

Schedule No. EPCC-1

ANNUAL POWER COSTS AND CREDITS ADJUSTMENT MECHANISM

APPLICABILITY: Applicable to Power Costs and Credits, and their related Revenues, for all electricity supply customers of the utility.

PURPOSE: This Mechanism sets forth the criteria and accounting provisions that permit the Utility to adjust for differences between:

1. Its recovered Base Power Costs and Credits (Base Power Costs and Credits rates multiplied by actual loads resulting in Base Power Costs and Credits Rate Revenues) and actual Power Costs and Credits for the applicable tracking period, as set forth below. The Power Costs and Credits Deferred Account (Account 191) shall reflect the difference between rate revenues and actual costs and credits for the applicable period subject to application of the dead band and sharing provisions as described below.
2. Its recovered Transitional Costs (Transitional Costs rates multiplied by actual loads resulting in Transitional Costs Rate Revenues) and actual Transitional Costs as set forth below. The Power Costs and Credits Deferred Account (Account 191) shall reflect the difference between rate revenues and actual costs for the applicable period as described below. This difference is not subject to application of the dead band and sharing provisions.

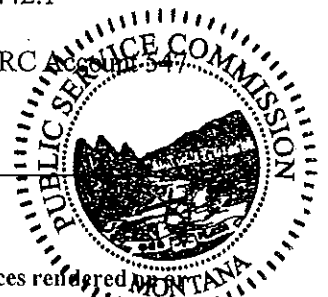
The Utility also recovers the Montana Public Service Commission ("MPSC" or "Commission") and Montana Consumer Counsel ("MCC") taxes associated with the Base Power Costs and Credits and Transitional Costs revenues in conjunction with this Mechanism.

COSTS AND RATES: The costs and rates established under this Mechanism shall be incorporated and filed as part of a revision to all applicable rate schedules as follows:

A. **Base Power Costs and Credits:** Base Power Costs and Credits are identified as follows, with each including the applicable Federal Energy Regulatory Commission ("FERC") account numbers:

1. Power Costs:
 - a) Fuel – FERC Accounts 547 and 501
 - b) Purchases including QF – FERC Account 555
 - c) Other Power Supply Expenses – FERC Account 557
 - d) Transmission – FERC Account 565
2. Credits:
 - a) Sales – FERC Account 447
 - b) Production Tax Credits – FERC Account 409.1
 - c) Yellowstone National Park Contract Sales – FERC Account 442.1
 - d) Revenue Credits – FERC Account 555
 - e) 20% Dave Gates Generating Stations FERC (Allocation) – FERC Account 547

(continued)

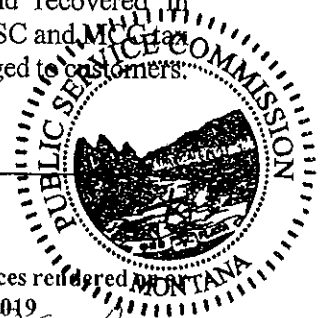


Schedule No. EPCC-1

ANNUAL POWER COSTS AND CREDITS ADJUSTMENT MECHANISM

- B. Base Power Costs and Credit Rates: Base Power Costs and Credits rates are developed from the Base Power Costs and Credits described in Part A above at the time such costs, credits, and rates are reviewed and approved by the Commission. These rates are fixed until adjusted as part of the Utility's next electric utility general rate filing.
- C. Transitional Costs: Transitional Costs are incurred from July 1, 2017 until the effective date of final rates ordered in Docket No. D2018.2.12 and identified as follows, with each including the applicable FERC account numbers:
1. Demand Side Management (DSM) costs – FERC Account 930.2
 2. Administrative and General – FERC Accounts 920-930.2
- D. Transitional Costs Rates are developed and based on Transitional Costs described in Part C above at the time such costs and rates are reviewed and approved by the Commission. These rates are adjusted annually in conjunction with the Utility's annual filings under this Mechanism.
- E. Power Costs and Credits Mechanism Annual Adjustment: The Mechanism's annual adjustment shall be derived by:
1. Computing the difference between Base Power Costs and Credits Rates Revenues and actual Power Costs and Credits for the period. If the absolute value of the difference is greater than \$4,100,000, then 90% of the amount greater than \$4,100,000 is recorded as a deferral and rebated to customers (when costs are less than revenues) or surcharged to customers (when costs are greater than revenues).
 2. Computing the difference between Transitional Costs Rate Revenues and actual Transition Costs for the period. One hundred percent of the difference is recorded as a deferral and rebated to customers (when costs are less than revenues) or surcharged to customers (when costs are greater than revenues). Deferrals will end for these costs upon the effective date of final rates ordered in Docket No. D2018.2.12.
 3. The annual adjustment shall also include a true-up of the remaining deferred account balance(s) for prior period(s).
 4. While MPSC and MCC taxes (FERC Account 408.1) associated with the Base Power Costs and Credits and Transitional Costs revenues are not included in Base Power Costs and Credits or Transitional Costs, these taxes are separately tracked and recovered in conjunction with this Mechanism. One hundred percent of the actual MPSC and MCC tax expenses for the previous period will be recorded as a deferral and surcharged to customers.

(continued)



Schedule No. EPCC-1

ANNUAL POWER COSTS AND CREDITS ADJUSTMENT MECHANISM

ACCOUNTING: The deferred accounting for this Mechanism shall be as follows:

- A. Current Period Power Costs and Credits Deferred Account Balance: The deferred account balance shall reflect adjustments described in Part E under the Costs and Rates section above for the Accounting Period.
- B. Accounting Period: The Accounting Period shall be for the 12-month period beginning July 1 of each year through June 30 of the following year.
- C. Deferred Account Rates: The Deferred Account Rates shall be derived to reflect amortization of the associated current deferred account balance, including any prior period(s) deferred account balances, over the succeeding 12 months.

POWER COSTS AND CREDITS RATE FILINGS: By September 1 of each year, the Utility shall file its Power Costs and Credits Adjustment for interim rates effective on October 1. The filing shall reflect and support the previous period's actual Power Costs and Credits, and Transitional Costs, and revenues related to both categories; actual MCC and MPSC taxes; the accounting transactions supporting the deferred account balance(s); and the necessary calculations and rates in support of the upcoming period's adjustments.

SERVICE AND RATES SUBJECT TO COMMISSION JURISDICTION: All rates and service conditions under this Rate Schedule are governed by the rules and regulations of the Public Service Commission of Montana and are subject to revision as the Commission may duly authorize in the exercise of its jurisdiction.

