

2020 - Full Year Earnings Webcast

February 12, 2021

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 along with other public filings with the SEC.



2020 and Recent Highlights

- **Net income for 2020 was \$155.2 million. This is a \$46.9 million, or 23.2%, decrease as compared to the same period in 2019.**
- **Diluted earnings per share (EPS) were \$3.06. This is a \$0.92, or 23.1%, decrease as compared to 2019**
 - Non-GAAP Adjusted EPS were \$3.35, within our guidance range of \$3.30-\$3.45. This is a \$0.07, or 2.0% decrease as compared to 2019.
- The Board of Directors declared a quarterly dividend of \$0.62 per share (a 3.3% increase) payable March 31st to shareholders of record as of March 15th, 2021.
- We realized our **best safety year on record** while also completing a record year of capital projects.
 - Recordable incident rate down from 1.86 in 2019 to 1.36 in 2020
 - Lost time incident rate down from 0.58 in 2019 to 0.39 in 2020
- The competitive solicitation process for capacity generation in Montana continues. We are reviewing the independent administrators analyses and expect to announce the selection of multiple projects during the first quarter of 2021. **We anticipate that at least one of our projects will be among those selected resulting in owned capacity generation investment in excess of \$200 million over the next three years, assuming we receive approval from the MPSC.**





Summary Financial Results

(Full Year)

(in millions except per share amounts)

	Twelve Months Ended December 31,			
	2020	2019	Variance	% Variance
Operating Revenues	\$ 1,198.7	\$ 1,257.9	\$ (59.2)	(4.7%)
Cost of Sales	306.2	318.0	(11.8)	(3.7%)
Gross Margin	892.5	939.9	(47.4)	(5.0%)
Operating Expenses				
Operating, general & administrative	297.1	318.2	(21.1)	(6.6%)
Property and other taxes	179.5	171.9	7.6	4.4%
Depreciation and depletion	179.7	172.9	6.8	3.9%
Total Operating Expenses	656.3	663.0	(6.7)	(1.0%)
Operating Income	236.2	276.9	(40.7)	(14.7%)
Interest Expense	(96.8)	(95.1)	(1.7)	(1.8%)
Other Income, net	4.8	0.4	4.4	(1237.0%)
Income Before Taxes	144.2	182.2	(37.9)	(20.8%)
Income Tax Benefit	11.0	19.9	(8.9)	(44.7%)
Net Income	\$ 155.2	\$ 202.1	\$ (46.9)	(23.2%)
Effective Tax Rate	(7.6%)	(10.9%)	3.3%	
Diluted: Average Shares Outstanding	50.7	50.8	(0.1)	(0.2%)
Diluted Earnings Per Share	\$ 3.06	\$ 3.98	\$ (0.92)	(23.1%)
Dividends Paid per Common Share	\$ 2.40	\$ 2.30	\$ 0.10	4.3%



Gross Margin

(Full Year)

(dollars in millions)

Twelve Months Ended December 31,

	2020	2019	Variance	
Electric	\$ 704.2	\$ 741.6	\$ (37.4)	(5.0)%
Natural Gas	188.3	198.3	(10.0)	(5.0)%
Total Gross Margin ⁽¹⁾	\$ 892.5	\$ 939.9	\$ (47.4)	(5.0)%

Decrease in gross margin due to the following factors:

- \$ (11.0) Electric retail volumes and demand
- (10.6) Natural gas retail volumes
- (9.4) Disallowance of prior period supply costs
- (3.3) Lower electric QF liability adjustment
- (2.7) Montana electric supply cost recovery
- (2.7) Electric transmission
- (1.2) Montana natural gas production rates
- 1.6 Montana electric retail rates
- (9.2) Other

\$ (48.5) Change in Gross Margin Impacting Net Income

- \$ 6.3 Property taxes recovered in trackers, offset in property tax expense
- (5.0) Production tax credits flowed-through trackers, offset in income tax expense
- (0.1) Operating expenses recovered in trackers, offset in operating expense
- (0.1) Gas production taxes recovered in revenue, offset in property & other taxes

\$ 1.1 Change in Gross Margin Offset Within Net Income

\$ (47.4) Decrease in Gross Margin

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





Weather (Full Year)

Heating Degree - Days

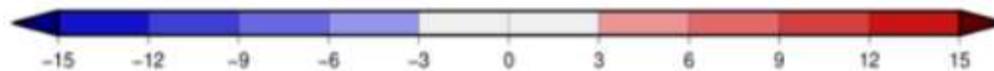
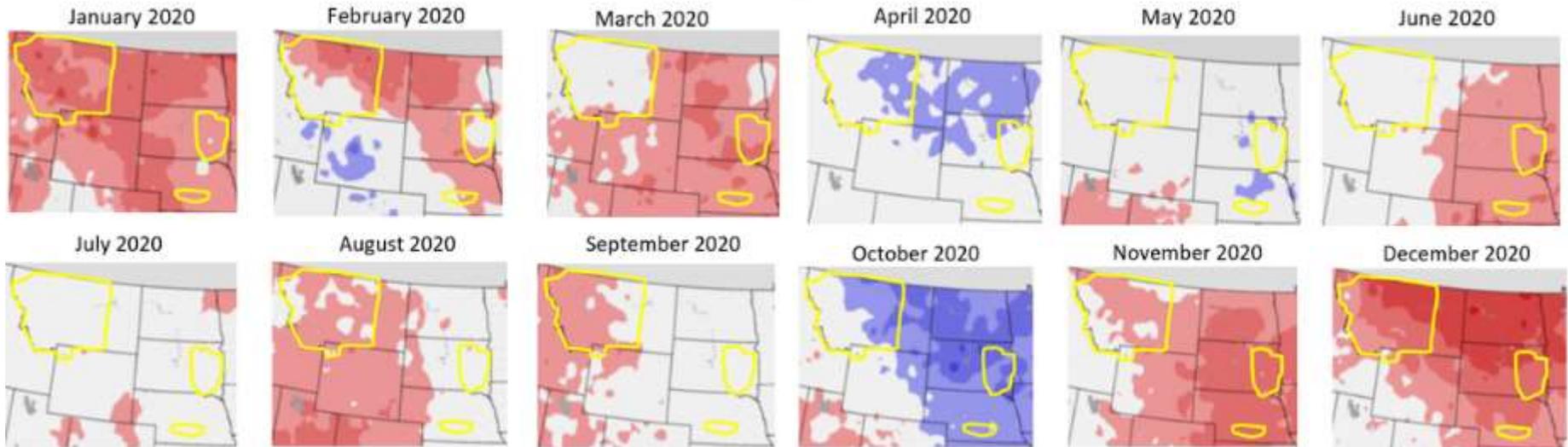
	YTD thru 12/31 Degree Days			Full Year 2020 as compared with:	
	2020	2019	Historic Average	2019	Historic Average
Montana	7,505	8,647	7,819	13% warmer	4% warmer
South Dakota	7,445	8,478	7,702	12% warmer	3% warmer
Nebraska	5,676	6,571	6,359	14% warmer	11% warmer

Cooling Degree-Days

	YTD thru 12/31 Degree Days			Full Year 2020 as compared with:	
	2020	2019	Historic Average	2019	Historic Average
Montana	398	370	405	8% warmer	2% cooler
South Dakota	879	715	734	23% warmer	20% warmer

We estimate overall unfavorable weather in 2020 resulted in a \$9.8 million pretax detriment as compared to normal and a \$17.1 million detriment as compared to 2019.

Difference from Average Temperatures



Degrees Fahrenheit from Average



Operating Expenses

(Full Year)

(dollars in millions)

Twelve Months Ended December 31,

	2020	2019	Variance	
Operating, general & admin.	\$ 297.1	\$ 318.2	\$ (21.1)	(6.6)%
Property and other taxes	179.5	171.9	7.6	4.4%
Depreciation and depletion	179.6	172.9	6.7	3.9%
Operating Expenses	\$ 656.2	\$ 663.0	\$ (6.8)	(1.0)%

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

\$ (10.1)	Employee benefits
(4.1)	Labor
(3.2)	Hazard tree removal
(3.0)	Travel and training
(1.2)	Environmental costs
(0.9)	Generation maintenance
3.0	Uncollectible Accounts
(3.2)	Other miscellaneous
<u>\$ (22.7)</u>	Change in OG&A Items Impacting Net Income
\$ 7.0	Pension and other postretirement benefits, offset in other income
(0.1)	Operating expenses recovered in trackers, offset in revenue
(5.3)	Non-employee directors deferred compensation, offset in other income
<u>\$ 1.6</u>	Change in OG&A Items Offset Within Net Income

\$ (21.1) **Decrease in Operating, General & Administrative Expenses**

\$7.6 million increase in property and other taxes was primarily due to plant additions and higher estimated property valuations in Montana.

\$6.7 million increase in depreciation and depletion expense was primarily due to plant additions



Operating to Net Income

(Full Year)

(dollars in millions)

Twelve Months Ended December 31,

	2020	2019	Variance	
Operating Income	\$ 236.2	\$ 276.9	\$ (40.7)	(14.7)%
Interest Expense	(96.8)	(95.1)	(1.7)	(1.8)%
Other Income, net	4.8	0.4	4.4	1,237.0%
Income Before Taxes	144.2	182.2	(38.0)	(20.8)%
Income Tax Benefit	11.0	19.9	(8.9)	(44.7)%
Net Income	\$ 155.2	\$ 202.1	\$ (46.9)	(23.2)%

\$1.7 million increase in interest expenses was primarily due to higher borrowings issued as a precautionary measure in order to increase our cash position and preserve financial flexibility in light of the uncertainty in the markets, partially offset by lower interest rates on our revolving credit facilities.

\$4.4 million increase in other income was primarily due to a \$7.0 million decrease in pension expense that was partly offset by a \$5.3 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 AFUDC.

\$8.9 million decrease in income tax benefit due primarily due to the release of approximately \$22.8 million of unrecognized tax benefits in 2019, including \$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

(Full Year)

(in millions)

	Twelve Months Ended December 31,					
	2020		2019		Variance	
Income Before Income Taxes	\$144.2		\$182.2		(\$38.0)	
Income tax calculated at federal statutory rate	30.3	21.0%	38.3	21.0%	(8.0)	
<u>Permanent or flow through adjustments:</u>						
State income, net of federal provisions	(1.5)	(1.1%)	1.2	0.7%	(2.7)	
Flow - through repairs deductions	(23.8)	(16.5%)	(19.7)	(10.8%)	(4.1)	
Production tax credits	(13.1)	(9.1%)	(11.5)	(6.3%)	(1.6)	
Amortization of excess deferred income taxes	(1.0)	(0.7%)	(1.7)	(0.9%)	0.7	
Release of unrecognized tax benefit	-	-	(22.8)	(12.5%)	22.8	
Impact of Tax Cuts and Jobs Act	-	-	(0.2)	(0.1%)	0.2	
Plant and depreciation of flow-through items	0.1	0.1%	(4.0)	(2.2%)	4.1	
Prior year permanent return to accrual adjustments	(1.7)	(1.2%)	0.6	0.3%	(2.3)	
Other, net	(0.3)	(0.1%)	(0.1)	(0.1%)	(0.2)	
	Sub-total	(41.3)	(28.6%)	(58.2)	(31.9%)	16.9
Income Tax Benefit	\$ (11.0)	(7.6%)	\$ (19.9)	(10.9%)	\$ 8.9	



Balance Sheet

(dollars in millions)	As of December 31, 2020	As of December 31, 2019
Cash and cash equivalents	\$ 5.8	\$ 5.1
Restricted cash	11.3	6.9
Accounts receivable, net	168.2	167.4
Inventories	61.0	53.9
Other current assets	62.3	68.3
Goodwill	357.6	357.6
PP&E and other non-current assets	5,723.2	5,424.2
Total Assets	\$ 6,389.4	\$ 6,083.5
Payables	100.4	96.7
Current Maturities - debt and leases	102.7	2.5
Other current liabilities	263.4	235.1
Long-term debt & capital leases	2,330.0	2,250.7
Other non-current liabilities	1,513.9	1,459.4
Shareholders' equity	2,079.1	2,039.1
Total Liabilities and Equity	\$ 6,389.4	\$ 6,083.5
Capitalization:		
Short-Term Debt & Short-Term Finance Leases	102.7	2.5
Long-Term Debt & Long-Term Finance Leases	2,330.0	2,250.7
Less: Basin Creek Finance Lease	(17.4)	(19.9)
Less: New Market Tax Credit Financing Debt	(27.0)	(27.0)
Shareholders' Equity	2,079.1	2,039.1
Total Capitalization	\$ 4,467.4	\$ 4,245.4
Ratio of Debt to Total Capitalization	53.5%	52.0%

Debt to
Capitalization
remains within our
targeted
50% - 55% range.

In 2020, we netted our excess deferred income taxes in regulatory liabilities. This reclassification had no effect on previously reported Net income or Shareholders Equity balance.



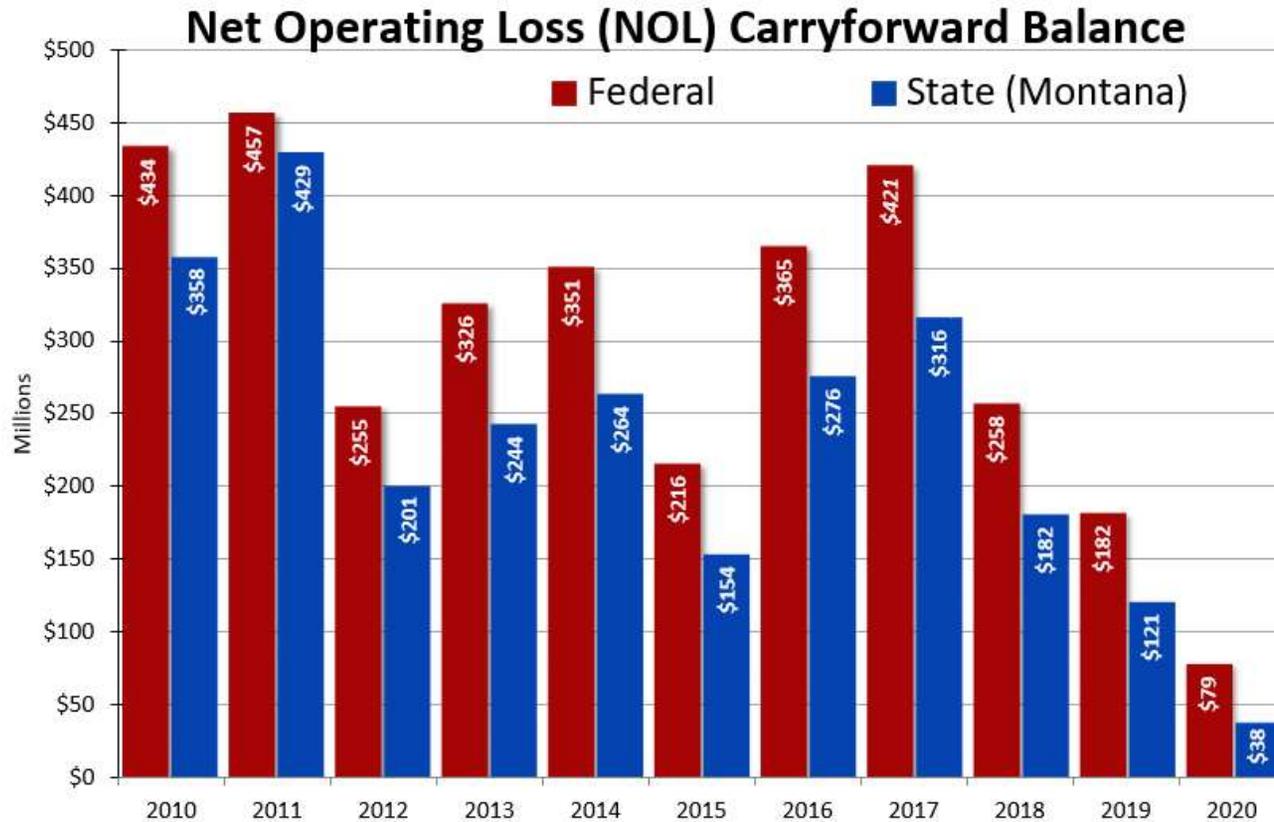
Cash Flow

(dollars in millions)	December 31,	
	2020	2019
Operating Activities		
Net Income	\$ 155.2	\$ 202.1
Non-Cash adjustments to net income	174.3	165.8
Changes in working capital	48.1	(53.0)
Other non-current assets & liabilities	(25.5)	(18.2)
Cash provided by Operating Activities	352.1	296.7
Investing Activities		
PP&E additions	(405.8)	(316.0)
Investment in equity securities	(0.0)	(0.1)
Cash used in Investing Activities	(405.8)	(316.1)
Financing Activities		
Issuance of long-term debt	150.0	150.0
Issuance of short-term borrowings	100.0	-
Line of credit repayments, net	(67.0)	(19.0)
Dividends on common stock	(120.4)	(115.1)
Financing costs	(2.6)	(1.1)
Other	(1.3)	1.4
Cash Provided by Financing Activities	58.7	16.2
Increase (Decrease) in Cash, Cash Equiv. & Restricted	5.0	(3.2)
Beginning Cash, Cash Equiv. & Restricted Cash	12.1	15.3
Ending Cash, Cash Equiv. & Restricted Cash	\$ 17.1	\$ 12.1

Cash from operating activities increased by \$55.4M primarily due to 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 TCJA credits to Montana customers of approximately \$20.5 million and transmission generation interconnection refunds. These improvements were offset in part by reduced net income.



Net Operating Losses & Effective Tax Rates



Cash Taxes:
We anticipate NOLs to be available into 2021 with production tax and other credits to largely offset any federal cash tax obligations until 2024.

Effective Tax Rate:
We anticipate the effective tax rate (ETR) for 2021 to be approximately (2.5%) to 2.5% of pre-tax income. The ETR is expected to gradually approach 10% - 12% by 2025.



Adjusted Non-GAAP Earnings

(Full Year)

	GAAP → Non GAAP					Non-GAAP Variance		Non GAAP ← GAAP						
	Twelve Months Ended Dec. 31, 2020	Unfavorable Weather	(1) Move Pension Expense to OG&A (disaggregated with ASU 2017-07)	Non-employee Deferred Compensation	Disallowance of prior period supply costs	Twelve Months Ended Dec. 31, 2020	\$	%	Twelve Months Ended Dec. 31, 2019	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	Twelve Months Ended Dec. 31, 2019
<i>(in millions)</i>														
Revenues	\$1,198.7	9.8	-	-	9.4	\$1,217.9	(\$32.7)	-2.6%	\$1,250.6	-	-	-	(7.3)	\$1,257.9
Cost of sales	306.2	-	-	-	-	306.2	(11.8)	-3.7%	318.0	-	-	-	-	318.0
Gross Margin	892.5	9.8	-	-	9.4	911.7	(20.9)	-2.2%	932.6	-	-	-	(7.3)	939.9
Op. Expenses														
OG&A	297.1	-	0.6	2.9	-	300.6	(22.8)	-7.0%	323.4	-	(2.4)	7.6	-	318.2
Prop. & other taxes	179.5	-	-	-	-	179.5	7.6	4.4%	171.9	-	-	-	-	171.9
Depreciation	179.7	-	-	-	-	179.7	6.8	3.9%	172.9	-	-	-	-	172.9
Total Op. Exp.	656.3	-	0.6	2.9	-	659.8	(8.4)	-1.3%	668.2	-	(2.4)	7.6	-	663.0
Op. Income	236.2	9.8	(0.6)	(2.9)	9.4	251.9	(12.5)	-4.7%	264.4	-	2.4	(7.6)	(7.3)	276.9
Interest expense	(96.8)	-	-	-	0.5	(96.3)	(1.2)	-1.3%	(95.1)	-	-	-	-	(95.1)
Other Inc. (Exp.), net	4.8	-	0.6	2.9	-	8.3	2.7	47.8%	5.6	-	(2.4)	7.6	-	0.4
Pretax Income	144.2	9.8	-	-	9.9	163.9	(11.0)	-6.3%	174.9	-	-	-	(7.3)	182.2
Income Tax Ben.(Exp.)	11.0	(2.5)	-	-	(2.5)	6.0	7.1	674.2%	(1.1)	(22.8)	-	-	1.8	19.9
Net Income	\$155.2	7.3	-	-	7.4	\$169.9	(\$3.9)	-2.2%	\$173.8	(22.8)	-	-	(5.5)	\$202.1
<i>ETR</i>	-7.6%	25.3%	-	-	25.3%	-3.7%			0.6%				25.3%	-10.9%
Diluted Shares	50.7					50.7	(0.1)	-0.2%	50.8					50.8
Diluted EPS	\$3.06	0.14	-	-	0.15	\$3.35	(\$0.07)	-2.0%	\$3.42	(0.45)	-	-	(0.11)	\$3.98

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).



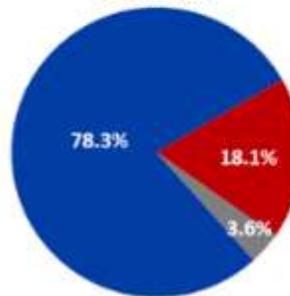
Covid-19: Margin Expectations

Covid-19 impacts on gross margin continued into the fourth quarter with commercial and industrial customer classes impacted more than forecasted (residential in line with forecast). 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.

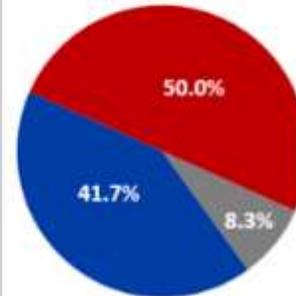
For the fourth quarter, we estimate the gross margin detriment of Covid-19 to be \$3 million - \$4 million.

Electric: High-Level COVID Load Impacts vs Planned 2020 Loads						
	Second Quarter		Third Quarter		Fourth Quarter	
	Forecast	Actual	Forecast	Actual	Forecast	Actual
Residential	4.0%	3.3%	1.5%	5.4%	0.3%	0.3%
Commercial	(12.0%)	(11.0%)	(4.5%)	(8.9%)	(0.8%)	(7.7%)
Industrial	(4.0%)	(1.2%)	(1.5%)	(17.3%)	(0.3%)	(22.8%)

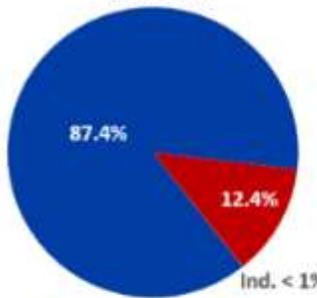
Electric Retail Customer Count Mix



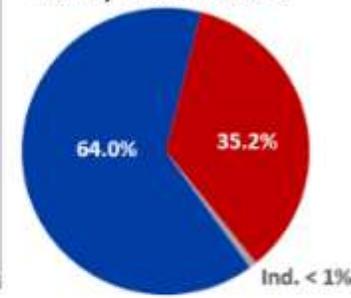
Electric Retail Revenue Mix by Customer Class



Natural Gas Customer Count Mix



Natural Gas Retail Revenue Mix by Customer Class



■ Residential ■ Commercial ■ Industrial / Other



Gallatin River



Covid-19: Expense Expectations

(millions)	Estimate of Covid Impacts							
	Second Quarter		Third Quarter		Fourth Quarter		Full Year 2020	
	Low	High	Low	High	Low	High	Low	High
Gross Margin	(\$3.0)	(\$4.0)	(\$2.0)	(\$3.0)	(\$3.0)	(\$4.0)	(\$8.0)	(\$11.0)
Operating Expense								
Medical	(0.9)	(0.9)	0.0	0.0	0.0	0.0	(0.9)	(0.9)
Labor	(0.7)	(0.7)	(0.4)	(0.4)	(0.7)	(0.7)	(1.8)	(1.8)
Travel & training	(1.2)	(1.2)	(0.8)	(0.8)	(0.8)	(0.8)	(2.8)	(2.8)
Uncollectible accounts	3.1	3.1	2.4	2.4	(2.4)	(2.4)	3.0	3.0
Total Operating Expense	0.3	0.3	1.2	1.2	(3.9)	(3.9)	(2.4)	(2.4)
Operating Loss	(3.3)	(4.3)	(3.2)	(4.2)	0.9	(0.1)	(5.6)	(8.6)
Interest expense	(0.7)	(0.7)	0.0	0.0	0.0	0.0	(0.7)	(0.7)
Pretax Loss	(4.0)	(5.0)	(3.2)	(4.2)	0.9	(0.1)	(6.3)	(9.3)
Income tax benefit	1.0	1.3	0.8	1.1	(0.2)	0.0	1.6	2.4
Net Loss	(3.0)	(3.7)	(2.4)	(3.1)	\$0.7	(\$0.1)	(4.7)	(6.9)
ETR	25.3%	25.3%	25.3%	25.3%	25.3%	25.0%	25.3%	25.3%
Diluted Shares	50.6	50.6	50.7	50.7	51.7	51.7	50.7	50.7
Diluted EPS	(\$0.06)	(\$0.07)	(\$0.05)	(\$0.06)	\$0.01	\$0.00	(\$0.09)	(\$0.14)

Expenses that increased:

- Bad debt expense
 - Regulatory recovery in SD only
- Covid-19 related charitable contributions

Expenses that decreased:

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

Areas unchanged but will monitor and manage appropriately in 2021

- Capital spending at our expected level of approximately \$400 million in 2020
- Supply chain – No significant issues - nearly all vendors in USA
- Staffing levels – No layoffs and we still hired for critical positions

Covid-19 related expense reductions were generally in line with our expectations. However, without an approved recovery mechanism in place in Montana, increased uncollectable accounts expense and increased interest expense from higher liquidity needs more than offset Covid related savings.



2020 Non-GAAP to 2021 EPS Bridge

	2021 Guidance Bridge	
	Low	High
2020 Non-GAAP Adjusted Diluted EPS	\$3.35	\$3.35
2021 Earnings Drivers (after-tax and per share)		
Gross Margin	0.39 -	0.54
OG&A expense	(0.05) -	(0.03)
Property & other tax expense	(0.14) -	(0.12)
Depreciation expense	(0.13) -	(0.12)
Interest expense	- -	0.01
Other income	0.04 -	0.05
Incremental tax impact*	(0.01) -	(0.02)
Subtotal of anticipated changes	0.10 -	0.31
2021 EPS guidance range prior to potential equity dilution	\$3.45	\$3.66
Dilution from higher outstanding shares	(0.05) -	(0.06)
EPS guidance range after potential equity dilution	\$3.40	\$3.60

* 2021 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 2020 actual earnings to 2021 forecast.

The 20 cent EPS guidance range slightly wider than normal primarily due to Covid-19 uncertainties. Guidance range will likely be narrowed in the 2nd or 3rd quarter when we have a better sense of its impact to our margins.

Non-GAAP 2020 to 2021 midpoint EPS growth rate of 4.5%.

\$2.48 annualized dividend is expected to be at the upper end of our 60%-70% targeted payout of EPS.

Assumptions included in the 2021 Guidance includes, but not limited to, the following major assumptions:

- Normal weather in our electric and natural gas service territories;
- Continued Covid-19 related reduction in our commercial and industrial sales volumes, offset in part by an increase in usage by residential customers through the second quarter of 2021;
- A consolidated income tax rate of approximately (2.5%) to +2.5% of pre-tax income; and
- Diluted average shares outstanding of approximately 51.5 million to 51.8 million.



Earnings Per Share and Dividend History

Diluted Earnings Per Share



Non-GAAP Adjusted EPS Growth Averaged 4.3% from 2013 - 2020

Dividend and Payout Ratio



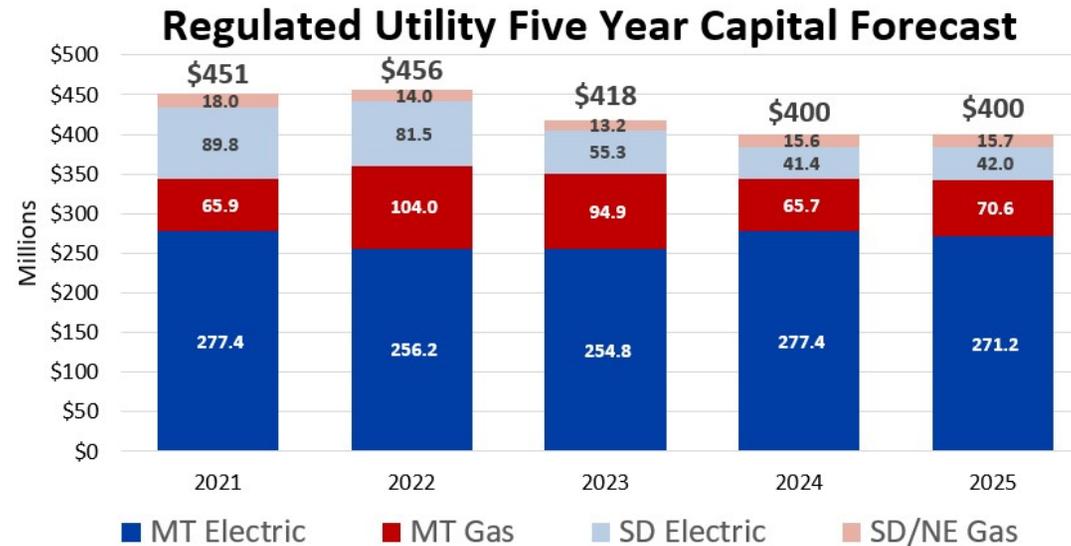
Annualized dividend growth rate of 6.7% from 2013 - 2020

Continued investment in our system to serve our customers and communities is expected to provide annualized 4% - 5% growth in rate base and a targeted 3% - 6% annualized EPS growth to our investors over the long term. Maintaining our 60-70% targeted dividend payout ratio, we anticipate the dividend growth rate to be in line with the EPS growth rate going forward.



Capital Investment Forecast

- **\$2.1 billion** of total capital investment over the five year period.
- We expect to finance this capital with a combination of cash flows from operations, first mortgage bonds and equity issuances. **We anticipate initiating a 3-year \$200 million At-the-Market (ATM) offering during 2021** and begin issuing equity under that program. The ATM issuances will be sized to maintain and protect our current credit ratings. Capital investment in response to our Montana electric supply resource planning would be incremental to these amounts.
- **Financing plans are subject to change**, depending on capital expenditures, regulatory outcomes, internal cash generation, market conditions and other factors.



\$ Millions	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Electric	\$367	\$338	\$310	\$319	\$313
Natural Gas	\$84	\$118	\$108	\$81	\$87
Total Capital Forecast	\$451	\$456	\$418	\$400	\$400

Based on the results of the competitive solicitation process in South Dakota, approximately \$100 million of incremental investment for SD generation is included in the projections above (2021-2023). **This level of capital investment is anticipated to result in annualized rate base growth of 4%-5%.**

The projections do not include investment necessary to address generation capacity shortages in Montana. We are reviewing the independent administrators analyses in the current all-source competitive solicitation and expect to announce the selection of multiple projects during the first quarter of 2021. **We anticipate that at least one of our projects will be among those selected resulting in owned capacity generation investment in excess of \$200 million over the next three years.**

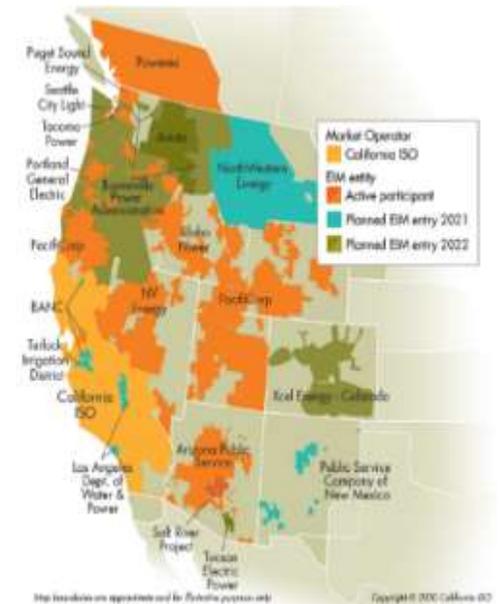


Generation Portfolio Update

Montana

- Initial bids from the February 2020, 280 MW, competitive solicitation were submitted in July 2020. Bid submissions were evaluated by an independent party. **We are reviewing the analyses from the administrator and expect to announce the selection of multiple projects during the first quarter of 2021.** Bids were submitted on our behalf for generating facilities providing long-duration flexible capacity in excess of 200 MWs. **We anticipate that at least one of our projects will be among those selected resulting in owned capacity generation investment in excess of \$200 million over the next 3 years, assuming we receive approval from the MPSC.**
- Extremely cost-effective upgrades planned and underway for our owned hydro-electric facilities. Generator rewinds, turbine upgrades and other improvements are expected to **add more than 40 MWs of hydro capacity** over the next 5 years in addition to preparing for FERC relicensing of Thompson Falls (94 MWs) in 2025.
- Entry into the Western Energy Imbalance Market (EIM)
 - Anticipated entry in the second quarter of 2021.
 - Real-time energy market could mean lower cost of energy, more efficient use of renewables and greater power grid reliability.

Western Energy Imbalance Market



Significant investment opportunities identified to address critical generation capacity shortfall, including cost-effective hydro upgrades.



Looking Forward (Regulatory)

- 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.**
- In May 2019, we **filed proposed revisions to our FERC transmission rates**. In November 2020 we **reached a settlement** with intervenors establishing formula rates. The settlement, and a motion to implement settlement rates, were filed on November 16th. The motion was granted on November 25th and we began charging settlement rates on December 1st. As of December 31st, 2020 **we had cumulative deferred revenue of approximately \$31.3 million that is expected to be refunded. We refunded approximately \$20.5 million to our wholesale and choice customers in January 2021 and expect to submit a compliance filing with the MPSC adjusting the FERC credit in our retail rates upon receipt of a final order.**
- Each year we submit **filings for recovery of purchased power, natural gas and property tax costs**. The respective state commissions review these tracker filings and make cost recovery determinations based on prudence. The MPSC voted in October to **disallow recovery of approximately \$9.4 million in prior period purchased power costs***. We issued refunds of these disallowed costs to customers in January 2021, with interest calculated from October 1, 2019 when interim rates went into effect.



* Of which \$5.6 million related to a period in 2018 when Colstrip generation was operating intermittently to ensure it remained in compliance with environmental emission standards and \$3.8 million related to the prorated application of the change in state law that eliminated the deadband component of the Power Cost and Credit Adjustment Mechanism. This disallowance was recorded as a \$9.4 million reduction to revenues in the fourth quarter 2020.



ESG Advancements

- NorthWestern has a new Environmental, Social and Governance landing page. The new page:
 - Consolidates existing ESG information;
 - Includes disclosures of 19 new and existing policies and standards necessary for a best-practices ESG program; and
 - Includes a new, easy reference, Sustainability Statistics Report to disclose 5-year trend of operational and financial ESG data and statistics.
- We continue to make progress on several ESG ratings with the most substantial improvement at MSCI (from BB to A in the latest report).
- Along with investment in a system-wide electric vehicle charging infrastructure, we are also committed to a transition in our fleet starting in 2021. We are targeting 30% of light duty and bucket trucks and 20% of medium and heavy duty to be electric by 2030.

ESG Rating history



ESG Rating history shows five most recent rating actions

ESG Rating distribution

Universe: MSCI ACWI Index constituents, Utilities, n=141



www.northwesternenergy.com/our-company/investor-relations/ESG-Sustainability



Conclusion

Pure
Electric &
Gas Utility

Solid Utility
Foundation

Best
Practices
Corporate
Governance

Attractive
Future
Growth
Prospects

Strong
Earnings &
Cash Flows



(Unaudited) (in thousands)

Twelve Months Ending December 31, 2020	Electric	Gas	Other	Total
Operating revenues	\$ 940,815	\$ 257,855	\$ -	\$ 1,198,670
Cost of sales	236,581	69,609	-	306,190
Gross margin ⁽¹⁾	704,234	188,246	-	892,480
Operating, general and administrative	218,822	80,082	(1,789)	297,115
Property and other taxes	140,621	38,887	9	179,517
Depreciation & depletion	147,968	31,676	-	179,644
Operating Income	196,823	37,601	1,780	236,204
Interest expense	(85,487)	(6,341)	(4,984)	(96,812)
Other income (expense)	4,867	2,704	(2,718)	4,853
Income tax benefit (expense)	11,282	(2,426)	2,114	10,970
Net income (loss)	<u>\$ 127,485</u>	<u>\$ 31,538</u>	<u>\$ (3,808)</u>	<u>\$ 155,215</u>
Twelve Months Ending December 31, 2019	Electric	Gas	Other	Total
Operating revenues	\$ 981,178	\$ 276,732	\$ -	\$ 1,257,910
Cost of sales	239,589	78,431	-	318,020
Gross margin ⁽¹⁾	741,589	198,301	-	939,890
Operating, general and administrative	232,424	82,732	3,073	318,229
Property and other taxes	134,686	37,192	10	171,888
Depreciation & depletion	143,262	29,661	-	172,923
Operating income (loss)	231,217	48,716	(3,083)	276,850
Interest expense	(78,809)	(6,218)	(10,041)	(95,068)
Other (expense) income	(1,365)	(814)	2,592	413
Income tax (expense) benefit	(6,079)	493	25,511	19,925
Net income	<u>\$ 144,964</u>	<u>\$ 42,177</u>	<u>\$ 14,979</u>	<u>\$ 202,120</u>

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

(dollars in millions)

	2020	2019	Change	% Change
Retail revenues	\$ 895.4	\$ 890.7	\$ 4.7	0.5 %
Regulatory amortization	(11.5)	30.2	(41.7)	(138.1)
Total retail revenue	883.9	920.9	(37.0)	(4.0)
Transmission	51.5	54.2	(2.7)	(5.0)
Wholesale and other	5.4	6.1	(0.7)	(11.5)
Total Revenues	940.8	981.2	(40.4)	(4.1)
Total Cost of Sales	236.6	239.6	(3.0)	(1.3)
Gross Margin ⁽¹⁾	704.2	741.6	(37.4)	(5.0) %

	Revenues		Megawatt Hours (MWH)		Avg. Customer Count	
	2020	2019	2020	2019	2020	2019
	(in thousands)					
Retail Electric						
Montana	\$ 320,792	\$ 308,840	2,635	2,581	307,390	303,222
South Dakota	66,603	62,457	583	589	50,646	50,615
Residential	387,395	371,297	3,218	3,170	358,036	353,837
Montana	338,269	348,143	3,036	3,186	70,145	68,896
South Dakota	101,095	97,082	1,073	1,110	12,802	12,814
Commercial	439,364	445,225	4,109	4,296	82,947	81,710
Industrial	36,819	43,595	2,615	2,949	78	78
Other	31,833	30,595	173	165	6,333	6,219
Total Retail Electric	\$ 895,411	\$ 890,712	10,115	10,580	447,394	441,844

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

(dollars in millions)

	2020	2019	Change	% Change
Retail revenues	\$ 217.4	\$ 242.9	\$ (25.5)	(10.5) %
Regulatory amortization	5.0	(2.1)	7.1	(338.1)
Total retail revenue	222.4	240.8	(18.4)	(7.6)
Wholesale and other	35.5	35.9	(0.4)	(1.1)
Total Revenues	257.9	276.7	(18.8)	(6.8)
Total Cost of Sales	69.6	78.4	(8.8)	(11.2)
Gross Margin ⁽¹⁾	\$ 188.3	\$ 198.3	\$ (10.0)	\$ (5.0) %

	Revenues		Dekatherms (Dkt)		Avg. Customer Count	
	2020	2019	2020	2019	2020	2019
	(in thousands)					
Retail Gas						
Montana	\$ 103,457	\$ 109,395	13,893	15,262	177,335	174,862
South Dakota	21,547	25,763	2,993	3,322	40,612	40,129
Nebraska	16,861	20,194	2,561	2,826	37,576	37,424
Residential	141,865	155,352	19,447	21,410	255,523	252,415
Montana	51,349	55,669	7,166	8,115	24,497	24,205
South Dakota	14,316	19,305	3,003	3,590	6,895	6,812
Nebraska	8,066	10,572	1,784	2,085	4,974	4,914
Commercial	73,731	85,546	11,953	13,790	36,366	35,931
Industrial	840	996	122	151	231	239
Other	923	1,012	152	168	153	164
Total Retail Gas	\$ 217,359	\$ 242,906	31,674	35,519	292,273	288,749

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

Summary Financial Results

(Three Months Ended December 31)

(in millions except per share amounts)

	Three Months Ended December 31,			
	2020	2019	Variance	% Variance
Operating Revenues	\$ 313.6	\$ 328.1	\$ (14.5)	(4.4%)
Cost of Sales	86.0	82.3	3.7	4.5%
Gross Margin ⁽¹⁾	227.6	245.8	(18.2)	(7.4%)
Operating Expenses				
Operating, general & administrative	73.1	79.3	(6.2)	(7.8%)
Property and other taxes	42.7	38.7	4.0	10.3%
Depreciation and depletion	45.3	43.1	2.2	5.1%
Total Operating Expenses	161.1	161.1	(0.0)	(0.0%)
Operating Income	66.5	84.7	(18.3)	(21.5%)
Interest Expense	(24.5)	(24.1)	(0.4)	(1.7%)
Other Income (Expense)	5.8	(0.5)	6.3	(1386.0%)
Income Before Taxes	47.8	60.1	(12.3)	(20.5%)
Income Tax Benefit (Expense)	5.8	(0.1)	5.9	5900.0%
Net Income	\$ 53.6	\$ 60.0	\$ (6.4)	(10.7%)
Effective Tax Rate	(12.1%)	0.2%	-12.3%	
Diluted Shares Outstanding	50.7	50.8	(0.1)	(0.1%)
Diluted Earnings Per Share	\$1.06	\$ 1.18	\$ (0.12)	(10.2%)
Dividends Paid per Common Share	\$ 0.60	\$ 0.575	\$ 0.025	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)

Three Months Ended December 31,

	2020	2019	Variance ⁽¹⁾	
Electric	\$ 170.8	\$ 186.1	\$ (15.3)	(8.2)%
Natural Gas	56.8	59.7	(2.9)	(4.8)%
Total Gross Margin	\$ 227.6	\$ 245.8	\$ (18.2)	(7.4)%

Decrease in gross margin due to the following factors:

\$ (9.4)	Disallowance of prior period supply costs
(4.5)	Electric retail volumes and demand
(2.3)	Natural gas retail volumes
(0.9)	Electric transmission
(0.4)	Montana natural gas production rates
0.5	Montana electric supply cost recovery
(4.0)	Other

\$ (21.0) Change in Gross Margin Impacting Net Income

\$ 2.8	Property taxes recovered in revenue, offset in property tax expense
1.1	Operating expenses recovered in trackers, offset in operating expense
(1.0)	Production tax credits reducing revenue, offset in income tax expense
(0.1)	Gas production taxes recovered in revenue, offset in property & other taxes

\$ 2.8 Change in Gross Margin Offset Within Net Income

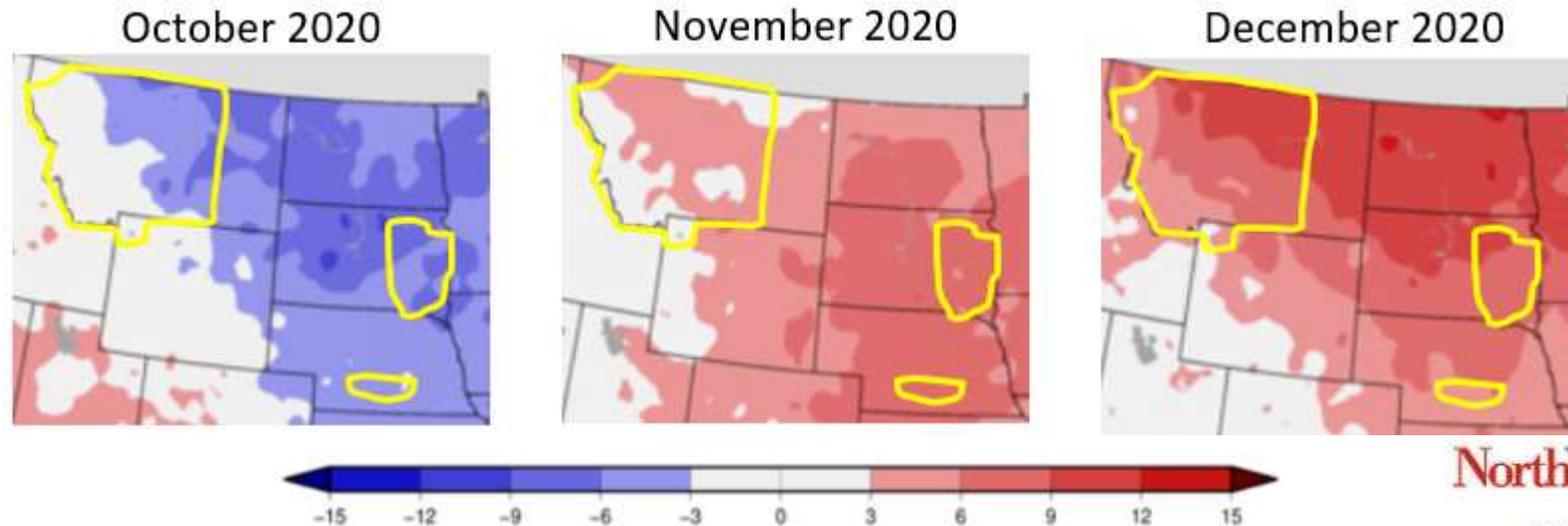
\$ (18.2) Decrease in Gross Margin

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

Heating Degree - Days	Qtr 4 Degree Days			Q4 2020 as compared with:	
	2020	2019	Historic Average	2019	Historic Average
Montana	2,798	3,043	2,956	8% warmer	5% warmer
South Dakota	1,881	2,128	2,016	12% warmer	7% warmer
Nebraska	1,426	1,705	1,681	16% warmer	15% warmer

We estimate unfavorable weather for the 4th quarter 2020 has contributed approximately \$5.7M pretax detriment as compared to normal and \$5.0M pretax detriment as compared to the same period in 2019.

Difference from Average Temperatures



Operating Expenses

(Three Months Ended December 31)

(dollars in millions)

Three Months Ended December 31,

	2020	2019	Variance	
Operating, general & admin.	\$ 73.1	\$ 79.3	\$ (6.2)	(7.8%)
Property and other taxes	42.7	38.7	4.0	10.3%
Depreciation and depletion	45.3	43.1	2.2	5.1%
Operating Expenses	\$ 161.1	\$ 161.1	\$ 0.0	0.0%

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

\$ (4.4)	Employee benefits
(2.5)	Uncollectible accounts
(1.2)	Environmental costs
(1.1)	Labor
(1.0)	Travel and training
(0.7)	Hazard tree trimming
1.2	Generation maintenance
(2.0)	Other
<u>\$ (11.7)</u>	Change in OG&A Items Impacting Net Income
\$ 2.9	Non-employee directors deferred compensation, offset in other income
1.4	Pension and other postretirement benefits, offset in other income
1.2	Operating expense recovered in trackers, offset in revenue
<u>\$ 5.5</u>	Change in OG&A Items Offset Within Net Income
<u><u>\$ (6.2)</u></u>	Decrease in Operating, General & Administrative Expenses

\$4.0 million increase in property and other taxes was primarily due to plant additions and higher estimated property valuations in Montana.

\$2.2 million increase in depreciation and depletion expense was primarily due to plant additions

Operating to Net Income

(Three Months Ended December 31)

(dollars in millions)

Three Months Ended December 31,

	2020	2019	Variance	
Operating Income	\$ 66.5	\$ 84.7	\$ (18.2)	(21.5)%
Interest Expense	(24.5)	(24.1)	(0.4)	(1.7)%
Other Income / (Expense)	5.8	(0.5)	6.3	1,386.0%
Income Before Taxes	47.8	60.1	(12.3)	(20.5)%
Income Tax Benefit / (Expense)	5.8	(0.1)	5.9	5,900.0%
Net Income	\$ 53.6	\$ 60.0	\$ (6.4)	(10.7)%

\$0.4 million increase in interest expenses was primarily due to higher borrowings.

\$6.3 million increase in other expense was due to a \$2.9 million decrease in other pension expense, a \$1.4 million increase in the value of deferred shares held in a trust for non-employee directors deferred compensation and higher AFUDC. These changes to both pension and value of deferred shares are offset in operating expense with no impact to net income.

\$5.9 million increase in income tax benefits was primarily due to lower pre-tax income in 2020 as well as higher flow-through repairs deductions and higher production tax credits.

Income Tax Reconciliation

(Three Months Ended December 31)

(in millions)

	Three Months Ended December 31,				
	2020		2019		Variance
Income Before Income Taxes	\$47.8		\$60.1		(\$12.3)
Income tax calculated at federal statutory rate	10.0	21.0%	12.6	20.8%	(2.6)
<u>Permanent or flow through adjustments:</u>					
State income, net of federal provisions	(1.6)	(3.3%)	-	(0.0%)	(1.6)
Flow - through repairs deductions	(8.9)	(18.7%)	(7.1)	(11.8%)	(1.8)
Production tax credits	(5.5)	(11.6%)	(4.2)	(7.1%)	(1.3)
Share-based compensation	0.6	1.3%	(0.2)	(0.3%)	0.8
Amortization of excess deferred income taxes	(0.3)	(0.6%)	0.2	0.4%	(0.5)
Release of unrecognized tax benefit	-	(0%)	0.0	(0%)	-
Impact of Tax Cuts and Jobs Act	-	(0%)	(0.2)	(0.3%)	0.2
Plant and depreciation of flow-through items	(0.2)	(0.4%)	(1.5)	(2.4%)	1.3
Prior year permanent return to accrual adjustments	0.0	0.1%	0.0	0.1%	-
Other, net	0.1	0.1%	0.4	0.7%	(0.3)
Sub-total	<u>(15.8)</u>	<u>(33.1%)</u>	<u>(12.4)</u>	<u>(20.7%)</u>	<u>(3.4)</u>
Income Tax (Benefit) Expense	\$ (5.8)	(12.1%)	\$ 0.1	0.2%	\$ (5.9)

Adjusted Non-GAAP Earnings

(Three Months Ended December 31)

	GAAP	Adjustments				Non GAAP	Non-GAAP Variance		Non GAAP	Adjustments				GAAP
	Three Months Ended Dec. 31, 2020	Unfavorable Weather	Move Pension Expense to OG&A (disaggregated with ASU 2017-07) (1)	Non-employee Deferred Compensation	Disallowance of prior period supply costs	Three Months Ended Dec. 31, 2020	\$	%	Three Months Ended Dec. 31, 2019	Non-employee Deferred Compensation	Move Pension Expense to OG&A (disaggregated with ASU 2017-07) (1)	Unfavorable Weather	Three Months Ended Dec. 31, 2019	
<i>(in millions)</i>														
Revenues	\$313.6	5.7			9.4	\$328.7	(\$0.1)	0.0%	\$328.8			0.7	\$328.1	
Cost of sales	86.0					86.0	3.7	4.5%	82.3			-	82.3	
Gross Margin	227.6	5.7	-	-	9.4	242.7	(3.8)	-1.5%	246.5	-	-	0.7	245.8	
Op. Expenses														
OG&A	73.1		0.2	(2.1)		71.2	(10.4)	-12.7%	81.6	0.7	1.6	-	79.3	
Prop. & other taxes	42.7					42.7	4.0	10.3%	38.7			-	38.7	
Depreciation	45.3					45.3	2.2	5.1%	43.1			-	43.1	
Total Op. Exp.	161.1	-	0.2	(2.1)	-	159.2	(4.2)	-2.6%	163.4	0.7	1.6	-	161.1	
Op. Income	66.5	5.7	(0.2)	2.1	9.4	83.5	0.4	0.5%	83.1	(0.7)	(1.6)	0.7	84.7	
Interest expense	(24.5)				0.5	(24.0)	0.1	0.4%	(24.1)			-	(24.1)	
Other (Exp.) Inc., net	5.8		0.2	(2.1)		3.9	2.1	113.6%	1.8	0.7	1.6	-	(0.5)	
Pretax Income	47.8	5.7	-	-	9.9	63.4	2.6	4.3%	60.8	-	-	0.7	60.1	
Income tax (Exp) / Ben	5.8	(1.4)	-	-	(2.5)	1.9	2.2	793.9%	(0.3)	-	-	(0.2)	(0.1)	
Net Income	\$53.6	4.3	-	-	7.4	\$65.3	\$4.8	7.9%	\$60.5	-	-	0.5	\$60.0	
ETP	-12.1%	25.3%	-	-	25.3%	-2.9%			0.5%	-	-	25.3%	0.2%	
Diluted Shares	50.7					50.7	(0.1)	-0.2%	50.8				50.8	
Diluted EPS	\$1.06	0.08	-	-	0.15	\$1.29	\$0.10	8.4%	\$1.19	-	-	0.01	\$1.18	

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)

Three Months Ending December 31, 2020	Electric	Gas	Other	Total
Operating revenues	\$ 234,097	\$ 79,348	\$ -	\$ 313,445
Cost of sales	63,287	22,550	-	85,837
Gross margin ⁽¹⁾	170,810	56,798	-	227,608
Operating, general and administrative	51,968	18,734	2,371	73,073
Property and other taxes	33,542	9,187	2	42,731
Depreciation & depletion	37,276	8,032	-	45,308
Operating Income	48,024	20,845	(2,373)	66,496
Interest expense	(21,902)	(1,517)	(1,095)	(24,514)
Other income	1,736	1,841	2,249	5,826
Income tax benefit (expense)	8,673	(1,959)	(971)	5,743
Net income (loss)	\$ 36,531	\$ 19,210	\$ (2,190)	\$ 53,551

Three Months Ending December 31, 2019	Electric	Gas	Other	Total
Operating revenues	\$ 247,245	\$ 80,890	\$ -	\$ 328,135
Cost of sales	61,166	21,148	-	82,314
Gross margin ⁽¹⁾	186,079	59,742	-	245,821
Operating, general and administrative	57,880	21,929	(496)	79,313
Property and other taxes	30,074	8,623	3	38,700
Depreciation & depletion	35,667	7,490	-	43,157
Operating Income	62,458	21,700	493	84,651
Interest expense	(20,508)	(1,619)	(1,918)	(24,045)
Other income (expense)	93	60	(604)	(451)
Income tax (expense) benefit	(1,142)	-	969	(173)
Net income (loss)	\$ 40,901	\$ 20,141	\$ (1,060)	\$ 59,982

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

(dollars in millions)

	2020	2019	Change	% Change
Retail revenues	\$ 222.1	\$ 231.8	\$ (9.7)	(4.2) %
Regulatory amortization	(2.2)	0.2	(2.4)	(1,200.0)
Total retail revenue	219.9	232.0	(12.1)	(5.2)
Transmission	13.1	14.0	(0.9)	(6.4)
Wholesale and other	1.1	1.3	(0.2)	(15.4)
Total Revenues	234.1	247.3	(13.2)	(5.3)
Total Cost of Sales	63.3	61.2	2.1	3.4
Gross Margin ⁽¹⁾	170.8	186.1	(15.3)	(8.2) %

	Revenues		Megawatt Hours (MWH)		Avg. Customer Count	
	2020	2019	2020	2019	2020	2019
	(in thousands)					
Retail Electric						
Montana	\$ 83,015	\$ 83,448	691	683	308,899	304,826
South Dakota	14,176	15,013	120	130	50,697	50,643
Residential	97,191	98,461	811	813	359,596	355,469
Montana	85,755	90,859	767	806	70,733	69,415
South Dakota	24,038	25,864	255	282	12,774	12,790
Commercial	109,793	116,723	1,022	1,088	83,507	82,205
Industrial	9,657	11,227	589	757	77	78
Other	5,433	5,367	16	15	5,933	5,867
Total Retail Electric	\$ 222,074	\$ 231,778	2,438	2,673	449,113	443,619

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

(dollars in millions)

	2020	2019	Change	% Change
Retail revenues	\$ 70.5	\$ 71.8	\$ (1.3)	(1.8) %
Regulatory amortization	-	(0.4)	0.4	(100.0)
Total retail revenue	70.5	71.4	(0.9)	(1.3)
Wholesale and other	8.9	9.4	(0.5)	(5.3)
Total Revenues	79.4	80.8	(1.4)	(1.7)
Total Cost of Sales	22.5	21.1	1.4	6.6
Gross Margin ⁽¹⁾	\$ 56.9	\$ 59.7	\$ (2.8)	\$ (4.7) %

	Revenues		Dekatherms (Dkt)		Avg. Customer Count	
	2020	2019	2020	2019	2020	2019
	(in thousands)					
Retail Gas						
Montana	\$ 37,783	\$ 36,100	4,956	5,237	178,231	175,778
South Dakota	4,850	5,387	683	777	40,922	40,460
Nebraska	3,953	4,516	577	645	37,676	37,580
Residential	46,586	46,003	6,216	6,659	256,829	253,818
Montana	18,361	17,682	2,492	2,657	24,619	24,305
South Dakota	3,103	5,231	643	1,109	6,913	6,882
Nebraska	1,782	2,278	390	473	4,977	4,974
Commercial	23,246	25,191	3,525	4,239	36,509	36,161
Industrial	337	324	47	50	231	237
Other	311	266	48	44	156	157
Total Retail Gas	\$ 70,480	\$ 71,784	9,836	10,992	293,725	290,373

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

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.

Quarterly PCCAM Impacts

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>
CU4 Disallowance ('18/'19 Tracker)				(\$9.4)	(\$9.4)
'19/'20 Tracker	\$0.1	\$0.2			\$0.3
'20/'21 Tracker			(\$0.4)	(\$0.2)	(0.6)
2020 (Expense) Benefit	\$0.1	\$0.2	(\$0.4)	(\$9.6)	(\$9.7)
Year-over-Year Variance	\$1.7	(\$4.4)	(\$0.5)	(\$8.9)	(\$12.1)

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.

Appendix Rate Base & Authorized Return Summary

Jurisdiction and Service	Implementation Date	Authorized Rate Base (millions)	Estimated Rate Base (millions)	Authorized Overall Rate of Return	Authorized Return on Equity	Authorized Equity Level
Montana electric delivery and production (1)	April 2019	\$ 2,030.1	\$ 2,500.9	6.92%	9.65%	49.38%
Montana - Colstrip Unit 4	April 2019	304.0	272.4	8.25%	10.00%	50.00%
Montana natural gas delivery and production (2)	September 2017	430.2	516.1	6.96%	9.55%	46.79%
Total Montana		2,764.3	3,289.4			
South Dakota electric (3)	December 2015	557.3	626.8	7.24%	n/a	n/a
South Dakota natural gas (3)	December 2011	65.9	77.4	7.80%	n/a	n/a
Total South Dakota		623.2	704.2			
Nebraska natural gas (3)	December 2007	24.3	37.8	8.49%	10.40%	n/a
Total NorthWestern Energy		\$ 3,411.8	\$ 4,031.4			

(1) The revenue requirement associated with the FERC regulated portion of Montana electric transmission and ancillary services are included as revenue credits to our MPSC jurisdictional customers. Therefore, we do not separately reflect FERC authorized rate base or authorized returns.

(2) The Montana gas revenue requirement includes a step down which approximates annual depletion of our natural gas production assets included in rate base.

(3) For those items marked as "n/a," the respective settlement and/or order was not specific as to these terms.

We anticipate current capital investment projections to result in annualized rate base growth of 4%-5%

Use of Non-GAAP Financial Measures - Reconcile to Non-GAAP diluted EPS

Pre-Tax Adjustments (\$ Millions)	2013	2014	2015	2016	2017	2018	2019	2020
Reported GAAP Pre-Tax Income	\$ 108.3	\$ 110.4	\$ 181.2	\$ 156.5	\$ 176.1	\$ 178.3	\$ 182.2	\$ 144.2
Non-GAAP Adjustments to Pre-Tax Income:								
Weather	(3.7)	(1.3)	13.2	15.2	(3.4)	(1.3)	(7.3)	9.8
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	-	-	-	9.9
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	\$ 163.9

Tax Adjustments to Non-GAAP Items (\$ Millions)	2013	2014	2015	2016	2017	2018	2019	2020
GAAP Net Income	\$ 94.0	\$ 120.7	\$ 151.2	\$ 164.2	\$ 162.7	\$ 197.0	\$ 202.1	\$ 155.2
Non-GAAP Adjustments Taxed at 38.5% ('08-'17) and 25.3% ('18-current):								
Weather	(2.3)	(0.8)	8.1	9.3	(2.1)	(1.0)	(5.5)	7.3
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	-	-	-	7.4
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	\$ 169.9

Non-GAAP Diluted Earnings Per Share	2013	2014	2015	2016	2017	2018	2019	2020
<i>Diluted Average Shares (Millions)</i>	38.2	40.4	47.6	48.5	48.7	50.2	50.8	50.7
Reported GAAP Diluted earnings per share	\$ 2.46	\$ 2.99	\$ 3.17	\$ 3.39	\$ 3.34	\$ 3.92	\$ 3.98	\$ 3.06
Non-GAAP Adjustments:								
Weather	(0.05)	(0.02)	0.17	0.19	(0.04)	(0.02)	(0.11)	0.14
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	-	-	-	0.15
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	\$ 3.35

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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