%
Total Gross Margin ⁽¹⁾	\$ 212.6	\$ 210.6	\$ 2.0	0.9%

Increase in gross margin due to the following factors:

\$2.4	Electric retail volumes and demand
(0.5)	Montana electric supply cost recovery
(0.3)	Electric transmission
(0.3)	Natural gas retail volumes
(0.1)	Montana natural gas rates
<u>1.7</u>	Other
\$2.9	Change in Gross Margin Impacting Net Income

\$1.1	Property tax revenue offset in property tax expense
(1.0)	Operating expenses recovered in revenue, offset in operating expense
<u>(1.0)</u>	Production tax credits reducing revenue, offset in income tax expense
(\$0.9)	Change in Gross Margin Offset Within Net Income
<u>\$2.0</u>	Increase in Gross Margin

Covid-19

We estimate a net \$2-3 million impact of lower commercial and industrial usage (demand and loads) partially offset by increased residential usage.

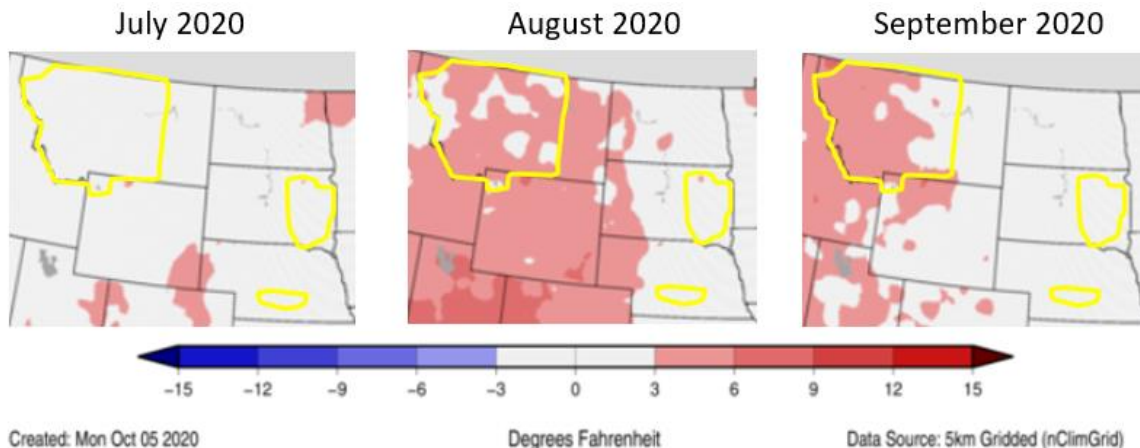
(1) Gross Margin, defined as revenues less cost of sales, is a non-GAAP Measure
See appendix for additional disclosure.



Cooling Degree-Days	Qtr 3 Degree Days			Q3 2020 as compared with:	
	2020	2019	Historic Average	2019	Historic Average
Montana	340	332	351	2% warmer	3% cooler
South Dakota	755	606	639	25% warmer	18% warmer

Heating Degree - Days	Qtr 3 Degree Days			Q3 2020 as compared with:	
	2020	2019	Historic Average	2019	Historic Average
Montana	306	353	336	13% warmer	9% warmer
South Dakota	71	37	86	De minimis	De minimis
Nebraska	40	17	46	De minimis	De minimis

Mean Temperature Departures from Average



We estimate unfavorable weather in Q3 2020 resulted in a \$0.6M pretax detriment as compared to normal and \$5.1M pretax benefit as compared to Q3 2019.



Operating Expenses

(Third Quarter)

(dollars in millions)

Three Months Ended September 30,

	2020	2019	Variance	
Operating, general & admin.	\$ 73.3	\$ 77.0	(\$ 3.7)	(4.8%)
Property and other taxes	45.3	44.1	1.2	2.7%
Depreciation and depletion	44.3	43.2	1.1	2.5%
Operating Expenses	\$ 162.9	\$ 164.3	(\$ 1.4)	(0.9%)

Decrease in operating, general & admin expense due to the following factors:

(\$2.0)	Employee benefits
(1.3)	Hazard trees
(1.2)	Labor (<i>incl. \$0.4 million Covid-related lower in-home customer work</i>)
(0.9)	Generation maintenance
(0.8)	Travel and training (<i>estimated to be all Covid-related</i>)
2.4	Uncollectible accounts (<i>estimated to be all Covid-related</i>)
0.7	Other
(\$3.1)	Change in OG&A Items Impacting Net Income
\$2.4	Pension and other postretirement benefits, offset in other income
(1.1)	Operating expenses recovered in trackers, offset in revenue
(1.9)	Non-employee directors deferred compensation, offset in other income
(\$0.6)	Change in OG&A Items Offset Within Net Income
(\$3.7)	Decrease in Operating, General & Administrative Expense

Covid-19
 \$2.4 million in increased uncollectable accounts expense was partially offset by an estimated \$1.2M of lower Covid-related expense.

\$1.2 million increase in property and other taxes due primarily to increase in Montana state and local taxes offset in part by lower MPSC tax and invasive species taxes.

\$1.1 million increase in depreciation expense primarily due to plant additions.



Operating to Net Income

(Third Quarter)

(dollars in millions)

Three Months Ended September 30,

	2020	2019	Variance	
Operating Income	\$ 49.7	\$ 46.4	\$ 3.3	7.1%
Interest Expense	(23.7)	(23.7)	-	0.0%
Other Income (Expense)	0.8	(0.4)	1.2	300.0%
Income Before Taxes	26.8	22.2	4.6	20.7%
Income Tax Benefit (Expense)	2.7	(0.6)	3.3	550.0%
Net Income	\$ 29.5	\$ 21.7	\$ 7.8	35.9%

Flat interest expense for the quarter includes higher borrowings offset by lower interest expense on our revolving credit facilities.

\$1.2 million increase in other income was due to a decrease in other pension expense of \$2.4 million partially offset by a \$1.8 million decrease in the value of deferred shares held in trust for non-employee directors deferred compensation, both of which are offset in operating, general and administrative expense with no impact to net income and higher capitalization of Allowance for Funds Used During Construction (AFUDC).

\$3.3 million improvement in income taxes due primarily to a prior year permanent return to accrual adjustment, higher flow-through repairs deductions and higher production tax credits, offset, in part, by higher pre-tax income.



Income Tax Reconciliation

(Third Quarter)

(in millions)

	Three Months Ended September 30,				
	2020		2019		Variance
Income Before Income Taxes	\$26.8		\$22.2		\$4.6
Income tax calculated at federal statutory rate	5.6	21.0%	4.7	21.0%	0.9
<u>Permanent or flow through adjustments:</u>					
State income, net of federal provisions	0.0	0.2%	0.1	0.3%	(0.1)
Flow - through repairs deductions	(4.2)	(15.7%)	(2.6)	(11.7%)	(1.6)
Production tax credits	(2.2)	(8.2%)	(1.4)	(6.3%)	(0.8)
Amortization of excess deferred income tax	(0.2)	(0.8%)	(0.4)	(1.7%)	0.2
Plant and depreciation of flow-through items	0.1	0.4%	(0.3)	(1.2%)	0.4
Prior year permanent return to accrual adjustments	(1.7)	(6.5%)	0.6	2.5%	(2.3)
Other, net	(0.1)	(0.5%)	(0.1)	(0.4%)	-
Sub-total	(8.3)	(31.1%)	(4.1)	(18.5%)	(4.2)
Income Tax (Benefit) Expense	\$ (2.7)		\$ 0.6		\$ (3.3)



Balance Sheet

(dollars in millions)	As of September 30, 2020	As of December 31, 2019
Cash and cash equivalents	\$ 3.5	\$ 5.1
Restricted cash	10.5	6.9
Accounts receivable, net	133.1	167.4
Inventories	69.1	53.9
Other current assets	65.1	68.3
Goodwill	357.6	357.6
PP&E and other non-current assets	5,436.7	5,251.4
Total Assets	\$ 6,075.6	\$ 5,910.7
Payables	74.7	96.7
Current Maturities - debt and leases	102.6	2.5
Other current liabilities	316.2	235.1
Long-term debt & capital leases	2,204.4	2,250.7
Other non-current liabilities	1,323.2	1,286.6
Shareholders' equity	2,054.6	2,039.1
Total Liabilities and Equity	\$ 6,075.6	\$ 5,910.7
Capitalization:		
Short-Term Debt & Short-Term Finance Leases	102.6	2.5
Long-Term Debt & Long-Term Finance Leases	2,204.4	2,250.7
Less: Basin Creek Finance Lease	(18.1)	(19.9)
Less: New Market Tax Credit Financing Debt	(27.0)	(27.0)
Shareholders' Equity	2,054.6	2,039.1
Total Capitalization	\$ 4,316.5	\$ 4,245.4
Ratio of Debt to Total Capitalization	52.4%	52.0%

Cash Flow

(dollars in millions)	Nine Months Ending September 30,	
	2020	2019
Operating Activities		
Net Income	\$ 101.7	\$ 142.1
Non-Cash adjustments to net income	135.0	117.4
Changes in working capital	99.1	2.4
Other non-current assets & liabilities	(13.3)	(8.0)
Cash provided by Operating Activities	322.5	253.9
Investing Activities		
PP&E additions	(283.0)	(242.9)
Cash used in Investing Activities	(283.0)	(242.9)
Financing Activities		
Issuance of long-term debt	150.0	150.0
Issuance of short-term borrowings	100.0	-
Line of credit repayments, net	(193.0)	(76.0)
Dividends on common stock	(90.3)	(86.3)
Financing costs	(2.6)	(1.1)
Other	(1.7)	1.2
Cash used in Financing Activities	(37.6)	(12.2)
Increase (Decrease) in Cash, Cash Equiv. & Restricted	1.9	(1.2)
Beginning Cash, Cash Equiv. & Restricted Cash	12.1	15.3
Ending Cash, Cash Equiv. & Restricted Cash	\$ 14.0	\$ 14.1

Cash from operating activities increased by \$68.6M primarily due to the improved collections of energy supply costs in the current period, as compared with higher procured supply costs, and payments reducing cash flows in 2019 including credits to Montana customers of approximately \$20.5 million in the first quarter of 2019, and transmission generation interconnection refunds all in the prior period. These improvements were offset in part by reduced net income.

Adjusted Non-GAAP Earnings

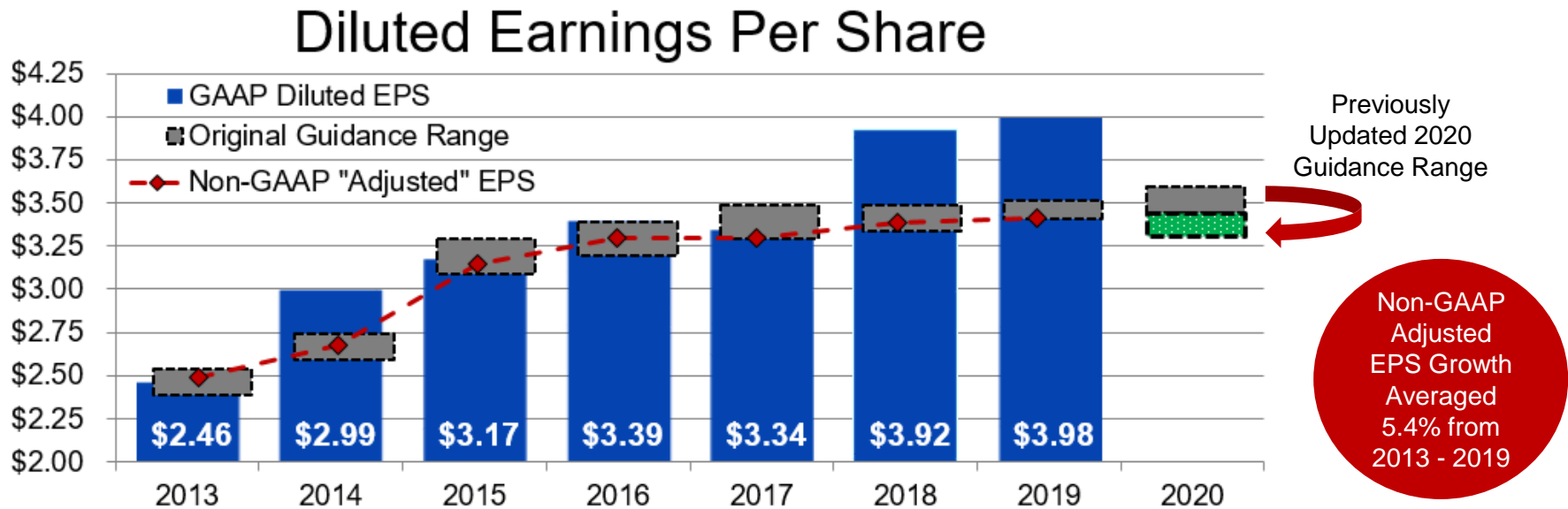
(Third Quarter)

	GAAP → Non GAAP				Non-GAAP Variance		Non GAAP ← GAAP					
	Three Months Ended Sept. 30, 2020	Unfavorable Weather	Move Pension Expense to OG&A (disaggregated with ASU 2017-07) ⁽¹⁾	Non-employee Deferred Compensation	Three Months Ended Sept. 30, 2020	\$	%	Three Months Ended Sept. 30, 2019	Non-employee Deferred Compensation	Move Pension Expense to OG&A (disaggregated with ASU 2017-07) ⁽¹⁾	Unfavorable Weather	Three Months Ended Sept. 30, 2019
<i>(in millions)</i>												
Revenues	\$280.6	0.6			\$281.2	\$0.7	0.2%	\$280.5			5.7	\$274.8
Cost of sales	68.0				68.0	3.8	5.9%	64.2				64.2
Gross Margin	212.6	0.6	-	-	213.2	(3.1)	-1.4%	216.3	-	-	5.7	210.6
Op. Expenses												
OG&A	73.3		0.1	1.2	74.6	(4.3)	-5.4%	78.9	(0.6)	2.5		77.0
Prop. & other taxes	45.3				45.3	1.2	2.7%	44.1				44.1
Depreciation	44.3				44.3	1.1	2.5%	43.2				43.2
Total Op. Exp.	162.9	-	0.1	1.2	164.2	(2.0)	-1.2%	166.2	(0.6)	2.5	-	164.3
Op. Income	49.7	0.6	(0.1)	(1.2)	49.0	(1.2)	-2.4%	50.2	0.6	(2.5)	5.7	46.4
Interest expense	(23.7)				(23.7)	-	0.0%	(23.7)				(23.7)
Other (Exp.) Inc., net	0.8		0.1	1.2	2.1	0.6	40.0%	1.5	(0.6)	2.5		(0.4)
Pretax Income	26.8	0.6	-	-	27.4	(0.5)	-1.8%	27.9	-	-	5.7	22.2
Income tax	2.7	(0.2)			2.5	4.5	220.4%	(2.0)			(1.4)	(0.6)
Net Income	\$29.5	0.4	-	-	\$29.9	\$3.9	15.0%	\$26.0	-	-	4.3	\$21.7
<i>ETR</i>	-10.1%	25.3%			-9.3%			7.3%			25.3%	2.5%
Diluted Shares	50.7				50.7	(0.1)	-0.2%	50.8				50.8
Diluted EPS	\$0.58	0.01	-	-	\$0.59	\$0.09	18.0%	\$0.50	-	-	0.08	\$0.42

The adjusted non-GAAP measures presented in the table are being shown to reflect significant items that are non-recurring or variance from normal weather, however they should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

(1) As a result of the adoption of Accounting Standard Update 2017-07 in March 2018, pension and other employee benefit expense is now disaggregated on the GAAP income statement with portions now recorded in both OG&A expense and Other (Expense) Income lines. To facilitate better understanding of trends in year-over-year comparisons, the non-GAAP adjustment above re-aggregates the expense in OG&A - as it was historically presented prior to the ASU 2017-07 (with no impact to net income or earnings per share).

Diluted Earnings Per Share



NorthWestern is affirms its 2020 previously revised earnings guidance range of \$3.30 to \$3.45 per diluted share based upon, but not limited to, the following major assumptions and expectations:

- **COVID-19 related business slowdowns and closures in our service territory continue to ease during the fourth quarter of 2020;**
- **Regulatory recovery of COVID-19 related uncollectable account expense;**
- Normal weather for the remainder of the year in our electric and natural gas service territories;
- A consolidated income tax rate of approximately (5%) to 0% of pre-tax income; and
- Diluted shares outstanding of approximately 50.8 million.

Continued investment in our system to serve our customers and communities is expected to provide a targeted long-term earnings per share growth rate of 3%-6%. This coupled with the dividend, currently yielding approximately 5%, is expected to provide a competitive total return to investors.

2019 Non-GAAP to 2020 Revised EPS Bridge

	Full Year							
	Actual		Q4 Forecast		Earnings Bridge (@ Q3 Earnings)		Earnings Bridge (@ Q2 Earnings)	
	Q1 - Q3		Low	High	Low	High	Low	High
<i>After-tax earnings per share increase (decrease)</i>								
2019 Non-GAAP Diluted EPS	\$2.24		\$1.18	\$1.18	\$3.42	\$3.42	\$3.42	\$3.42
2020 Earnings Drivers								
Gross margin	(\$0.25)		\$0.08	\$0.14	(\$0.17)	(\$0.11)	(\$0.09)	(\$0.03)
OG&A expense	0.18		0.06	0.09	0.24	0.27	0.21	0.24
Property & other tax expense	(0.05)		(0.11)	(0.10)	(0.16)	(0.15)	(0.16)	(0.15)
Depreciation expense	(0.07)		(0.02)	(0.02)	(0.09)	(0.09)	(0.11)	(0.11)
Interest expense	(0.02)		(0.01)	0.00	(0.03)	(0.02)	(0.04)	(0.03)
Other income	0.01		0.00	0.01	0.01	0.02	0.03	0.04
Incremental tax impact*	0.03		0.05	0.09	0.08	0.12	0.04	0.08
Subtotal of anticipated changes	(\$0.17)		\$0.05	\$0.21	(\$0.12)	\$0.04	(\$0.12)	\$0.04
2020 EPS Non-GAAP Estimate	\$2.07		\$1.23	\$1.39	\$3.30	\$3.46	\$3.30	\$3.46
Dilution from higher share count	-			(\$0.01)	-	(\$0.01)	-	(\$0.01)
2020 EPS Estimate (post equity dilution)	\$2.07		\$1.23	\$1.38	\$3.30	\$3.45	\$3.30	\$3.45
2020 Non-GAAP Adjusted Diluted EPS (Midpoint)					\$3.38		\$3.38	

* 2020 earnings drivers shown above are calculated using a 25.3% effective tax rate. The incremental tax impact line included above reflects anticipated changes in discrete tax items (such as tax repairs and meter deductions, production tax credits, and other permanent or flow-through items) from 2019 actual earnings to 2020 forecast.

Since second quarter earnings, the primary change reflected in the earnings bridge above is due to prolonged Covid-19 related impacts; including lower gross margin offset by lower OG&A and increased income tax benefits.



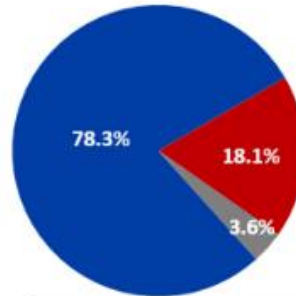
COVID-19: Margin Expectations

Covid-19 impacts on gross margin continued into the third quarter with all three customer classes impacted more than forecasted - residential up and commercial and industrial down. Industrial load was incrementally impacted by non-COVID related closures of a few industrial customers. These customers, who do not procure supply from NorthWestern, account for a significant portion of volumes but have a less material impact on gross margin.

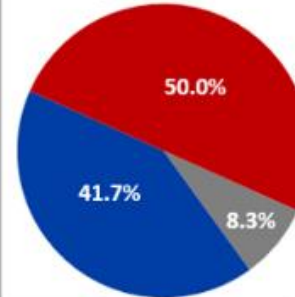
For the third quarter, we estimate the gross margin detriment of Covid-19 to be \$2 million - \$3 million.

Electric: High-Level COVID Load Impacts vs Planned 2020 Loads						
	Second Quarter		Third Quarter		Fourth Quarter	
	Forecast	Actual	Forecast	Actual	Original Forecast	Updated Forecast
Residential	4.0%	3.3%	1.5%	5.4%	0.3%	2.0%
Commercial	(12.0%)	(11.0%)	(4.5%)	(8.9%)	(0.8%)	(4.0%)
Industrial	(4.0%)	(1.2%)	(1.5%)	(17.3%)	(0.3%)	(9.0%)

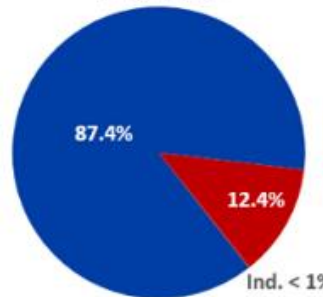
Electric Retail Customer Count Mix



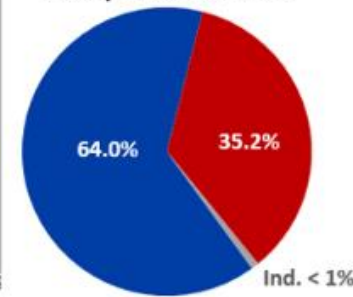
Electric Retail Revenue Mix by Customer Class



Natural Gas Customer Count Mix



Natural Gas Retail Revenue Mix by Customer Class



■ Residential ■ Commercial ■ Industrial / Other



Gallatin River

COVID-19: Expense Expectations

Expenses we expect to increase:

- Bad debt expense
 - We assume significant recovery through a regulatory mechanism
- COVID related charitable contributions

Expenses we expect to decrease:

- Distribution customer work
- Contract services and material costs
- Fleet fuel costs
- Travel and employee education
- Lower medical expense and incentive pay

(millions)	Estimate of Covid Impacts			
	Second Quarter		Third Quarter	
	Low	High	Low	High
Gross Margin	(\$3.0)	(\$4.0)	(\$2.0)	(\$3.0)
Operating Expense				
Medical	(0.9)	(0.9)		
Labor	(0.7)	(0.7)	(0.4)	(0.4)
Travel & training	(1.2)	(1.2)	(0.8)	(0.8)
Uncollectible accounts	3.1	3.1	2.4	2.4
Total Operating Expense	0.3	0.3	1.2	1.2
Operating Loss	(3.3)	(4.3)	(3.2)	(4.2)
Interest expense	(0.7)	(0.7)	0.0	0.0
Pretax Loss	(4.0)	(5.0)	(3.2)	(4.2)
Income tax benefit	1.0	1.3	0.8	1.1
Net Loss	(\$3.0)	(\$3.7)	(\$2.4)	(\$3.1)
	ETR	25.3%	25.3%	25.3%
Diluted Shares	50.6	50.6	50.7	50.7
Diluted EPS	(\$0.06)	(\$0.07)	(\$0.05)	(\$0.06)

Areas unchanged but will monitor and manage appropriately

- Capital spending still expected at approximately \$400 million in 2020
- Supply chain – No significant issues anticipated as nearly all vendors in USA
- Staffing levels – No layoffs expected and we are still hiring for critical positions

Estimated Covid related expense reductions were generally in line with our expectations. However, without an approved recovery mechanism in place, increased uncollectable accounts expense and increased interest expense from higher liquidity needs more than offset Covid related savings.



Belt Creek - Montana

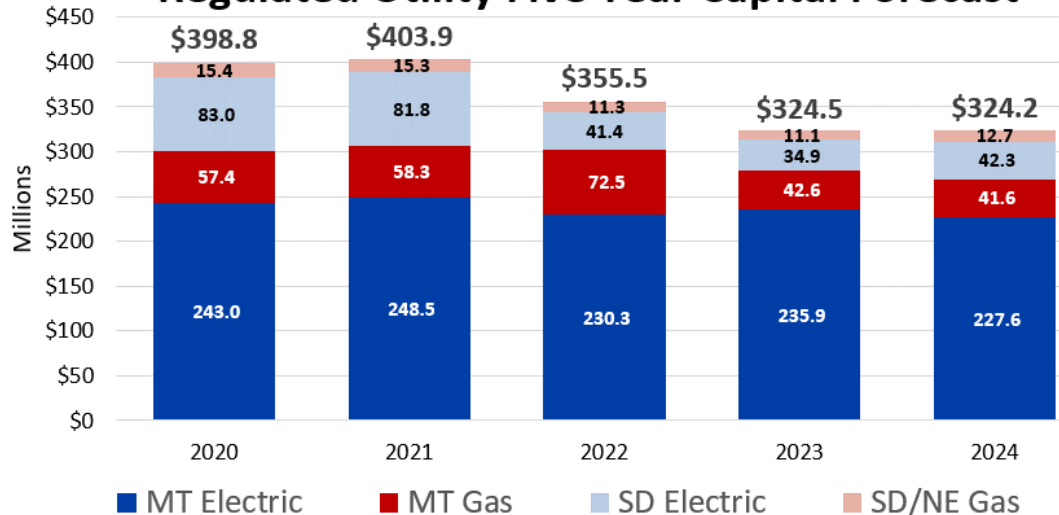
Maintaining Capital Investment Forecast

\$1.8 billion of total capital investment over five years

We anticipate financing this capital with a combination of cash flow from operations (aided by NOLs available into 2021), first mortgage bonds and equity issuances.

We expect to issue equity in 2021 to maintain and protect our current credit ratings in balance with our current capital expenditure plans.

Regulated Utility Five Year Capital Forecast



\$ Millions	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Electric	\$ 326.1	\$ 330.3	\$ 271.7	\$ 270.8	\$ 269.9
Natural Gas	72.7	73.6	83.8	53.7	54.4
Total Capital Forecast	\$ 398.8	\$ 403.9	\$ 355.5	\$ 324.5	\$ 324.2

Based on the results of the recent competitive solicitation process in South Dakota, \$80 million of incremental investment for SD generation is included above (spread between 2020-2021). Capital projections above do not include investment necessary to address other identified generation capacity issues in Montana. These additions could increase the capital forecast above in excess of \$200 million over the next five years.



Looking Forward (Regulatory)

- We submitted accounting order requests in Montana and South Dakota to allow for the **deferral of uncollectible accounts expense in excess of amounts currently recovered**. The SDPUC issued an order in August 2020 authorizing deferral of costs for possible recovery through future rates. The MPSC held a work session in October 2020 and we expect a final order during the fourth quarter of 2020.
- The MPSC recently approved a pilot **Fixed Cost Recovery Mechanism (FCRM)** effective July 1, 2020. We asked the MPSC to delay the start of the pilot for one year until July 1, 2021 due to the uncertainty created by the COVID-19 pandemic. The MPSC granted the requested one-year delay of implementation but requested 'shadow accounting' to inform the commission of the impacts had the FCRM been implemented as scheduled.
- In June 2019, the **FERC** issued an order accepting our **filing of Montana transmission assets**, granting interim rates, establishing settlement procedures and terminating our related Tax Cuts and Jobs Act filing. A settlement judge has been appointed and settlement negotiations are ongoing. We expect to submit a compliance filing with the MPSC upon resolution of our case adjusting the FERC credit in our retail rates.
- NorthWestern's **application to acquire an additional 92.5MW of Colstrip Unit 4** for \$0.50 from Puget Sound Energy has been filed with the MPSC. A hearing on Puget's sale application before the Washington Utilities Commission is scheduled for November 2020 and a hearing for our application before the MPSC is scheduled for December 2020. We expect a decision from the MPSC in the first quarter of 2021.
- Each year we submit **filings for recovery of electric, natural gas and property taxes**. The respective commissions review these tracker filings and make cost recovery determinations based on prudence.



Electric Resource Planning

- South Dakota: Construction is underway for a 60MW flexible reciprocating internal combustion engines in Huron, SD to be online in late 2021 with a construction cost of approximately \$80 million.
- Montana: Initial bids from the February 2020, 280 MW, competitive solicitation were submitted in July 2020. Engineering, procurement and construction bids were submitted on our behalf for long-duration flexible capacity in excess of 200 MWs. The bids are under evaluation by an independent party, and we expect the successful project(s) to be selected and announced by the first quarter of 2021 and to be online in 2023.

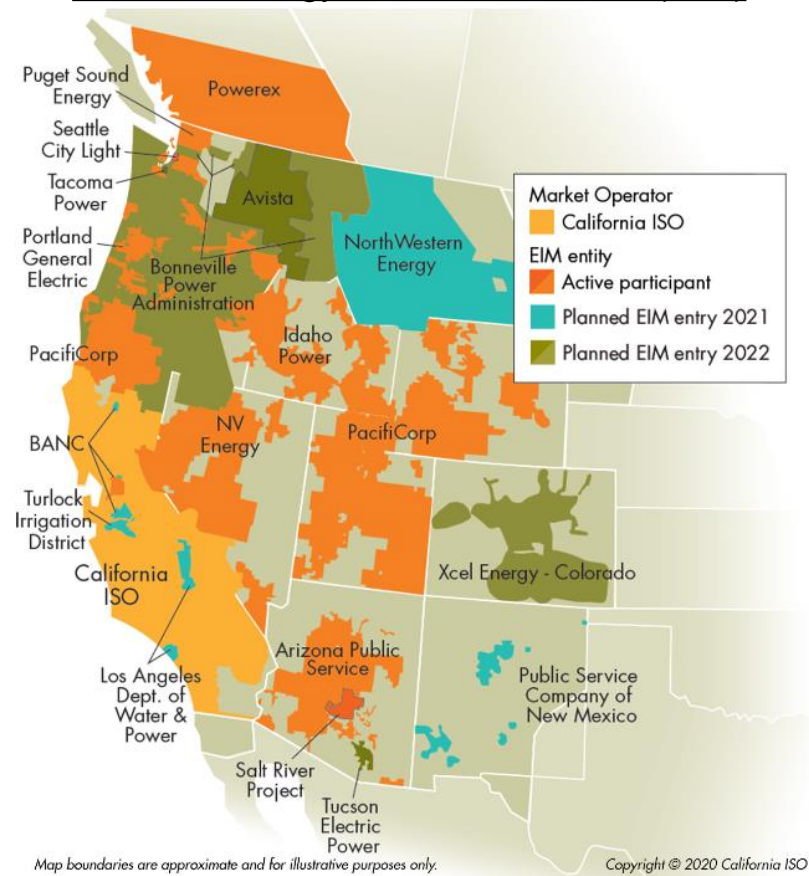
Continue to Invest in our Transmission & Distribution Infrastructure

- Infrastructure investment focused on a stronger and smarter grid to improve the customer experience, while enhancing grid reliability and safety. This includes automation in distribution and substations that enables the use of changing technology.
- Integrating supply resources that balance reliability, cost, capacity, and sustainability considerations with more predictable long-term commodity prices.

Planned entry into the Western Energy Imbalance Market (EIM)

- Anticipated April 2021
- Real-time energy market could mean lower cost of energy for Montana customers, more efficient use of renewables and greater power grid reliability.

Western Energy Imbalance Market (EIM)





Conclusion

Pure
Electric &
Gas Utility

Solid Utility
Foundation

Best
Practices
Corporate
Governance

Attractive
Future
Growth
Prospects

Strong
Earnings &
Cash Flows



(Unaudited) (in thousands)

Three Months Ending September 30, 2020	Electric	Gas	Other	Total
Operating revenues	\$ 244,155	\$ 36,455	\$ -	\$ 280,610
Cost of sales	61,155	6,883	-	68,038
Gross margin ⁽¹⁾	183,000	29,572	-	212,572
Operating, general and administrative	54,367	20,059	(1,104)	73,322
Property and other taxes	35,532	9,772	2	45,306
Depreciation & depletion	36,670	7,619		44,289
Operating Income	56,431	(7,878)	1,102	49,655
Interest expense	(21,286)	(1,574)	(817)	(23,677)
Other income (expense)	1,559	459	(1,233)	785
Income tax benefit (expense)	1,197	607	899	2,703
Net income (loss)	<u>\$ 37,901</u>	<u>\$ (8,386)</u>	<u>\$ (49)</u>	<u>\$ 29,466</u>
Three Months Ending September 30, 2019	Electric	Gas	Other	Total
Operating revenues	\$ 241,237	\$ 33,599	\$ -	\$ 274,836
Cost of sales	58,768	5,459	-	64,227
Gross margin ⁽¹⁾	182,469	28,140	-	210,609
Operating, general and administrative	57,433	18,830	735	76,998
Property and other taxes	34,731	9,355	3	44,089
Depreciation & depletion	35,824	7,342	-	43,166
Operating Income (loss)	54,481	(7,387)	(738)	46,356
Interest expense	(19,481)	(1,588)	(2,653)	(23,722)
Other (expense) income	(677)	(344)	612	(409)
Income tax (expense) benefit	(1,415)	(232)	1,092	(555)
Net income (loss)	<u>\$ 32,908</u>	<u>\$ (9,551)</u>	<u>\$ (1,687)</u>	<u>\$ 21,670</u>

(1) Gross Margin, defined as revenues less cost of sales, is a non-GAAP Measure.
See appendix for additional disclosure.

Results

(dollars in millions)

	2020	2019	Change	% Change
Retail revenues	\$ 235.0	\$ 221.4	\$ 13.6	6.1 %
Regulatory amortization	(5.5)	4.6	(10.1)	(219.6)
Total retail revenue	229.5	226.0	3.5	1.5
Transmission	12.9	13.3	(0.4)	(3.0)
Wholesale and other	1.8	1.9	(0.1)	(5.3)
Total Revenues	244.2	241.2	3.0	1.2
Total Cost of Sales	61.2	58.7	2.5	4.3
Gross Margin ⁽¹⁾	183.0	182.5	0.5	0.3 %

	Revenues		Megawatt Hours (MWH)		Avg. Customer Count	
	2020	2019	2020	2019	2020	2019
	(in thousands)					
Retail Electric						
Montana	\$ 78,549	\$ 68,469	633	569	307,892	303,263
South Dakota	18,912	15,987	160	141	50,584	50,596
Residential	97,461	84,456	793	710	358,476	353,859
Montana	89,082	87,754	794	807	70,320	69,217
South Dakota	27,373	26,295	284	291	12,870	12,873
Commercial	116,455	114,049	1,078	1,098	83,190	82,090
Industrial	9,212	10,523	621	766	78	78
Other	11,910	12,324	86	90	8,193	8,140
Total Retail Electric	\$ 235,038	\$ 221,352	2,578	2,664	449,937	444,167

(1) Gross Margin, defined as revenues less cost of sales, is a non-GAAP Measure. See appendix for additional disclosure.

(dollars in millions)	Results			
	2020	2019	Change	% Change
Retail revenues	\$ 20.8	\$ 20.3	\$ 0.5	2.5 %
Regulatory amortization	7.3	5.4	1.9	35.2
Total retail revenue	28.1	25.7	2.4	9.3
Wholesale and other	8.4	7.9	0.5	6.3
Total Revenues	36.5	33.6	2.9	8.6
Total Cost of Sales	6.9	5.5	1.4	25.5
Gross Margin	\$ 29.6	\$ 28.1	\$ 1.5	\$ 5.3 %

	Revenues		Dekatherms (Dkt)		Avg. Customer Count	
	2020	2019	2020	2019	2020	2019
	(in thousands)					
Retail Gas						
Montana	\$ 9,896	\$ 8,909	956	945	177,410	174,550
South Dakota	1,702	1,676	114	112	40,437	39,795
Nebraska	1,698	1,833	156	141	37,467	37,173
Residential	13,296	12,418	1,226	1,198	255,314	251,518
Montana	5,598	5,490	611	675	24,412	24,094
South Dakota	1,030	1,283	170	216	6,864	6,740
Nebraska	684	900	143	156	4,945	4,872
Commercial	7,312	7,673	924	1,047	36,221	35,706
Industrial	51	79	6	11	231	239
Other	92	97	12	14	153	166
Total Retail Gas	\$ 20,751	\$ 20,267	2,168	2,270	291,919	287,629

- (1) Gross Margin, defined as revenues less cost of sales, is a non-GAAP Measure. See appendix for additional disclosure.

Summary Financial Results

(Nine Months Ended September 30)

(in millions except per share amounts)

	Nine Months Ended September 30,			
	2020	2019	Variance	% Variance
Operating Revenues	\$ 885.2	\$ 929.8	\$ (44.6)	(4.8%)
Cost of Sales	220.4	235.7	(15.3)	(6.5%)
Gross Margin ⁽¹⁾	664.8	694.1	(29.3)	(4.2%)
Operating Expenses				
Operating, general & administrative	224.0	238.9	(14.9)	(6.2%)
Property and other taxes	136.8	133.2	3.6	2.7%
Depreciation and depletion	134.3	129.8	4.5	3.5%
Total Operating Expenses	495.1	501.9	(6.8)	(1.4%)
Operating Income	169.7	192.2	(22.5)	(11.7%)
Interest Expense	(72.3)	(71.0)	(1.3)	(1.8%)
Other (Expense) / Benefit	(1.0)	0.9	(1.9)	211.1%
Income Before Taxes	96.4	122.0	(25.6)	(21.0%)
Income Tax Benefit	5.3	20.1	(14.8)	73.6%
Net Income	\$ 101.7	\$ 142.1	\$ (40.4)	(28.4%)
Effective Tax Rate	(5.4%)	(16.5%)	11.1%	
Diluted: Average Shares Outstanding	50.7	50.8	(0.1)	(0.3%)
Diluted Earnings Per Share	\$2.01	\$2.80	(\$0.79)	(28.1%)
Dividends Paid per Common Share	\$1.80	\$ 1.725	\$ 0.075	4.3%

(1) Gross Margin, defined as revenues less cost of sales, is a non-GAAP Measure. See appendix for additional disclosure.

(dollars in millions)

Nine Months Ended September 30,

	2020	2019	Variance ⁽¹⁾	
Electric	\$ 533.4	\$ 555.5	(\$ 22.1)	(4.0%)
Natural Gas	131.4	138.6	(7.2)	(5.2%)
Total Gross Margin	\$ 664.8	\$ 694.1	(\$ 29.3)	(4.2%)

Decrease in gross margin due to the following factors:

- (\$8.3) Natural gas retail volumes
- (6.5) Electric retail volumes and demand
- (3.3) Lower electric QF liability adjustment
- (3.2) Montana electric supply cost recovery
- (1.8) Montana transmission
- (0.8) Montana natural gas rates
- 1.6 Montana electric retail rates
- (5.3) Other

(\$27.6) Change in Gross Margin Impacting Net Income

- (\$4.0) Production tax credits reducing revenue, offset in income tax expense
- (1.2) Operating expenses recovered in revenue, offset in operating expense
- 3.5 Property tax revenue, offset in property tax expense

(\$1.7) Change in Gross Margin Offset Within Net Income

(\$29.3) Decrease in Gross Margin

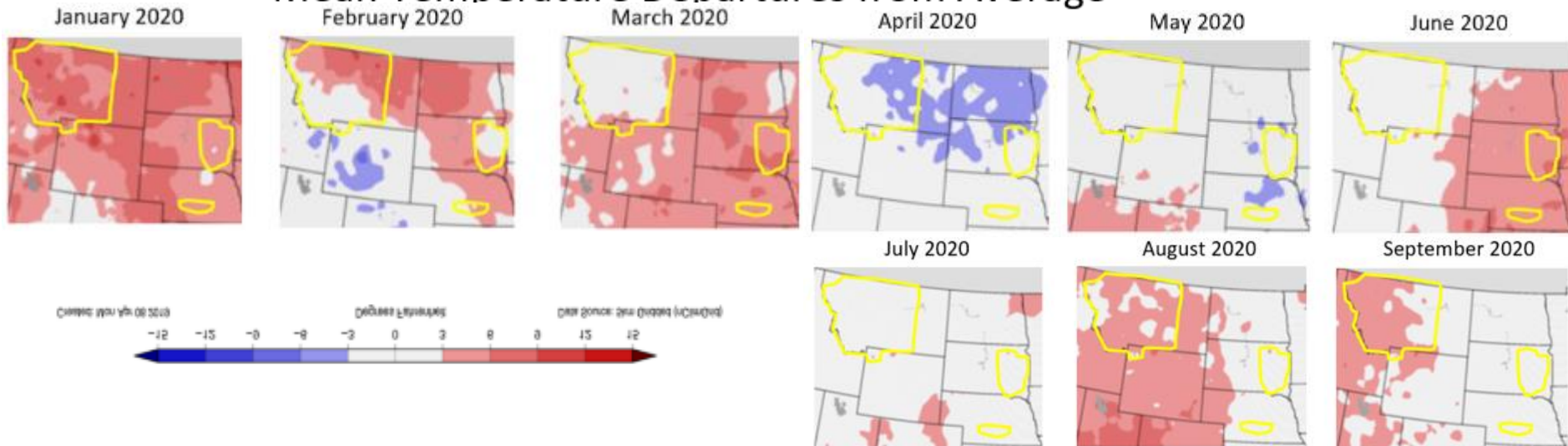
(1) Gross Margin, defined as revenues less cost of sales, is a non-GAAP Measure. See appendix for additional disclosure.

We estimate unfavorable weather through the first 9 months of 2020 has contributed approximately \$4.1M pretax detriment as compared to normal and \$12.1M pretax detriment as compared to the same period in 2019.

Cooling Degree-Days	YTD thru 9/30 Degree Days			YTD 2020 as compared with:	
	2020	2019	Historic Average	2019	Historic Average
Montana	395	370	403	7% warmer	2% cooler
South Dakota	844	660	699	28% warmer	21% warmer

Heating Degree - Days	YTD thru 9/30 Degree Days			YTD 2020 as compared with:	
	2020	2019	Historic Average	2019	Historic Average
Montana	4,707	5,604	4,863	16% warmer	3% warmer
South Dakota	5,564	6,350	5,686	12% warmer	2% warmer
Nebraska	4,250	4,866	4,678	13% warmer	9% warmer

Mean Temperature Departures from Average



(dollars in millions)

Nine Months Ended September 30,

	2020	2019	Variance	
Operating, general & admin.	\$ 224.0	\$ 238.9	(\$ 14.9)	(6.2%)
Property and other taxes	136.8	133.2	3.6	2.7%
Depreciation and depletion	134.3	129.8	4.5	3.5%
Operating Expenses	\$ 495.1	\$ 501.9	(\$ 6.8)	(1.4%)

Decrease in Operating, general & admin expense due to the following factors:

(\$5.7)	Employee benefits
(3.0)	Labor
(2.5)	Hazard trees
(2.1)	Generation maintenance
(2.0)	Travel and training
5.5	Uncollectible accounts
(1.2)	Other
(\$11.0)	Change in OG&A Items Impacting Net Income
(\$8.2)	Non-employee directors deferred compensation, offset in other income
(1.3)	Operating expense recovered in trackers, offset in revenue
5.6	Pension and other postretirement benefits, offset in other income
(\$3.9)	Change in OG&A Items Offset Within Net Income
(\$14.9)	Decrease in Operating, General & Administrative Expenses

\$3.6 million increase in property and other taxes due primarily to plant additions and higher annual estimated property valuations in Montana.

\$4.5 million increase in depreciation expense primarily due to plant additions.

(dollars in millions)

Nine Months Ended September 30,

	2020	2019	Variance	
Operating Income	\$ 169.7	\$ 192.2	(\$ 22.5)	(11.7%)
Interest Expense	(72.3)	(71.0)	(1.3)	(1.8%)
Other (Expense) / Income	(1.0)	0.9	(1.9)	211.1%
Income Before Taxes	96.4	122.0	(25.6)	(21.0%)
Income Tax Benefit	5.3	20.1	(14.8)	73.6%
Net Income	\$ 101.7	\$ 142.1	(\$ 40.4)	(28.4%)

\$1.3 million increase in interest expense as a result of higher borrowings in 2020 to increase our cash position as a precautionary measure and preserve financial flexibility. This was partly offset by lower interest expense on our revolving credit facilities.

\$1.9 million decrease in other income was due to a \$8.2 million decrease in the value of deferred shares held in trust for non-employee directors deferred compensation that was partially offset by a \$5.6 million decrease in other pension expense, both of which are offset in operating, general, and administrative expense with no impact to net income and higher capitalization of AFUDC.

\$14.8 million decrease in income tax benefit. The income tax benefit for 2019 reflects the release of approximately \$22.8 million of unrecognized tax benefits, including approximately \$2.7 million of accrued interest and penalties, due to the lapse of statutes of limitation in the second quarter of 2019.

Income Tax Reconciliation

(Nine Months Ended September 30)

	<u>2020</u>		<u>2019</u>		<u>Variance</u>
Income Before Income Taxes	\$96.4		\$122.0		(\$25.6)
Income tax calculated at federal statutory rate	20.3	21.0%	25.6	21.0%	(5.3)
<u>Permanent or flow through adjustments:</u>					
State income, net of federal provisions	0.1	0.1%	1.2	1.0%	(1.1)
Flow - through repairs deductions	(14.9)	(15.4%)	(12.7)	(10.4%)	(2.2)
Production tax credits	(7.6)	(7.8%)	(7.3)	(5.9%)	(0.3)
Share-based compensation	(0.6)	(0.6%)	0.2	0.2%	(0.8)
Amortization of excess deferred income taxes	(0.7)	(0.8%)	(1.9)	(1.6%)	1.2
Prior year permanent return to accrual adjustments	(1.7)	(1.8%)	0.6	0.4%	(2.3)
Plant and depreciation of flow-through items	0.3	0.3%	(2.5)	(2.0%)	2.8
Release of unrecognized tax benefit	-	-	(22.8)	(18.7%)	22.8
Other, net	(0.4)	(0.4%)	(0.5)	(0.5%)	0.1
Sub-total	<u>(25.5)</u>	<u>(26.4%)</u>	<u>(45.7)</u>	<u>(37.5%)</u>	<u>20.2</u>
Income Tax Benefit	\$ (5.2)	(5.4%)	\$ (20.1)	(16.5%)	\$ 14.9

Adjusted Non-GAAP Earnings

(Nine Months Ended September 30)

	2020				Variance		2019					
	GAAP	Unfavorable Weather	(1) Move Pension Expense to OG&A (disaggregated with ASU 2017-07)	Non-employee Deferred Compensation	Non-GAAP	GAAP	Non-GAAP	Remove Benefit Related to Release of Previously Unrecognized Tax Benefits	Non-employee Deferred Compensation	(1) Move Pension Expense to OG&A (disaggregated with ASU 2017-07)	Favorable Weather	GAAP
(in millions)	Nine Months Ended Sept. 30, 2020				Nine Months Ended Sept. 30, 2020		Nine Months Ended Sept. 30, 2019					Nine Months Ended Sept. 30, 2019
						\$ %						
Revenues	\$885.2	4.1	-	-	\$889.3	(\$32.5) -3.5%	\$921.8	-	-	-	(8.0)	\$929.8
Cost of sales	220.4	-	-	-	220.4	(15.3) -6.5%	235.7	-	-	-	-	235.7
Gross Margin(1)	664.8	4.1	-	-	668.9	(17.2) -2.5%	686.1	-	-	-	(8.0)	694.1
Op. Expenses												
OG&A	224.0	-	0.4	5.0	229.4	(12.4) -5.1%	241.8	-	(3.1)	6.0	-	238.9
Prop. & other taxes	136.8	-	-	-	136.8	3.6 2.7%	133.2	-	-	-	-	133.2
Depreciation	134.3	-	-	-	134.3	4.5 3.5%	129.8	-	-	-	-	129.8
Total Op. Exp.	495.1	-	0.4	5.0	500.5	(4.3) -0.9%	504.8	-	(3.1)	6.0	-	501.9
Op. Income	169.7	4.1	(0.4)	(5.0)	168.4	(12.9) -7.1%	181.3	-	3.1	(6.0)	(8.0)	192.2
Interest expense	(72.3)	-	-	-	(72.3)	(1.3) -1.8%	(71.0)	-	-	-	-	(71.0)
Other (Exp.) Inc., net	(1.0)	-	0.4	5.0	4.4	0.6 15.8%	3.8	-	(3.1)	6.0	-	0.9
Pretax Income	96.4	4.1	-	-	100.5	(13.5) -11.8%	114.0	-	-	-	(8.0)	122.0
Income tax	5.3	(1.0)	-	-	4.3	5.0 739.6%	(0.7)	(22.8)	-	-	2.0	20.1
Net Income	\$101.7	3.1	-	-	\$104.8	(\$8.5) -7.5%	\$113.3	(22.8)	-	-	(6.0)	\$142.1
<i>ETR</i>	-5.4%	25.3%	-	-	-4.2%		0.6%	-	-	-	25.3%	-16.5%
Diluted Shares	50.7				50.7	(0.1) -0.2%	50.8					50.8
Diluted EPS	\$2.01	0.06	-	-	\$2.07	(\$0.17) -7.6%	\$2.24	(0.45)	-	-	(0.11)	\$2.80

The adjusted non-GAAP measures presented in the table are being shown to reflect significant items that were non-recurring or variance from normal weather, however they should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

(1) As a result of the adoption of Accounting Standard Update 2017-07 in March 2018, pension and other employee benefit expense is now disaggregated on the GAAP income statement with portions now recorded in both OG&A expense and Other (Expense) Income lines. To facilitate better understanding of trends in year-over-year comparisons, the non-GAAP adjustment above re-aggregates the expense in OG&A - as it was historically presented prior to the ASU 2017-07 (with no impact to net income or earnings per share).

(Unaudited) (in thousands)

Nine Months Ending September 30, 2020	Electric	Gas	Other	Total
Operating revenues	\$ 706,718	\$ 178,507	\$ -	\$ 885,225
Cost of sales	173,294	47,059	-	220,353
Gross margin	533,424	131,448	-	664,872
Operating, general and administrative	166,854	61,348	(4,160)	224,042
Property and other taxes	107,079	29,700	7	136,786
Depreciation & depletion	110,692	23,644	-	134,336
Operating Income	148,799	16,756	4,153	169,708
Interest expense	(63,585)	(4,824)	(3,889)	(72,298)
Other income (expense)	3,131	863	(4,967)	(973)
Income tax benefit (expense)	2,609	(467)	3,085	5,227
Net income (loss)	<u>\$ 90,954</u>	<u>\$ 12,328</u>	<u>\$ (1,618)</u>	<u>\$ 101,664</u>
Nine Months Ending September 30, 2019	Electric	Gas	Other	Total
Operating revenues	\$ 733,933	\$ 195,842	\$ -	\$ 929,775
Cost of sales	178,423	57,283	-	235,706
Gross margin	555,510	138,559	-	694,069
Operating, general and administrative	174,544	60,803	3,569	238,916
Property and other taxes	104,612	28,569	7	133,188
Depreciation & depletion	107,595	22,171	-	129,766
Operating income (loss)	168,759	27,016	(3,576)	192,199
Interest expense	(58,301)	(4,599)	(8,123)	(71,023)
Other (expense) income	(1,458)	(874)	3,196	864
Income tax (expense) benefit	(4,937)	493	24,542	20,098
Net income	<u>\$ 104,063</u>	<u>\$ 22,036</u>	<u>\$ 16,039</u>	<u>\$ 142,138</u>

(1) Gross Margin, defined as revenues less cost of sales, is a non-GAAP Measure. See appendix for additional disclosure.

Results

(dollars in millions)

	2020	2019	Change	% Change
Retail revenues	\$ 673.3	\$ 658.9	\$ 14.4	2.2 %
Regulatory amortization	(9.3)	30.0	(39.3)	(131.0)
Total retail revenue	664.0	688.9	(24.9)	(3.6)
Transmission	38.4	40.2	(1.8)	(4.5)
Wholesale and other	4.3	4.8	(0.5)	(10.4)
Total Revenues	706.7	733.9	(27.2)	(3.7)
Total Cost of Sales	173.3	178.4	(5.1)	(2.9)
Gross Margin ⁽¹⁾	533.4	555.5	(22.1)	(4.0) %

	Revenues		Megawatt Hours (MWH)		Avg. Customer Count	
	2020	2019	2020	2019	2020	2019
	(in thousands)					
Retail Electric						
Montana	\$ 237,777	\$ 225,392	1,944	1,898	306,886	302,687
South Dakota	52,427	47,444	463	459	50,629	50,606
Residential	290,204	272,836	2,407	2,357	357,515	353,293
Montana	252,514	257,284	2,269	2,380	69,949	68,723
South Dakota	77,057	71,218	818	828	12,812	12,822
Commercial	329,571	328,502	3,087	3,208	82,761	81,545
Industrial	27,162	32,368	2,026	2,192	78	78
Other	26,400	25,228	157	150	6,467	6,336
Total Retail Electric	\$ 673,337	\$ 658,934	7,677	7,907	446,821	441,252

(1) Gross Margin, defined as revenues less cost of sales, is a non-GAAP Measure. See appendix for additional disclosure.

(dollars in millions)	Results			
	2020	2019	Change	% Change
Retail revenues	\$ 146.9	\$ 171.1	\$ (24.2)	(14.1) %
Regulatory amortization	5.0	(1.7)	6.7	(394.1)
Total retail revenue	151.9	169.4	(17.5)	(10.3)
Wholesale and other	26.6	26.5	0.1	0.4
Total Revenues	178.5	195.9	(17.4)	(8.9)
Total Cost of Sales	47.1	57.3	(10.2)	(17.8)
Gross Margin ⁽¹⁾	\$ 131.4	\$ 138.6	\$ (7.2)	\$ (5.2) %

	Revenues		Dekatherms (Dkt)		Avg. Customer Count	
	2020	2019	2020	2019	2020	2019
	(in thousands)					
Retail Gas						
Montana	\$ 65,674	\$ 73,295	8,937	10,025	177,036	174,555
South Dakota	16,697	20,376	2,310	2,545	40,509	40,019
Nebraska	12,908	15,678	1,984	2,181	37,542	37,373
Residential	95,279	109,349	13,231	14,751	255,087	251,947
Montana	32,988	37,987	4,674	5,458	24,455	24,171
South Dakota	11,213	14,074	2,360	2,481	6,889	6,789
Nebraska	6,284	8,294	1,394	1,612	4,973	4,894
Commercial	50,485	60,355	8,428	9,551	36,317	35,854
Industrial	503	672	75	101	231	240
Other	612	746	104	124	152	166
Total Retail Gas	\$ 146,879	\$ 171,122	21,838	24,527	291,787	288,207

(1) Gross Margin, defined as revenues less cost of sales, is a non-GAAP Measure. See appendix for additional disclosure.

25% of Colstrip Unit 4 Acquisition

On December 9, 2019 NorthWestern (NWE) executed a Purchase and Sale Agreement for the acquisition of Puget Sound Energy's (PSE) 25% ownership interests in Colstrip Unit 4 (CU4).


- Generating Capacity: 185 MW (bringing our total ownership to 407 MW, or 55% of CU4)
- Purchase Price: \$1.00
- PSE will remain responsible for its current pro rata ownership share of environmental and pension liabilities attributed to events or conditions existing prior to closing of the transaction and for any demolition, reclamation, or remediation costs associated with the existing facilities that comprise CU4.
- PSE will enter a Power Purchase Agreement (PPA) with NWE to purchase 90 MW of power for approximately 5 years – indexed to hourly Mid-Columbia power prices.
 - Net proceeds from the PPA will be placed in a fund and applied against future decommissioning and remediation costs related to the existing 30%, or 222 MW, ownership in CU4.
 - PPA includes a price floor that reflects the recovery of all fixed operating and maintenance and variable generation costs.
- **The transaction is conditioned upon MPSC Pre-Approval (filed in February 2020).**
- Entered a separate agreement (predicated on approval of generation transaction) to acquire an additional 90MW interest in the 500 kV Colstrip Transmission System for net book value at time of sale – expected to be \$2.5 to \$3.8 million.
- **Update to transaction**
 - April 2020, Talan Energy, LLC exercised its right of first refusal to accept ½ the offer made by Puget Sound Energy to NWE
 - Talen's proportionate share of the 185 MW capacity is 92.5 MW.
 - Talen, while not a co-owner of the Colstrip Transmission System, has claimed that its right of first refusal extends to the transmission assets. We disagree with Talen's claim and will oppose Talen's efforts to obtain interest in the 45 MW of transmission assets.
 - We supplemented our application with the MPSC to reflect this development, but have not completed negotiations.
 - **A hearing on our application to the MPSC is scheduled for December 2020. We expect a decision from the MPSC in the first quarter of 2021. Should the MPSC decline to grant our application in all material respects, we have the right to terminate the transaction..**



NWE currently has a 46% reserve margin deficit during peak periods. This exposes our customers to greater market exposure than any of our regional peers. In addition, planned retirements in the Pacific Northwest region exceeding 3,600 MW will compound our market exposure. Acquiring incremental interest in Colstrip Unit 4 will limit this impact and provide a bridge to future generation technologies.

PCCAM Impact by Quarter

Pretax Millions

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Full Year</u>
'17/'18 Tracker	Full year recorded in Q3 			\$3.3	\$3.3
'18/'19 Tracker			(\$5.1)	\$0.3	(4.8)
2018 (Expense) Benefit	\$0.0	\$0.0	(\$1.8)	\$0.3	(\$1.5)
					<u>Full Year</u>
'18/'19 Tracker	(\$1.6)	\$4.6			\$3.0
'19/'20 Tracker			\$0.1	(\$0.7)	(0.6)
2019 (Expense) Benefit	(\$1.6)	\$4.6	\$0.1	(\$0.7)	\$2.4
					<u>Year-to-Date</u>
'19/'20 Tracker	\$0.1	\$0.2			\$0.3
'20/'21 Tracker			(\$0.4)		(0.4)
2019 (Expense) Benefit	\$0.1	\$0.2	(\$0.4)		(\$0.1)
Year-over-Year Variance	\$1.7	(\$4.4)	(\$0.5)		(\$3.2)

In 2017, the Montana legislature revised the statute regarding our recovery of electric supply costs. In response, the MPSC approved a new design for our electric tracker in 2018, effective July 1, 2017. The revised electric tracker, or PCCAM established a baseline of power supply costs and tracks the differences between the actual costs and revenues. Variances in supply costs above or below the baseline are allocated 90% to customers and 10% to shareholders, with an annual adjustment. From July 2017 to May 2019, the PCCAM also included a "deadband" which required us to absorb the variances within +/- \$4.1 million from the base, with 90% of the variance above or below the deadband collected from or refunded to customers. In 2019, the Montana legislature revised the statute effective May 7, 2019, prohibiting a deadband, allowing 100% recovery of QF purchases, and maintaining the 90% / 10% sharing ratio for other purchases.

Qualified Facility Earnings Adjustment

	Liability Adjustment due to underlying change in contract pricing assumptions	Actual Cost less than expected (due to price and volumes)	Total
Jun-15	(\$6.1)	1.8	(\$4.3)
Jun-16	\$0.0	1.8	\$1.8
Jun-17	\$0.0	2.1	\$2.1
Jun-18	\$17.5	9.7	\$27.2
Jun-19	\$3.3	3.1	\$6.4
Jun-20	\$2.2	0.9	\$3.1

Year-over-Year Better (Worse)

Jun-16	\$6.1	0.0	\$6.1
Jun-17	\$0.0	0.3	\$0.3
Jun-18	\$17.5	7.6	\$25.1
Jun-19	(\$14.2)	(6.6)	(\$20.8)
Jun-20	(\$1.1)	(2.2)	(\$3.3)

Our electric QF liability consists of unrecoverable costs associated with contracts covered under PURPA that are part of a 2002 stipulation with the MPSC and other parties. Risks / losses associated with these contracts are born by shareholders, not customers. Therefore, any mitigation of prior losses and / or benefits of liability reduction also accrue to shareholders.

The gain in 2020 for our QF liability was \$3.1 million in total, it was comprised of \$2.2 million adjustment to the liability and \$0.9 million lower actual costs over last 12 months (QF contract year). This \$3.1 million benefit is \$3.3 million less than the \$6.4 million total benefit we recognized in Q2 last year.

Due to our expectations regarding the remeasurement frequency of our QF liability, we no longer reflect this adjustment as a non-GAAP measure.

Pre-Tax Adjustments (\$ Millions)	2013	2014	2015	2016	2017	2018	2019
Reported GAAP Pre-Tax Income	\$ 108.3	\$ 110.4	\$ 181.2	\$ 156.5	\$ 176.1	\$ 178.3	\$ 182.2
Non-GAAP Adjustments to Pre-Tax Income:							
Weather	(3.7)	(1.3)	13.2	15.2	(3.4)	(1.3)	(7.3)
Lost revenue recovery related to prior periods	(1.0)	-	-	(14.2)	-	-	-
Remove hydro acquisition transaction costs	6.3	15.4	-	-	-	-	-
Exclude unplanned hydro earnings	-	(8.7)	-	-	-	-	-
Remove benefit of insurance settlement	-	-	(20.8)	-	-	-	-
QF liability adjustment	-	-	6.1	-	-	(17.5)	-
Electric tracker disallowance of prior period costs	-	-	-	12.2	-	-	-
Income tax adjustment	-	-	-	-	-	9.4	-
Unplanned Equity Dilution from Hydro transaction	-	-	-	-	-	-	-
Adjusted Non-GAAP Pre-Tax Income	\$ 109.8	\$ 115.8	\$ 179.7	\$ 169.7	\$ 172.7	\$ 168.9	\$ 174.9
Tax Adjustments to Non-GAAP Items (\$ Millio							
GAAP Net Income	2013	2014	2015	2016	2017	2018	2019
GAAP Net Income	\$ 94.0	\$ 120.7	\$ 151.2	\$ 164.2	\$ 162.7	\$ 197.0	\$ 202.1
Non-GAAP Adjustments Taxed at 38.5%:							
Weather	(2.3)	(0.8)	8.1	9.3	(2.1)	(1.0)	(5.5)
Lost revenue recovery related to prior periods	(0.6)	-	-	(8.7)	-	-	-
Remove hydro acquisition transaction costs	3.9	9.5	-	-	-	-	-
Exclude unplanned hydro earnings	-	(5.4)	-	-	-	-	-
Remove benefit of insurance settlement	-	-	(12.8)	-	-	-	-
QF liability adjustment	-	-	3.8	-	-	(13.1)	-
Electric tracker disallowance of prior period costs	-	-	-	7.5	-	-	-
Income tax adjustment	-	(18.5)	-	(12.5)	-	(12.8)	(22.8)
Unplanned Equity Dilution from Hydro transaction	-	-	-	-	-	-	-
Non-GAAP Net Income	\$ 94.9	\$ 105.5	\$ 150.3	\$ 159.8	\$ 160.6	\$ 170.1	\$ 173.8
Non-GAAP Diluted Earnings Per Share							
Diluted Average Shares (Millions)	2013	2014	2015	2016	2017	2018	2019
Diluted Average Shares (Millions)	38.2	40.4	47.6	48.5	48.7	50.2	50.8
Reported GAAP Diluted earnings per share	\$ 2.46	\$ 2.99	\$ 3.17	\$ 3.39	\$ 3.34	\$ 3.92	\$ 3.98
Non-GAAP Adjustments:							
Weather	(0.05)	(0.02)	0.17	0.19	(0.04)	(0.02)	(0.11)
Lost revenue recovery related to prior periods	(0.02)	-	-	(0.18)	-	-	-
Remove hydro acquisition transaction costs	0.11	0.24	-	-	-	-	-
Exclude unplanned hydro earnings	-	(0.14)	-	-	-	-	-
Remove benefit of insurance settlements & recoveries	-	-	(0.27)	-	-	-	-
QF liability adjustment	-	-	0.08	-	-	(0.26)	-
Electric tracker disallowance of prior period costs	-	-	-	0.16	-	-	-
Income tax adjustment	-	(0.47)	-	(0.26)	-	(0.25)	(0.45)
Unplanned Equity Dilution from Hydro transaction	-	0.08	-	-	-	-	-
Non-GAAP Diluted Earnings Per Share	\$ 2.50	\$ 2.68	\$ 3.15	\$ 3.30	\$ 3.30	\$ 3.39	\$ 3.42

These materials include financial information prepared in accordance with GAAP, as well as other financial measures, such as Gross Margin and Adjusted Diluted EPS, that are considered “non-GAAP financial measures.” Generally, a non-GAAP financial measure is a numerical measure of a company's financial performance, financial position or cash flows that exclude (or include) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. Gross Margin (Revenues less Cost of Sales) is a non-GAAP financial measure due to the exclusion of depreciation from the measure. Gross Margin is used by us to determine whether we are collecting the appropriate amount of energy costs from customers to allow recovery of operating costs. Adjusted Diluted EPS is another non-GAAP measure. The Company believes the presentation of Adjusted Diluted EPS is more representative of our normal earnings than the GAAP EPS due to the exclusion (or inclusion) of certain impacts that are not reflective of ongoing earnings. The presentation of these non-GAAP measures is intended to supplement investors' understanding of our financial performance and not to replace other GAAP measures as an indicator of actual operating performance. Our measures may not be comparable to other companies' similarly titled measures.



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