

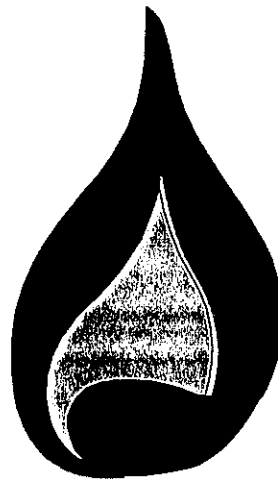
YEAR ENDING 2017

ANNUAL REPORT  
OF  
**NorthWestern Energy**  

---

**(Townsend Propane)**

GAS UTILITY



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

# Propane Annual Report

## Table of Contents

| Description   | Schedule |
|---|----------|
| Instructions  |          |
| Identification                                      | 1        |
| Board of Directors                                  | 2        |
| Officers  | 3        |
| Corporate Structure                                 | 4        |
| Corporate Allocations                               | 5        |
| Affiliate Transactions - To the Utility             | 6        |
| Affiliate Transactions - By the Utility             | 7        |
| Montana Utility Income Statement                    | 8        |
| Montana Revenues                                    | 9        |
| Montana Operation and Maintenance Expenses          | 10       |
| Montana Taxes Other Than Income                     | 11       |
| Payments for Services                               | 12       |
| Political Action Committees/Political Contributions | 13       |
| Pension Costs                                       | 14       |
| Other Post Employment Benefits                      | 15       |
| Top Ten Montana Compensated Employees               | 16       |
| Top Five Corporate Compensated Employees            | 17       |
| Balance Sheet                                       | 18       |

continued on next page

| Description   |                | Schedule |
|---|----------------|----------|
| Montana Plant in Service                            |                | 19       |
| Montana Depreciation Summary                        |                | 20       |
| Montana Materials and Supplies                      | not applicable | 21       |
| Montana Regulatory Capital Structure                |                | 22       |
| Statement of Cash Flows                             |                | 23       |
| Long Term Debt                                      |                | 24       |
| Preferred Stock                                     |                | 25       |
| Common Stock  |                | 26       |
| Montana Earned Rate of Return                       |                | 27       |
| Montana Composite Statistics                        |                | 28       |
| Montana Customer Information                        |                | 29       |
| Montana Employee Counts                             |                | 30       |
| Montana Construction Budget                         |                | 31       |
| Transmission, Distribution and Storage Systems      | not applicable | 32       |
| Sources of Gas Supply                               |                | 33       |
| MT Conservation and Demand Side Mgmt. Programs      | not applicable | 34       |
| Montana Consumption and Revenues                    |                | 35       |
| Natural Gas Universal System Benefits Programs      | not applicable | 36a      |
| Montana Conservation and Demand Side Mgmt. Programs | not applicable | 36b      |

| Sch. 1 | IDENTIFICATION  |                            |
|--------|---|----------------------------|
| 1      | Legal Name of Respondent:   | NorthWestern Corporation   |
| 2      | Name Under Which Respondent Does Business:  | NorthWestern Energy        |
| 3      | Date Utility Service First Offered in Montana:  | Electricity - Dec 12, 1912 |
| 4      |   | Natural Gas - Jan 01, 1933 |
| 5      |   | Propane - Oct 13, 1995     |
| 6      | Person Responsible for Report:  | Crystal D. Lail            |
| 7      | Telephone Number for Report Inquiries:  | (406) 497-2759             |
| 8      | Address for Correspondence Concerning Report:   | 11 East Park Street        |
| 9      |   | Butte, MT 59701            |
| 10     |   |                            |
| 11     |   |                            |
| 12     |   |                            |
| 13     |   |                            |
| 14     |   |                            |
| 15     |   |                            |
| 16     |   |                            |
| 17     |   |                            |
| 18     | If direct control over respondent is held by another entity, provide below the name, address, means by which control is held and percent ownership of controlling entity: |                            |
|        | N/A   |                            |

| Sch. 2 | BOARD OF DIRECTORS   |              |
|--------|--|--------------|
|        | Director's Name & Address (City, State)  | Remuneration |
| 1      |  |              |
| 2      | See NorthWestern Corporation's Annual Report on Form 10-K to the SEC for the Corporate Board of Directors. |              |
| 3      |  |              |
| 4      |  |              |
| 5      |  |              |
| 6      |  |              |
| 7      |  |              |
| 8      |  |              |
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| 32     |  |              |
| 33     |  |              |
| 34     |  |              |
| 35     |  |              |
| 36     |  |              |
| 37     |  |              |
| 38     |  |              |
| 39     |  |              |
| 40     |  |              |
| 41     |  |              |
| 42     |  |              |
| 43     |  |              |

| Sch. 3  | OFFICERS  |  |                  |
|---|---|--|------------------|
|   | Title   | Department Supervised  | Name             |
| 1   | President & Chief Executive Officer   | Executive  | Robert Rowe      |
| 2   |   |  |                  |
| 3   |   |  |                  |
| 4   |   |  |                  |
| 5   | Vice President,<br>Chief Financial Officer  | Tax, Internal Audit and Controls, Credit<br>Financial Planning and Analysis<br>Controller and Treasury Functions<br>Investor Relations and Corporate Finance<br>Cash Management and Business Technology<br>Energy Risk Management<br>Flight Services, Executive Compensation | Brian Bird       |
| 6   |   |  |                  |
| 7   |   |  |                  |
| 8   |   |  |                  |
| 9   |   |  |                  |
| 10  |   |  |                  |
| 11  |   |  |                  |
| 12  | Vice President,<br>General Counsel and Regulatory and<br>Federal Government Affairs | Legal Services<br>Corporate Secretary & Shareholder Services<br>Risk Management<br>Regulatory Affairs<br>Federal Governmental Affairs  | Heather Grahame  |
| 13  |   |  |                  |
| 14  |   |  |                  |
| 15  |   |  |                  |
| 16  |   |  |                  |
| 17  | Vice President,<br>Distribution   | Distribution Operations - MT/SD/NE<br>Construction, Asset Management<br>Organizational Development & Labor Relations<br>Project Management<br>Safety/Health/Environmental Services<br>Organizational Performance   | Curt Pohl        |
| 18  |   |  |                  |
| 19  |   |  |                  |
| 20  |   |  |                  |
| 21  |   |  |                  |
| 22  |   |  |                  |
| 23  |   |  |                  |
| 24  | Vice President,<br>Transmission   | Transmission Planning, Engineering, Construction,<br>and Operations<br>Gas Transmission & Storage<br>Grid & Substation Operations<br>Transmission Business Development and Analysis<br>FERC and NERC Compliance<br>Support Services  | Michael Cashell  |
| 25  |   |  |                  |
| 26  |   |  |                  |
| 27  |   |  |                  |
| 28  |   |  |                  |
| 29  |   |  |                  |
| 30  |   |  |                  |
| 31  |   |  |                  |
| 32  | Vice President,<br>Supply and Montana Government Affairs                            | Thermal and Wind Generation<br>Hydro Operation and Maintenance<br>Environmental Permitting & Compliance<br>Long Term Resources<br>Energy Supply Marketing Operations<br>Montana Government Affairs   | John Hines       |
| 33  |   |  |                  |
| 34  |   |  |                  |
| 35  |   |  |                  |
| 36  |   |  |                  |
| 37  |   |  |                  |
| 38  |   |  |                  |
| 39  | Vice President,<br>Government & Regulatory Affairs                                  |  | Patrick Corcoran |
| 40  |   |  |                  |
| 41  |   |  |                  |
| 42  |   |  |                  |
| 43  | Vice President,<br>Customer Care, Communications and<br>Human Resources             | Corporate Communications<br>Account and Analysis<br>Customer Experience and Support<br>Customer Interaction<br>Community Connections<br>Revenue Cycle Management<br>Human Resources  | Bobbi Schroepfel |
| 44  |   |  |                  |
| 45  |   |  |                  |
| 46  |   |  |                  |
| 47  |   |  |                  |
| 48  |   |  |                  |
| 49  |   |  |                  |
| 50  | Chief Audit & Compliance Officer  | Internal Audit<br>Enterprise Risk  | Michael Nieman   |
| 51  |   |  |                  |
| 52  |   |  |                  |
| 53  | Vice President, Controller  | Financial Reporting<br>Accounting<br>Accounts Payable/Payroll<br>Compensation and Benefits   | Crystal Lail     |
| 54  |   |  |                  |
| 55  |   |  |                  |
| 56  |   |  |                  |
| 57  |   |  |                  |
| 58  |   |  |                  |
| 59  |   |  |                  |
| 60  |   |  |                  |
| Reflects active officers as of December 31, 2017.   |   |  |                  |
| On January 15, 2018, Patrick Corcoran retired. During November 2017, in anticipation of his retirement, the company announced that the employees that had previously reported to Patrick would be reassigned to other vice presidents, effective immediately. |   |  |                  |

| Sch. 4  |   | CORPORATE STRUCTURE |                |
|---|---|---------------------|----------------|
| Subsidiary/Company Name   | Line of Business  | Earnings (000)      | % of Total     |
| <b>Regulated Operations (Jurisdictional &amp; Non-Jurisdictional)</b> |   | <b>\$ 159,647</b>   | <b>98.12%</b>  |
| NorthWestern Corporation:   |   |                     |                |
| Montana Utility Operations  | Electric Utility<br>Natural Gas Utility<br>Natural Gas Pipeline (including CMP, HPC,<br>Lodge Creek Pipelines, LLC<br>and Willow Creek Gathering, LLC)<br>Propane Utility |                     |                |
| South Dakota Utility Operations                                       | Electric Utility<br>Natural Gas Utility   |                     |                |
| Nebraska Utility Operations   | Natural Gas Utility   |                     |                |
| <b>Unregulated Operations</b>   |   | <b>\$ 3,056</b>     | <b>1.88%</b>   |
| Direct Subsidiaries:  |   |                     |                |
| NorthWestern Services, LLC  | Nonregulated natural gas marketing,<br>property management  |                     |                |
| Clark Fork and Blackfoot, LLC   | Former Milltown hydroelectric facility  |                     |                |
| Risk Partners Assurance, Ltd.   | Captive insurance company   |                     |                |
| Indirect Subsidiaries:  |   |                     |                |
| Montana Generation, LLC   | Non-regulated energy marketing  |                     |                |
| <b>Total Corporation</b>  |   | <b>\$ 162,703</b>   | <b>100.00%</b> |

| Sch. 5 |                              | CORPORATE ALLOCATIONS  |   |                             |               |                     |
|--------|------------------------------|--|---|-----------------------------|---------------|---------------------|
|        | Departments Allocated        | Description of Services  | Allocation Method   | \$ to MT EI & Gas Utilities | MT %          | \$ to Other         |
| 1      |                              |  |   |                             |               |                     |
| 2      |                              |  |   |                             |               |                     |
| 3      |                              |  |   |                             |               |                     |
| 4      | Controller                   | Includes the following departments: Controller, Accounting             | Overhead costs not charged directly are typically allocated based on a 3-factor formula consisting of gross plant, labor, and margin. | \$15,724,172                | 70.32%        | \$6,636,420         |
| 5      |                              | Accounts Payable, Payroll, Financial Reporting                         |   |                             |               |                     |
| 6      |                              | and Compensation & Benefits  |   |                             |               |                     |
| 7      |                              |  |   |                             |               |                     |
| 8      |                              |  |   |                             |               |                     |
| 9      | Customer Care                | Includes the following departments:                                    |   |                             |               |                     |
| 10     |                              | Customer Care Combined, Customer Care SD&NE                            |   |                             |               |                     |
| 11     |                              | CC MT, Business Develop, Corp Communications & Contributions,          |   |                             |               |                     |
| 12     |                              | CC - Assoc & Dispatch Human Resources and Print Services               |   |                             |               |                     |
| 13     |                              |  |   |                             |               |                     |
| 14     | Legal Department             | Includes the following departments:                                    | Overhead costs not charged directly are typically allocated based on a 3-factor formula consisting of gross plant, labor, and margin. | 11,670,006                  | 78.99%        | 3,103,537           |
| 15     |                              | Chief Legal, Compliance, Contracts Administration, and Risk Mgmt       |   |                             |               |                     |
| 16     |                              |  |   |                             |               |                     |
| 17     |                              |  |   |                             |               |                     |
| 18     |                              |  |   |                             |               |                     |
| 19     | Finance                      | Includes the following departments: CFO, Treasury, FP&A                | Overhead costs not charged directly are typically allocated based on a 3-factor formula consisting of gross plant, labor, and margin. | 19,718,550                  | 77.63%        | 5,682,571           |
| 20     |                              | Tax, Investor Relations, Corporate Aircraft,                           |   |                             |               |                     |
| 21     |                              | Business Technology Applications, Capital Related Exp, Data Center,    |   |                             |               |                     |
| 22     |                              | Project Management & Asset Control, Record Mgmt Systems, and Security. |   |                             |               |                     |
| 23     |                              |  |   |                             |               |                     |
| 24     | Regulatory and Gov't Affairs | Includes the following departments:                                    | Overhead costs not charged directly are typically allocated based on a 3-factor formula consisting of gross plant, labor, and margin. | 4,153,422                   | 81.57%        | 938,130             |
| 25     |                              | Regulatory Affairs, Load Research,                                     |   |                             |               |                     |
| 26     |                              | Government Affairs, Reg Support Services,                              |   |                             |               |                     |
| 27     |                              | Community Relations & Public Affairs.                                  |   |                             |               |                     |
| 28     |                              |  |   |                             |               |                     |
| 29     | Executive Department         | Includes the following departments:                                    | Overhead costs not charged directly are typically allocated based on a 3-factor formula consisting of gross plant, labor, and margin. | 3,339,259                   | 75.21%        | 1,100,918           |
| 30     |                              | CEO, and Board of Directors  |   |                             |               |                     |
| 31     |                              |  |   |                             |               |                     |
| 32     |                              |  |   |                             |               |                     |
| 33     |                              |  |   |                             |               |                     |
| 34     | Audit & Controls             | Includes the following departments:                                    | Overhead costs not charged directly are typically allocated based on a 3-factor formula consisting of gross plant, labor, and margin. | 846,155                     | 77.00%        | 252,748             |
| 35     |                              | Internal Audit and Enterprise Risk Management                          |   |                             |               |                     |
| 36     |                              |  |   |                             |               |                     |
| 37     |                              |  |   |                             |               |                     |
| 38     |                              |  |   |                             |               |                     |
| 39     | Distribution                 | Includes the following departments:                                    | Overhead costs not charged directly are typically allocated based on a 3-factor formula consisting of gross plant, labor, and margin. | 11,214                      | 77.00%        | 3,350               |
| 40     |                              | Sioux Falls Facilities and Mail Services                               |   |                             |               |                     |
| 41     |                              |  |   |                             |               |                     |
| 42     |                              |  |   |                             |               |                     |
| 43     |                              |  |   |                             |               |                     |
| 44     | <b>TOTAL</b>                 |  |   | <b>\$78,579,503</b>         | <b>74.85%</b> | <b>\$26,406,177</b> |



| Sch. 6 | AFFILIATE TRANSACTIONS - PRODUCTS & SERVICES PROVIDED TO UTILITY |  |  |                    |                        |                       |
|--------|--|--|--|--------------------|------------------------|-----------------------|
|        | Affiliate Name   | Products & Services                                | Method to Determine Price  | Charges to Utility | % of Total Affil. Rev. | Charges to MT Utility |
| 1      | <b>Nonutility Subsidiaries</b>                                   |  |  |                    |                        |                       |
| 2      |  |  |  |                    |                        |                       |
| 3      |  |  |  |                    |                        |                       |
| 4      |  | <b>Total Nonutility Subsidiaries</b>               |  |                    | \$0                    |                       |
| 5      | <b>Total Nonutility Subsidiaries Revenues</b>                    |  |  | \$0                |                        |                       |
| 6      |  |  |  |                    |                        |                       |
| 7      |  |  |  |                    |                        |                       |
| 8      | <b>Utility Subsidiaries</b>                                      |  |  |                    |                        |                       |
| 9      |  |  |  |                    |                        |                       |
| 10     |  |  |  |                    |                        |                       |
| 11     | <b>Total Utility Subsidiaries</b>                                |  |  | \$0                |                        | \$0                   |
| 12     | Canadian-Montana Pipeline Corporation                            | Natural gas pipeline                               | Contract rate  | \$222,232          |                        |                       |
| 13     | Havre Pipeline Company, LLC                                      | Natural gas gathering, transmission, & compression | Gathering rate based on cost, transmission & compression are at tariffed rates | 3,411,904          |                        |                       |
| 14     | <b>Total Utility Subsidiaries Revenues</b>                       |  |  | \$3,634,136        |                        |                       |
| 15     | <b>TOTAL AFFILIATE TRANSACTIONS</b>                              |  |  | \$0                |                        | \$0                   |

| Sch. 7 | AFFILIATE TRANSACTIONS - PRODUCTS & SERVICES PROVIDED BY UTILITY |                             |                           |                          |                        |                        |
|--------|--|-----------------------------|---------------------------|--------------------------|------------------------|------------------------|
|        | Affiliate Name   | Products & Services         | Method to Determine Price | Charges to Affiliate     | % of Total Affil. Exp. | Revenues to MT Utility |
| 1      | <b>Nonutility Subsidiaries</b>                                   |                             |                           |                          |                        |                        |
| 2      |  |                             |                           |                          |                        |                        |
| 3      |  |                             |                           |                          |                        |                        |
| 4      |  |                             |                           |                          |                        |                        |
| 5      |  |                             |                           |                          |                        |                        |
| 6      | <b>Total Nonutility Subsidiaries</b>                             |                             |                           | \$0                      |                        | \$0                    |
| 7      | <b>Total Nonutility Subsidiaries Expenses</b>                    |                             |                           | \$0                      |                        |                        |
| 8      |  |                             |                           |                          |                        |                        |
| 9      |  |                             |                           |                          |                        |                        |
| 10     | <b>Utility Subsidiaries</b>                                      |                             |                           |                          |                        |                        |
| 11     |  |                             |                           |                          |                        |                        |
| 12     |  |                             |                           |                          |                        |                        |
| 13     |  | Havre Pipeline Company, LLC | Administration Fee        | Negotiated Contract Rate | \$500,400              | 14.4%                  |
| 14     |  |                             |                           |                          |                        |                        |
| 15     | <b>Total Utility Subsidiaries</b>                                |                             |                           | \$500,400                |                        | \$500,400              |
| 16     | <b>Total Utility Subsidiaries Expenses</b>                       |                             |                           | \$3,509,769              |                        |                        |
| 17     | <b>TOTAL AFFILIATE TRANSACTIONS</b>                              |                             |                           | \$500,400                |                        | \$500,400              |

| Sch. 8 | MONTANA UTILITY INCOME STATEMENT - PROPANE |                            |                                      |                      |                      |          |
|--------|--|----------------------------|--------------------------------------|----------------------|----------------------|----------|
|        | Account Number & Title                     | This Year<br>Cons. Utility | Non<br>Jurisdictional<br>Adjustments | This Year<br>Montana | Last Year<br>Montana | % Change |
| 1      |  |                            |                                      |                      |                      |          |
| 2      | 400 Operating Revenues                     | \$ 592,918                 | \$ -                                 | \$ 592,918           | \$ 495,329           | 19.70%   |
| 3      |  |                            |                                      |                      |                      |          |
| 4      | <b>Total Operating Revenues</b>            | 592,918                    | -                                    | 592,918              | 495,329              | 19.70%   |
| 5      |  |                            |                                      |                      |                      |          |
| 6      | <b>Operating Expenses</b>                  |                            |                                      |                      |                      |          |
| 7      |  |                            |                                      |                      |                      |          |
| 8      | 401 Operation Expense                      | 442,190                    | -                                    | 442,190              | 386,589              | 14.38%   |
| 9      | 402 Maintenance Expense                    | 46,103                     | -                                    | 46,103               | 42,044               | 9.65%    |
| 10     | 403 Depreciation Expense                   | 40,627                     | -                                    | 40,627               | 40,899               | -0.67%   |
| 11     | 407.3 Regulatory Debits                    | -                          | -                                    | -                    | -                    | -        |
| 12     | 408.1 Taxes Other Than Income Taxes        | 63,285                     | -                                    | 63,285               | 59,788               | 5.85%    |
| 13     | 409.1 Income Taxes-Federal                 |                            |                                      |                      |                      |          |
| 14     | -Other                                     |                            |                                      |                      |                      |          |
| 15     | 410.1 Deferred Income Taxes-Dr.            | 2,321                      | -                                    | 2,321                | (12,101)             | 119.18%  |
| 16     | 411.1 Deferred Income Taxes-Cr.            | -                          | -                                    | -                    | -                    | -        |
| 17     |  |                            |                                      |                      |                      |          |
| 18     | <b>Total Operating Expenses</b>            | 594,526                    | -                                    | 594,526              | 517,219              | 14.95%   |
| 19     | <b>NET OPERATING INCOME</b>                | \$ (1,608)                 | \$ -                                 | \$ (1,608)           | \$ (21,890)          | 92.65%   |

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

| Sch. 9 | MONTANA REVENUES - PROPANE               |                            |                                      |                      |                      |          |
|--------|--|----------------------------|--------------------------------------|----------------------|----------------------|----------|
|        | Account Number & Title                   | This Year<br>Cons. Utility | Non<br>Jurisdictional<br>Adjustments | This Year<br>Montana | Last Year<br>Montana | % Change |
| 1      | <b>Sales to Ultimate Consumers</b>       |                            |                                      |                      |                      |          |
| 2      |  |                            |                                      |                      |                      |          |
| 3      |  |                            |                                      |                      |                      |          |
| 4      | 440 Residential                          | \$ 358,145                 | \$ -                                 | \$ 358,145           | \$ 294,653           | 21.55%   |
| 5      | 442 Commercial & Industrial-Small        | 234,773                    | -                                    | 234,773              | 200,676              | 16.99%   |
| 6      |  |                            |                                      |                      |                      |          |
| 7      | <b>Total Sales to Ultimate Consumers</b> | 592,918                    | -                                    | 592,918              | 495,329              | 19.70%   |
| 8      |  |                            |                                      |                      |                      |          |
| 9      | 447 Sales for Resale                     |                            |                                      |                      |                      |          |
| 10     |  |                            |                                      |                      |                      |          |
| 11     | <b>Total Sales of Propane</b>            | 592,918                    | -                                    | 592,918              | 495,329              | 19.70%   |
| 12     |  |                            |                                      |                      |                      |          |
| 13     | 449.1 Provision for Rate Refunds         |                            |                                      |                      |                      |          |
| 14     |  |                            |                                      |                      |                      |          |
| 15     | <b>Total Revenue Net of Rate Refunds</b> | 592,918                    | -                                    | 592,918              | 495,329              | 19.70%   |
| 16     |  |                            |                                      |                      |                      |          |
| 17     | Miscellaneous Revenues                   |                            |                                      |                      |                      |          |
| 18     |  |                            |                                      |                      |                      |          |
| 19     | <b>Total Other Operating Revenue</b>     | -                          | -                                    | -                    | -                    | -        |
| 20     | <b>TOTAL OPERATING REVENUE</b>           | \$ 592,918                 | \$ -                                 | \$ 592,918           | \$ 495,329           | 19.70%   |

| Sch. 10 | MONTANA OPERATION & MAINTENANCE EXPENSES - PROPANE |                            |                                      |                      |                      |                |
|---------|--|----------------------------|--------------------------------------|----------------------|----------------------|----------------|
|         | Account Number & Title                             | This Year<br>Cons. Utility | Non<br>Jurisdictional<br>Adjustments | This Year<br>Montana | Last Year<br>Montana | % Change       |
| 1       | <b>Supply Expenses</b>                             |                            |                                      |                      |                      |                |
| 2       | <b>Other Propane Supply Expense-Operation</b>      |                            |                                      |                      |                      |                |
| 3       | 804 Purchases                                      | \$ -                       | \$ -                                 | \$ -                 | \$ -                 | -              |
| 4       | 805 Other Propane Purchases                        | (16,938)                   | -                                    | (16,938)             | 9,774                | -273.30%       |
| 5       | 807 Purchased Propane Expense                      | -                          | -                                    | -                    | -                    | -              |
| 6       | 808 Propane Withdrawn from Storage                 | 376,522                    | -                                    | 376,522              | 290,031              | 29.82%         |
| 7       | 809 Propane Delivered to Storage                   | -                          | -                                    | -                    | -                    | -              |
| 8       | <b>Total Supply Expenses</b>                       | <b>359,584</b>             | <b>-</b>                             | <b>359,584</b>       | <b>299,805</b>       | <b>19.94%</b>  |
| 9       | <b>Storage Expenses</b>                            |                            |                                      |                      |                      |                |
| 10      | <b>Other Storage-Operation</b>                     |                            |                                      |                      |                      |                |
| 11      | 840 Operation Supervision & Engineering            | -                          | -                                    | -                    | -                    | -              |
| 12      | 841 Operation Labor & Expenses                     | -                          | -                                    | -                    | -                    | -              |
| 13      | 842 Rents  | 7,191                      | -                                    | 7,191                | 5,985                | 20.15%         |
| 14      | <b>Total Operation-Other Storage</b>               | <b>7,191</b>               | <b>-</b>                             | <b>7,191</b>         | <b>5,985</b>         | <b>20.15%</b>  |
| 15      |  |                            |                                      |                      |                      |                |
| 16      | <b>Other Storage-Maintenance</b>                   |                            |                                      |                      |                      |                |
| 17      | 847 Maintenance Storage Expenses                   | -                          | -                                    | -                    | -                    | -              |
| 18      | <b>Total Maintenance-Other Storage</b>             | <b>-</b>                   | <b>-</b>                             | <b>-</b>             | <b>-</b>             | <b>-</b>       |
| 19      | <b>Total Storage Expenses</b>                      | <b>7,191</b>               | <b>-</b>                             | <b>7,191</b>         | <b>5,985</b>         | <b>20.15%</b>  |
| 20      | <b>Distribution Expenses</b>                       |                            |                                      |                      |                      |                |
| 21      | <b>Distribution-Operation</b>                      |                            |                                      |                      |                      |                |
| 22      | 870 Supervision & Engineering                      | -                          | -                                    | -                    | -                    | -              |
| 23      | 874 Mains & Service                                | 13,253                     | -                                    | 13,253               | 12,888               | 2.83%          |
| 24      | 878 Meter & House Regulators                       | 15,549                     | -                                    | 15,549               | 21,605               | -28.03%        |
| 25      | 879 Customer Installation                          | 6,037                      | -                                    | 6,037                | 5,205                | 15.98%         |
| 26      | 880 Other  | 1,561                      | -                                    | 1,561                | 1,670                | -6.53%         |
| 27      | <b>Total Operation-Distribution</b>                | <b>36,400</b>              | <b>-</b>                             | <b>36,400</b>        | <b>41,368</b>        | <b>-12.01%</b> |
| 28      | <b>Distribution-Maintenance</b>                    |                            |                                      |                      |                      |                |
| 29      | 885 Maintenance Superv. & Eng.                     | -                          | -                                    | -                    | -                    | -              |
| 30      | 887 Maintenance of Mains                           | 45,587                     | -                                    | 45,587               | 37,571               | 21.34%         |
| 31      | 892 Maint. of Services                             | -                          | -                                    | -                    | 3,551                | -100.00%       |
| 32      | 893 Maint. of Meters & House Regulators            | 517                        | -                                    | 517                  | 922                  | -43.93%        |
| 33      | 894 Maintenance of Other Equipment                 | -                          | -                                    | -                    | -                    | -              |
| 34      | <b>Total Maintenance-Distribution</b>              | <b>46,104</b>              | <b>-</b>                             | <b>46,104</b>        | <b>42,044</b>        | <b>9.66%</b>   |
| 35      | <b>Total Distribution Expenses</b>                 | <b>82,504</b>              | <b>-</b>                             | <b>82,504</b>        | <b>83,412</b>        | <b>-1.09%</b>  |
| 36      |  |                            |                                      |                      |                      |                |
| 37      | <b>Customer Accounts Expenses</b>                  |                            |                                      |                      |                      |                |
| 38      | <b>Customer Accounts-Operation</b>                 |                            |                                      |                      |                      |                |
| 39      | 901 Supervision                                    | -                          | -                                    | -                    | -                    | -              |
| 40      | 902 Meter Reading                                  | 492                        | -                                    | 492                  | 694                  | -29.11%        |
| 41      | 903 Customer Records & Collection Expense          | 391                        | -                                    | 391                  | 183                  | 113.66%        |
| 42      | <b>Total Customer Accounts Expenses</b>            | <b>883</b>                 | <b>-</b>                             | <b>883</b>           | <b>877</b>           | <b>0.68%</b>   |
| 43      | <b>Administrative &amp; General Expenses</b>       |                            |                                      |                      |                      |                |
| 44      | <b>Admin. &amp; General - Operation</b>            |                            |                                      |                      |                      |                |
| 45      | 920 Salaries                                       | 746                        | -                                    | 746                  | 673                  | 10.85%         |
| 46      | 921 Office Supplies & Expenses                     | 18                         | -                                    | 18                   | 4                    | >300.00%       |
| 47      | 923 Outside Services                               | 37,368                     | -                                    | 37,368               | 37,877               | -1.34%         |
| 48      | 925 Injuries & Damages                             | -                          | -                                    | -                    | -                    | -              |
| 49      | 926 Employee Pensions and Benefits                 | -                          | -                                    | -                    | -                    | -              |
| 50      | 928 Regulatory Commission Expense                  | -                          | -                                    | -                    | -                    | -              |
| 51      | <b>Total Operation-Admin. &amp; General</b>        | <b>38,132</b>              | <b>-</b>                             | <b>38,132</b>        | <b>38,554</b>        | <b>-1.09%</b>  |
| 52      | <b>Admin. &amp; General - Maintenance</b>          |                            |                                      |                      |                      |                |
| 53      | 935 General Plant                                  | -                          | -                                    | -                    | -                    | -              |
| 54      | <b>Total Admin. &amp; General Expenses</b>         | <b>38,132</b>              | <b>-</b>                             | <b>38,132</b>        | <b>38,554</b>        | <b>-1.09%</b>  |
| 55      |  |                            |                                      |                      |                      |                |
| 56      | <b>TOTAL OPER. &amp; MAINT. EXPENSES</b>           | <b>\$ 488,293</b>          | <b>\$ -</b>                          | <b>\$ 488,293</b>    | <b>\$ 428,633</b>    | <b>13.92%</b>  |

| Sch. 11 | MONTANA TAXES OTHER THAN INCOME - PROPANE |                 |                 |              |
|---------|---|-----------------|-----------------|--------------|
|         | Description                               | This Year       | Last Year       | % Change     |
| 1       |   |                 |                 |              |
| 2       | Taxes associated with Payroll/Labor       | \$2,102         | \$2,571         | -18.24%      |
| 3       | Real Estate & Personal Property           | 59,760          | 56,028          | 6.66%        |
| 4       | Consumer Counsel                          | 178             | 149             | 19.46%       |
| 5       | Public Service Commission                 | 1,245           | 1,040           | 19.71%       |
| 6       | Vehicle Use Tax                           | -               | -               | -            |
| 7       |   |                 |                 |              |
| 8       | <b>TOTAL TAXES OTHER THAN INCOME</b>      | <b>\$63,285</b> | <b>\$59,788</b> | <b>5.85%</b> |

| Sch. 12 | PAYMENTS FOR SERVICES TO PERSONS OTHER THAN EMPLOYEES 1/ |  |           |
|---------|--|--|-----------|
|         | Name of Recipient  | Nature of Service                              | Total     |
| 1       | A & A ASPHALT MAINTENANCE                                | Asphalt Services                               | 125,966   |
| 2       | A EXCAVATION   | Excavation Contractor                          | 202,496   |
| 3       | A&E ARCHITECTS P C                                       | Architectural Services                         | 648,619   |
| 4       | ACCION GROUP LLC   | Information Technology Consulting              | 287,956   |
| 5       | AFFCO INC  | Hydro Construction Services                    | 856,493   |
| 6       | ALME CONSTRUCTION, INC.                                  | Construction                                   | 744,810   |
| 7       | ALSTOM GRID INC  | Software Support Services                      | 351,868   |
| 8       | ALVAREZ & MARSAL DISPUTES & INVESTIGATIONS, LLC          | Legal Services                                 | 420,335   |
| 9       | AMERICAN INNOVATIONS INC                                 | Software Support Services                      | 131,465   |
| 10      | AMERICAN PUBLIC LAND EXCHANGE                            | Consulting Services - Environmental            | 311,137   |
| 11      | ARCADIS US INC   | Engineering Services                           | 1,951,730 |
| 12      | ARCOS LLC  | Reliability Consulting Services                | 429,299   |
| 13      | ASCEND ANALYTICS LLC                                     | Hydro Expert Analysis                          | 639,558   |
| 14      | ASPLUNDH TREE EXPERT CO                                  | Tree Trimming                                  | 4,637,770 |
| 15      | ASSOCIATED UNDERWATER SERVICE                            | Inspection Services                            | 123,412   |
| 16      | AUTOMOTIVE RENTALS INC                                   | Fleet Management                               | 9,104,534 |
| 17      | BARNARD CONSTRUCTION COMPANY INC                         | Construction                                   | 997,409   |
| 18      | BART ENGINEERING COMPANY                                 | Engineering Services                           | 470,829   |
| 19      | BILL FIELD TRUCKING INC                                  | Hauling Services                               | 596,950   |
| 20      | BILLINGS FLYING SERVICE, INC.                            | Pole Installation Services                     | 249,080   |
| 21      | BLACKEAGLE ENERGY SERVICES                               | Construction                                   | 229,266   |
| 22      | BROOKS JACKSON & LITTLE INC                              | Legal Services                                 | 123,506   |
| 23      | BROWNING, KALECZYC, BERRY & HOVEN                        | Legal Services                                 | 109,757   |
| 24      | BRUSH AFTERMARKET GMS                                    | Inspection Services                            | 464,516   |
| 25      | BURK EXCAVATION & 1ST MONTANA                            | Construction                                   | 694,002   |
| 26      | CASCADE ELECTRIC COMPANY INC                             | Construction                                   | 89,879    |
| 27      | CEATI INTERNATIONAL TRUST                                | Inspection Services                            | 92,450    |
| 28      | CEB INC  | Customer Care Services                         | 208,255   |
| 29      | CENTERPOINT ENERGY SERVICES INC                          | Transmission Services                          | 4,090,118 |
| 30      | CENTRAL AIR SERVICE INC                                  | Aerial Pilot Services                          | 118,634   |
| 31      | CENTRON SERVICES INC                                     | Customer Collection Service                    | 91,022    |
| 32      | CLEARRESULT CONSULTING INC                               | Energy Efficiency Consultants                  | 896,026   |
| 33      | CN UTILITY CONSULTING INC                                | Utility Consulting Services                    | 110,766   |
| 34      | COMPLETE CAREER CENTER INC                               | Meter Reader Services                          | 198,797   |
| 35      | COMPUTER FINANCIAL CONSULTANTS                           | Computer Financial Consultant Services         | 175,089   |
| 36      | CONTINENTAL STEEL WORKS                                  | Fabrication Services                           | 1,320,482 |
| 37      | CRANE SERVICES & INSPECTIONS                             | DOT Inspection Services                        | 128,228   |
| 38      | CRIST, KROGH, BUTLER & NORD LLC                          | Legal Services                                 | 248,566   |
| 39      | CTA ARCHITECTS ENGINEERS                                 | Energy Conservation Consultants                | 819,664   |
| 40      | CUDA DIRECTIONAL LLC                                     | Boring Services                                | 260,027   |
| 41      | DAVEY TREE SURGERY COMPANY                               | Tree Trimming                                  | 2,375,923 |
| 42      | DELOITTE & TOUCHE LLP                                    | Audit Services                                 | 1,601,529 |
| 43      | DEPT OF HEALTH & HUMAN SERVICE                           | Weatherization Program Services                | 3,418,271 |
| 44      | DEVLIN ENTERPRISES                                       | Lobbying Services                              | 77,726    |
| 45      | DGR ENGINEERING  | Engineering Services                           | 320,122   |
| 46      | DHC INC  | Boring Services                                | 97,655    |
| 47      | DICK ANDERSON CONSTRUCTION                               | Construction                                   | 642,692   |
| 48      | DONNES INC   | Construction                                   | 99,045    |
| 49      | DONOVAN CONSTRUCTION                                     | Construction                                   | 980,671   |
| 50      | DORSEY & WHITNEY LLP                                     | Legal Services                                 | 467,801   |
| 51      | DOWL HKM   | Geotechnical Services                          | 289,406   |
| 52      | E SOURCE COMPANIES LLC                                   | Strategic Services                             | 165,815   |
| 53      | EAGLE GAS MARKETING LLC                                  | Marketing Services                             | 250,920   |
| 54      | EAGLE LANDSCAPING  | Landscape Service                              | 77,490    |
| 55      | EIDEBAILLY   | Audit Services                                 | 102,799   |
| 56      | ELLIOT CONSTRUCTION INC                                  | Boring Services                                | 606,183   |
| 57      | ELM LOCATING & UTILITY SERVICE                           | Locating Services and Excavation Notifications | 3,154,456 |
| 58      | ENABLON NORTH AMERICA CORPORATION                        | Software Implementation Support Services       | 101,290   |
| 59      | ENERGY CONTRACT SERVICES LLC                             | Energy Services                                | 250,462   |
| 60      | ENERGY LABORATORIES INC                                  | Environmental Consultants                      | 101,082   |

| Sch. 12A | PAYMENTS FOR SERVICES TO PERSONS OTHER THAN EMPLOYEES 1/ |                                      |            |
|----------|--|--------------------------------------|------------|
|          | Name of Recipient  | Nature of Service                    | Total      |
| 61       | ENERGY SHARE OF MONTANA                                  | USBC Services                        | 900,720    |
| 62       | ESSNOVA SOLUTIONS INC                                    | Computer Consultants                 | 77,670     |
| 63       | FAIRBANKS MORSE ENGINE                                   | Engineering Services                 | 289,153    |
| 64       | FALLS CONSTRUCTION COMPANY                               | Construction                         | 737,393    |
| 65       | FLYNN WRIGHT INC   | Advertising Services                 | 1,263,354  |
| 66       | FORBES TATE PARTNERS LLC                                 | Regulatory Consultants               | 110,000    |
| 67       | G L TILEY & ASSOCIATES LTD                               | Engineering Services                 | 99,118     |
| 68       | G2 INTEGRATED SOLUTIONS LLC                              | Computer System Implementation       | 955,665    |
| 69       | GARLINGTON, LOHN & ROBINSON                              | Legal Services                       | 242,239    |
| 70       | GARTNER INC  | Information Technology Consulting    | 156,267    |
| 71       | GE ELECTRIC INTERNATIONAL INC                            | Environmental Consultants            | 113,900    |
| 72       | GEI CONSULTANTS INC                                      | Environmental Consultants            | 387,811    |
| 73       | GENERATOR & MOTOR SERVICES OF PA, LLC                    | Inspection Services                  | 127,951    |
| 74       | GILLESPIE PRUDHON & ASSOCIATES                           | Telecommunications Engineers         | 369,372    |
| 75       | GLOBAL DIVING & SALVAGE INC                              | Construction                         | 233,933    |
| 76       | GUY TABACCO CONSTRUCTION                                 | Construction                         | 198,612    |
| 77       | H & H ASPHALT & MAINTENANCE LLC                          | Asphalt Services                     | 91,174     |
| 78       | H & H CONTRACTING INC                                    | Concrete and Asphalt Services        | 1,061,190  |
| 79       | H2E INC  | Engineering Services                 | 102,327    |
| 80       | HAIDER CONSTRUCTION INC                                  | Backhoe Services                     | 449,185    |
| 81       | HARVEST SOLAR MT   | Solar System Installation            | 94,709     |
| 82       | HDR ENGINEERING INC                                      | Engineering Services                 | 1,344,101  |
| 83       | HEALTH FITNESS CORPORATION                               | Employee Wellness Program Management | 306,115    |
| 84       | HEATH CONSULTANTS INC                                    | Gas Leak Surveys                     | 522,538    |
| 85       | HIGHMARK MEDIA   | Marketing Services                   | 110,445    |
| 86       | HSNO THE FORENSICS FIRM                                  | Legal Services                       | 483,851    |
| 87       | HUNTON & WILLIAMS LLP                                    | Legal Services                       | 117,953    |
| 88       | HYDRO ARCH   | Construction                         | 2,042,455  |
| 89       | HYDROINSIGHT LLC   | Construction                         | 123,583    |
| 90       | IMCO GENERAL CONSTRUCTION INC                            | Construction                         | 1,188,690  |
| 91       | INTEC SERVICES INC                                       | Pole Inspection Services             | 2,624,170  |
| 92       | J2 OFFICE PRODUCTS                                       | Computer/Printer Purchases           | 348,336    |
| 93       | JACOBSEN TREE EXPERTS                                    | Tree Trimming                        | 966,967    |
| 94       | JD ENGINEERING P C                                       | Engineering Services                 | 296,977    |
| 95       | JONES DAY  | Legal Services                       | 275,742    |
| 96       | JSSI JET SUPPORT SERVICES INC                            | Flight Services                      | 234,786    |
| 97       | KB CONSTRUCTION LLC                                      | Construction                         | 80,810     |
| 98       | KC HARVEY ENVIRONMENTAL LLC                              | Environmental Consultants            | 240,057    |
| 99       | KM CONSTRUCTION CO INC                                   | Construction                         | 123,914    |
| 100      | KNIFE RIVER  | Construction                         | 131,918    |
| 101      | KOCHER SCHIRRA GOHARIZI CONSULTING                       | Engineering Services                 | 111,633    |
| 102      | LARSON DIGGING INC                                       | Excavation Services                  | 361,844    |
| 103      | LAST BEST PLACE LANDSCAPING INC                          | Landscape Service                    | 102,861    |
| 104      | LOCKMER PLUMBING HEATING & UTILITIES, INC                | Gas Meter Relocations                | 387,427    |
| 105      | LODGEPOLE LAND SERVICES LLC                              | Construction                         | 176,697    |
| 106      | M & P EXCAVATING   | Excavation Services                  | 370,142    |
| 107      | MADISON CONSERVATION DISTRICT                            | Restoration Services                 | 103,750    |
| 108      | MANAGEMENT APPLICATIONS CONSUL                           | Regulatory Consulting                | 149,062    |
| 109      | MARSH & MCLENNAN AGENCY LLC                              | BEN Consulting Service               | 99,044     |
| 110      | MCMILLEN LLC   | Construction                         | 352,354    |
| 111      | MERCER HUMAN RESOURCE CONSULTI                           | HR Consulting                        | 196,888    |
| 112      | MERIDIAN IT INC  | Information Technology Services      | 471,563    |
| 113      | MICHELS CORPORATION                                      | Construction                         | 1,448,200  |
| 114      | MIDCON UNDERGROUND CONSTRUCTION                          | Construction                         | 618,260    |
| 119      | MONTANA FISH WILDLIFE & PARKS                            | Wildlife Monitoring Services         | 866,242    |
| 120      | MONTROSE AIR QUALITY SERVICES                            | Air Quality Services                 | 94,776     |
| 121      | MOODY'S ANALYTICS  | Debt Rating Services                 | 155,307    |
| 122      | MOODY'S INVESTORS SERVICE                                | Debt Rating Services                 | 313,000    |
| 123      | MORRISON MAIERLE INC                                     | Engineering Services                 | 759,855    |
| 124      | MOUNTAIN POWER CONSTRUCTION COMPANY                      | Construction                         | 23,998,519 |
| 125      | MOUNTAIN WEST HOLDING COMPANY                            | Construction                         | 187,702    |
| 126      | MPW INDUSTRIAL WATER SERVICES                            | Deminerlizer System Services         | 111,084    |
| 127      | MUSE, STANCIL & CO                                       | Legal Services                       | 376,503    |
| 129      | NATIONAL CENTER FOR APPROPRIATE                          | Conservation Program Consultants     | 422,415    |



## PAYMENTS FOR SERVICES TO PERSONS OTHER THAN EMPLOYEES 1/

|     | Name of Recipient                        | Nature of Service                          | Total                 |
|-----|--|--|-----------------------|
| 130 | NAVIGANT CONSULTING INC                  | Renewables Consulting Service              | 121,747               |
| 131 | NCSG CRANE & HEAVY HAUL SERVICE          | Heavy Haul Services                        | 148,883               |
| 132 | NORTH AMERICAN CONTRACT                  | Staffing Services                          | 82,871                |
| 133 | NORTHWEST ENERGY EFFICIENCY              | Energy Services                            | 1,218,340             |
| 134 | NORTHWEST TOWER                          | Construction                               | 215,050               |
| 135 | OMIMEX CANADA LTD                        | Gas Lease Operating Expenses               | 153,835               |
| 136 | OPEN ACCESS TECHNOLOGY INT'L INC         | Software Support Services                  | 711,985               |
| 137 | OUTBACK POWER COMPANY                    | Pole Replacement Services                  | 211,359               |
| 137 | P2 ENERGY SOLUTIONS INC                  | Computer System Implementation             | 100,723               |
| 138 | PAR ELECTRIC CONTRACTORS INC             | Electric Construction and Maintenance      | 17,628,106            |
| 139 | POTEET CONSTRUCTION                      | Traffic Safety Services                    | 155,967               |
| 140 | POWERPLAN INC                            | Software Implementation Support Services   | 2,141,375             |
| 141 | PROPAK SYSTEMS LTD                       | Generator Repair Services                  | 4,088,832             |
| 142 | PUETZ CORPORATION                        | Construction                               | 2,343,790             |
| 143 | Q3 CONTRACTING INC                       | Construction                               | 184,345               |
| 144 | QUORUM BUSINESS SOLUTIONS                | Software Implementation Support Services   | 189,844               |
| 145 | RENEW INTERNATIONAL LLC                  | Audit Services                             | 102,512               |
| 146 | RIVER DESIGN GROUP INC                   | Engineering Services                       | 298,376               |
| 147 | RML INCORPORATED                         | Boring Services                            | 222,929               |
| 148 | ROBINS KAPLAN LLP                        | Legal Services                             | 95,780                |
| 149 | ROCKY MOUNTAIN CONTRACTORS INC           | Electric Construction and Maintenance      | 32,341,559            |
| 150 | ROD TABBERT CONSTRUCTION INC             | Construction                               | 276,958               |
| 151 | ROUNDS BROTHERS TRENCHING                | Boring Services                            | 572,566               |
| 152 | SCENIC CITY ENTERPRISES INC              | Engineering Services                       | 113,398               |
| 153 | SCHNEIDER ELECTRIC SOFTWARE CANADA       | Computer Support Services                  | 189,138               |
| 154 | SEDGWICK CMS                             | Customer Collection Service                | 1,075,825             |
| 155 | SELLON FORENSICS INC                     | Legal Services                             | 151,598               |
| 156 | SIDEWINDERS LLC                          | Generator Repair Services                  | 1,451,792             |
| 157 | SIOUX FALLS TOWER & COMMUNICATIONS       | Construction                               | 187,794               |
| 158 | SKADDEN, ARPS, SLATE, MEAGHER            | Legal Services                             | 368,853               |
| 159 | STANDARD & POOR'S FINANCIAL SERVICES     | Debt Rating Services                       | 140,000               |
| 160 | STATE LINE CONTRACTORS INC               | Electric Construction and Maintenance      | 1,113,572             |
| 161 | STINSON LEONARD STREET LLP               | Legal Services                             | 3,562,352             |
| 162 | SUMTOTAL SYSTEMS INC                     | Software Implementation Support Services   | 85,428                |
| 163 | TAMMETTI CONSTRUCTION COMPANY            | Construction                               | 110,343               |
| 164 | TAYLOR SERVICES INC                      | Construction                               | 78,723                |
| 165 | TERRA REMOTE SENSING (USA) INC           | Surveying Services                         | 219,898               |
| 166 | TEXTRON AVIATION INC                     | Repair Services                            | 337,320               |
| 167 | THE ELECTRIC COMPANY OF SOUTH DAKOTA     | Construction                               | 1,031,904             |
| 168 | THE LAWN RANGER                          | Landscape service                          | 85,932                |
| 169 | TIMBERLINE SECURITY & SERVICES           | Security Services                          | 75,525                |
| 170 | TITAN CONSTRUCTION                       | Construction                               | 227,524               |
| 171 | TODD O BRUESKE CONSTRUCTION              | Construction                               | 582,479               |
| 172 | TOWERS WATSON DELAWARE INC               | Compensation Services                      | 170,689               |
| 173 | TRADEMARK ELECTRIC INC                   | Construction                               | 478,037               |
| 174 | TRI-COUNTY MECHANICAL & ELECTRICAL       | Construction                               | 103,833               |
| 175 | ULTEIG ENGINEERS INC                     | Project Manager Services                   | 286,348               |
| 176 | UNITED STATES GEOLOGICAL SURVEY          | Environmental Consultants                  | 207,400               |
| 177 | UTILITIES UNDERGROUND LOCATION           | Excavation Location Services               | 154,816               |
| 178 | VAISALA INC                              | Environmental Consultants                  | 100,806               |
| 179 | VARSITY CONTRACTORS INC                  | Janitorial Services                        | 301,240               |
| 180 | VERTEX                                   | Billing Services and System Implementation | 2,861,575             |
| 181 | VESTA PARTNERS LLC                       | Information Technology Consulting          | 138,750               |
| 182 | WASHINGTON FORESTRY CONSULTANTS INC      | Forestry Consultants                       | 253,427               |
| 183 | WATER & ENVIRONMENTAL TECHNOLOGIES       | Engineering Services                       | 157,602               |
| 184 | WATSON TRUCKING                          | Water Hauling Services                     | 97,827                |
| 185 | WILLIAMSON FENCING & SPR., INC.          | Construction                               | 209,816               |
| 186 | WIRTH CONSTRUCTION LLC                   | Construction                               | 197,222               |
| 187 | WIT PIPELINE INSPECTION                  | Inspection Services                        | 155,946               |
| 188 |  |  |                       |
| 189 |  |  |                       |
| 190 |  |  |                       |
| 191 |  |  |                       |
|     | <b>Total of Payments Set Forth Above</b> |  | <b>\$ 181,464,844</b> |

1/ This schedule includes payments for professional services over \$75,000.

Schedule 12B

| Sch. 13 | POLITICAL ACTION COMMITTEES / POLITICAL CONTRIBUTIONS |               |         |           |
|---------|---|---------------|---------|-----------|
|         | Description   | Total Company | Montana | % Montana |
| 1       |   |               |         |           |
| 2       |   |               |         |           |
| 3       | There are three employee political action committees  |               |         |           |
| 4       | (PAC)s:   |               |         |           |
| 5       |   |               |         |           |
| 6       | a. NorthWestern Energy Montana Employee PAC for       |               |         |           |
| 7       | Montana employees;                                    |               |         |           |
| 8       |   |               |         |           |
| 9       | b. Employees of NorthWestern Corporation              |               |         |           |
| 10      | (NorthWestern Energy) PAC for South Dakota            |               |         |           |
| 11      | employees;  |               |         |           |
| 12      |   |               |         |           |
| 13      | c. NorthWestern Public Service Employees PAC for      |               |         |           |
| 14      | Nebraska employees.                                   |               |         |           |
| 15      |   |               |         |           |
| 16      |   |               |         |           |
| 17      | All of the money contributed by members is            |               |         |           |
| 18      | dedicated to support political candidates and ballot  |               |         |           |
| 19      | issues. No company funds may be spent in support      |               |         |           |
| 20      | of a political candidate. Nominal administrative      |               |         |           |
| 21      | costs for such things as duplicating, postage, and    |               |         |           |
| 22      | meeting expenses are paid by the company as           |               |         |           |
| 23      | provided by law. These costs are charged to           |               |         |           |
| 24      | shareholder expense.                                  |               |         |           |
| 25      |   |               |         |           |
| 26      |   |               |         |           |
| 27      |   |               |         |           |
| 28      |   |               |         |           |
| 29      |   |               |         |           |
| 30      |   |               |         |           |
| 31      |   |               |         |           |
| 32      |   |               |         |           |
| 33      |   |               |         |           |
| 34      |   |               |         |           |
| 35      |   |               |         |           |
| 36      |   |               |         |           |
| 37      |   |               |         |           |
| 38      |   |               |         |           |
| 39      |   |               |         |           |
| 40      | <b>TOTAL Contributions</b>                            | \$ -          | \$ -    |           |

| Sch. 14 | <b>Pension Costs</b> 1/   |                                  |                                  |                 |
|---------|---|----------------------------------|----------------------------------|-----------------|
| 1       | Plan Name: NorthWestern Energy Pension Plan   |                                  |                                  |                 |
| 2       | Defined Benefit Plan? Yes   | Defined Contribution Plan? No    |                                  |                 |
| 3       | Actuarial Cost Method? Projected Unit Credit  | IRS Code: _____                  |                                  |                 |
| 4       | Annual Contribution by Employer: Variable   | Is the Plan Over Funded? No      |                                  |                 |
| 5       |   |                                  |                                  |                 |
|         | <b>Item</b>   | <b>Current Year</b>              | <b>Last Year</b>                 | <b>% Change</b> |
| 6       | <b>Change in Benefit Obligation</b>   |                                  |                                  |                 |
| 7       | Benefit obligation at beginning of year   | \$ 583,527,303                   | \$ 565,361,292                   | 3.21%           |
| 8       | Service cost  | 10,028,157                       | 10,711,339                       | -6.38%          |
| 9       | Interest cost   | 23,305,061                       | 23,762,971                       | -1.93%          |
| 10      | Plan participants' contributions  | -                                | -                                | -               |
| 11      | Amendments  | -                                | -                                | -               |
| 12      | Actuarial (gain) loss   | 40,967,092                       | 8,068,651                        | >300.00%        |
| 13      | Acquisition   | -                                | -                                | -               |
| 14      | Benefits paid   | (23,465,494)                     | (24,376,950)                     | 3.74%           |
| 15      | Benefit obligation at end of year   | \$ 634,362,119                   | \$ 583,527,303                   | 8.71%           |
| 16      | <b>Change in Plan Assets</b>  |                                  |                                  |                 |
| 17      | Fair value of plan assets at beginning of year  | \$ 465,129,734                   | \$ 442,627,471                   | 5.08%           |
| 18      | Actual return on plan assets  | 73,075,228                       | 35,379,213                       | 106.55%         |
| 19      | Acquisition   | -                                | -                                | -               |
| 20      | Employer contribution   | 8,000,000                        | 11,500,000                       | -30.43%         |
| 21      | Plan participants' contributions  | -                                | -                                | -               |
| 22      | Benefits paid   | (23,465,494)                     | (24,376,950)                     | 3.74%           |
| 23      | Fair value of plan assets at end of year  | \$ 522,739,468                   | \$ 465,129,734                   | 12.39%          |
| 24      | <b>Funded Status</b>  | \$ (111,622,651)                 | \$ (118,397,569)                 | 5.72%           |
| 26      | Unrecognized net actuarial gain (loss)  | -                                | -                                | -               |
| 27      | Unrecognized prior service cost   | -                                | -                                | -               |
| 29      | Prepaid (accrued) benefit cost  | \$ (111,622,651)                 | \$ (118,397,569)                 | 5.72%           |
| 30      | <b>Weighted-average Assumptions as of Year End</b>  |                                  |                                  |                 |
| 31      | Discount rate   | 3.60%                            | 4.10%                            | -12.20%         |
| 32      | Expected return on plan assets  | 4.70%                            | 5.80%                            | -18.97%         |
| 33      | Rate of compensation increase   | 1.05% Union &<br>2.77% Non-Union | 3.20% Union &<br>3.25% Non-Union |                 |
| 34      | <b>Components of Net Periodic Benefit Costs</b>   |                                  |                                  |                 |
| 35      | Service cost  | \$ 10,028,157                    | \$ 10,711,339                    | -6.38%          |
| 36      | Interest cost   | 23,305,061                       | 23,762,971                       | -1.93%          |
| 37      | Expected return on plan assets  | (21,304,851)                     | (25,094,948)                     | 15.10%          |
| 38      | Amortization of prior service cost  | 4,448                            | 246,363                          | -98.19%         |
| 39      | Recognized net actuarial gain   | 7,718,452                        | 9,591,156                        | -19.53%         |
| 40      | Net periodic benefit cost (SEC Basis)   | \$ 19,751,267                    | \$ 19,216,881                    | 2.78%           |
| 41      | <b>Montana Intrastate Costs: (MPSC Regulatory Basis)</b>  |                                  |                                  |                 |
| 42      | Pension Costs   | \$ 8,000,000                     | \$ 11,500,000                    | -30.43%         |
| 43      | Pension Costs Capitalized   | 1,662,729                        | 2,210,908                        | -24.79%         |
| 44      | Accumulated Pension Asset (Liability) at Year End   | \$ (111,622,651)                 | \$ (118,397,569)                 | 5.72%           |
| 45      | <b>Number of Company Employees:</b>   |                                  |                                  |                 |
| 46      | Covered by the Plan 2/  | 2,660                            | 2,709                            | -1.81%          |
| 47      | Not Covered by the Plan 2/  | 622                              | 557                              | 11.67%          |
| 48      | Active  | 749                              | 824                              | -9.10%          |
| 49      | Retired   | 1,586                            | 1,537                            | 3.19%           |
| 50      | Deferred Vested Terminated 2/   | 325                              | 348                              | -6.61%          |
|         | 1/ NorthWestern Corporation has a separate pension plan covering South Dakota and Nebraska employees that is not reflected above. |                                  |                                  |                 |
|         | 2/This plan was closed to new entrants effective 10/03/08.  |                                  |                                  |                 |

| Sch. 14a | <b>Pension Costs</b> 1/                                     |                                |                |          |
|----------|---|--------------------------------|----------------|----------|
| 1        | Plan Name: NorthWestern Energy 401k Retirement Savings Plan |                                |                |          |
| 2        | Defined Benefit Plan? No                                    | Defined Contribution Plan? Yes |                |          |
| 3        | Actuarial Cost Method? N/A                                  | IRS Code: 401(k)               |                |          |
| 4        | Annual Contribution by Employer: Variable                   | Is the Plan Over Funded? N/A   |                |          |
| 5        |   |                                |                |          |
|          | Item  | Current Year                   | Last Year      | % Change |
| 6        | <b>Change in Benefit Obligation</b>                         |                                |                |          |
| 7        | Benefit obligation at beginning of year                     |                                |                |          |
| 8        | Service cost  |                                |                |          |
| 9        | Interest cost   |                                |                |          |
| 10       | Plan participants' contributions                            | Not Applicable                 |                |          |
| 11       | Amendments  |                                |                |          |
| 12       | Actuarial loss  |                                |                |          |
| 13       | Acquisition   |                                |                |          |
| 14       | Benefits paid   |                                |                |          |
| 15       | Benefit obligation at end of year                           | \$ -                           | \$ -           |          |
| 16       | <b>Change in Plan Assets</b>                                |                                |                |          |
| 17       | Fair value of plan assets at beginning of year              | \$ 344,243,945                 | \$ 320,552,638 | -6.88%   |
| 18       | Actual return on plan assets                                |                                |                |          |
| 19       | Acquisition   |                                |                |          |
| 20       | Employer contribution 2/                                    | \$ 10,043,673                  | \$ 9,777,034   | 2.73%    |
| 21       | Plan participants' contributions                            |                                |                |          |
| 22       | Benefits paid   |                                |                |          |
| 23       | Fair value of plan assets at end of year 2/                 | \$ 395,411,056                 | \$ 344,243,945 | 14.86%   |
| 24       | <b>Funded Status</b>  | Not Applicable                 |                |          |
| 25       | Unrecognized net actuarial loss                             |                                |                |          |
| 26       | Unrecognized prior service cost                             |                                |                |          |
| 27       | Prepaid (accrued) benefit cost                              | \$ -                           | \$ -           |          |
| 28       |   |                                |                |          |
| 29       | <b>Weighted-average Assumptions as of Year End</b>          | Not Applicable                 |                |          |
| 30       | Discount rate   |                                |                |          |
| 31       | Expected return on plan assets                              |                                |                |          |
| 32       | Rate of compensation increase                               |                                |                |          |
| 33       |   |                                |                |          |
| 34       | <b>Components of Net Periodic Benefit Costs</b>             | Not Applicable                 |                |          |
| 35       | Service cost  |                                |                |          |
| 36       | Interest cost   |                                |                |          |
| 37       | Expected return on plan assets                              |                                |                |          |
| 38       | Amortization of prior service cost                          |                                |                |          |
| 39       | Recognized net actuarial loss                               |                                |                |          |
| 40       | Net periodic benefit cost (SEC Basis)                       | \$ -                           | \$ -           |          |
| 41       |   |                                |                |          |
| 42       | <b>Montana Intrastate Costs: (MPSC Regulatory Basis)</b>    |                                |                |          |
| 43       | 401(k) Plan Defined Contribution Costs                      | \$ 7,479,474                   | \$ 7,241,843   | 3.28%    |
| 44       | 401(k) Plan Defined Contribution Costs Capitalized          | 1,554,543                      | 1,392,265      | 11.66%   |
| 45       | Accumulated Pension Asset (Liability) at Year End           | Not Applicable                 |                |          |
| 46       | <b>Number of Company Employees:</b>                         | 3/                             | 3/             |          |
| 47       | Covered by the Plan - Eligible                              | 1,545                          | 1,539          | 0.39%    |
| 48       | Not Covered by the Plan                                     |                                |                |          |
| 49       | Active - Participating                                      | 1,534                          | 1,499          | 2.33%    |
| 50       | Retired   |                                |                |          |
| 51       | Vested Former Employees, Retirees and Active-               | 289                            | 271            | 6.64%    |
| 52       | Noncontributing   |                                |                |          |
|          | 2/ This plan covers all NorthWestern Corporation employees. |                                |                |          |
|          | 3/ Represents total company 401(k) plan participants.       |                                |                |          |

| Sch. 15 |   | Other Post Employment Benefits (OPEBS)  |                               |          |
|---------|---|---|-------------------------------|----------|
| Item    |   | Current Year  | Last Year                     | % Change |
| 1       | <b>Regulatory Treatment:</b>  |   |                               |          |
| 2       | Commission authorized - most recent   |   |                               |          |
| 3       | Docket number: D2012.9.94   |   |                               |          |
| 4       | Order number: 7249e   |   |                               |          |
| 5       | Amount recovered through rates  | (\$433,344)   | (\$398,709)                   | -8.69%   |
| 6       | <b>Weighted-average Assumptions as of Year End</b>  | 1/  | 2/                            |          |
| 7       | Discount rate   | 3.20%   | 3.40%                         | -5.88%   |
| 8       | Expected return on plan assets  | 4.70%   | 5.80%                         | -18.97%  |
| 9       | Medical Cost Inflation Rate 3/  | 5.0% fixed rate annually  | 7.59%, 4.5%:22                |          |
| 10      | Actuarial Cost Method   | Projected Unit Credit Actuarial, Cost Method Allocated from the Date of Hire to Full Eligibility Date |                               |          |
| 11      | Rate of compensation increase   | 1.05% Union & 2.77% Non-Union   | 3.20% Union & 3.25% Non-Union |          |
| 12      | <b>List each method used to fund OPEBs (ie: VEBA, 401(h)) and if tax advantaged:</b>  |   |                               |          |
| 13      | <b>Union Employees - VEBA - Yes, tax advantaged</b>   |   |                               |          |
| 14      | <b>Non-Union Employees - 401(h) - Yes, tax advantaged</b>   |   |                               |          |
| 15      | Describe any Changes to the Benefit Plan:   |   |                               |          |
| 16      | None.   |   |                               |          |
|         | 1/ Obtained from NorthWestern Energy-Montana's 2017 FASB 106 Valuation. Assumptions and data are as of December 31, 2017.<br>2/ Obtained from NorthWestern Energy-Montana's 2016 FASB 106 Valuation. Assumptions and data are as of December 31, 2016.<br>3/ First Year, Ultimate, Years to Reach Ultimate. |   |                               |          |

| Sch. 15a | <b>Other Post Employment Benefits (OPEBS) (continued)</b>   |               |               |           |
|----------|---|---------------|---------------|-----------|
|          | Item  | Current Year  | Last Year     | % Change  |
| 1        | <b>Number of Company Employees:</b>   |               |               |           |
| 2        | Covered by the Plan   |               |               |           |
| 3        | Not Covered by the Plan   |               |               |           |
| 4        | Active  |               |               |           |
| 5        | Retired   |               |               |           |
| 6        | Spouses/Dependants covered by the Plan  |               |               |           |
| 7        | <b>Montana 4/</b>   |               |               |           |
| 8        | <b>Change in Benefit Obligation</b>   |               |               |           |
| 9        | Benefit obligation at beginning of year   | \$19,194,132  | \$20,784,657  | -7.65%    |
| 10       | Service cost  | 365,276       | 399,099       | -8.47%    |
| 11       | Interest Cost   | 610,058       | 689,114       | -11.47%   |
| 12       | Plan participants' contributions  | 784,850       | 638,872       | 22.85%    |
| 13       | Amendments 5/   | -             | -             | -         |
| 14       | Actuarial loss/(gain)   | (842,631)     | 68,944        | >-300.00% |
| 15       | Acquisition   | -             | -             | -         |
| 16       | Benefits paid   | (2,645,533)   | (3,386,554)   | 21.88%    |
| 17       | Benefit obligation at end of year   | \$17,466,152  | \$19,194,132  | -9.00%    |
| 18       | <b>Change in Plan Assets</b>  |               |               |           |
| 19       | Fair value of plan assets at beginning of year  | \$18,604,936  | \$17,972,924  | 3.52%     |
| 20       | Actual return on plan assets  | 2,690,303     | 1,276,360     | 110.78%   |
| 21       | Acquisition   | -             | -             | -         |
| 22       | Employer contribution   | 946,023       | 2,103,334     | -55.02%   |
| 23       | Plan participants' contributions  | 784,850       | 638,872       | 22.85%    |
| 24       | Benefits paid   | (2,645,533)   | (3,386,554)   | 21.88%    |
| 25       | Fair value of plan assets at end of year  | \$20,380,579  | \$18,604,936  | 9.54%     |
| 26       | <b>Funded Status</b>  |               |               |           |
| 27       | Unrecognized net transition (asset)/obligation  | -             | (\$589,196)   | >300.00%  |
| 28       | Unrecognized net actuarial loss/(gain)  | -             | -             | -         |
| 29       | Unrecognized prior service cost   | -             | -             | -         |
| 30       | Prepaid (accrued) benefit cost  | \$2,914,427   | (\$589,196)   | >300.00%  |
| 31       | <b>Components of Net Periodic Benefit Costs</b>   |               |               |           |
| 32       | Service cost  | \$365,276     | \$399,099     | -8.47%    |
| 33       | Interest cost   | 610,058       | 689,114       | -11.47%   |
| 34       | Expected return on plan assets  | (846,760)     | (1,042,430)   | 18.77%    |
| 35       | Amortization of transitional (asset)/obligation   | -             | -             | -         |
| 36       | Amortization of prior service cost  | (2,032,848)   | (2,032,848)   | -         |
| 37       | Recognized net actuarial loss/(gain)  | 318,293       | 315,181       | 0.99%     |
| 38       | Net periodic benefit cost   | (\$1,585,981) | (\$1,671,884) | 5.14%     |
| 39       | <b>Accumulated Post Retirement Benefit Obligation</b>   |               |               |           |
| 40       | Amount Funded through VEBA  | \$ -          | \$ -          | -         |
| 41       | Amount Funded through 401(h)  | -             | -             | -         |
| 42       | Amount Funded through other - Company funds   | 946,023       | 2,103,334     | -55.02%   |
| 43       | TOTAL   | \$946,023     | \$2,103,334   | -55.02%   |
| 44       | Amount that was tax deductible - VEBA   | \$ -          | \$ -          | -         |
| 45       | Amount that was tax deductible - 401(h)   | -             | -             | -         |
| 46       | Amount that was tax deductible - Other  | (433,344)     | (398,709)     | -8.69%    |
| 47       | TOTAL   | (\$433,344)   | (\$398,709)   | -8.69%    |
| 48       | <b>Montana Intrastate Costs:</b>  |               |               |           |
| 49       | Pension Costs   | (\$433,344)   | (\$398,709)   | -8.69%    |
| 50       | Pension Costs Capitalized   | (90,067)      | (76,653)      | -17.50%   |
| 51       | Accumulated Pension Asset (Liability) at Year End   | 2,914,427     | (589,196)     | >300.00%  |
| 52       | <b>Number of Montana Employees:</b>   |               |               |           |
| 53       | Covered by the Plan   | 1,732         | 1,816         | -4.63%    |
| 54       | Not Covered by the Plan   | 1,567         | 1,434         | 9.27%     |
| 55       | Active  | 729           | 807           | -9.67%    |
| 56       | Retired   | 900           | 903           | -0.33%    |
| 57       | Spouses/Dependants covered by the Plan  | 103           | 106           | -2.83%    |
|          | 4/ There is approximately an additional \$5,455,489 and \$7,023,139 in other company OPEBS liabilities outstanding at December 31, 2017 and 2016, respectively for other supplemental retirement agreements in addition to what is reflected for Montana above. |               |               |           |

**SCHEDULE 16**

**TOP TEN MONTANA COMPENSATED EMPLOYEES (ASSIGNED OR ALLOCATED)**

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

| Line No. | Name/Title   | Base Salary | Bonuses<br>1/ | Other<br>2/  | Total<br>Compensation | Total<br>Compensation<br>Reported Last<br>Year | % Increase<br>Total<br>Compensation |
|----------|--|-------------|---------------|--|-----------------------|--|-------------------------------------|
| 1        | Michael R. Cashell<br>Vice President, Transmission                               | 262,610     | 91,702 A      | 34,037 B<br>142,717 C<br>212,281 D<br>3,808 E<br>5,251 F       | 752,406               | 665,098  | 13.1%                               |
| 2        | John D. Hines<br>Vice President, Supply & Montana<br>Government Affairs          | 262,610     | 91,702 A      | 20,752 B<br>142,717 C<br>109,752 D<br>3,158 E                  | 630,691               | 590,290  | 6.8%                                |
| 3        | Patrick R. Corcoran<br>Former Vice President, Government<br>& Regulatory Affairs | 262,572     | 91,689 A      | 29,212 B<br>103,045 C<br>138,621 D                             | 625,139               | 593,666  | 5.3%                                |
| 4        | Crystal D. Lail<br>Vice President & Controller                                   | 241,536     | 84,343 A      | 33,043 B<br>131,278 C<br>18,419 D                              | 508,619               | 503,183  | 1.1%                                |
| 5        | Jason Merkel<br>General Manager, Operations                                      | 184,009     | 36,843 A      | 32,349 B<br>35,804 C<br>143,714 D<br>4,922 E                   | 437,641               | 0  | N/A                                 |
| 6        | John P. Kasperick<br>Director,<br>Financial Planning and Analysis                | 174,734     | 39,198 A      | 31,057 B<br>34,316 C<br>150,444 D                              | 429,749               | 0  | N/A                                 |
| 7        | William T. Rhoads<br>Former General Manager, Generation                          | 185,808     | 23,135 A      | 25,700 B<br>36,812 C<br>141,910 D<br>531 E<br>148 G<br>7,830 H | 421,874               | 382,090  | 10.4%                               |
| 8        | Michael L. Nieman<br>Chief Audit and Compliance Officer                          | 221,780     | 55,280 A      | 51,123 B<br>54,474 C<br>23,562 D                               | 406,219               | 392,612  | 3.5%                                |
| 9        | Daniel L. Rausch<br>Treasurer  | 210,782     | 52,538 A      | 50,342 B<br>51,787 C<br>18,582 D<br>7,467 E                    | 391,498               | 379,861  | 3.1%                                |
| 10       | Timothy P. Olson<br>Corporate Counsel & Corp Secretary                           | 176,718     | 35,238 A      | 44,754 B<br>34,748 C   | 291,458               | 287,430  | 1.4%                                |

**TOP TEN MONTANA COMPENSATED EMPLOYEES (ASSIGNED OR ALLOCATED)**

| Line No. | Name/Title   | Base Salary | Bonuses<br>1/ | Other<br>2/ | Total<br>Compensation | Total<br>Compensation<br>Reported Last<br>Year | % Increase<br>Total<br>Compensation |
|----------|--|-------------|---------------|-------------|-----------------------|--|-------------------------------------|
| 1        | 1/ Bonuses include the following:  |             |               |             |                       |  |                                     |
| 2        |  |             |               |             |                       |  |                                     |
| 3        | A> Non-Equity Incentive Plan Compensation includes amounts paid under the NorthWestern Energy 2017 Annual          |             |               |             |                       |  |                                     |
| 4        | Incentive Compensation Plan. Amounts were earned in 2017 and paid in the first quarter of 2018. Based on company   |             |               |             |                       |  |                                     |
| 5        | performance against plan, the incentive plan was funded at 99% of target.  |             |               |             |                       |  |                                     |
| 6        | Individual awards varied from the funded level based on individual performance.                                    |             |               |             |                       |  |                                     |
| 7        |  |             |               |             |                       |  |                                     |
| 8        | 2/ All Other Compensation for named employees consists of the following:   |             |               |             |                       |  |                                     |
| 9        |  |             |               |             |                       |  |                                     |
| 10       | B> Employer contributions to benefits generally available to all employees on a nondiscriminatory basis - medical, |             |               |             |                       |  |                                     |
| 11       | dental, vision, employee assistance program, group term life, health savings account, wellness incentive,          |             |               |             |                       |  |                                     |
| 12       | 401(k) match, and non-elective 401(k) contribution, as applicable.   |             |               |             |                       |  |                                     |
| 13       |  |             |               |             |                       |  |                                     |
| 14       | C> Values reflect the grant date fair value for performance stock awards.  |             |               |             |                       |  |                                     |
| 15       |  |             |               |             |                       |  |                                     |
| 17       | D> Change in pension value over previous year. The present value of accumulated benefits was calculated            |             |               |             |                       |  |                                     |
| 18       | assuming benefits commence at age 65 and using the discount rate, mortality assumption and assumed                 |             |               |             |                       |  |                                     |
| 19       | payment form consistent with those disclosed in the Notes to the Consolidated Financial Statements                 |             |               |             |                       |  |                                     |
| 20       | in our Annual Report on Form 10-K for the year ended December 31, 2017.  |             |               |             |                       |  |                                     |
| 21       |  |             |               |             |                       |  |                                     |
| 22       | E> Vacation sold back during the year at 75 percent of the rate of pay at the time of sell back.                   |             |               |             |                       |  |                                     |
| 23       |  |             |               |             |                       |  |                                     |
| 24       | F> Value of executive physical examination and associated tax gross-up.  |             |               |             |                       |  |                                     |
| 27       |  |             |               |             |                       |  |                                     |
| 28       | G> Noncash taxable award and associated tax gross-up.  |             |               |             |                       |  |                                     |
| 29       |  |             |               |             |                       |  |                                     |
| 30       | H> Accumulated vacation paid at termination.   |             |               |             |                       |  |                                     |



**SCHEDULE 17**

**TOP FIVE MONTANA COMPENSATED EMPLOYEES (ASSIGNED OR ALLOCATED)**

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

| Line No. | Name/Title  | Base Salary | Bonuses<br>1/ | Other<br>2/  | Total Compensation | Total Compensation Reported Last Year | % Increase Total Compensation |
|----------|---|-------------|---------------|--|--------------------|---------------------------------------|-------------------------------|
| 1        | Robert C. Rowe<br>President & Chief Executive Officer   | 607,232     | 605,836 A     | 23,767 B<br>1,497,280 C<br>94,609 D<br>16,214 E<br>3,341 F | 2,848,279          | 2,680,067                             | 6.3%                          |
| 2        | Brian B. Bird<br>Vice President & Chief Financial Officer   | 420,012     | 209,524 A     | 52,101 B<br>517,798 C<br>22,378 D<br>2,822 F               | 1,224,635          | 1,209,682                             | 1.2%                          |
| 3        | Heather H. Grahame<br>General Counsel & Vice President,<br>Regulatory & Federal Government<br>Affairs | 367,773     | 165,117 A     | 49,527 B<br>362,718 C                                      | 945,135            | 944,946                               | 0.0%                          |
| 4        | Curtis T. Pohl<br>Vice President, Distribution  | 285,399     | 113,898 A     | 49,257 B<br>225,507 C<br>38,024 D                          | 712,085            | 703,713                               | 1.2%                          |
| 5        | Bobbi L. Schroepel<br>Vice President, Customer Care,<br>Communications & Human Resources              | 263,577     | 92,103 A      | 51,162 B<br>168,940 C<br>24,602 D<br>2,822 F               | 603,206            | 586,222                               | 2.9%                          |

**TOP FIVE MONTANA COMPENSATED EMPLOYEES (ASSIGNED OR ALLOCATED)**

| Line No.  | Name/Title   | Base Salary | Bonuses<br>1/ | Other<br>2/ | Total<br>Compensation | Total<br>Compensation<br>Reported Last<br>Year | % Increase<br>Total<br>Compensation |
|---|--|-------------|---------------|-------------|-----------------------|--|-------------------------------------|
| 1<br>2<br>3<br>4<br>5<br>6<br>7<br>8<br>9<br>10<br>11<br>12<br>13<br>14<br>15<br>16<br>17<br>18<br>19<br>20 | <p>1/ Bonuses include the following:</p> <p>A&gt; Non-Equity Incentive Plan Compensation includes amounts paid under the Northwestern Energy 2017 Annual Incentive Compensation Plan. Amounts were earned in 2017 and paid in the first quarter of 2018. Based on company performance against plan, the incentive plan was funded at 99% of target.</p> <p>2/ All Other Compensation for named employees consists of the following:</p> <p>B&gt; Employer contributions to benefits generally available to all employees on a nondiscriminatory basis - medical, dental, vision, employee assistance program, group term life, health savings account, wellness incentive, 401(k) match, and non-elective 401(k) contribution, as applicable.</p> <p>C&gt; Values reflect the grant date fair value for performance stock awards.</p> <p>D&gt; Change in pension value over previous year. The present value of accumulated benefits was calculated assuming benefits commence at age 65 and using the discount rate, mortality assumption and assumed payment form consistent with those disclosed in the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2017.</p> <p>E&gt; Vacation sold back during the year at 75 percent of the rate of pay at the time of sell back.</p> <p>F&gt; Value of executive physical examination and associated tax gross-up.</p> |             |               |             |                       |  |                                     |

| Sch. 18 | BALANCE SHEET 1/                                      |                         |                         |                         |                |
|---------|---|-------------------------|-------------------------|-------------------------|----------------|
|         | Account Title   | This Year               | Last Year               | Variance                | % Change       |
| 1       | <b>Assets and Other Debits</b>                        |                         |                         |                         |                |
| 2       | <b>Utility Plant</b>                                  |                         |                         |                         |                |
| 3       | 101 Plant in Service                                  | \$5,615,200,534         | \$5,327,612,349         | \$287,588,185           | 5.40%          |
| 4       | 101.1 Property Under Capital Leases                   | 40,209,537              | 40,209,537              | -                       | 0.00%          |
| 5       | 103 Experimental Electric Plant Unclassified          | 1,631,264               | 1,576,812               | 54,452                  | 3.45%          |
| 6       | 105 Plant Held for Future Use                         | 4,769,005               | 4,769,005               | -                       | 0.00%          |
| 7       | 107 Construction Work in Progress                     | 61,848,139              | 107,202,396             | (\$45,354,257)          | -42.31%        |
| 8       | 108 Accumulated Depreciation Reserve                  | (1,963,441,051)         | (1,858,838,290)         | (\$104,602,761)         | 5.63%          |
| 9       | 108.1 Accumulated Depreciation - Capital Leases       | (23,120,462)            | (21,109,982)            | (\$2,010,480)           | 9.52%          |
| 10      | 111 Accumulated Amortization & Depletion Reserves     | (67,324,467)            | (51,260,575)            | (\$16,063,892)          | 31.34%         |
| 11      | 114 Electric Plant Acquisition Adjustments            | 380,714,172             | 380,714,172             | -                       | 0.00%          |
| 12      | 115 Accumulated Amortization-Electric Plant Acq. Adj. | (24,668,473)            | (16,453,993)            | (8,214,480)             | 49.92%         |
| 13      | 116 Utility Plant Adjustments                         | 357,585,527             | 357,585,527             | -                       | 0.00%          |
| 14      | 117 Gas Stored Underground-Noncurrent                 | 32,121,152              | 32,119,605              | 1,547                   | 0.00%          |
| 15      | <b>Total Utility Plant</b>                            | <b>4,415,524,877</b>    | <b>4,304,126,563</b>    | <b>111,398,314</b>      | <b>2.59%</b>   |
| 16      | <b>Other Property and Investments</b>                 |                         |                         |                         |                |
| 17      | 121 Nonutility Property                               | 686,805                 | 5,867,242               | (4,980,437)             | -87.88%        |
| 18      | 122 Accumulated Depr. & Amort.-Nonutility Property    | (47,652)                | (1,829,946)             | 1,782,294               | -97.40%        |
| 19      | 123.1 Investments in Assoc Companies and Subsidiaries | (129,965,362)           | (132,916,808)           | 2,951,446               | -2.22%         |
| 20      | 124 Other Investments                                 | 46,794,587              | 43,705,178              | 3,089,389               | 7.07%          |
| 21      | 128 Miscellaneous Special Funds                       | 250,000                 | 250,000                 | -                       | 0.00%          |
| 23      | <b>Total Other Property &amp; Investments</b>         | <b>(82,281,642)</b>     | <b>(85,124,334)</b>     | <b>2,842,692</b>        | <b>-3.34%</b>  |
| 24      | <b>Current and Accrued Assets</b>                     |                         |                         |                         |                |
| 25      | 131 Cash  | 7,390,697               | 410,208                 | 6,980,489               | >300.00%       |
| 26      | 134 Other Special Deposits                            | 1,670,617               | 2,358,634               | (688,017)               | -29.17%        |
| 27      | 135 Working Funds                                     | 23,575                  | 22,934                  | 641                     | 2.79%          |
| 30      | 142 Customer Accounts Receivable                      | 78,422,397              | 72,413,252              | 8,009,145               | 8.30%          |
| 31      | 143 Other Accounts Receivable                         | 18,748,330              | 11,274,193              | 7,474,137               | 66.29%         |
| 32      | 144 Accumulated Provision for Uncollectible Accounts  | (2,859,950)             | (2,947,870)             | 87,920                  | -2.98%         |
| 34      | 146 Accounts Receivable-Associated Companies          | 430,318                 | 832,658                 | (402,338)               | -48.32%        |
| 35      | 151 Fuel Stock  | 8,051,234               | 9,584,006               | (1,532,772)             | -15.99%        |
| 36      | 154 Plant Materials and Operating Supplies            | 34,228,012              | 31,071,487              | 3,156,525               | 10.16%         |
| 37      | 164 Gas Stored - Current                              | 9,458,237               | 7,703,909               | 1,754,328               | 22.77%         |
| 38      | 185 Prepayments                                       | 11,099,817              | 10,683,106              | 416,711                 | 3.90%          |
| 41      | 172 Rents Receivable                                  | 105,515                 | 18,888                  | 86,627                  | >300.00%       |
| 42      | 173 Accrued Utility Revenues                          | 89,068,916              | 80,425,143              | 8,643,773               | 10.75%         |
| 43      | 174 Miscellaneous Current & Accrued Assets            | 638,932                 | 88,131                  | 550,801                 | >300.00%       |
| 48      | <b>Total Current &amp; Accrued Assets</b>             | <b>256,476,647</b>      | <b>223,938,677</b>      | <b>32,537,970</b>       | <b>14.53%</b>  |
| 49      | <b>Deferred Debits</b>                                |                         |                         |                         |                |
| 50      | 181 Unamortized Debt Expense                          | 13,221,232              | 13,261,862              | (40,630)                | -0.31%         |
| 51      | 182 Regulatory Assets                                 | 345,290,690             | 615,249,945             | (269,959,255)           | -43.88%        |
| 53      | 184 Clearing Accounts                                 | 1,452                   | 137                     | 1,315                   | >300.00%       |
| 55      | 186 Miscellaneous Deferred Debits                     | 2,735,704               | 1,125,726               | 1,609,978               | 143.02%        |
| 56      | 189 Unamortized Loss on Reacquired Debt               | 37,090,302              | 24,810,484              | 12,279,818              | 49.49%         |
| 57      | 190 Accumulated Deferred Income Taxes                 | 174,177,161             | 229,754,877             | (55,577,716)            | -24.19%        |
| 58      | 191 Unrecovered Purchased Gas Costs                   | 12,581,232              | 14,093,347              | (1,512,115)             | -10.73%        |
| 59      | <b>Total Deferred Debits</b>                          | <b>585,097,773</b>      | <b>898,296,378</b>      | <b>(313,198,605)</b>    | <b>-34.87%</b> |
| 60      | <b>TOTAL ASSETS and OTHER DEBITS</b>                  | <b>\$ 5,174,817,655</b> | <b>\$ 5,341,237,284</b> | <b>\$ (166,419,629)</b> | <b>-3.12%</b>  |

| Sch. 18 | cont.  | BALANCE SHEET 1/        |                         |                         |                |
|---------|--|-------------------------|-------------------------|-------------------------|----------------|
|         | Account Title  | This Year               | This Year               | Variance                | % Change       |
| 1       | <b>Liabilities and Other Credits</b>   |                         |                         |                         |                |
| 2       | <b>Proprietary Capital</b>   |                         |                         |                         |                |
| 3       | 201 Common Stock Issued  | \$ 529,812              | \$ 519,589              | \$ 10,223               | 1.97%          |
| 6       | 211 Miscellaneous Paid-In Capital  | 1,445,181,120           | 1,384,270,571           | 60,910,549              | 4.40%          |
| 10      | 216 Unappropriated Retained Earnings   | 458,352,058             | 396,919,032             | 61,433,026              | 15.48%         |
| 12      | 217 Reacquired Capital Stock   | (96,376,075)            | (95,769,402)            | (606,673)               | 0.63%          |
| 13      | 219 Accumulated Other Comprehensive Income   | (8,772,079)             | (9,713,734)             | 941,655                 | -9.69%         |
| 14      | <b>Total Proprietary Capital</b>   | <b>1,798,914,836</b>    | <b>1,676,226,056</b>    | <b>122,688,780</b>      | <b>7.32%</b>   |
| 15      | <b>Long Term Debt</b>  |                         |                         |                         |                |
| 16      | 221 Bonds  | 1,779,660,000           | 1,779,660,000           | -                       | 0.00%          |
| 18      | 224 Other Long Term Debt   | 28,976,900              | 28,976,900              | -                       | 0.00%          |
| 19      | 226 (Less) Unamortized Discount on Long Term Debt-Debit  | -                       | 37,688                  | (37,688)                | -100.00%       |
| 20      | <b>Total Long Term Debt</b>  | <b>1,806,636,900</b>    | <b>1,806,599,212</b>    | <b>37,688</b>           | <b>0.00%</b>   |
| 21      | <b>Other Noncurrent Liabilities</b>  |                         |                         |                         |                |
| 22      | 227 Obligations Under Capital Leases-Noncurrent  | 22,213,443              | 24,346,170              | (2,132,727)             | -8.76%         |
| 24      | 228.2 Accumulated Provision for Injuries and Damages   | 5,360,150               | 8,453,894               | (3,093,744)             | -36.60%        |
| 25      | 228.3 Accumulated Provision for Pensions and Benefits  | 11,339,112              | 16,319,082              | (4,979,970)             | -30.52%        |
| 26      | 228.4 Accumulated Miscellaneous Operating Provisions   | 162,739,851             | 165,336,401             | (2,596,550)             | -1.57%         |
| 27      | 229 Accumulated Provision for Rate Refunds   | 1,607,624               | 4,522,161               | (2,914,537)             | -64.45%        |
| 28      | 230 Asset Retirement Obligations   | 39,285,823              | 39,401,895              | (116,072)               | -0.29%         |
| 29      | <b>Total Other Noncurrent Liabilities</b>  | <b>242,546,003</b>      | <b>258,379,603</b>      | <b>(15,833,600)</b>     | <b>-6.13%</b>  |
| 30      | <b>Current and Accrued Liabilities</b>   |                         |                         |                         |                |
| 31      | 231 Notes Payable  | 319,555,991             | 300,810,573             | 18,745,418              | 6.23%          |
| 32      | 232 Accounts Payable   | 92,462,564              | 91,608,698              | 853,866                 | 0.93%          |
| 34      | 234 Accounts Payable to Associated Companies   | 1,640,365               | 1,584,095               | 56,270                  | 3.55%          |
| 35      | 235 Customer Deposits  | 5,978,744               | 6,427,078               | (448,334)               | -6.98%         |
| 36      | 236 Taxes Accrued  | 58,967,909              | 52,002,042              | 6,965,867               | 13.40%         |
| 37      | 237 Interest Accrued   | 18,356,048              | 18,557,440              | (2,201,392)             | -11.86%        |
| 40      | 241 Tax Collections Payable  | 1,476,279               | 1,521,649               | (45,370)                | -2.98%         |
| 41      | 242 Miscellaneous Current and Accrued Liabilities  | 52,552,038              | 52,930,296              | (378,258)               | -0.71%         |
| 42      | 243 Obligations Under Capital Leases-Current   | 2,132,734               | 1,979,319               | 153,415                 | 7.75%          |
| 45      | <b>Total Current and Accrued Liabilities</b>   | <b>551,122,672</b>      | <b>527,421,190</b>      | <b>23,701,482</b>       | <b>4.49%</b>   |
| 46      | <b>Deferred Credits</b>  |                         |                         |                         |                |
| 47      | 252 Customer Advances for Construction   | 45,376,055              | 40,208,508              | 5,167,547               | 12.85%         |
| 48      | 253 Other Deferred Credits   | 170,225,443             | 172,284,732             | (2,059,289)             | -1.20%         |
| 49      | 254 Regulatory Liabilities   | 22,002,745              | 29,109,829              | (7,107,084)             | -24.41%        |
| 50      | 255 Accumulated Deferred Investment Tax Credits  | 328,197                 | 160,004                 | 166,193                 | 103.87%        |
| 52      | 281-283 Accumulated Deferred Income Taxes  | 537,666,804             | 830,848,150             | (293,181,346)           | -35.29%        |
| 53      | <b>Total Deferred Credits</b>  | <b>775,597,244</b>      | <b>1,072,611,223</b>    | <b>(297,013,979)</b>    | <b>-27.69%</b> |
| 54      | <b>TOTAL LIABILITIES and OTHER CREDITS</b>   | <b>\$ 5,174,817,655</b> | <b>\$ 5,341,237,284</b> | <b>\$ (166,419,629)</b> | <b>-3.12%</b>  |
| 55      |  |                         |                         |                         |                |
| 56      | 1/ This financial statement is presented on the basis of the accounting requirements of the Federal Energy Regulatory      |                         |                         |                         |                |
| 57      | Commission (FERC) as set forth in its applicable Uniform System of Accounts. As such, subsidiaries are presented using the |                         |                         |                         |                |
| 58      | equity method of accounting. The amounts presented are consistent with the presentation in FERC Form 1, plus Canadian      |                         |                         |                         |                |
| 59      | Montana Pipeline Corporation and the adjustment to a regulated basis for Colstrip Unit 4 and the Hydro Transaction.        |                         |                         |                         |                |
| 60      |  |                         |                         |                         |                |

Schedule 18A

## NOTES TO FINANCIAL STATEMENTS

### (1) Nature of Operations and Basis of Consolidation

NorthWestern Corporation, doing business as NorthWestern Energy, provides electricity and / or natural gas to approximately 718,300 customers in Montana, South Dakota and Nebraska. We have generated and distributed electricity in South Dakota and distributed natural gas in South Dakota and Nebraska since 1923 and have generated and distributed electricity and distributed natural gas in Montana since 2002.

The Financial Statements for the periods included herein have been prepared by NorthWestern Corporation (NorthWestern, we or us) pursuant to the rules and regulations of the Federal Energy Regulatory Commission (FERC) as set forth in its applicable Uniform System of Accounts and published accounting releases. The preparation of financial statements in conformity with the accounting requirements of the FERC as set forth in its applicable Uniform System of Accounts and published accounting releases requires management to make estimates and assumptions that may affect the reported amounts of assets, liabilities, revenues and expenses during the reporting period. Actual results could differ from those estimates.

### (2) Significant Accounting Policies

#### *Financial Statement Presentation*

The financial statements are presented on the basis of the accounting requirements of the FERC as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). This report differs from GAAP due to FERC requiring the presentation of subsidiaries on the equity method of accounting, which differs from Accounting Standards Codification (ASC) 810, Consolidation. ASC 810 requires that all majority-owned subsidiaries be consolidated (see Note 4). The other significant differences consist of the following:

- Earnings per share is not presented;
- Removal and decommissioning costs of generation, transmission and distribution assets are reflected in the Balance Sheets as a component of accumulated depreciation of \$408.4 million and \$386.4 million as of December 31, 2017 and December 31, 2016, respectively, in accordance with regulatory treatment as compared to regulatory liabilities for GAAP purposes;
- Goodwill is reflected in the Balance Sheets as a utility plant adjustment of \$357.6 million as of December 31, 2017 and December 31, 2016, respectively, in accordance with regulatory treatment, as compared to goodwill for GAAP purposes (see Note 8);
- The write-down of plant values associated with the 2002 acquisition of the Montana operations is reflected in the Balance Sheets as a component of accumulated depreciation of \$147.6 million for December 31, 2017 and December 31, 2016, respectively, in accordance with regulatory treatment as compared to plant for GAAP purposes;
- The current portion of gas stored underground is reflected in the Balance Sheets as current and accrued assets, as compared to inventory for GAAP purposes;
- Unamortized debt expense is classified in the Balance Sheets as deferred debits in accordance with regulatory treatment, as compared to long-term debt for GAAP purposes;
- Current and long-term debt is classified in the Balance Sheets as all long-term debt in accordance with regulatory treatment, while current and long-term debt are separately presented for GAAP reporting;

- Electric purchase and sale transactions within the Southwest Power Pool are reflected on a net basis in accordance with regulatory treatment, as compared to gross for GAAP purposes;
- Accumulated deferred tax assets and liabilities are classified in the Balance Sheets as gross non-current deferred debits and credits, respectively, while GAAP presentation reflects a net non-current deferred tax liability;
- Uncertain tax positions related to temporary differences are classified in the Balance Sheets within the deferred tax accounts in accordance with regulatory treatment, as compared to other noncurrent liabilities for GAAP purposes. In addition, interest related to uncertain tax positions is recognized in interest expense in accordance with regulatory treatment, as compared to income tax expense for GAAP purposes;
- Regulatory assets and liabilities are reflected in the Balance Sheets as non-current items, while current and non-current amounts are separately presented for GAAP; and

### Use of Estimates

The preparation of financial statements in conformity with the regulatory basis of accounting requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for such items as long-lived asset values and impairment charges, long-lived asset useful lives, tax provisions, asset retirement obligations, regulatory assets and liabilities, uncollectible accounts, our Qualifying Facility (QF) liability, environmental costs, unbilled revenues and actuarially determined benefit costs. We revise the recorded estimates when we receive better information or when we can determine actual amounts. Those revisions can affect operating results.

### Revenue Recognition

Customers are billed monthly on a cycle basis. To match revenues with associated expenses, we accrue unbilled revenues for electric and natural gas services delivered to customers, but not yet billed at month-end.

### Cash Equivalents

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

### Accounts Receivable, Net

Accounts receivable are net of allowances for uncollectible accounts of \$2.9 million at December 31, 2017 and 2016, respectively. Unbilled revenues were \$89.1 million and \$80.4 million at December 31, 2017 and December 31, 2016, respectively.

### Inventories

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

|   | <u>December 31,</u> |                  |
|---|---------------------|------------------|
|   | <u>2017</u>         | <u>2016</u>      |
| Fuel stock  | \$ 8,051            | \$ 9,584         |
| Plant materials and operating supplies  | 34,228              | 31,071           |
| Gas stored underground (including the non-current portion reflected in utility plant) | 41,579              | 39,824           |
| Total Inventory   | <u>\$ 83,858</u>    | <u>\$ 80,479</u> |

## **Regulation of Utility Operations**

Our regulated operations are subject to the provisions of ASC 980, Regulated Operations. Regulated accounting is appropriate provided that (i) rates are established by or subject to approval by independent, third-party regulators, (ii) rates are designed to recover the specific enterprise's cost of service, and (iii) in view of demand for service, it is reasonable to assume that rates are set at levels that will recover costs and can be charged to and collected from customers.

Our Financial Statements reflect the effects of the different rate making principles followed by the jurisdictions regulating us. The economic effects of regulation can result in regulated companies recording costs that have been, or are deemed probable to be, allowed in the ratemaking process in a period different from the period in which the costs would be charged to expense by an unregulated enterprise. When this occurs, costs are deferred as regulatory assets and recorded as expenses in the periods when those same amounts are reflected in rates. Additionally, regulators can impose liabilities upon a regulated company for amounts previously collected from customers and for amounts that are expected to be refunded to customers (Accumulated Provision for Rate Refunds).

If we were required to terminate the application of these provisions to our regulated operations, all such deferred amounts would be recognized in the Statement of Income at that time. This would result in a charge to earnings, net of applicable income taxes, which could be material. In addition, we would determine any impairment to the carrying costs of deregulated plant and inventory assets.

## **Derivative Financial Instruments**

We account for derivative instruments in accordance with ASC 815, Derivatives and Hedging. All derivatives are recognized in the Balance Sheets at their fair value unless they qualify for certain exceptions, including the normal purchases and normal sales exception. Additionally, derivatives that qualify and are designated for hedge accounting are classified as either hedges of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair-value hedge) or hedges of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash-flow hedge). For fair-value hedges, changes in fair values for both the derivative and the underlying hedged exposure are recognized in earnings each period. For cash-flow hedges, the portion of the derivative gain or loss that is effective in offsetting the change in the cost or value of the underlying exposure is deferred in accumulated other comprehensive income (AOCI) and later reclassified into earnings when the underlying transaction occurs. Gains and losses from the ineffective portion of any hedge are recognized in earnings immediately. For other derivative contracts that do not qualify or are not designated for hedge accounting, changes in the fair value of the derivatives are recognized in earnings each period. Cash inflows and outflows related to derivative instruments are included as a component of operating, investing or financing cash flows in the Statements of Cash Flows, depending on the underlying nature of the hedged items.

Revenues and expenses on contracts that are designated as normal purchases and normal sales are recognized when the underlying physical transaction is completed. While these contracts are considered derivative financial instruments, they are not required to be recorded at fair value, but on an accrual basis of accounting. Normal purchases and normal sales are contracts where physical delivery is probable, quantities are expected to be used or sold in the normal course of business over a reasonable period of time, and price is not tied to an unrelated underlying derivative. As part of our regulated electric and gas operations, we enter into contracts to buy and sell energy to meet the requirements of our customers. These contracts include short-term and long-term commitments to purchase and sell energy in the retail and wholesale markets with the intent and ability to deliver or take delivery. If it were determined that a transaction designated as a normal purchase or a normal sale no longer met the exceptions, the fair value of the related contract would be reflected as an asset or liability and immediately recognized through earnings. See Note 9 - Risk Management and Hedging Activities, for further discussion of our derivative activity.

## **Utility Plant**

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

AFUDC represents the cost of financing construction projects with borrowed funds and equity funds. While cash is not realized currently from such allowance, it is realized under the ratemaking process over the service life of the related property through increased revenues resulting from a higher rate base and higher depreciation expense. The component of AFUDC attributable to borrowed funds is included as a reduction to net interest charges, while the equity component is included in other income. This rate averaged 7.2% and 7.2%, for Montana and South Dakota for 2017 and 2016, respectively. AFUDC capitalized totaled \$8.5 million and \$7.0 million for the years ended December 2017 and 2016, respectively, for Montana and South Dakota combined.

We record provisions for depreciation at amounts substantially equivalent to calculations made on a straight-line method by applying various rates based on useful lives of the various classes of properties (ranging from three to 50 years) determined from engineering studies. As a percentage of the depreciable utility plant at the beginning of the year, our provision for depreciation of utility plant was approximately 3.0% for 2017 and 2016.

Depreciation rates include a provision for our share of the estimated costs to decommission our jointly owned plants at the end of the useful life. The annual provision for such costs is included in depreciation expense, while the accumulated provisions are included in accumulated depreciation.

### **Pension and Postretirement Benefits**

We have liabilities under defined benefit retirement plans and a postretirement plan that offers certain health care and life insurance benefits to eligible employees and their dependents. The costs of these plans are dependent upon numerous factors, assumptions and estimates, including determination of discount rate, expected return on plan assets, rate of future compensation increases, age and mortality and employment periods. In determining the projected benefit obligations and costs, assumptions can change from period to period and may result in material changes in the cost and liabilities we recognize.

### **Income Taxes**

We follow the liability method in accounting for income taxes. Deferred income tax assets and liabilities represent the future effects on income taxes from temporary differences between the bases of assets and liabilities for financial reporting and tax purposes. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. The probability of realizing deferred tax assets is based on forecasts of future taxable income and the availability of tax planning strategies that can be implemented, if necessary, to realize deferred tax assets. We establish a valuation allowance when it is more likely than not that all, or a portion of, a deferred tax asset will not be realized.

Exposures exist related to various tax filing positions, which may require an extended period of time to resolve and may result in income tax adjustments by taxing authorities. We have reduced deferred tax assets or established liabilities based on our best estimate of future probable adjustments related to these exposures. On a quarterly basis, we evaluate exposures in light of any additional information and make adjustments as necessary to reflect the best estimate of the future outcomes. We believe our deferred tax assets and established liabilities are appropriate for estimated exposures; however, actual results may differ from these estimates. The resolution of tax matters in a particular future period could have a material impact on our Statements of Income and provision for income taxes.



## **Environmental Costs**

We record environmental costs when it is probable we are liable for the costs and we can reasonably estimate the liability. We may defer costs as a regulatory asset if there is precedent for recovering similar costs from customers in rates. Otherwise, we expense the costs. If an environmental cost is related to facilities we currently use, such as pollution control equipment, then we may capitalize and depreciate the costs over the remaining life of the asset, assuming the costs are recoverable in future rates or future cash flows.

Our remediation cost estimates are based on the use of an environmental consultant, our experience, our assessment of the current situation and the technology currently available for use in the remediation. We regularly adjust the recorded costs as we revise estimates and as remediation proceeds. If we are one of several designated responsible parties, then we estimate and record only our share of the cost.

## **Accounting Standards Issued**

***Revenue Recognition*** - In May 2014, the Financial Accounting Standards Board (FASB) issued accounting guidance on the recognition of revenue from contracts with customers, which will supersede nearly all existing revenue recognition guidance under GAAP. Under the new standard, entities will recognize revenue to depict the transfer of goods and services to customers in amounts that reflect the payment to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows from an entity's contracts with customers.

We adopted this standard for interim and annual periods beginning January 1, 2018, as required, and used the modified retrospective method of adoption. We have also elected to utilize certain practical expedients, which allow us to apply the standard to open contracts at the date of adoption and to reflect the aggregate effect of all modifications when identifying performance obligations and allocating the transaction price for contracts modified before the effective date.

Our revenues are primarily from tariff based sales, which are in the scope of the guidance. We provide gas and/or electricity to customers under these tariffs without a defined contractual term (at-will). As the revenue from these arrangements is equivalent to the electricity or gas supplied and billed in that period (including estimated billings), there will not be a shift in the timing or pattern of revenue recognition for such sales. We have also completed the evaluation of our other revenue streams, including those tied to longer term contractual commitments. These revenue streams have performance obligations that are satisfied at a point in time, and will also not have a shift in the timing or pattern of revenue recognition.

Based on our analysis, we did not have a cumulative-effect adjustment to retained earnings at January 1, 2018. Disclosures in 2018 will include a reconciliation of results under the new revenue recognition guidance compared with what would have been reported in 2018 under the old revenue recognition guidance in order to help facilitate comparability with the prior periods. We expect our disclosures to reflect our disaggregated revenue by segment for each geographical region.

***Retirement Benefits*** - In March 2017, the FASB issued new guidance on the presentation of net periodic costs related to benefit plans. The new guidance requires the service cost component of net periodic benefit cost to be included within operating income within the same line as other compensation expenses. All other components of net periodic benefit costs must be outside of operating income. In addition, the updated guidance permits only the service cost component of net periodic benefit costs to be capitalized to inventory or utility plant. This represents a change from current accounting and financial reporting, with presentation of the aggregate net periodic benefit costs on the income statement within operating income, and which permits all components of net periodic benefit costs to be capitalized.

This guidance is effective for interim and annual periods beginning January 1, 2018 for GAAP purposes. These amendments will be applied retrospectively for the presentation of the various components of net periodic benefit costs and prospectively for the change in eligible costs to be capitalized. As a result of application of accounting principles for rate

regulated entities, a similar amount of pension cost, including non-service components, will be recognized consistent with the current ratemaking treatment.

**Leases** - In February 2016, the FASB issued revised guidance on accounting for leases. The new standard requires a lessee to recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term for all leases with terms longer than 12 months. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. Recognition, measurement and presentation of expenses will depend on classification as a finance or operating lease. The new guidance will be effective for us for interim and annual periods beginning January 1, 2019 and early adoption is permitted. A modified retrospective transition approach is required for lessees for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. An additional transition approach allows an entity to not assess on transition whether any expired or existing land easements are, or contain, leases that were not previously accounted for as leases. We are currently evaluating the impact of adoption of this guidance. We do not have a significant amount of capital or operating leases. Therefore, based on our analysis to this point we do not expect this guidance to have a significant impact on our Financial Statements and disclosures other than an expected increase in assets and liabilities.

**Statement of Cash Flows** - In August 2016, the FASB issued guidance that addresses eight classification issues related to the presentation of cash receipts and cash payments in the statement of cash flows. The new guidance will be effective for us in our first quarter of 2018. The adoption of this guidance will not have a significant impact on our Statement of Cash Flows.

In November 2016, the FASB issued guidance that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as other special deposits. The new guidance will be effective for us in our first quarter of 2018. The adoption of this guidance will not have a significant impact on our Statement of Cash Flows.

### **Supplemental Cash Flow Information**

|   | <b>Year Ended December 31,</b> |             |
|---|--------------------------------|-------------|
|   | <b>2017</b>                    | <b>2016</b> |
|   | (in thousands)                 |             |
| <b>Cash paid (received) for:</b>                  |                                |             |
| Income taxes                                      | \$ 60                          | \$ (2,922)  |
| Interest  | 82,692                         | 84,953      |
| <b>Significant non-cash transactions:</b>         |                                |             |
| Capital expenditures included in accounts payable | 15,848                         | 13,783      |

### **(3) Regulatory Matters**

#### **Tax Cuts and Jobs Act**

In December 2017, H.R.1 (the Tax Cuts and Jobs Act) was signed into law, which enacts significant changes to U.S. tax and related laws. The primary impact to us is a reduction of the federal corporate income tax rate from 35% to 21% effective January 1, 2018. Each of our regulatory jurisdictions initiated dockets regarding the impact of the Tax Cuts and Jobs Act on customer rates. Our Montana and South Dakota jurisdictional filings are discussed below. We do not expect the required FERC or Nebraska filings to be significant. In each of our jurisdictions, we expect the Tax Cuts and Jobs Act related credits to continue and be subject to true-up until base rates are reset in a general rate case filing. As of March 31, 2018, we have deferred revenue of approximately \$7.3 million associated with the impacts of the Tax Cuts and Jobs Act. This estimate is based upon an expected annual revenue reduction of approximately \$15 million to \$20 million, which is our expected income tax expense reduction in 2018. For purposes of the filings discussed below, we have also calculated the customer benefit using an alternate

method based on historic test periods. This alternate calculation could result in an additional reduction in revenue ranging from approximately \$8 million to \$12 million, which would reduce net income. We cannot predict how each jurisdiction may calculate the amount of credits due to customers.

**Montana** - In March 2018, we submitted a filing to the Montana Public Service Commission (MPSC) calculating the estimated benefit of the Tax Cuts and Jobs Act related savings to customers using two alternative methods. The first method was calculated based on the expected income tax expense reduction in 2018, with no impact to net income. The second method, was calculated by revising the electric and natural gas revenue requirements in the last applicable test years. For our electric customers, we proposed to use 50% of the benefit as a direct refund to customers, and to use the other 50% to remove trees outside our electric transmission and distribution lines rights of way, which pose a risk of unfavorable events on our system including disruption of service, property damage, and / or forest fires. For our natural gas customers, we proposed to use the benefit as a direct refund to customers. A procedural schedule has not been established in this docket.

**South Dakota** - In April 2018, we submitted a filing with the South Dakota Public Utilities Commission (SDPUC) calculating the estimated benefit of the Tax Cuts and Jobs Act related savings to customers based on the expected income tax expense reduction in 2018, with no impact to net income. We also presented a calculation revising the electric and natural gas revenue requirements in the last applicable test years. We proposed to either refund the benefit to customers, or to hold this amount in a regulatory liability to provide rate moderation in our next electric and natural gas rate cases, at the SDPUC's option. The SDPUC has not established a procedural schedule in this docket.

### **Montana QF Tariff Filing**

Under the Public Utility Regulatory Policies Act (PURPA), electric utilities are required, with certain exceptions, to purchase energy and capacity from independent power producers that are QFs. In May 2016, we filed an application for approval of a revised tariff for standard rates for small QFs (3 MW or less). In November 2017, the MPSC issued an order revising the QF tariff to establish a maximum contract length of 15 years and substantially lowering the rate for future QF contracts. In this order, the MPSC also upheld an initial decision to apply the contract term to our future owned and contracted electric supply resources. We, as well as the QFs, sought judicial review of the November 2017 order.

As a result of this order, we terminated our competitive solicitation process for 20-year resources to determine the lowest-cost / least-risk approach for addressing our intermittent capacity and reserve margin needs in Montana. We continue to evaluate the impact of this order, as we have significant generation capacity deficits and negative reserve margins, and our 2015 resource plan identified price and reliability risks to our customers if we rely solely upon market purchases to address these capacity needs. In addition to our responsibility to meet peak demand, national transmission-related reliability standards effective July 2016 require us to have even greater dispatchable generation capacity available and be capable of increasing or decreasing output to address the irregular nature of intermittent generation such as wind or solar. We expect to file our next electric supply resource procurement plan in late 2018.

### **Cost Recovery Mechanisms**

**Montana House Bill 193 / Electric Tracker** - In April 2017, the Montana legislature passed House Bill 193 (HB 193), amending the statute that provided for mandatory recovery of our prudently incurred electric supply costs effective July 1, 2017. The revised statute gives the MPSC discretion whether to approve an electric supply cost adjustment mechanism. The MPSC initiated a process to develop a replacement electric supply cost adjustment mechanism, and in response, in July 2017, we filed a proposed electric Power Cost and Credit Adjustment Mechanism (PCCAM). In December 2017, after the intervenors filed testimony, the MPSC issued a Notice of Additional Issues stating that the range of options proposed by the parties was not sufficient and directing parties to consider alternatives incorporating risk-sharing features of other utilities in the region.

We filed testimony in February 2018, responsive to both the intervenors' testimony and the MPSC's Notice of Additional Issues addressing alternative risk-sharing mechanisms. Intervenors filed testimony on the Notice of Additional Issues in March

2018. A hearing is scheduled to begin May 31, 2018. If the MPSC approves a new mechanism, the MPSC may apply the mechanism to variable costs on a retroactive basis to the effective date of HB 193 (July 1, 2017).

***Montana Electric Tracker Open Dockets - 2015/2016 - 2016/2017*** - Under the previous statutory tracker mechanism, each year we submitted an electric tracker filing for recovery of supply costs for the 12-month period ended June 30 and for the projected supply costs for the next 12-month period, which were subject to a prudence review. In June 2017, the MPSC consolidated the current-period supply costs portion of the 2016/2017 docket with the 2015/2016 docket. The rates for this consolidated docket were approved on an interim basis. The MPSC has not established a schedule regarding this consolidated docket under the prior statutory tracker. In addition, the MPSC consolidated the projected supply costs portion of the 2016/2017 docket with the PCCAM docket, discussed above.

***Montana Electric Tracker Litigation - 2012/2013 - 2013/2014 (Consolidated Docket) and 2014/2015 (2015 Tracker)*** - In 2016, we received two orders in separate electric tracker dockets filed with the MPSC, which, in total, resulted in a \$12.4 million disallowance of costs, including interest. The first order (Consolidated Docket) included a disallowance of replacement power costs from a 2013 outage at Colstrip Unit 4. In September 2016, we appealed that order to the Montana District Court, arguing that the order was arbitrary and capricious and violated Montana law. We expect a decision on this appeal within the next nine months.

The second order (2015 Tracker), included a disallowance of approximately \$0.4 million of portfolio modeling costs. In June 2016, we filed an appeal of the second order in Montana District Court arguing that the decision violated Montana law. In March 2018, the Montana District Court upheld our appeal of the disallowance of these costs. The Court remanded the matter to the MPSC and directed the MPSC to issue an order to restore the modeling costs to the deferred account from which the MPSC ordered it be removed. On April 10, 2018, the MPSC voted not to appeal the Montana District Court's decision.

***Montana Property Tax Tracker*** - Under Montana law, we are allowed to track the changes in the actual level of state and local taxes and fees and recover the increase in taxes and fees, net of the associated income tax benefit. We submit an annual property tax tracker filing with the MPSC for an automatic rate adjustment, with rates typically effective January 1st of each year. In January 2018, the MPSC issued an order in our 2017 filing applying an alternate allocation methodology both prospectively and retroactively, which reduces our annual recovery of these taxes by approximately \$1.7 million. The change in methodology results in a lower property tax allocation to our Montana electric retail customers and a higher property tax allocation to Federal Energy Regulatory Commission (FERC) transmission customers (we do not have a property tax tracker for FERC jurisdictional purposes). We sought reconsideration of the retroactive application of this change in methodology. On April 5, 2018, the MPSC voted to apply the change on a prospective basis only. We expect to receive a written order during the second quarter of 2018.

#### **Dave Gates Generating Station at Mill Creek (DGGS)**

In May 2016, we received an order from the FERC denying a May 2014 request for rehearing and requiring us to make refunds. The request for rehearing challenged a September 2012 FERC Administrative Law Judge's (ALJ) initial decision regarding cost allocation at DGGS between retail and wholesale customers. The 2012 decision concluded that only a portion of these costs should be allocated to FERC jurisdictional customers. We had cumulative deferred revenue of approximately \$27.3 million, consistent with the ALJ's initial decision, which was refunded to wholesale and choice customers in June 2016 in accordance with the FERC order.

In June 2016, we filed a petition for review of the FERC's May 2016 order with the United States Circuit Court of Appeals for the District of Columbia Circuit (D.C. Circuit). In March 2018, the D.C. Circuit denied all of our requests.

#### (4) Equity Investments

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

|  | December 31,        |                     |
|--|---------------------|---------------------|
|  | 2017                | 2016                |
| Colstrip Unit 4 Basis Adjustment                 | \$ (147,543)        | \$ (150,631)        |
| Havre Pipeline Company, LLC                      | 14,245              | 14,349              |
| NorthWestern Services, LLC                       | 1,920               | 1,915               |
| Risk Partners Assurance, Ltd.                    | 1,413               | 1,450               |
| <b>Total Investments in Subsidiary Companies</b> | <b>\$ (129,965)</b> | <b>\$ (132,917)</b> |

#### (5) Regulatory Assets and Liabilities

We prepare our Financial Statements in accordance with the provisions of ASC 980, as discussed in Note 2 - Significant Accounting Policies. Pursuant to this guidance, certain expenses and credits, normally reflected in income as incurred, are deferred and recognized when included in rates and recovered from or refunded to customers. Regulatory assets and liabilities are recorded based on management's assessment that it is probable that a cost will be recovered or that an obligation has been incurred. Accordingly, we have recorded the following major classifications of regulatory assets and liabilities that will be recognized in expenses and revenues in future periods when the matching revenues are collected or refunded. These regulatory items have corresponding assets and liabilities that will be paid for or refunded in future periods.

|                                      | Note Reference | Remaining Amortization Period | December 31,      |                   |
|--------------------------------------|----------------|-------------------------------|-------------------|-------------------|
|                                      |                |                               | 2017              | 2016              |
|                                      |                |                               | (in thousands)    |                   |
| Income taxes                         | 14             | Plant Lives                   | \$ 162,843        | \$ 411,546        |
| Pension                              | 16             | Undetermined                  | 115,504           | 127,133           |
| Employee related benefits            | 16             | Undetermined                  | 17,729            | 20,256            |
| State & local taxes & fees           |                | Various                       | 10,890            | 17,835            |
| Environmental clean-up               | 19             | Various                       | 12,399            | 13,601            |
| Distribution infrastructure projects |                | -                             | —                 | 3,136             |
| Other                                |                | Various                       | 25,926            | 21,743            |
| <b>Total Regulatory Assets</b>       |                |                               | <b>\$ 345,291</b> | <b>\$ 615,250</b> |
| Gas storage sales                    |                | 22 Years                      | 9,149             | 9,569             |
| Unbilled revenue                     |                | 1 Year                        | 9,969             | 11,973            |
| State & local taxes & fees           |                | 1 Year                        | 1,520             | 1,154             |
| Environmental clean-up               |                | Various                       | 1,365             | 6,414             |
| <b>Total Regulatory Liabilities</b>  |                |                               | <b>\$ 22,003</b>  | <b>\$ 29,110</b>  |

#### Income Taxes

Tax assets primarily reflect the effects of plant related temporary differences such as flow-through of depreciation, repairs related deductions, removal costs, capitalized interest and contributions in aid of construction that we will recover or refund in future rates. We amortize these amounts as temporary differences reverse. This reflects the estimated impact of the Tax Cuts and Job Acts enacted in December 2017. See Note 14 - Income Taxes for further discussion.

### **Pension and Employee Related Benefits**

We recognize the unfunded portion of plan benefit obligations in the Balance Sheets, which is remeasured at each year end, with a corresponding adjustment to regulatory assets/liabilities as the costs associated with these plans are recovered in rates. The portion of the regulatory asset related to our Montana pension plan will amortize as cash funding amounts exceed accrual expense under GAAP. The SDPUC allows recovery of pension costs on an accrual basis. The MPSC allows recovery of postretirement benefit costs on an accrual basis. The MPSC allows recovery of other employee related benefits on a cash basis.

### **State & Local Taxes & Fees (Montana Property Tax Tracker)**

Under Montana law, we are allowed to track the changes in the actual level of state and local taxes and fees and recover the increase in rates, less the amount allocated to FERC jurisdictional customers and net of the related income tax benefit.

### **Environmental Clean-up**

Environmental clean-up costs are the estimated costs of investigating and cleaning up contaminated sites we own. We discuss the specific sites and clean-up requirements further in Note 19 - Commitments and Contingencies. Environmental clean-up costs are typically recoverable in customer rates when they are actually incurred. We record changes in the regulatory asset consistent with changes in our environmental liabilities. When cost projections become known and measurable, we coordinate with the appropriate regulatory authority to determine a recovery period.

### **Montana Distribution System Infrastructure Project (DSIP)**

We have an accounting order to defer certain incremental operating and maintenance expenses associated with DSIP. Pursuant to the order, we deferred expenses incurred during 2011 and 2012 as a regulatory asset associated with the phase-in portion of the DSIP. These costs are being amortized into expense over five years, which began in 2013 and concluded in 2017.

### **Gas Storage Sales**

A regulatory liability was established in 2000 and 2001 based on gains on cushion gas sales in Montana. This gain is being flowed to customers over a period that matches the depreciable life of surface facilities that were added to maintain deliverability from the field after the withdrawal of the gas. This regulatory liability is a reduction of rate base.

### **Unbilled Revenue**

In accordance with regulatory guidance in South Dakota, we recognize revenue when it is billed. Accordingly, we record a regulatory liability to offset unbilled revenue.

## **(6) Utility Plant**

The following table presents the major classifications of our net utility plant (in thousands):

|   | Estimated<br>Useful Life<br>(years) | December 31,        |                     |
|---|-------------------------------------|---------------------|---------------------|
|   |                                     | 2017                | 2016                |
|   |                                     | (in thousands)      |                     |
| Land and improvements                   | 53 – 96                             | \$ 156,637          | \$ 147,036          |
| Building and improvements               | 27 – 64                             | 443,420             | 425,518             |
| Storage, distribution, and transmission | 15 – 85                             | 3,277,218           | 3,054,601           |
| Generation                              | 25 – 50                             | 1,680,713           | 1,680,254           |
| Construction work in process            | 25 – 50                             | 61,848              | 107,202             |
| Other equipment                         | 2 – 45                              | 484,536             | 447,473             |
| <b>Total utility plant</b>              |                                     | <b>6,104,372</b>    | <b>5,862,084</b>    |
| Less accumulated depreciation           |                                     | (2,078,554)         | (1,947,663)         |
| <b>Net utility plant</b>                |                                     | <b>\$ 4,025,818</b> | <b>\$ 3,914,421</b> |

Utility plant under capital lease were \$17.5 million and \$19.3 million as of December 31, 2017 and 2016, respectively, which included \$17.1 million and \$19.1 million as of December 31, 2017 and 2016, respectively, related to a long-term power supply contract with the owners of a natural gas fired peaking plant, which has been accounted for as an obligation under capital lease.

### Jointly Owned Electric Generating Plant

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

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

|                          | Big Stone<br>(SD) | Neal #4<br>(IA) | Coyote<br>(ND) | Colstrip Unit 4<br>(MT) |
|--------------------------|-------------------|-----------------|----------------|-------------------------|
| <b>December 31, 2017</b> |                   |                 |                |                         |
| Ownership percentages    | 23.4%             | 8.7%            | 10.0%          | 30.0%                   |
| Plant in service         | \$ 153,682        | \$ 60,859       | \$ 49,968      | \$ 307,712              |
| Accumulated depreciation | 44,373            | 33,189          | 40,993         | 86,309                  |
| <b>December 31, 2016</b> |                   |                 |                |                         |
| Ownership percentages    | 23.4%             | 8.7%            | 10.0%          | 30.0%                   |
| Plant in service         | \$ 153,623        | \$ 60,491       | \$ 50,802      | \$ 297,289              |
| Accumulated depreciation | 38,894            | 29,235          | 37,099         | 77,513                  |

### **(7) Asset Retirement Obligations**

We are obligated to dispose of certain long-lived assets upon their abandonment. We recognize a liability for the legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event. We measure the liability at fair value when incurred and capitalize a corresponding amount as part of the book value of the related assets, which increases our utility plant and asset retirement obligations. The increase in the capitalized cost is

included in determining depreciation expense over the estimated useful life of these assets. Since the fair value of the asset retirement obligation (ARO) is determined using a present value approach, accretion of the liability due to the passage of time is recognized each period and recorded as a regulatory asset until the settlement of the liability. Revisions to estimated ARO can result from changes in retirement cost estimates, revisions to estimated inflation rates, and changes in the estimated timing of abandonment. If the obligation is settled for an amount other than the carrying amount of the liability, we will recognize a gain or loss on settlement.

Our AROs relate to the reclamation and removal costs at our jointly-owned coal-fired generation facilities, Department of Transportation requirements to cut, purge and cap retired natural gas pipeline segments, and our obligation to plug and abandon oil and gas wells at the end of their life. The following table presents the change in our gross conditional ARO (in thousands):

|                           | December 31,     |                  |
|---------------------------|------------------|------------------|
|                           | 2017             | 2016             |
| Liability at January 1,   | \$ 39,402        | \$ 35,532        |
| Accretion expense         | 2,062            | 1,885            |
| Liabilities incurred      | —                | 164              |
| Liabilities settled       | (61)             | —                |
| Revisions to cash flows   | (2,117)          | 1,821            |
| Liability at December 31, | <u>\$ 39,286</u> | <u>\$ 39,402</u> |

In addition, we have identified removal liabilities related to our electric and natural gas transmission and distribution assets that have been installed on easements over property not owned by us. The easements are generally perpetual and only require remediation action upon abandonment or cessation of use of the property for the specified purpose. The ARO liability is not estimable for such easements as we intend to utilize these properties indefinitely. In the event we decide to abandon or cease the use of a particular easement, an ARO liability would be recorded at that time. We also identified AROs associated with our hydroelectric generating facilities; however, due to the indeterminate removal date, the fair value of the associated liabilities currently cannot be estimated and no amounts are recognized in the Financial Statements.

We collect removal costs in rates for certain transmission and distribution assets that do not have associated AROs. Generally, the accrual of future non-ARO removal obligations is not required; however, long-standing ratemaking practices approved by applicable state and federal regulatory commissions have allowed provisions for such costs in historical depreciation rates.

## **(8) Utility Plant Adjustments**

We completed our annual utility plant adjustments impairment test as of April 1, 2017 and no impairment was identified. We calculate the fair value of our reporting units by considering various factors, including valuation studies based primarily on a discounted cash flow analysis, with published industry valuations and market data as supporting information. Key assumptions in the determination of fair value include the use of an appropriate discount rate and estimated future cash flows. In estimating cash flows, we incorporate expected long-term growth rates in our service territory, regulatory stability, and commodity prices (where appropriate), as well as other factors that affect our revenue, expense and capital expenditure projections.

## **(9) Risk Management and Hedging Activities**

### **Nature of Our Business and Associated Risks**

We are exposed to certain risks related to the ongoing operations of our business, including the impact of market fluctuations in the price of electricity and natural gas commodities and changes in interest rates. We rely on market purchases to



fulfill a portion of our electric and natural gas supply requirements. Several factors influence price levels and volatility. These factors include, but are not limited to, seasonal changes in demand, weather conditions, available generating assets within regions, transportation availability and reliability within and between regions, fuel availability, market liquidity, and the nature and extent of current and potential federal and state regulations.

### **Objectives and Strategies for Using Derivatives**

To manage our exposure to fluctuations in commodity prices we routinely enter into derivative contracts. These types of contracts are included in our electric and natural gas supply portfolios and are used to manage price volatility risk by taking advantage of fluctuations in market prices. While individual contracts may be above or below market value, the overall portfolio approach is intended to provide greater price stability for consumers. We do not maintain a trading portfolio, and our derivative transactions are only used for risk management purposes consistent with regulatory guidelines.

In addition, we may use interest rate swaps to manage our interest rate exposures associated with new debt issuances or to manage our exposure to fluctuations in interest rates on variable rate debt.

### **Accounting for Derivative Instruments**

We evaluate new and existing transactions and agreements to determine whether they are derivatives. The permitted accounting treatments include: normal purchase normal sale (NPNS); cash flow hedge; fair value hedge; and mark-to-market. Mark-to-market accounting is the default accounting treatment for all derivatives unless they qualify, and we specifically designate them, for one of the other accounting treatments. Derivatives designated for any of the elective accounting treatments must meet specific, restrictive criteria both at the time of designation and on an ongoing basis. The changes in the fair value of recognized derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction.

### **Normal Purchases and Normal Sales**

We have applied the NPNS scope exception to our contracts involving the physical purchase and sale of gas and electricity at fixed prices in future periods. During our normal course of business, we enter into full-requirement energy contracts, power purchase agreements and physical capacity contracts, which qualify for NPNS. All of these contracts are accounted for using the accrual method of accounting; therefore, there were no unrealized amounts recorded in the Financial Statements at December 31, 2017 and 2016. Revenues and expenses from these contracts are reported on a gross basis in the appropriate revenue and expense categories as the commodities are received or delivered.

### **Credit Risk**

Credit risk is the potential loss resulting from counterparty non-performance under an agreement. We manage credit risk with policies and procedures for, among other things, counterparty analysis and exposure measurement, monitoring and mitigation. We limit credit risk in our commodity and interest rate derivatives activities by assessing the creditworthiness of potential counterparties before entering into transactions with them and continuing to evaluate their creditworthiness on an ongoing basis.

We are exposed to credit risk through buying and selling electricity and natural gas to serve customers. We may request collateral or other security from our counterparties based on the assessment of creditworthiness and expected credit exposure. It is possible that volatility in commodity prices could cause us to have material credit risk exposures with one or more counterparties. We enter into commodity master enabling agreements with our counterparties to mitigate credit exposure, as these agreements reduce the risk of default by allowing us or our counterparty the ability to make net payments. The agreements generally are: (1) Western Systems Power Pool agreements – standardized power purchase and sales contracts in the electric industry; (2) International Swaps and Derivatives Association agreements – standardized financial gas and electric

contracts; (3) North American Energy Standards Board agreements – standardized physical gas contracts; and (4) Edison Electric Institute Master Purchase and Sale Agreements – standardized power sales contracts in the electric industry.

Many of our forward purchase contracts contain provisions that require us to maintain an investment grade credit rating from each of the major credit rating agencies. If our credit rating were to fall below investment grade, the counterparties could require immediate payment or demand immediate and ongoing full overnight collateralization on contracts in net liability positions.

### **Interest Rate Swaps Designated as Cash Flow Hedges**

We have previously used interest rate swaps designated as cash flow hedges to manage our interest rate exposures associated with new debt issuances. We have no interest rate swaps outstanding. These swaps were designated as cash flow hedges with the effective portion of gains and losses, net of associated deferred income tax effects, recorded in AOCI. We reclassify these gains from AOCI into interest on long-term debt during the periods in which the hedged interest payments occur. The following table shows the effect of these interest rate swaps previously terminated on the Financial Statements (in thousands):

| <b>Cash Flow Hedges</b> | <b>Location of Amount<br/>Reclassified from AOCI<br/>to Income</b> | <b>Amount Reclassified<br/>from AOCI into Income<br/>during the Year Ended<br/>December 31, 2017</b> |
|-------------------------|--|--|
| Interest rate contracts | Interest on long-term debt   | \$ 613   |

A pre-tax loss of approximately \$16.5 million is remaining in AOCI as of December 31, 2017, and we expect to reclassify approximately \$0.6 million of pre-tax losses from AOCI into interest on long-term debt during the next twelve months. These amounts relate to terminated swaps.

## (10) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). Measuring fair value requires the use of market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, corroborated by market data, or generally unobservable. Valuation techniques are required to maximize the use of observable inputs and minimize the use of unobservable inputs.

Applicable accounting guidance establishes a hierarchy that prioritizes the inputs used to measure fair value, and requires fair value measurements to be categorized based on the observability of those inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The three levels of the fair value hierarchy are as follows:

- Level 1 – Unadjusted quoted prices available in active markets at the measurement date for identical assets or liabilities;
- Level 2 – Pricing inputs, other than quoted prices included within Level 1, which are either directly or indirectly observable as of the reporting date; and
- Level 3 – Significant inputs that are generally not observable from market activity.

We classify assets and liabilities within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement of each individual asset and liability taken as a whole. Due to the short-term nature of cash and cash equivalents, accounts receivable, net, and accounts payable, the carrying amount of each such items approximate fair value. The table below sets forth by level within the fair value hierarchy the gross components of our assets and liabilities measured at fair value on a recurring basis. NPNS transactions are not included in the fair values by source table as they are not recorded at fair value. See Note 9 - Risk Management and Hedging Activities for further discussion.

We record transfers between levels of the fair value hierarchy, if necessary, at the end of the reporting period. There were no transfers between levels for the periods presented.

| <b>December 31, 2017</b> | <b>Quoted Prices in<br/>Active Markets for<br/>Identical Assets or<br/>Liabilities (Level 1)</b> | <b>Significant Other<br/>Observable Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable Inputs<br/>(Level 3)</b> | <b>Margin Cash<br/>Collateral Offset</b> | <b>Total Net Fair Value</b> |
|--------------------------|--|--|--|--|-----------------------------|
| (in thousands)           |  |  |  |  |                             |
| Other special deposits   | \$ 1,671   | \$ —   | \$ —   | \$ —                                     | \$ 1,671                    |
| Rabbi trust investments  | 28,135   | —  | —  | —  | 28,135                      |
| <b>Total</b>             | <b>\$ 29,806</b>   | <b>\$ —</b>  | <b>\$ —</b>  | <b>\$ —</b>                              | <b>\$ 29,806</b>            |
| <b>December 31, 2016</b> |  |  |  |  |                             |
| Other special deposits   | \$ 2,359   | \$ —   | \$ —   | \$ —                                     | \$ 2,359                    |
| Rabbi trust investments  | 25,064   | —  | —  | —  | 25,064                      |
| <b>Total</b>             | <b>\$ 27,423</b>   | <b>\$ —</b>  | <b>\$ —</b>  | <b>\$ —</b>                              | <b>\$ 27,423</b>            |

Other special deposits represents amounts held in money market mutual funds. Rabbi trust investments represent assets held for non-qualified deferred compensation plans, which consist of our common stock and actively traded mutual funds with quoted prices in active markets.

## Financial Instruments

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

|                     | December 31, 2017 |              | December 31, 2016 |              |
|---------------------|-------------------|--------------|-------------------|--------------|
|                     | Carrying Amount   | Fair Value   | Carrying Amount   | Fair Value   |
| <b>Liabilities:</b> |                   |              |                   |              |
| Long-term debt      | \$ 1,806,637      | \$ 1,901,915 | \$ 1,806,599      | \$ 1,852,052 |

Notes payable consist of commercial paper and are not included in the table above as carrying value approximates fair value. The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies; however, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we would realize in a current market exchange.

We determined fair value for long-term debt based on interest rates that are currently available to us for issuance of debt with similar terms and remaining maturities, except for publicly traded debt, for which fair value is based on market prices for the same or similar issues or upon the quoted market prices of U.S. treasury issues having a similar term to maturity, adjusted for our bond issuance rating and the present value of future cash flows. These are significant other observable inputs, or level 2 inputs, in the fair value hierarchy.

## (11) Notes Payable and Credit Arrangements

### Notes Payable

Notes Payable and the corresponding weighted average interest rates as of December 31 were as follows (dollars in millions):

| Notes Payable    | 2017     |               | 2016     |               |
|------------------|----------|---------------|----------|---------------|
|                  | Balance  | Interest Rate | Balance  | Interest Rate |
| Commercial Paper | \$ 319.6 | 1.75%         | \$ 300.8 | 1.07%         |

The following information relates to commercial paper for the years ended December 31 (dollars in millions):

|                                   | 2017     | 2016     |
|-----------------------------------|----------|----------|
| Maximum notes payable outstanding | \$ 332.5 | \$ 300.8 |
| Average notes payable outstanding | \$ 251.7 | \$ 210.7 |
| Weighted-average interest rate    | 1.35%    | 0.86%    |

Under our commercial paper program we may issue unsecured commercial paper notes on a private placement basis up to a maximum aggregate amount outstanding at any time of \$340 million to provide an additional financing source for our short-term liquidity needs. The maturities of the commercial paper issuances will vary, but may not exceed 270 days from the date of issue. Commercial paper issuances are supported by available capacity under our unsecured revolving credit facility.

### Unsecured Revolving Line of Credit

On December 12, 2016, we amended and restated our existing revolving credit facility to, among other things, increase the size of the facility to \$400 million (from \$350 million) and extend the maturity date to December 12, 2021 (from November 5, 2018). We retained an accordion feature that allows us to increase the size to \$450 million with the consent of the lenders. The facility does not amortize and is unsecured. The facility bears interest at the lower of prime or available rates tied to the Eurodollar rate plus a credit spread, ranging from 0.875% to 1.75%. A total of eight banks participate in the facility, with no one bank providing more than 16% of the total availability. There were no direct borrowings or letters of credit outstanding as

of December 31, 2017. Commitment fees for the unsecured revolving line of credit were \$0.5 million and \$0.4 million for the years ended December 31, 2017 and 2016.

The credit facility includes covenants that require us to meet certain financial tests, including a maximum debt to capitalization ratio not to exceed 65%. The facility also contains covenants which, among other things, limit our ability to engage in any consolidation or merger or otherwise liquidate or dissolve, dispose of property, and enter into transactions with affiliates. A default on the South Dakota or Montana First Mortgage Bonds would trigger a cross default on the credit facility; however a default on the credit facility would not trigger a default on any other obligations.

## (12) Long-Term Debt

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

|  | Due  | December 31,        |                     |
|--|------|---------------------|---------------------|
|  |      | 2017                | 2016                |
| <b>Unsecured Debt:</b>                 |      |                     |                     |
| Unsecured Revolving Line of Credit     | 2021 | \$ —                | \$ —                |
| <b>Secured Debt:</b>                   |      |                     |                     |
| Mortgage bonds—                        |      |                     |                     |
| South Dakota—5.01%                     | 2025 | 64,000              | 64,000              |
| South Dakota—4.15%                     | 2042 | 30,000              | 30,000              |
| South Dakota—4.30%                     | 2052 | 20,000              | 20,000              |
| South Dakota—4.85%                     | 2043 | 50,000              | 50,000              |
| South Dakota—4.22%                     | 2044 | 30,000              | 30,000              |
| South Dakota—4.26%                     | 2040 | 70,000              | 70,000              |
| South Dakota—2.80%                     | 2026 | 60,000              | 60,000              |
| South Dakota—2.66%                     | 2026 | 45,000              | 45,000              |
| Montana—6.34%                          | 2019 | —                   | 250,000             |
| Montana—5.71%                          | 2039 | 55,000              | 55,000              |
| Montana—5.01%                          | 2025 | 161,000             | 161,000             |
| Montana—4.15%                          | 2042 | 60,000              | 60,000              |
| Montana—4.30%                          | 2052 | 40,000              | 40,000              |
| Montana—4.85%                          | 2043 | 15,000              | 15,000              |
| Montana—3.99%                          | 2028 | 35,000              | 35,000              |
| Montana—4.176%                         | 2044 | 450,000             | 450,000             |
| Montana—3.11%                          | 2025 | 75,000              | 75,000              |
| Montana—4.11%                          | 2045 | 125,000             | 125,000             |
| Montana—4.03%                          | 2047 | 250,000             | —                   |
| Pollution control obligations—         |      |                     |                     |
| Montana—2.00%                          | 2023 | 144,660             | 144,660             |
| <b>Other Long Term Debt:</b>           |      |                     |                     |
| New Market Tax Credit Financing—1.146% | 2046 | 26,977              | 26,977              |
| Discount on Notes and Bonds            | —    | —                   | (38)                |
| <b>Total Long-Term Debt</b>            |      | <b>\$ 1,806,637</b> | <b>\$ 1,806,599</b> |

### Secured Debt

### ***First Mortgage Bonds and Pollution Control Obligations***

The South Dakota First Mortgage Bonds are a series of general obligation bonds issued under our South Dakota indenture. All of such bonds are secured by substantially all of our South Dakota and Nebraska electric and natural gas assets.

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

In November 2017, we issued \$250 million aggregate principal amount of Montana First Mortgage Bonds, at a fixed interest rate of 4.03% maturing in 2047. The bonds are secured by our electric and natural gas assets in Montana. The bonds were issued in transactions exempt from the registration requirements of the Securities Act of 1933, as amended. Proceeds were used to redeem our 6.34%, \$250 million of Montana First Mortgage Bonds due 2019.

In August 2016, the City of Forsyth, Rosebud County, Montana issued \$144.7 million aggregate principal amount of Pollution Control Revenue Refunding Bonds on our behalf. The bonds were issued at a fixed interest rate of 2.00% maturing in 2023. The proceeds of the issuance were loaned to us pursuant to a Loan Agreement and have been used to partially fund the redemption of the 4.65%, \$170.2 million City of Forsyth Pollution Control Revenue Refunding Bonds due 2023 (Prior Bonds) issued on our behalf. We paid the remaining portion of the Prior Bonds with available funds. Our obligation under the Loan Agreement is secured by the issuance of \$144.7 million of Montana First Mortgage Bonds. These bonds are secured by our electric and natural gas assets in Montana and Wyoming. The City of Forsyth bonds were issued in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended.

In June 2016, we issued \$60 million aggregate principal amount of South Dakota First Mortgage Bonds at a fixed interest rate of 2.80% maturing in 2026. Proceeds were used to redeem our 6.05%, \$55 million South Dakota First Mortgage Bonds due 2018. In addition, in September 2016, we issued \$45 million aggregate principal amount of South Dakota First Mortgage Bonds at a fixed interest rate of 2.66% maturing in 2026. Proceeds from this issuance were used for general corporate purposes. Both series of these bonds are secured by our electric and natural gas assets in South Dakota, Nebraska, North Dakota, and Iowa and were issued in transactions exempt from the registration requirements of the Securities Act of 1933, as amended.

As of December 31, 2017, we are in compliance with our financial debt covenants.

### ***Other Long-Term Debt***

The New Market Tax Credit (NMTC) financing is pursuant to Section 45D of the Internal Revenue Code of 1986 as amended, which was issued in association with a tax credit program related to the development and construction of a new office building in Butte, Montana. This financing agreement is structured with unrelated third party financial institutions (the Investor) and their wholly-owned community development entities (CDEs) in connection with our participation in qualified transactions under the NMTC program. Upon closing of this transaction in 2014, we entered into two loans totaling \$27.0 million payable to the CDEs sponsoring the project, and provided an \$18.2 million investment. In exchange for substantially all of the benefits derived from the tax credits, the Investor contributed approximately \$8.8 million to the project. The NMTC is subject to recapture for a period of seven years. If the expected tax benefits are delivered without risk of recapture to the Investor and our performance obligation is relieved, we expect \$7.9 million of the loan to be forgiven in July 2021. If we do not meet the conditions for loan forgiveness, we would be required to repay \$27.0 million and would concurrently receive the return of our \$18.2 million investment. The loans of \$27.0 million are recorded in long-term debt and the investment of \$18.2 million is recorded in other investments in the Balance Sheets.

### **Maturities of Long-Term Debt**

The aggregate minimum principal maturities of long-term debt during the next five years are \$2.1 million in 2018, \$2.3 million in 2019, \$2.5 million in 2020, \$2.7 million in 2021 and \$2.9 million in 2022.

**(13) Related Party Transactions**

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

|  | December 31,  |               |
|--|---------------|---------------|
|  | 2017          | 2016          |
| Accounts Receivable from Associated Companies: |               |               |
| Havre Pipeline Company, LLC                    | \$ 412        | \$ 815        |
| Risk Partners Assurance, Ltd.                  | 18            | 18            |
|  | <u>\$ 430</u> | <u>\$ 833</u> |
| Accounts Payable to Associated Companies:      |               |               |
| NorthWestern Services, LLC                     | \$ 1,640      | \$ 1,584      |

**(14) Income Taxes**

Our effective tax rate typically differs from the federal statutory tax rate primarily due to the regulatory impact of flowing through the federal and state tax benefit of repairs deductions, state tax benefit of accelerated tax depreciation deductions (including bonus depreciation when applicable) and production tax credits. The lower statutory tax rate will reduce the impact of these deductions. The regulatory accounting treatment of these deductions requires immediate income recognition for temporary tax differences of this type, which is referred to as the flow-through method. When the flow-through method of accounting for temporary differences is reflected in regulated revenues, we record deferred income taxes and establish related regulatory assets and liabilities.

During the twelve months ended December 31, 2016, we recorded an income tax benefit of approximately \$17.0 million due to the adoption of a tax accounting method change related to the costs to repair generation assets, which allowed us to take a current tax deduction for a significant amount of repair costs that were previously capitalized for tax purposes. Approximately \$12.5 million of this deduction related to 2015 and prior tax years. This is reflected in the flow-through repairs deductions line due to the regulatory treatment.

On December 22, 2017, the Tax Cuts and Jobs act was signed into law, which enacts significant changes to U.S. tax and related laws. The primary impact to us is a reduction of the federal corporate income tax rate from 35% to 21% effective January 1, 2018. We revalued our deferred tax assets and liabilities as of December 31, 2017 based on the reduction in the overall future tax impact expected to be realized at the lower tax rate. This resulted in a reduction in our deferred tax assets of approximately \$70 million and a reduction in our deferred tax liabilities of approximately \$391 million. These reductions were offset in regulatory assets and liabilities.

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

|                                   | <b>December 31,</b> |                     |
|-----------------------------------|---------------------|---------------------|
|                                   | <b>2017</b>         | <b>2016</b>         |
| NOL carryforward                  | \$ 62,522           | \$ 78,324           |
| Production tax credit             | 28,067              | 17,034              |
| Pension / postretirement benefits | 26,887              | 45,847              |
| AMT credit carryforward           | 13,599              | 13,599              |
| Compensation accruals             | 12,113              | 18,715              |
| Customer advances                 | 11,949              | 15,837              |
| Unbilled revenue                  | 5,944               | 12,743              |
| Environmental liability           | 5,821               | 9,698               |
| Interest rate hedges              | 4,323               | 7,192               |
| Reserves and accruals             | 1,126               | 1,730               |
| Property taxes                    | 430                 | 3,765               |
| QF obligations                    | 234                 | —                   |
| Regulatory liabilities            | 114                 | 2,290               |
| Other, net                        | 1,048               | 2,981               |
| <b>Deferred Tax Asset</b>         | <b>\$ 174,177</b>   | <b>\$ 229,755</b>   |
| Excess tax depreciation           | \$ (361,185)        | \$ (464,969)        |
| Goodwill amortization             | (130,075)           | (192,615)           |
| Flow through depreciation         | (45,998)            | (160,604)           |
| Regulatory assets                 | (409)               | (12,230)            |
| Reserves and accruals             | —                   | (430)               |
| <b>Deferred Tax Liability</b>     | <b>\$ (537,667)</b> | <b>\$ (830,848)</b> |

The revaluation of deferred income taxes reflects our estimate of the impact of the Tax Cuts and Jobs Act. We will continue to evaluate subsequent regulations and interpretations and assumptions made, which could materially change our estimate. Deferred income taxes relate primarily to the difference between book and tax methods of depreciating property, amortizing tax-deductible goodwill, the difference in the recognition of revenues and expenses for book and tax purposes, certain natural gas and electric costs which are deferred for book purposes but expensed currently for tax purposes, and NOL carry forwards. We have elected under Internal Revenue Code Section 46(f)(2) to defer investment tax credit benefits and amortize them against expense and customer billing rates over the book life of the underlying plant.

At December 31, 2017 we estimate our total federal NOL carryforward to be approximately \$420.8 million prior to consideration of unrecognized tax benefits. If unused, our federal NOL carryforwards will expire as follows: \$105.2 million in 2031; \$13.3 million in 2033; \$73.3 million in 2034; \$174.6 million in 2036 and \$54.4 million in 2037. We estimate our state NOL carryforward as of December 31, 2017 is approximately \$315.7 million. If unused, our state NOL carryforwards will expire as follows: \$67.0 million in 2018; \$10.5 million in 2020; \$58.3 million in 2021; \$135.9 million in 2023 and \$44.0 million in 2024. We believe it is more likely than not that sufficient taxable income will be generated to utilize these NOL carryforwards.

### **Uncertain Tax Positions**

We recognize tax positions that meet the more-likely-than-not threshold as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. The change in unrecognized tax benefits is as follows (in thousands):



|   | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|
| Unrecognized Tax Benefits at January 1            | \$ 88,429   | \$ 92,387   |
| Gross increases - tax positions in prior period   | —           | —           |
| Gross decreases - tax positions in prior period   | (22,973)    | —           |
| Gross increases - tax positions in current period | —           | —           |
| Gross decreases - tax positions in current period | (7,983)     | (3,958)     |
| Lapse of statute of limitations                   | —           | —           |
| Unrecognized Tax Benefits at December 31          | \$ 57,473   | \$ 88,429   |

The reduction in unrecognized tax benefits during the twelve months ended December 31, 2017 reflects the effect of the lower statutory rate in the Tax Cuts and Jobs Act. Our unrecognized tax benefits include approximately \$47.8 million and \$66.5 million related to tax positions as of December 31, 2017 and 2016, respectively that, if recognized, would impact our annual effective tax rate. We do not anticipate that total unrecognized tax benefits will significantly change due to the settlement of audits or the expiration of statutes of limitation within the next twelve months.

Our policy is to recognize interest related to uncertain tax positions in interest expense. During the years ended December 31, 2017 and 2016, we recognized \$0.8 million and \$0.7 million, respectively, of expense for interest in the Statements of Income. As of December 31, 2017 and 2016, we had \$1.5 million and \$0.7 million, respectively, of interest accrued in the Balance Sheets.

Our federal tax returns from 2000 forward remain subject to examination by the IRS.

**(15) Comprehensive Income (Loss)**

The following tables display the components of Other Comprehensive Income (Loss), after-tax, and the related tax effects (in thousands):

|  | December 31,         |                 |                      |                      |                             |                      |
|--|----------------------|-----------------|----------------------|----------------------|-----------------------------|----------------------|
|  | 2017                 |                 |                      | 2016                 |                             |                      |
|  | Before-Tax<br>Amount | Tax<br>Expense  | Net-of-Tax<br>Amount | Before-Tax<br>Amount | Tax<br>Benefit<br>(Expense) | Net-of-Tax<br>Amount |
| Foreign currency translation adjustment                          | \$ (202)             | \$ —            | \$ (202)             | \$ 25                | —                           | \$ 25                |
| Reclassification of net losses (gains) on derivative instruments | 613                  | (242)           | 371                  | (2,169)              | 831                         | (1,338)              |
| Postretirement medical liability adjustment                      | 1,257                | (484)           | 773                  | 317                  | (122)                       | 195                  |
| <b>Other comprehensive income (loss)</b>                         | <b>\$ 1,668</b>      | <b>\$ (726)</b> | <b>\$ 942</b>        | <b>\$ (1,827)</b>    | <b>\$ 709</b>               | <b>\$ (1,118)</b>    |

Balances by classification included within accumulated other comprehensive income (AOCI) on the Balance Sheets are as follows, net of tax (in thousands):

|   | December 31,      |                   |
|---|-------------------|-------------------|
|   | 2017              | 2016              |
| Foreign currency translation                          | \$ 1,178          | \$ 1,380          |
| Derivative instruments designated as cash flow hedges | (9,981)           | (10,352)          |
| Postretirement medical plans                          | 31                | (742)             |
| <b>Accumulated other comprehensive income</b>         | <b>\$ (8,772)</b> | <b>\$ (9,714)</b> |

The following table displays the changes in AOCI by component, net of tax (in thousands):

|  | December 31, 2017                                       |  |                                 |                                    |       |
|--|---|--|---------------------------------|------------------------------------|-------|
|  | Year Ended  |  |                                 |                                    |       |
|  | Affected Line<br>Item in the<br>Statements of<br>Income | Interest<br>Rate<br>Derivative<br>Instruments<br>Designated<br>as Cash<br>Flow | Postretirement<br>Medical Plans | Foreign<br>Currency<br>Translation | Total |
| Beginning balance                                    | \$ (10,352)   | \$ (742)   | \$ 1,380                        | \$ (9,714)                         |       |
| Other comprehensive income before reclassifications  | —   | —  | (202)                           | (202)                              |       |
| Amounts reclassified from AOCI                       | Interest on<br>long-term<br>debt<br>371                 | —  | —                               | 371                                |       |
| Amounts reclassified from AOCI                       | —   | 773  | —                               | 773                                |       |
| Net current-period other comprehensive income (loss) | 371   | 773  | (202)                           | 942                                |       |
| <b>Ending Balance</b>                                | <b>\$ (9,981)</b>                                       | <b>\$ 31</b>   | <b>\$ 1,178</b>                 | <b>\$ (8,772)</b>                  |       |

|  | December 31, 2016                                       |  |                                 |                                    |       |
|--|---|--|---------------------------------|------------------------------------|-------|
|  | Affected Line<br>Item in the<br>Statements of<br>Income | Year Ended   |                                 |                                    | Total |
|  |   | Interest<br>Rate<br>Derivative<br>Instruments<br>Designated<br>as Cash<br>Flow | Postretirement<br>Medical Plans | Foreign<br>Currency<br>Translation |       |
| Beginning balance                                    | \$ (9,014)  | \$ (937)   | \$ 1,355                        | \$ (8,596)                         |       |
| Other comprehensive income before reclassifications  | —   | —  | 25                              | 25                                 |       |
| Amounts reclassified from AOCI                       | Interest on<br>long-term<br>debt<br>(1,338)             | —  | —                               | (1,338)                            |       |
| Amounts reclassified from AOCI                       | —   | 195  | —                               | 195                                |       |
| Net current-period other comprehensive (loss) income | (1,338)   | 195  | 25                              | (1,118)                            |       |
| <b>Ending Balance</b>                                | <b>\$ (10,352)</b>                                      | <b>\$ (742)</b>  | <b>\$ 1,380</b>                 | <b>\$ (9,714)</b>                  |       |

#### **(16) Employee Benefit Plans**

##### **Pension and Other Postretirement Benefit Plans**

We sponsor and/or contribute to pension and postretirement health care and life insurance benefit plans for eligible employees. The pension plan for our South Dakota and Nebraska employees is referred to as the NorthWestern Corporation plan, and the pension plan for our Montana employees is referred to as the NorthWestern Energy plan. We utilize a number of accounting mechanisms that reduce the volatility of reported pension costs. Differences between actuarial assumptions and actual plan results are deferred and are recognized into earnings only when the accumulated differences exceed 10% of the greater of the projected benefit obligation or the market-related value of plan assets. If necessary, the excess is amortized over the average remaining service period of active employees. The Plan's funded status is recognized as an asset or liability in our Financial Statements. See Note 5 - Regulatory Assets and Liabilities, for further discussion on how these costs are recovered through rates charged to our customers.

##### **Benefit Obligation and Funded Status**

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

|  | Pension Benefits    |                     | Other Postretirement Benefits |                   |
|--|---------------------|---------------------|-------------------------------|-------------------|
|  | December 31,        |                     | December 31,                  |                   |
|  | 2017                | 2016                | 2017                          | 2016              |
| <b>Change in benefit obligation:</b>                       |                     |                     |                               |                   |
| Obligation at beginning of period                          | \$ 646,032          | \$ 628,883          | \$ 26,217                     | \$ 28,652         |
| Service cost   | 10,994              | 11,759              | 456                           | 492               |
| Interest cost  | 25,633              | 26,210              | 715                           | 795               |
| Actuarial loss (gain)                                      | 41,719              | 7,006               | (1,884)                       | (71)              |
| Settlements  | —                   | —                   | 390                           | 390               |
| Benefits paid  | (27,582)            | (27,826)            | (2,973)                       | (4,041)           |
| <b>Benefit Obligation at End of Period</b>                 | <b>\$ 696,796</b>   | <b>\$ 646,032</b>   | <b>\$ 22,921</b>              | <b>\$ 26,217</b>  |
| <b>Change in Fair Value of Plan Assets:</b>                |                     |                     |                               |                   |
| Fair value of plan assets at beginning of period           | \$ 524,637          | \$ 500,044          | \$ 18,605                     | \$ 17,972         |
| Return on plan assets                                      | 80,253              | 39,719              | 2,690                         | 1,277             |
| Employer contributions                                     | 9,200               | 12,700              | 2,058                         | 3,397             |
| Benefits paid  | (27,582)            | (27,826)            | (2,973)                       | (4,041)           |
| Fair value of plan assets at end of period                 | \$ 586,508          | \$ 524,637          | \$ 20,380                     | \$ 18,605         |
| <b>Funded Status</b>                                       | <b>\$ (110,288)</b> | <b>\$ (121,395)</b> | <b>\$ (2,541)</b>             | <b>\$ (7,612)</b> |
| <b>Amounts Recognized in the Balance Sheet Consist of:</b> |                     |                     |                               |                   |
| Noncurrent asset   | 2,535               | —                   | 5,061                         | —                 |
| <b>Total Assets</b>  | <b>2,535</b>        | <b>—</b>            | <b>5,061</b>                  | <b>—</b>          |
| Current liability  | —                   | —                   | (3,353)                       | (1,789)           |
| Noncurrent liability                                       | (112,823)           | (121,395)           | (4,249)                       | (5,823)           |
| <b>Total Liabilities</b>                                   | <b>(112,823)</b>    | <b>(121,395)</b>    | <b>(7,602)</b>                | <b>(7,612)</b>    |
| <b>Net amount recognized</b>                               | <b>\$ (110,288)</b> | <b>\$ (121,395)</b> | <b>\$ (2,541)</b>             | <b>\$ (7,612)</b> |
| <b>Amounts Recognized in Regulatory Assets Consist of:</b> |                     |                     |                               |                   |
| Prior service (cost) credit                                | (4)                 | (9)                 | 9,955                         | 11,988            |
| Net actuarial loss   | (105,545)           | (127,953)           | (1,735)                       | (4,739)           |
| <b>Amounts recognized in AOCI consist of:</b>              |                     |                     |                               |                   |
| Prior service cost   | —                   | —                   | (698)                         | (849)             |
| Net actuarial gain   | —                   | —                   | 1,079                         | 38                |
| <b>Total</b>   | <b>\$ (105,549)</b> | <b>\$ (127,962)</b> | <b>\$ 8,601</b>               | <b>\$ 6,438</b>   |

The total projected benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were as follows (in millions):

|                                | Pension Benefits |          |
|--------------------------------|------------------|----------|
|                                | December 31,     |          |
|                                | 2017             | 2016     |
| Projected benefit obligation   | \$ 634.4         | \$ 646.0 |
| Accumulated benefit obligation | 634.4            | 643.6    |
| Fair value of plan assets      | 522.7            | 524.6    |

As of December 31, 2017, the fair value of the NorthWestern Corporation pension plan assets exceed the total projected and accumulated benefit obligation and are therefore excluded from this table.

### Net Periodic Cost (Credit)

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

|  | <u>Pension Benefits</u> |                  | <u>Other Postretirement Benefits</u> |                 |
|--|-------------------------|------------------|--------------------------------------|-----------------|
|  | <u>December 31,</u>     |                  | <u>December 31,</u>                  |                 |
|  | <u>2017</u>             | <u>2016</u>      | <u>2017</u>                          | <u>2016</u>     |
| <b>Components of Net Periodic Benefit Cost</b> |                         |                  |                                      |                 |
| Service cost                                   | \$ 10,994               | \$ 11,759        | \$ 456                               | \$ 492          |
| Interest cost                                  | 25,633                  | 26,210           | 715                                  | 795             |
| Expected return on plan assets                 | (23,964)                | (28,248)         | (846)                                | (1,042)         |
| Amortization of prior service cost (credit)    | 4                       | 246              | (1,882)                              | (1,882)         |
| Recognized actuarial loss                      | 7,837                   | 9,888            | 318                                  | 315             |
| Settlement loss recognized                     | —                       | —                | 390                                  | 390             |
| <b>Net Periodic Benefit Cost (Credit)</b>      | <b>\$ 20,504</b>        | <b>\$ 19,855</b> | <b>\$ (849)</b>                      | <b>\$ (932)</b> |

For purposes of calculating the expected return on pension plan assets, the market-related value of assets is used, which is based upon fair value. The difference between actual plan asset returns and estimated plan asset returns are amortized equally over a period not to exceed five years.

We estimate amortizations from regulatory assets into net periodic benefit cost during 2018 will be as follows (in thousands):

|                             | <u>Pension Benefits</u> | <u>Other Postretirement Benefits</u> |
|-----------------------------|-------------------------|--------------------------------------|
| Prior service credit (cost) | \$ (4)                  | \$ 1,882                             |
| Accumulated loss            | (4,286)                 | 78                                   |

### Actuarial Assumptions

The measurement dates used to determine pension and other postretirement benefit measurements for the plans are December 31, 2017 and 2016. The actuarial assumptions used to compute net periodic pension cost and postretirement benefit cost are based upon information available as of the beginning of the year, specifically, market interest rates, past experience and management's best estimate of future economic conditions. Changes in these assumptions may impact future benefit costs and obligations. In computing future costs and obligations, we must make assumptions about such things as employee mortality and turnover, expected salary and wage increases, discount rate, expected return on plan assets, and expected future cost increases. Two of these assumptions have the most impact on the level of cost: (1) discount rate and (2) expected rate of return on plan assets.

We set the discount rate using a yield curve analysis. This analysis includes constructing a hypothetical bond portfolio whose cash flow from coupons and maturities matches the year-by-year, projected benefit cash flow from our plans. The decrease in discount rate during 2017 increased our projected benefit obligation by approximately \$43.6 million.

In determining the expected long-term rate of return on plan assets, we review historical returns, the future expectations for returns for each asset class weighted by the target asset allocation of the pension and postretirement portfolios, and long-term inflation assumptions. Based on the target asset allocation for our pension assets and future expectations for asset returns, we increased our long term rate of return on assets assumption for NorthWestern Energy Pension Plan to 4.97% and decreased our assumption on the NorthWestern Corporation Pension Plan to 4.47% for 2018.

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

|  | <u>Pension Benefits</u> |             | <u>Other Postretirement</u> |             |
|--|-------------------------|-------------|-----------------------------|-------------|
|  | <u>December 31,</u>     |             | <u>December 31,</u>         |             |
|  | <u>2017</u>             | <u>2016</u> | <u>2017</u>                 | <u>2016</u> |
| Discount rate  | 3.50-3.60 %             | 3.95-4.10 % | 3.20-3.30 %                 | 3.40-3.55 % |
| Expected rate of return on assets                            | 4.70                    | 5.80        | 4.70                        | 5.80        |
| Long-term rate of increase in compensation levels (nonunion) | 2.89                    | 3.28        | 2.89                        | 3.28        |
| Long-term rate of increase in compensation levels (union)    | 2.03                    | 3.20        | 2.03                        | 3.20        |

The postretirement benefit obligation is calculated assuming that health care costs increase by a 5.00% fixed rate. The company contribution toward the premium cost is capped, therefore future health care cost trend rates are expected to have a minimal impact on company costs and the accumulated postretirement benefit obligation.

### Investment Strategy

Our investment goals with respect to managing the pension and other postretirement assets are to meet current and future benefit payment needs while maximizing total investment returns (income and appreciation) after inflation within the constraints of diversification, prudent risk taking, and the Prudent Man Rule of the Employee Retirement Income Security Act of 1974. Each plan is diversified across asset classes to achieve optimal balance between risk and return and between income and growth through capital appreciation. Our investment philosophy is based on the following:

- Each plan should be substantially fully invested as long-term cash holdings reduce long-term rates of return;
- It is prudent to diversify each plan across the major asset classes;
- Equity investments provide greater long-term returns than fixed income investments, although with greater short-term volatility;
- Fixed income investments of the plans should strongly correlate with the interest rate sensitivity of the plan's aggregate liabilities in order to hedge the risk of change in interest rates negatively impacting the overall funded status;
- Allocation to foreign equities increases the portfolio diversification and thereby decreases portfolio risk while providing for the potential for enhanced long-term returns;
- Active management can reduce portfolio risk and potentially add value through security selection strategies;
- A portion of plan assets should be allocated to passive, indexed management funds to provide for greater diversification and lower cost; and
- It is appropriate to retain more than one investment manager, provided that such managers offer asset class or style diversification.

Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

The most important component of an investment strategy is the portfolio asset mix, or the allocation between the various classes of securities available. The mix of assets is based on an optimization study that identifies asset allocation targets in order to achieve the maximum return for an acceptable level of risk, while minimizing the expected contributions and pension and postretirement expense. In the optimization study, assumptions are formulated about characteristics, such as expected asset class investment returns, volatility (risk), and correlation coefficients among the various asset classes, and making adjustments to reflect future conditions expected to prevail over the study period. Based on this, the target asset allocation established, within an allowable range of plus or minus 5%, is as follows:

|                                 | NorthWestern Energy Pension |       | NorthWestern Corporation Pension |       | NorthWestern Energy Health and Welfare |       |
|---------------------------------|-----------------------------|-------|----------------------------------|-------|--|-------|
|                                 | December 31,                |       | December 31,                     |       | December 31,                           |       |
|                                 | 2017                        | 2016  | 2017                             | 2016  | 2017                                   | 2016  |
| Domestic debt securities        | 55.0%                       | 55.0% | 70.0%                            | 65.0% | 40.0%                                  | 40.0% |
| International debt securities   | 4.0                         | 5.0   | 2.5                              | 5.0   | —                                      | —     |
| Domestic equity securities      | 16.5                        | 34.0  | 11.0                             | 25.0  | 50.0                                   | 50.0  |
| International equity securities | 24.5                        | 6.0   | 16.5                             | 5.0   | 10.0                                   | 10.0  |

The actual allocation by plan is as follows:

|                                 | NorthWestern Energy Pension |        | NorthWestern Corporation Pension |        | NorthWestern Energy Health and Welfare |        |
|---------------------------------|-----------------------------|--------|----------------------------------|--------|--|--------|
|                                 | December 31,                |        | December 31,                     |        | December 31,                           |        |
|                                 | 2017                        | 2016   | 2017                             | 2016   | 2017                                   | 2016   |
| Cash and cash equivalents       | 0.1%                        | —%     | —%                               | 0.1%   | 1.5%                                   | 1.0%   |
| Domestic debt securities        | 54.5                        | 53.4   | 70.0                             | 64.4   | 35.2                                   | 37.0   |
| International debt securities   | 4.0                         | 4.6    | 2.5                              | 4.4    | —                                      | —      |
| Domestic equity securities      | 16.7                        | 36.0   | 11.1                             | 26.0   | 53.4                                   | 52.6   |
| International equity securities | 24.7                        | 6.0    | 16.4                             | 5.1    | 9.9                                    | 9.4    |
|                                 | 100.0%                      | 100.0% | 100.0%                           | 100.0% | 100.0%                                 | 100.0% |

Generally, the asset mix will be rebalanced to the target mix as individual portfolios approach their minimum or maximum levels. Debt securities consist of U.S. and international instruments. Core domestic portfolios can be invested in government, corporate, asset-backed and mortgage-backed obligation securities. While the portfolio may invest in high yield securities, the average quality must be rated at least “investment grade” by rating agencies. Performance of fixed income investments is measured by both traditional investment benchmarks as well as relative changes in the present value of the plan's liabilities. Equity investments consist primarily of U.S. stocks including large, mid and small cap stocks, which are diversified across investment styles such as growth and value. We also invest in international equities with exposure to developing and emerging markets. Derivatives, options and futures are permitted for the purpose of reducing risk but may not be used for speculative purposes.

Our plan assets are primarily invested in common collective trusts (CCTs), which are invested in equity and fixed income securities. In accordance with our investment policy, these pooled investment funds must have an adequate asset base relative to their asset class and be invested in a diversified manner and have a minimum of three years of verified investment performance experience or verified portfolio manager investment experience in a particular investment strategy and have management and oversight by an investment advisor registered with the Securities and Exchange Commission (SEC). Investments in a collective investment vehicle are valued by multiplying the investee company's net asset value per share with the number of units or shares owned at the valuation date. Net asset value per share is determined by the trustee. Investments held by the CCT, including collateral invested for securities on loan, are valued on the basis of valuations furnished by a pricing service approved by the CCT's investment manager, which determines valuations using methods based on quoted closing market prices on national securities exchanges, or at fair value as determined in good faith by the CCT's investment manager if applicable. The funds do not contain any redemption restrictions. The direct holding of NorthWestern Corporation stock is not permitted; however, any holding in a diversified mutual fund or collective investment fund is permitted. In addition, the NorthWestern Corporation pension plan assets also include a participating group annuity contract in the John Hancock General Investment Account, which consists primarily of fixed-income securities. The participating group annuity contract is valued based on discounted cash flows of current yields of similar contracts with comparable duration based on the underlying fixed income investments.

## Cash Flows

In accordance with the Pension Protection Act of 2006 (PPA), and the relief provisions of the Worker, Retiree, and Employer Recovery Act of 2008 (WRERA), we are required to meet minimum funding levels in order to avoid required contributions and benefit restrictions. We have elected to use asset smoothing provided by the WRERA, which allows the use of asset averaging, including expected returns (subject to certain limitations), for a 24-month period in the determination of funding requirements. We expect to continue to make contributions to the pension plans in 2018 and future years that reflect the minimum requirements and discretionary amounts consistent with the amounts recovered in rates. Additional legislative or regulatory measures, as well as fluctuations in financial market conditions, may impact our funding requirements.

Due to the regulatory treatment of pension costs in Montana, pension expense for 2017 and 2016 was based on actual contributions to the plan. Annual contributions to each of the pension plans are as follows (in thousands):

|   | <b>2017</b>     | <b>2016</b>      |
|---|-----------------|------------------|
| NorthWestern Energy Pension Plan (MT)             | \$ 8,000        | \$ 11,500        |
| NorthWestern Corporation Pension Plan (SD and NE) | 1,200           | 1,200            |
|   | <u>\$ 9,200</u> | <u>\$ 12,700</u> |

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

|           | <b>Pension Benefits</b> | <b>Other Postretirement Benefits</b> |
|-----------|-------------------------|--------------------------------------|
| 2018      | \$ 30,326               | \$ 3,353                             |
| 2019      | 31,721                  | 2,927                                |
| 2020      | 33,452                  | 2,714                                |
| 2021      | 34,703                  | 2,502                                |
| 2022      | 35,997                  | 2,254                                |
| 2023-2027 | 200,820                 | 7,607                                |

### **Defined Contribution Plan**

Our defined contribution plan permits employees to defer receipt of compensation as provided in Section 401(k) of the Internal Revenue Code. Under the plan, employees may elect to direct a percentage of their gross compensation to be contributed to the plan. We contribute various percentage amounts of the employee's gross compensation contributed to the plan. Matching contributions for the year ended December 31, 2017 and 2016 were \$10.0 million and \$9.8 million, respectively.

### **(17) Stock-Based Compensation**

We grant stock-based awards through our Amended and Restated Equity Compensation Plan (ECP), which includes restricted stock awards and performance share awards. In 2014, an additional 600,000 shares of common stock were authorized by the shareholders for issuance under the ECP. As of December 31, 2017, there were 822,695 shares of common stock remaining available for grants. The remaining vesting period for awards previously granted ranges from one to five years if the service and/or performance requirements are met. Nonvested shares do not receive dividend distributions. The long-term incentive plan provides for accelerated vesting in the event of a change in control.

We account for our share-based compensation arrangements by recognizing compensation costs for all share-based awards over the respective service period for employee services received in exchange for an award of equity or equity-based compensation. The compensation cost is based on the fair value of the grant on the date it was awarded.

### **Performance Unit Awards**



Performance unit awards are granted annually under the ECP. These awards vest at the end of the three-year performance period if we have achieved certain performance goals and the individual remains employed by us. The exact number of shares issued will vary from 0% to 200% of the target award, depending on actual company performance relative to the performance goals. These awards contain both market- and performance-based components. The performance goals are independent of each other and equally weighted, and are based on two metrics: (i) EPS growth level and average return on equity; and (ii) total shareholder return (TSR) relative to a peer group.

Fair value is determined for each component of the performance unit awards. The fair value of the earnings per share component is estimated based upon the closing market price of our common stock as of the date of grant less the present value of expected dividends, multiplied by an estimated performance multiple determined on the basis of historical experience, which is subsequently trued up at vesting based on actual performance. The fair value of the TSR portion is estimated using a statistical model that incorporates the probability of meeting performance targets based on historical returns relative to the peer group. The following summarizes the significant assumptions used to determine the fair value of performance shares and related compensation expense as well as the resulting estimated fair value of performance shares granted:

|                         | <b>2017</b>    | <b>2016</b>    |
|-------------------------|----------------|----------------|
| Risk-free interest rate | 1.50%          | 0.85%          |
| Expected life, in years | 3              | 3              |
| Expected volatility     | 17.0% to 22.7% | 17.1% to 22.1% |
| Dividend yield          | 3.7%           | 3.4%           |

The risk-free interest rate was based on the U.S. Treasury yield of a three-year bond at the time of grant. The expected term of the performance shares is three years based on the performance cycle. Expected volatility was based on the historical volatility for the peer group. Both performance goals are measured over the three-year vesting period and are charged to compensation expense over the vesting period based on the number of shares expected to vest.

A summary of nonvested shares as of and changes during the year ended December 31, 2017, are as follows:

|                                   | <b>Performance Unit Awards</b> |   |
|-----------------------------------|--------------------------------|---|
|                                   | <b>Shares</b>                  | <b>Weighted-Average Grant-Date Fair Value</b> |
| Beginning nonvested grants        | 175,257                        | \$ 46.35                                      |
| Granted                           | 93,108                         | 47.99   |
| Vested                            | (87,438)                       | 42.47   |
| Forfeited                         | (5,459)                        | 47.60   |
| <b>Remaining nonvested grants</b> | <b>175,468</b>                 | <b>\$ 49.11</b>                               |

We recognized compensation expense of \$3.9 million and \$5.3 million for the years ended December 31, 2017 and 2016, respectively, and a related income tax expense of \$0.4 million and \$1.8 million, for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017, we had \$5.5 million of unrecognized compensation cost related to the nonvested portion of outstanding awards, which is reflected as other paid-in capital in our Balance Sheets. The cost is expected to be recognized over a weighted-average period of 2 years. The total fair value of shares vested was \$3.7 million and \$3.5 million for the years ended December 31, 2017 and 2016, respectively.

#### **Retirement/Retention Restricted Share Awards**

In December 2011, an executive retirement / retention program was established that provides for the annual grant of restricted share units. These awards are subject to a five-year performance and vesting period. The performance measure for these awards requires net income for the calendar year of at least three of the five full calendar years during the performance period to exceed net income for the calendar year the awards are granted. Once vested, the awards will be paid out in shares of

common stock in five equal annual installments after a recipient has separated from service. The fair value of these awards is measured based upon the closing market price of our common stock as of the date of grant less the present value of expected dividends.

A summary of nonvested shares as of and changes during the year ended December 31, 2017, are as follows:

|                                   | Shares        | Weighted-Average<br>Grant-Date<br>Fair Value |
|-----------------------------------|---------------|--|
| Beginning nonvested grants        | 62,591        | \$ 41.14                                     |
| Granted                           | 13,394        | 52.20  |
| Vested                            | (8,445)       | 27.42  |
| Forfeited                         | —             | —  |
| <b>Remaining nonvested grants</b> | <b>67,540</b> | <b>\$ 43.09</b>                              |

### **Director's Deferred Compensation**

Nonemployee directors may elect to defer up to 100% of any qualified compensation that would be otherwise payable to him or her, subject to compliance with our 2005 Deferred Compensation Plan for Nonemployee Directors and Section 409A of the Internal Revenue Code. The deferred compensation may be invested in NorthWestern stock or in designated investment funds. Compensation deferred in a particular month is recorded as a deferred stock unit (DSU) on the first of the following month based on the closing price of NorthWestern stock or the designated investment fund. The DSUs are marked-to-market on a quarterly basis with an adjustment to director's compensation expense. Based on the election of the nonemployee director, following separation from service on the Board, other than on account of death, he or she shall be paid a distribution either in a lump sum or in approximately equal installments over a designated number of years (not to exceed 10 years). During the years ended December 31, 2017 and 2016, DSUs issued to members of our Board totaled 54,920 and 28,338, respectively. Total compensation expense attributable to the DSUs during the years ended December 31, 2017 and 2016 was approximately \$2.9 million and \$2.4 million, respectively.

## (18) Common Stock

We have 250,000,000 shares authorized consisting of 200,000,000 shares of common stock with a \$0.01 par value and 50,000,000 shares of preferred stock with a \$0.01 par value. Of these shares, 2,865,957 shares of common stock are reserved for the incentive plan awards. For further detail of grants under this plan see Note 17 - Stock-Based Compensation.

In September 2017, we entered into an Equity Distribution Agreement with Merrill Lynch, Pierce, Fenner, & Smith, Incorporated and J. P. Morgan Securities LLC, collectively the sales agents, pursuant to which we may offer and sell shares of our common stock from time to time, having an aggregate gross sales price of up to \$100 million. During 2017, we sold 888,938 shares of our common stock at an average price of \$61.30 per share. Proceeds received were approximately \$53.7 million, which are net of sales commissions paid of approximately \$0.8 million and other fees. During the three months ended December 31, 2017, we issued 805,169 shares at an average price of \$61.48, for net proceeds of \$48.9 million, which is net of sales commissions of approximately \$0.6 million and other fees.

### Repurchase of Common Stock

Shares tendered by employees to us to satisfy the employees' tax withholding obligations in connection with the vesting of restricted stock awards totaled 34,208 and 49,514 during the years ended December 31, 2017 and 2016, respectively, and are reflected in reacquired capital stock. These shares were credited to reacquired capital stock based on their fair market value on the vesting date.

## (19) Commitments and Contingencies

### Qualifying Facilities Liability

Our QF liability primarily consists of unrecoverable costs associated with three contracts covered under the Public Utility Regulatory Policies Act. These contracts require us to purchase minimum amounts of energy at prices ranging from \$61 to \$136 per MWH through 2029. Our estimated gross contractual obligation related to these contracts is approximately \$807.4 million through 2029. A portion of the costs incurred to purchase this energy is recoverable through rates, totaling approximately \$625.6 million through 2029. The present value of the remaining liability is recorded in accumulated miscellaneous operating provisions in our Balance Sheets. The following summarizes the change in the liability (in thousands):

|                            | <u>December 31,</u> |                   |
|----------------------------|---------------------|-------------------|
|                            | <u>2017</u>         | <u>2016</u>       |
| Beginning QF liability     | \$ 134,324          | \$ 138,310        |
| Unrecovered amount         | (12,009)            | (14,829)          |
| Interest on long-term debt | 10,471              | 10,843            |
| <b>Ending QF liability</b> | <b>\$ 132,786</b>   | <b>\$ 134,324</b> |

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

|              | <b>Gross<br/>Obligation</b> | <b>Recoverable<br/>Amounts</b> | <b>Net</b>        |
|--------------|-----------------------------|--------------------------------|-------------------|
| 2018         | 76,703                      | 58,401                         | 18,302            |
| 2019         | 78,836                      | 59,020                         | 19,816            |
| 2020         | 80,984                      | 59,647                         | 21,337            |
| 2021         | 82,941                      | 60,136                         | 22,805            |
| 2022         | 84,948                      | 60,639                         | 24,309            |
| Thereafter   | 403,009                     | 327,773                        | 75,236            |
| <b>Total</b> | <b>\$ 807,421</b>           | <b>\$ 625,616</b>              | <b>\$ 181,805</b> |

### **Long Term Supply and Capacity Purchase Obligations**

We have entered into various commitments, largely purchased power, electric transmission, coal and natural gas supply and natural gas transportation contracts. These commitments range from one to 26 years. Costs incurred under these contracts are included in operating expenses in the Statements of Income and were approximately \$228.4 million and \$216.8 million for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017, our commitments under these contracts are \$190.6 million in 2018, \$179.0 million in 2019, \$134.8 million in 2020, \$113.9 million in 2021, \$116.0 million in 2022, and \$1.3 billion thereafter. These commitments are not reflected in our Financial Statements.

### **Hydroelectric License Commitments**

With the Hydro Transaction, we assumed two Memoranda of Understanding (MOUs) existing with state, federal and private entities. The MOUs are periodically updated and renewed and require us to implement plans to mitigate the impact of the projects on fish, wildlife and their habitats, and to increase recreational opportunities. The MOUs were created to maximize collaboration between the parties and enhance the possibility to receive matching funds from relevant federal agencies. Under these MOUs, we have a remaining commitment to spend approximately \$20.0 million between 2018 and 2040. These commitments are not reflected in our Financial Statements.

**Environmental Matters**

The operation of electric generating, transmission and distribution facilities, and gas gathering, storage, transportation and distribution facilities, along with the development (involving site selection, environmental assessments, and permitting) and construction of these assets, are subject to extensive federal, state, and local environmental and land use laws and regulations. Our activities involve compliance with diverse laws and regulations that address emissions and impacts to the environment, including air and water, protection of natural resources, avian and wildlife. We monitor federal, state, and local environmental initiatives to determine potential impacts on our financial results. As new laws or regulations are implemented, our policy is to assess their applicability and implement the necessary modifications to our facilities or their operation to maintain ongoing compliance.

Our environmental exposure includes a number of components, including remediation expenses related to the cleanup of current or former properties, and costs to comply with changing environmental regulations related to our operations. At present, the majority of our environmental reserve relates to the remediation of former manufactured gas plant sites owned by us and is estimated to range between \$26.7 million to \$31.2 million. As of December 31, 2017, we have a reserve of approximately \$30.3 million, which has not been discounted. Environmental costs are recorded when it is probable we are liable for the remediation and we can reasonably estimate the liability. We use a combination of site investigations and monitoring to formulate an estimate of environmental remediation costs for specific sites. Our monitoring procedures and development of actual remediation plans depend not only on site specific information but also on coordination with the different environmental regulatory agencies in our respective jurisdictions; therefore, while remediation exposure exists, it may be many years before costs are incurred.

Over time, as costs become determinable, we may seek authorization to recover such costs in rates or seek insurance reimbursement as applicable; therefore, although we cannot guarantee regulatory recovery, we do not expect these costs to have a material effect on our financial position or results of operations.

***Manufactured Gas Plants*** - Approximately \$23.5 million of our environmental reserve accrual is related to manufactured gas plants. A formerly operated manufactured gas plant located in Aberdeen, South Dakota, has been identified on the Federal Comprehensive Environmental Response, Compensation, and Liability Information System list as contaminated with coal tar residue. We are currently conducting feasibility studies, implementing remedial actions pursuant to work plans approved by the South Dakota Department of Environment and Natural Resources, and conducting ongoing monitoring and operation and maintenance activities. As of December 31, 2017, the reserve for remediation costs at this site is approximately \$9.6 million, and we estimate that approximately \$4.6 million of this amount will be incurred during the next five years.

We also own sites in North Platte, Kearney and Grand Island, Nebraska on which former manufactured gas facilities were located. We are currently working independently to fully characterize the nature and extent of potential impacts associated with these Nebraska sites. Our reserve estimate includes assumptions for site assessment and remedial action work. At present, we cannot determine with a reasonable degree of certainty the nature and timing of any risk-based remedial action at our Nebraska locations.

In addition, we own or have responsibility for sites in Butte, Missoula and Helena, Montana on which former manufactured gas plants were located. The Butte and Helena sites, both listed as high priority sites on Montana's state superfund list, were placed into the Montana Department of Environmental Quality (MDEQ) voluntary remediation program for cleanup due to soil and groundwater impacts. Soil and coal tar were removed at the sites in accordance with the MDEQ requirements. Groundwater monitoring is conducted semiannually at both sites. At this time, we cannot estimate with a reasonable degree of certainty the nature and timing of additional remedial actions and/or investigations, if any, at the Butte site. In August 2016, the MDEQ sent us a Notice of Potential Liability and Request for Remedial Action regarding the Helena

site. In September 2017, we submitted a Draft Remedial Investigation Work Plan for the Helena site, based on the request of the MDEQ. Comments from the MDEQ are expected in the first quarter of 2018.

An investigation conducted at the Missoula site did not require remediation activities, but required preparation of a groundwater monitoring plan. Monitoring wells have been installed and groundwater is monitored semiannually. At the request of Missoula Valley Water Quality District (MVWQD), a draft risk assessment was prepared for the Missoula site and presented to the MVWQD. We and the MVWQD agreed additional site investigation work is appropriate. Analytical results from an October 2016 sampling exceeded the Montana Maximum Contaminant Level for benzene and/or total cyanide in certain monitoring wells. These results were forwarded to MVWQD which shared the same with the MDEQ. MDEQ requested that MVWQD file a formal complaint with MDEQ's Enforcement Division, which MVWQD filed in July 2017. This is expected to prompt MDEQ to reevaluate its position concerning listing the Missoula site on the State of Montana's superfund list. New landowners purchased a portion of the Missoula site using funding provided by a third party. The terms of the funding require the new landowners to address environmental issues. The new landowners contacted us and we addressed their immediate concerns. After researching historical ownership we have identified another potentially responsible party with whom we have initiated communications regarding the site. At this time, we cannot estimate with a reasonable degree of certainty the nature and timing of risk-based remedial action, if any, at the Missoula site.

**Global Climate Change** - National and international actions have been initiated to address global climate change and the contribution of GHG including, most significantly, carbon dioxide (CO<sub>2</sub>). These actions include legislative proposals, Executive and Environmental Protection Agency (EPA) actions at the federal level, actions at the state level, and private party litigation relating to GHG emissions. Coal-fired plants have come under particular scrutiny due to their level of GHG emissions. We have joint ownership interests in four coal-fired electric generating plants, all of which are operated by other companies. We are responsible for our proportionate share of the capital and operating costs while being entitled to our proportionate share of the power generated.

While numerous bills have been introduced that address climate change from different perspectives, including through direct regulation of GHG emissions, the establishment of cap and trade programs and the establishment of Federal renewable portfolio standards, Congress has not passed any federal climate change legislation and we cannot predict the timing or form of any potential legislation. In the absence of such legislation, EPA is presently regulating new and existing sources of GHG emissions through regulations. EPA is currently reviewing its existing regulations as a result of an Executive Order issued by President Trump on March 28, 2017 (the Executive Order) instructing all federal agencies to review all regulations and other policies (specifically including the Clean Power Plan, which is discussed in further detail below) that burden the development or use of domestically produced energy resources and suspend, revise or rescind those that pose an undue burden beyond that required to protect the public interest.

As a result of the Executive Order review, on October 10, 2017, the EPA proposed to repeal the Clean Power Plan (CPP). Subsequently, the EPA issued an Advance Notice of Proposed Rulemaking, soliciting information on systems of emission reduction that comply with EPA's interpretation of the Clean Air Act, for a possible replacement of the CPP, which was published in the Federal Register on December 28, 2017. The CPP was published in October 2015 and was intended to establish GHG performance standards for existing power plants under Clean Air Act Section 111(d). The CPP established CO<sub>2</sub> emission performance standards for existing electric utility steam generating units and natural gas combined cycle units. In its repeal proposal, EPA indicated that it had not yet determined whether it will promulgate a new rule to replace the CPP and the form, if any, such a replacement would take.

Following the issuance of the CPP in October 2015, judicial appeals were filed in the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit), including an appeal by us. The United States Supreme Court (Supreme Court) issued a stay pending resolution of the appeals by the D.C. Circuit. The D.C. Circuit filed an order on November 9, 2017, holding the case in abeyance for 60 days. On January 10, 2018, EPA filed a status report requesting the D.C. Circuit continue to hold the case in abeyance pending conclusion of its rulemaking.

In addition, administrative requests for reconsideration of the CPP were filed with the EPA, including one filed by us in December 2015. We requested the EPA reconsider the CPP, in part, on the grounds that the CO<sub>2</sub> reductions in the CPP applicable to Montana were substantially greater than the reductions the EPA had originally proposed. The EPA denied the petition for reconsideration on January 11, 2017, and we appealed that denial to the D.C. Circuit on March 13, 2017. The EPA has also requested that this case be held in abeyance.

We cannot predict what, if any, action the D.C. Circuit may take in either of these two cases, particularly in light of the EPA's proposal to repeal the CPP. If the CPP ultimately is not repealed, survives the legal challenges described above, and is implemented as written, or if a replacement to the CPP is adopted with similar requirements, it could result in significant additional compliance costs that would affect our future results of operations and financial position if such costs are not recovered through regulated rates. We will continue working with federal and state regulatory authorities, other utilities, and stakeholders to seek relief from any GHG regulations that, in our view, disproportionately impacts customers in our region.

Future additional environmental requirements could cause us to incur material costs of compliance, increase our costs of procuring electricity, decrease transmission revenue and impact cost recovery. Technology to efficiently capture, remove and/or sequester such GHG emissions may not be available within a timeframe consistent with the implementation of any such requirements. Physical impacts of climate change also may present potential risks for severe weather, such as droughts, fires, floods, ice storms and tornadoes, in the locations where we operate or have interests. These potential risks may impact costs for electric and natural gas supply and maintenance of generation, distribution, and transmission facilities.

***Clean Air Act Rules and Associated Emission Control Equipment Expenditures*** - The EPA has proposed or issued a number of rules under different provisions of the Clean Air Act that could require the installation of emission control equipment at the generation plants in which we have joint ownership.

On January 10, 2017, the EPA published amendments to the requirements under the Clean Air Act for state plans for protection of visibility. Among other things, these amendments revised the process and requirements for the state implementation plans and extended the due date for the next periodic comprehensive regional haze state implementation plan revisions from 2018 to 2021. Therefore, by 2021, Montana, or EPA, must develop a revised plan that demonstrates reasonable progress toward eliminating man-made emissions of visibility impairing pollutants, which could impact Colstrip Unit 4. In March 2017, we filed a Petition for Review of these amendments with the D.C. Circuit, which was consolidated with other petitions challenging the final rule. The EPA has not responded to our petition. On January 19, 2018, EPA advised the D.C. Circuit that it intended to initiate rulemaking to revisit the amendment, and asked that the case be held in abeyance. On January 30, 2018, the D.C. Circuit granted the EPA's request to hold the case in abeyance pending further order of the Court.

***Jointly Owned Plants*** - We have joint ownership in generation plants located in South Dakota, North Dakota, Iowa and Montana that are or may become subject to the various regulations discussed above that have been issued or proposed. Regarding the CPP, as discussed above, we cannot predict the impact of the CPP on us until there is a definitive judicial decision or administrative action by the EPA repealing or significantly changing the CPP.

***Other*** - We continue to manage equipment containing polychlorinated biphenyl (PCB) oil in accordance with the EPA's Toxic Substance Control Act regulations. We will continue to use certain PCB-contaminated equipment for its remaining useful life and will, thereafter, dispose of the equipment according to pertinent regulations that govern the use and disposal of such equipment.

We routinely engage the services of a third-party environmental consulting firm to assist in performing a comprehensive evaluation of our environmental reserve. Based upon information available at this time, we believe that the current environmental reserve properly reflects our remediation exposure for the sites currently and previously owned by us. The portion of our environmental reserve applicable to site remediation may be subject to change as a result of the following uncertainties:

- We may not know all sites for which we are alleged or will be found to be responsible for remediation; and
- Absent performance of certain testing at sites where we have been identified as responsible for remediation, we cannot estimate with a reasonable degree of certainty the total costs of remediation.

## LEGAL PROCEEDINGS

### Pacific Northwest Solar Litigation

Pacific Northwest Solar, LLC (PNWS) is an Oregon solar QF developer with which we began negotiating in early 2016 to purchase capacity and energy at our avoided cost under the QF-1 option 1(a) standard rates in accordance with PURPA as implemented by the FERC and the MPSC.

On June 16, 2016, however, the MPSC entered a Notice of Commission Action (MPSC Notice) suspending the availability of QF-1 option 1(a) standard rates for solar projects greater than 100 kW, which included the various projects proposed by PNWS. The MPSC exempted from the suspension any contracts at the standard tariff rate with solar QFs greater than 100 kW, but no larger than 3 MW, if prior to the date of the MPSC Notice, the QF had submitted a signed power purchase agreement and had executed an interconnection agreement. PNWS had not obtained interconnection agreements for any of its projects as of June 16, 2016, so based on the MPSC Notice and subsequent July 25, 2016 Order 7500 of like effect from the MPSC, we discontinued further negotiations with PNWS.

In November 2016, PNWS sued us in state court seeking unspecified damages for breach of contract and other relief, including a judicial declaration that some or all of the 21 proposed power purchase agreements were in effect. We removed the state lawsuit to the United States District Court for the District of Montana.

On July 19, 2017, we entered into a partial settlement agreement with PNWS that resolved some but not all of PNWS' litigation claims. As a result of that settlement, on August 14, 2017, PNWS amended its original complaint to seek enforcement and/or damages related to four of the 21 power purchase agreements.

Currently pending before the United States District Court are our motion to dismiss, our motion for partial summary judgment, and PNWS's motion for summary judgment on its request for declaratory relief regarding those four power purchase agreements.

We dispute the remaining claims in PNWS' lawsuit and intend to vigorously defend those claims. This matter is in the initial stages, and we cannot predict an outcome or estimate the amount or range of loss that would result from an adverse outcome in the remaining claims.

### State of Montana - Riverbed Rents

On April 1, 2016, the State of Montana (State) filed a complaint on remand (the State's Complaint) with the Montana First Judicial District Court (State District Court), naming us, along with Talen as defendants. The State claims it owns the riverbeds underlying 10 of our hydroelectric facilities (dams, along with reservoirs and tailraces) on the Missouri, Madison and Clark Fork Rivers, and seeks rents for Talen's and our use and occupancy of such lands. The facilities at issue in the litigation include the Hebgen, Madison, Hauser, Holter, Black Eagle, Rainbow, Cochrane, Ryan, and Morony facilities on the Missouri and Madison Rivers and the Thompson Falls facility on the Clark Fork River. We acquired these facilities from Talen in November 2014.

The litigation has a long prior history, which culminated with a 2012 decision by the United States Supreme Court holding that the Montana Supreme Court erred in not considering a segment-by-segment approach to determine navigability and relying on present day recreational use of the rivers. It also held that what it referred to as the Great Falls Reach "at least from the head



of the first waterfall to the foot of the last" was not navigable for title purposes, and thus the State did not own the riverbeds in that segment. The United States Supreme Court remanded the case to the Montana Supreme Court for further proceedings not inconsistent with its opinion. Following the 2012 remand, the case laid dormant for four years until the State's Complaint was filed with the State District Court. On April 20, 2016, we removed the case from State District Court to the United States District Court for the District of Montana (Federal District Court). The State filed a motion to remand and following briefing and argument, on October 10, 2017, the Federal District Court Judge entered an order denying the State's motion. As the State's Complaint included a claim that the State owned the riverbeds in the Great Falls Reach, on October 16, 2017, we and Talen renewed our earlier filed motions seeking to dismiss the portion of the State's Complaint concerning the Great Falls Reach in light of the United States Supreme Court's decision. The motions to dismiss have been fully briefed and are awaiting decision.

We dispute the State's claims and intend to vigorously defend the lawsuit. This matter is in the initial stages, and we cannot predict an outcome. If the Federal District Court determines the riverbeds under all 10 of the hydroelectric facilities are navigable (including the five hydroelectric facilities on the Great Falls Reach) and if it calculates damages as the State District Court did in 2008, we estimate the annual rents could be approximately \$7 million commencing in November 2014, when we acquired the facilities. We anticipate that any obligation to pay the State rent for use and occupancy of the riverbeds would be recoverable in rates from customers, although there can be no assurances that the MPSC would approve any such recovery.

### **Wilde Litigation**

On October 10, 2017, Martin Wilde, a Montana resident and wind developer, and three entities with which he is affiliated, commenced a lawsuit against the MPSC, each individual commissioner of the MPSC (in each of their official and individual capacities), and us in the Montana Eighth Judicial District Court (Eighth District Court). The plaintiffs allege that the MPSC collaborated with NorthWestern to set discriminatory rates and contract durations for QF developers. The plaintiffs seek power purchase agreements at \$45.19 per megawatt hour for a 25-year term or, as an alternative remedy to the alleged discrimination, a reduction in NorthWestern's rates by \$17.03 per megawatt hour. The plaintiffs also seek compensatory damages of not less than \$4.8 million, various forms of declaratory relief, injunctive relief, unspecified damages, and punitive damages.

On October 20, 2017, the Eighth District Court conducted a hearing on the plaintiffs' application for a preliminary injunction to stop the defendants from the alleged ongoing discrimination that harms development of renewable energy in Montana. At the hearing's conclusion, the court did not rule on the requested injunction but orally ordered post-hearing briefs and set deadlines for answers and dispositive motions. On November 11, 2017, Mr. Wilde died in a farming accident, and, at plaintiffs' request, the Eighth District Court has stayed the proceeding through May 11, 2018. We have received no indication whether or not Mr. Wilde's estate or the other plaintiff entities will continue the litigation after the stay expires.

### **Other Legal Proceedings**

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

| Sch. 19 | MONTANA PLANT IN SERVICE - PROPANE    |                      |                      |          |
|---------|---------------------------------------|----------------------|----------------------|----------|
|         | Account Number & Title                | This Year<br>Utility | Last Year<br>Utility | % Change |
| 1       | <b>Local Storage Plant</b>            |                      |                      |          |
| 2       | 3360 Land and Land Rights             | \$ 64,954            | \$ 64,954            | 0.00%    |
| 3       | 3363 Other Equipment                  | 385,262              | 385,262              | 0.00%    |
| 4       | <b>Total Local Storage Plant</b>      | 450,216              | 450,216              | 0.00%    |
| 5       |                                       |                      |                      |          |
| 6       | <b>Distribution Plant</b>             |                      |                      |          |
| 7       | 3376 Mains                            | 490,965              | 490,965              | 0.00%    |
| 8       | 3380 Services                         | 493,066              | 493,066              | 0.00%    |
| 9       | 3381 Customers Meters and Regulators  | 33,429               | 33,429               | 0.00%    |
| 10      | 3382 Meter Installations              | -                    | -                    | -        |
| 11      | 3389 Other Equipment                  | 51,888               | 51,888               | 0.00%    |
| 12      | <b>Total Distribution Plant</b>       | 1,069,348            | 1,069,348            | 0.00%    |
| 13      | <b>Total Propane Plant in Service</b> | 1,519,564            | 1,519,564            | 0.00%    |
| 14      |                                       |                      |                      |          |
| 15      | 3107 Construction Work in Progress    | -                    | -                    | -        |
| 16      | 3117 Gas in Underground Storage       | 24,839               | 23,292               | 6.64%    |
| 17      |                                       |                      |                      |          |
| 18      |                                       |                      |                      |          |
| 19      | <b>TOTAL PROPANE PLANT</b>            | \$ 1,544,403         | \$ 1,542,856         | 0.10%    |
| 20      |                                       |                      |                      |          |
| 21      |                                       |                      |                      |          |
| 22      | <b>CONSOLIDATED</b>                   | December 31,         |                      |          |
| 23      | <b>PLANT IN SERVICE</b>               | 2017                 | 2016                 |          |
| 24      |                                       |                      |                      |          |
| 25      | Montana Electric                      | \$ 3,518,024,165     | \$ 3,298,847,873     |          |
| 26      | Yellowstone National Park             | 19,786,507           | 19,414,223           |          |
| 27      | Montana Natural Gas (Includes CMP)    | 793,388,754          | 763,632,169          |          |
| 28      | Common                                | 135,376,180          | 123,877,637          |          |
| 29      | Townsend Propane                      | 1,519,564            | 1,519,564            |          |
| 30      | South Dakota Electric                 | 877,763,048          | 860,324,872          |          |
| 31      | South Dakota Natural Gas              | 182,730,749          | 175,034,946          |          |
| 32      | South Dakota Common                   | 57,381,499           | 53,553,212           |          |
| 33      | Asset Retirement Obligation           | 29,230,068           | 31,407,853           |          |
| 34      | <b>TOTAL PLANT</b>                    | \$ 5,615,200,534     | \$ 5,327,612,349     |          |

| Sch. 20 | MONTANA DEPRECIATION SUMMARY - PROPANE       |              |                         |                         |                   |
|---------|--|--------------|-------------------------|-------------------------|-------------------|
|         | Functional Plant Class                       | Plant Cost   | This Year               | Last Year               | Current Avg. Rate |
| 1       | <b>Accumulated Depreciation</b>              |              |                         |                         |                   |
| 2       |  |              |                         |                         |                   |
| 3       | Local Storage Plant                          | \$ 385,262   | \$ 259,543              | \$ 251,375              | 2.12%             |
| 4       |  |              |                         |                         |                   |
| 5       | Distribution                                 | 1,069,348    | 632,865                 | 600,406                 | 3.04%             |
| 6       |  |              |                         |                         |                   |
| 7       |  |              |                         |                         |                   |
| 8       | <b>Total Accumulated Depreciation</b>        | \$ 1,454,610 | \$ 892,408              | \$ 851,781              | 2.79%             |
| 9       |  |              |                         |                         |                   |
| 10      |  |              |                         |                         |                   |
| 11      |  |              |                         |                         |                   |
| 12      |  |              |                         |                         |                   |
| 13      | <b>Consolidated</b>                          |              | <b>December 31,</b>     |                         |                   |
| 14      | <b>Accumulated Depreciation</b>              |              | <b>2017</b>             | <b>2016</b>             |                   |
| 15      |  |              |                         |                         |                   |
| 16      | Montana Electric                             |              | \$1,206,041,588         | \$1,130,680,436         |                   |
| 17      | Yellowstone National Park                    |              | 10,185,147              | 9,754,156               |                   |
| 18      | Montana Natural Gas (Includes CMP)           |              | 323,232,339             | 303,627,188             |                   |
| 19      | Common                                       |              | 34,519,406              | 28,020,639              |                   |
| 20      | Townsend Propane                             |              | 892,408                 | 851,781                 |                   |
| 21      | South Dakota Electric                        |              | 299,417,542             | 285,819,969             |                   |
| 22      | South Dakota Natural Gas                     |              | 89,410,312              | 85,162,714              |                   |
| 23      | South Dakota Common                          |              | 16,362,957              | 15,875,159              |                   |
| 24      | Acquisition Writedown                        |              | 51,390,109              | 54,094,598              |                   |
| 25      | Basin Creek Capital Lease                    |              | 23,120,462              | 21,109,982              |                   |
| 26      | FIN 47                                       |              | 4,651,008               | 3,750,578               |                   |
| 27      | CWIP-Capital Retirement Clearing             |              | -5,337,297              | -7,538,353              |                   |
| 28      | <b>Total Consolidated Accum Depreciation</b> |              | <b>\$ 2,053,885,980</b> | <b>\$ 1,931,208,847</b> |                   |

| Sch. 22 | MONTANA REGULATORY CAPITAL STRUCTURE & COSTS - PROPANE |                     |             |               |
|---------|--|---------------------|-------------|---------------|
|         | Commission Accepted - Most Recent                      | % Capital Structure | % Cost Rate | Weighted Cost |
| 1       |  |                     |             |               |
| 2       | Docket Number: 2016.9.68                               |                     |             |               |
| 3       | Order Number : 7522g                                   |                     |             |               |
| 4       | Effective Date : September 1, 2017                     |                     |             |               |
| 5       |  |                     |             |               |
| 6       | Common Equity  | 46.79%              | 9.55%       | 4.47%         |
| 7       | Long Term Debt   | 53.21%              | 4.67%       | 2.49%         |
| 8       |  |                     |             |               |
| 9       | <b>TOTAL</b>   | 100.00%             |             | 6.96%         |
| 10      |  |                     |             |               |
| 11      |  |                     |             |               |
| 12      |  |                     |             |               |
| 13      |  |                     |             |               |
| 14      |  |                     |             |               |
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| 38      |  |                     |             |               |
| 39      |  |                     |             |               |
| 40      |  |                     |             |               |
| 41      |  |                     |             |               |

| Sch. 23 | STATEMENT OF CASH FLOWS   |                      |                      |                     |
|---------|---|----------------------|----------------------|---------------------|
|         | Description   | This year            | Last Year            | % Change            |
| 1       | Increase/(Decrease) in Cash & Cash Equivalents:   |                      |                      |                     |
| 2       | <b>Cash Flows from Operating Activities:</b>  |                      |                      |                     |
| 3       | Net Income  | \$ 162,702,800       | \$ 164,171,857       | -0.89%              |
| 4       | Noncash Charges (Credits) to Income:  |                      |                      |                     |
| 5       | Depreciation and Depletion  | 146,632,297          | 140,114,080          | 4.65%               |
| 6       | Amortization, Net   | 24,318,621           | 18,958,796           | 28.27%              |
| 7       | Other Noncash Charges to Net Income, Net  | 9,908,598            | 14,018,040           | -29.32%             |
| 8       | Deferred Income Taxes, Net  | 10,373,635           | (6,771,384)          | 253.20%             |
| 9       | Investment Tax Credit Adjustments, Net  | 166,193              | (196,376)            | 184.63%             |
| 10      | Change in Operating Receivables, Net  | (13,168,865)         | 860,619              | >-300.00%           |
| 11      | Change in Materials, Supplies & Inventories, Net  | (3,378,081)          | 3,365,478            | -200.37%            |
| 12      | Change in Operating Payables & Accrued Liabilities, Net   | 2,904,555            | 16,004,227           | -81.85%             |
| 13      | Allowance for Funds Used During Construction (AFUDC)  | (5,563,937)          | (4,581,196)          | -21.45%             |
| 14      | Change in Other Assets & Liabilities, Net   | (5,123,658)          | (36,351,861)         | 85.91%              |
| 15      | Other Operating Activities:   |                      |                      |                     |
| 16      | Undistributed Earnings from Subsidiary Companies  | (2,945,962)          | (2,297,510)          | -28.22%             |
| 17      | Change in Regulatory Assets   | 438,662              | (15,485,060)         | 102.83%             |
| 18      | Change in Regulatory Liabilities  | (7,107,084)          | (411,739)            | >-300.00%           |
| 19      | <b>Net Cash Provided by Operating Activities</b>  | <b>320,157,774</b>   | <b>291,397,972</b>   | <b>9.87%</b>        |
| 20      | <b>Cash Inflows/Outflows From Investment Activities:</b>  |                      |                      |                     |
| 21      | Construction/Acquisition of Property, Plant and Equipment   | (269,400,928)        | (287,062,468)        | 6.15%               |
| 22      | (Net of AFUDC)  |                      |                      |                     |
| 23      | Proceeds from Sale of Assets  | 379,491              | 1,354,211            | -71.98%             |
| 25      | <b>Net Cash Used in Investing Activities</b>  | <b>(269,021,437)</b> | <b>(285,708,257)</b> | <b>5.84%</b>        |
| 26      | <b>Cash Flows from Financing Activities:</b>  |                      |                      |                     |
| 27      | Proceeds from Issuance of:  |                      |                      |                     |
| 28      | Issuance of Long-Term Debt  | 250,000,000          | 249,660,000          | 0.14%               |
| 29      | Issuance of Short Term Borrowings, Net  | 18,745,418           | 70,936,129           | -73.57%             |
| 30      | Proceeds From Issuance of Common Stock, Net   | 53,668,520           | -                    | 100.00%             |
| 31      | Payments for Retirement of:   |                      |                      |                     |
| 34      | Long-term Debt  | (250,000,000)        | (225,205,000)        | -11.01%             |
| 35      | Dividends on Common Stock   | (101,269,773)        | (95,765,571)         | -5.75%              |
| 36      | Other Financing Activities:   |                      |                      |                     |
| 37      | Debt Financing Costs  | (16,382,233)         | (8,430,186)          | -94.33%             |
| 38      | Treasury Stock Activity   | 1,082,861            | (560,077)            | 293.34%             |
| 39      | <b>Net Cash Used in Financing Activities</b>  | <b>(44,155,206)</b>  | <b>(9,364,705)</b>   | <b>&gt;-300.00%</b> |
| 40      | <b>Net Increase/Decrease in Cash and Cash Equivalents</b>   | <b>6,981,130</b>     | <b>(3,674,990)</b>   | <b>289.96%</b>      |
| 41      | <b>Cash and Cash Equivalents at Beginning of Year</b>   | <b>433,142</b>       | <b>4,108,132</b>     | <b>-89.46%</b>      |
| 42      | <b>Cash and Cash Equivalents at End of Year</b>   | <b>\$ 7,414,272</b>  | <b>\$ 433,142</b>    | <b>&gt;300.00%</b>  |
| 43      |   |                      |                      |                     |
| 44      | This financial statement is presented on the basis of the accounting requirements of the Federal Energy Regulatory                |                      |                      |                     |
| 45      | Commission (FERC) as set forth in its applicable Uniform System of Accounts. As such, subsidiaries are presented using the equity |                      |                      |                     |
| 46      | method of accounting. The amounts presented are consistent with the presentation in FERC Form 1, plus Canadian Montana            |                      |                      |                     |
| 47      | Pipeline Corporation and the adjustment to a regulated basis for Colstrip Unit 4 and the Hydro Transaction.                       |                      |                      |                     |
| 48      |   |                      |                      |                     |

| Sch. 24 | MONTANA LONG TERM DEBT 1/  |            |               |                  |                  |                               |                   |                                  |              |
|---------|--|------------|---------------|------------------|------------------|-------------------------------|-------------------|----------------------------------|--------------|
|         | Description  | Issue Date | Maturity Date | Principal Amount | Net Proceeds     | Outstanding Per Balance Sheet | Yield to Maturity | Annual Net Cost Inc. Prem./Disc. | Total Cost % |
| 1       |  |            |               |                  |                  |                               |                   |                                  |              |
| 2       | <b>First Mortgage Bonds</b>  |            |               |                  |                  |                               |                   |                                  |              |
| 3       | 5.71% Series (\$55M), Due 2039   | 10/15/09   | 10/15/39      | 55,000,000       | 54,450,000       | 55,000,000                    | 5.71%             | 3,158,845                        | 5.74%        |
| 4       | 5.01% Series (\$225M), Due 2025  | 05/27/10   | 05/01/25      | 161,000,000      | 160,075,635      | 161,000,000                   | 5.01%             | 8,585,842                        | 5.33%        |
| 5       | 4.15% Series(\$60M), Due 2042  | 08/10/12   | 08/10/42      | 60,000,000       | 59,623,329       | 60,000,000                    | 4.15%             | 2,502,562                        | 4.17%        |
| 6       | 4.30% Series(\$40M), Due 2052  | 08/10/12   | 08/10/52      | 40,000,000       | 39,748,886       | 40,000,000                    | 4.30%             | 1,726,280                        | 4.32%        |
| 7       | 4.85% Series(\$65M), Due 2043  | 12/19/13   | 12/19/43      | 15,000,000       | 14,929,953       | 15,000,000                    | 4.85%             | 730,647                          | 4.87%        |
| 8       | 3.99% Series(\$35M), Due 2028  | 12/19/13   | 12/19/28      | 35,000,000       | 34,836,556       | 35,000,000                    | 3.99%             | 1,409,343                        | 4.03%        |
| 9       | 4.176% Series(\$450M), Due 2044  | 11/14/14   | 11/14/44      | 450,000,000      | 445,743,514      | 450,000,000                   | 4.18%             | 19,570,295                       | 4.35%        |
| 10      | 3.11% Series(\$75M), Due 2025  | 06/23/15   | 07/01/25      | 75,000,000       | 74,563,893       | 75,000,000                    | 3.11%             | 2,746,650                        | 3.66%        |
| 11      | 4.11% Series(\$125M), Due 2045   | 06/23/15   | 07/01/45      | 125,000,000      | 124,273,156      | 125,000,000                   | 4.11%             | 5,367,425                        | 4.29%        |
| 12      | 4.03% Series(\$250M), Due 2047   | 11/06/17   | 11/06/2047    | 250,000,000      | 248,817,402      | 250,000,000                   | 4.03%             | 10,631,783                       | 4.25%        |
| 13      | <b>Total First Mortgage Bonds</b>  |            |               | \$ 1,266,000,000 | \$ 1,257,062,324 | \$ 1,266,000,000              |                   | \$ 56,429,672                    | 4.46%        |
| 14      |  |            |               |                  |                  |                               |                   |                                  |              |
| 15      | <b>Pollution Control Bonds</b>   |            |               |                  |                  |                               |                   |                                  |              |
| 16      | 2.00% Series (\$144.7M), Due 2023  | 08/11/16   | 08/01/23      | \$ 144,660,000   | \$ 138,906,956   | \$ 144,660,000                | 2.000%            | \$ 3,627,593                     | 2.51%        |
| 17      |  |            |               |                  |                  |                               |                   |                                  |              |
| 18      | <b>Total Pollution Control Bonds</b>   |            |               | \$ 144,660,000   | \$ 138,906,956   | \$ 144,660,000                |                   | \$ 3,627,593                     | 2.51%        |
| 19      |  |            |               |                  |                  |                               |                   |                                  |              |
| 20      | <b>Other Long-Term Debt</b>  |            |               |                  |                  |                               |                   |                                  |              |
| 21      | New Market Tax Credit Financing - New G.O Bldg   | 07/01/14   | 07/01/46      | \$ 26,976,900    | \$ 26,292,348    | \$ 26,976,900                 | 1.146%            | \$ 348,054                       | 1.29%        |
| 22      |  |            |               |                  |                  |                               |                   |                                  |              |
| 23      | <b>Total Other Long Term Debt</b>  |            |               | \$ 26,976,900    | \$ 26,292,348    | \$ 26,976,900                 |                   | \$ 348,054                       | 1.29%        |
| 24      |  |            |               |                  |                  |                               |                   |                                  |              |
| 25      | <b>TOTAL LONG TERM DEBT</b>  |            |               | \$ 1,437,636,900 | \$ 1,422,261,628 | \$ 1,437,636,900              |                   | \$ 60,405,319                    | 4.20%        |
| 26      |  |            |               |                  |                  |                               |                   |                                  |              |
| 27      |  |            |               |                  |                  |                               |                   |                                  |              |
| 28      | This schedule does not reflect our capital lease, which is the Basin Creek contract lease. That amount is \$22,213,443 |            |               |                  |                  |                               |                   |                                  |              |
| 29      |  |            |               |                  |                  |                               |                   |                                  |              |
| 30      |  |            |               |                  |                  |                               |                   |                                  |              |
| 31      |  |            |               |                  |                  |                               |                   |                                  |              |
| 32      |  |            |               |                  |                  |                               |                   |                                  |              |
| 33      |  |            |               |                  |                  |                               |                   |                                  |              |
| 34      |  |            |               |                  |                  |                               |                   |                                  |              |
| 35      |  |            |               |                  |                  |                               |                   |                                  |              |
| 36      |  |            |               |                  |                  |                               |                   |                                  |              |
| 37      |  |            |               |                  |                  |                               |                   |                                  |              |
| 38      |  |            |               |                  |                  |                               |                   |                                  |              |
| 39      |  |            |               |                  |                  |                               |                   |                                  |              |
| 40      |  |            |               |                  |                  |                               |                   |                                  |              |
| 41      |  |            |               |                  |                  |                               |                   |                                  |              |
| 42      |  |            |               |                  |                  |                               |                   |                                  |              |

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

## COMMON STOCK

|    |   | Avg. Number<br>of Shares<br>Outstanding<br>1/ | Book<br>Value<br>Per Share | Basic<br>Earnings<br>Per<br>Share | Dividends<br>Per<br>Share<br>(Declared) | Retention<br>Ratio | Market Price |         | Price/<br>Earnings<br>Ratio |
|----|---|---|----------------------------|-----------------------------------|---|--------------------|--------------|---------|-----------------------------|
|    |   |   |                            |                                   |   |                    | High         | Low     |                             |
| 1  |   |   |                            |                                   |   |                    |              |         |                             |
| 2  |   |   |                            |                                   |   |                    |              |         |                             |
| 3  | January   | 48,338,900                                    | \$35.29                    |                                   |   |                    | \$57.51      | \$56.41 |                             |
| 4  |   |   |                            |                                   |   |                    |              |         |                             |
| 5  | February  | 48,426,606                                    | 35.60                      |                                   |   |                    | 58.50        | 56.09   |                             |
| 6  |   |   |                            |                                   |   |                    |              |         |                             |
| 7  | March   | 48,444,284                                    | 35.28                      | \$1.17                            | 0.525                                   |                    | 59.01        | 56.51   |                             |
| 8  |   |   |                            |                                   |   |                    |              |         |                             |
| 9  | April   | 48,445,078                                    | 35.48                      |                                   |   |                    | 60.42        | 58.56   |                             |
| 10 |   |   |                            |                                   |   |                    |              |         |                             |
| 11 | May   | 48,451,537                                    | 35.59                      |                                   |   |                    | 61.96        | 59.75   |                             |
| 12 |   |   |                            |                                   |   |                    |              |         |                             |
| 13 | June  | 48,470,756                                    | 35.25                      | 0.45                              | 0.525                                   |                    | 63.78        | 61.02   |                             |
| 14 |   |   |                            |                                   |   |                    |              |         |                             |
| 15 | July  | 48,471,447                                    | 35.54                      |                                   |   |                    | 61.77        | 57.79   |                             |
| 16 |   |   |                            |                                   |   |                    |              |         |                             |
| 17 | August  | 48,472,926                                    | 35.81                      |                                   |   |                    | 61.26        | 58.92   |                             |
| 18 |   |   |                            |                                   |   |                    |              |         |                             |
| 19 | September   | 48,563,559                                    | 35.54                      | 0.75                              | 0.525                                   |                    | 60.65        | 56.94   |                             |
| 20 |   |   |                            |                                   |   |                    |              |         |                             |
| 21 | October   | 48,594,516                                    | 35.79                      |                                   |   |                    | 59.28        | 57.27   |                             |
| 22 |   |   |                            |                                   |   |                    |              |         |                             |
| 23 | November  | 49,231,437                                    | 36.40                      |                                   |   |                    | 64.26        | 58.87   |                             |
| 24 |   |   |                            |                                   |   |                    |              |         |                             |
| 25 | December  | 49,372,463                                    | 36.44                      | 0.98                              | 0.525                                   |                    | 63.76        | 58.52   |                             |
| 26 |   |   |                            |                                   |   |                    |              |         |                             |
| 27 | <b>TOTAL Year End</b>   | 48,557,599                                    | \$36.44                    | \$3.35                            | \$2.10                                  | 37.31%             | \$59.70      |         | 17.8                        |
| 28 |   |   |                            |                                   |   |                    |              |         |                             |
| 29 |   |   |                            |                                   |   |                    |              |         |                             |
| 30 | 1/ Monthly shares are actual shares outstanding at month-end. Total year-end shares are average |   |                            |                                   |   |                    |              |         |                             |
| 31 | shares for the twelve months ended December 31, 2017.   |   |                            |                                   |   |                    |              |         |                             |
| 32 |   |   |                            |                                   |   |                    |              |         |                             |
| 33 |   |   |                            |                                   |   |                    |              |         |                             |
| 34 |   |   |                            |                                   |   |                    |              |         |                             |
| 35 |   |   |                            |                                   |   |                    |              |         |                             |
| 36 |   |   |                            |                                   |   |                    |              |         |                             |



| Sch. 27 | MONTANA EARNED RATE OF RETURN - PROPANE             |                |                |          |
|---------|---|----------------|----------------|----------|
|         | Description   | This Year      | Last Year      | % Change |
| 1       | <b>Rate Base</b>                                    |                |                |          |
| 2       | 101 Plant in Service                                | \$1,519,564    | \$1,519,564    | 0.00%    |
| 3       | 108 Accumulated Depreciation                        | (872,095)      | (831,331)      | -4.90%   |
| 4       |   |                |                |          |
| 5       | <b>Net Plant in Service</b>                         | \$647,470      | \$688,233      | -5.92%   |
| 6       | Additions:  |                |                |          |
| 7       | Propane on Hand                                     | \$24,839       | \$26,216       | -5.25%   |
| 8       |   |                |                |          |
| 9       | <b>Total Additions</b>                              | \$24,839       | \$26,216       | -5.25%   |
| 10      | Deductions:   |                |                |          |
| 11      | 190 Accumulated Deferred Income Taxes               | \$37,251       | \$57,827       | -35.58%  |
| 12      |   |                |                |          |
| 13      | <b>Total Deductions</b>                             | \$37,251       | \$57,827       | -35.58%  |
| 14      | <b>Total Rate Base</b>                              | \$635,058      | \$656,621      | -3.28%   |
| 15      | <b>Net Earnings</b>                                 | \$ (1,608)     | \$ (21,890)    | 92.65%   |
| 16      | <b>Rate of Return on Average Rate Base</b>          | -0.253%        | -3.334%        | 92.40%   |
| 17      | <b>Rate of Return on Average Equity</b>             | Not applicable | Not applicable |          |
| 18      |   |                |                |          |
| 19      | <b>Major Normalizing and</b>                        |                |                |          |
| 20      | <b>Commission Ratemaking Adjustments</b>            |                |                |          |
| 21      |   |                |                |          |
| 22      |   |                |                |          |
| 23      |   | None           |                |          |
| 24      |   |                |                |          |
| 25      |   |                |                |          |
| 26      |   |                |                |          |
| 27      |   |                |                |          |
| 28      |   |                |                |          |
| 29      | <b>Total Adjustments</b>                            |                |                |          |
| 30      | <b>Revised Net Earnings</b>                         |                |                |          |
| 31      | <b>Adjusted Rate of Return on Average Rate Base</b> |                |                |          |
| 32      | <b>Adjusted Rate of Return on Average Equity</b>    |                |                |          |
| 33      |   |                |                |          |
| 34      |   |                |                |          |
| 35      |   |                |                |          |
| 36      |   |                |                |          |
| 37      |   |                |                |          |
| 38      |   |                |                |          |
| 39      |   |                |                |          |
| 40      |   |                |                |          |
| 41      |   |                |                |          |
| 42      |   |                |                |          |
| 43      |   |                |                |          |
| 44      |   |                |                |          |
| 45      |   |                |                |          |
| 46      |   |                |                |          |

| Sch. 28 | MONTANA COMPOSITE STATISTICS - PROPANE    |   |              |
|---------|---|---|--------------|
|         | Description                               |   | Amount       |
| 1       |   |   |              |
| 2       | <b>Plant</b>                              |   |              |
| 3       |   |   |              |
| 4       | 101                                       | Plant in Service                          | \$ 1,519,564 |
| 5       | 107                                       | Construction Work in Progress             |              |
| 6       | 117                                       | Gas in Underground Storage                | 24,839       |
| 7       | 108, 111                                  | Depreciation & Amortization Reserves      | 892,408      |
| 8       |   |   |              |
| 9       | <b>NET BOOK COSTS</b>                     |   | 651,995      |
| 10      |   |   |              |
| 11      | <b>Revenues &amp; Expenses</b>            |   |              |
| 12      |   |   |              |
| 13      | 400                                       | Operating Revenues                        | 592,918      |
| 14      |   |   |              |
| 15      | <b>Total Operating Revenues</b>           |   | 592,918      |
| 16      |   |   |              |
| 17      | 401-402                                   | Operation & Maintenance Expenses          | 488,293      |
| 18      | 403-407                                   | Depreciation Expense                      | 40,627       |
| 19      | 408.1                                     | Taxes Other than Income Taxes             | 63,285       |
| 20      | 409-411                                   | Federal & State Income Taxes              | 2,321        |
| 21      |   |   |              |
| 22      | <b>Total Operating Expenses</b>           |   | 594,526      |
| 23      | <b>Net Operating Income</b>               |   | (1,608)      |
| 24      |   |   |              |
| 25      | 415-421.1                                 | Other Income                              | -            |
| 26      | 421.2-426.5                               | Other Deductions                          | -            |
| 27      | <b>NET INCOME BEFORE INTEREST EXPENSE</b> |   | \$ (1,608)   |
| 28      |   |   |              |
| 29      | <b>Average Customers</b>                  |   |              |
| 30      |   | Residential                               | 516          |
| 31      |   | Commercial / Industrial                   | 70           |
| 32      |   |   |              |
| 33      | <b>TOTAL AVERAGE NUMBER OF CUSTOMERS</b>  |   | 586          |
| 34      |   |   |              |
| 35      | <b>Other Statistics</b>                   |   |              |
| 36      |   | Average Annual Residential Use (Dkt)      | 56.8         |
| 37      |   | Average Annual Residential Cost per (Dkt) | \$12.23      |
| 38      |   | Average Residential Monthly Bill          | \$57.84      |
| 39      |   |   |              |
| 40      |   | Plant in Service (Gross) per Customer     | \$2,593      |

| Sch. 29 | Montana Customer Information- Propane, 1/   |                           |             |            |                       |       |
|---------|---|---------------------------|-------------|------------|-----------------------|-------|
|         | City  | Population<br>Census 2010 | Residential | Commercial | Industrial<br>& Other | Total |
| 1       | Townsend  | 1,878                     | 516         | 70         | -                     | 586   |
| 2       |   |                           |             |            |                       |       |
| 3       |   |                           |             |            |                       |       |
| 4       |   |                           |             |            |                       |       |
| 5       |   |                           |             |            |                       |       |
| 6       |   |                           |             |            |                       |       |
| 7       |   |                           |             |            |                       |       |
| 8       |   |                           |             |            |                       |       |
| 9       | <b>Total</b>  | 1,878                     | 516         | 70         | -                     | 586   |
| 10      |   |                           |             |            |                       |       |
| 11      |   |                           |             |            |                       |       |
| 12      | 1/ Customer populations represent an average of the 12 month period from 01/01/17 through 12/31/17. |                           |             |            |                       |       |

| Sch. 30   | MONTANA EMPLOYEE COUNTS 1/ |                |          |         |
|---|----------------------------|----------------|----------|---------|
|   | Department                 | Year Beginning | Year End | Average |
| 1   |                            |                |          |         |
| 2   | <b>Utility Operations</b>  |                |          |         |
| 3   | Executive                  | 2              | 2        | 2       |
| 4   | Customer Care              | 150            | 159      | 155     |
| 5   | Finance                    | 151            | 154      | 153     |
| 6   | Regulatory Affairs         | 28             | 1        | 15      |
| 7   | Distribution               | 449            | 445      | 447     |
| 8   | Transmission               | 309            | 315      | 312     |
| 9   | Supply                     | 114            | 123      | 119     |
| 10  | Legal                      | 20             | 25       | 23      |
| 11  |                            |                |          |         |
| 12  |                            |                |          |         |
| 13  |                            |                |          |         |
| 14  |                            |                |          |         |
| 15  |                            |                |          |         |
| 16  |                            |                |          |         |
| 17  |                            |                |          |         |
| 18  | <b>TOTAL EMPLOYEES</b>     | 1,223          | 1,224    | 1,224   |
| <p>1/ Consistent with prior years, part time employees have been converted to full-time equivalents.</p> <p>On January 15, 2018, Patrick Corcoran, the company's Vice President of Government and Regulatory Affairs, retired. During November 2017, in anticipation of his retirement, the company announced that the employees that had previously reported to Patrick would be reassigned to other vice presidents, effective immediately.</p> |                            |                |          |         |

| Sch. 31 | MONTANA CONSTRUCTION BUDGET 2018 (ASSIGNED & ALLOCATED)      |                      |                      |
|---------|--|----------------------|----------------------|
|         | Project Description  | Total Company        | Total Montana        |
| 1       |  |                      |                      |
| 2       | <b>Electric Operations</b>                                   |                      |                      |
| 3       | MT Elec Trans - Holter - Drummond 100kv NERC                 | \$7,702,170          | \$7,702,170          |
| 4       | MT Elec Trans - Substation Wicks Lane 230 kV Breaker         | 4,454,629            | 4,454,629            |
| 5       | MT Elec Trans - Substation Big Timber Auto Breaker           | 3,268,632            | 3,268,632            |
| 6       | MT Elec Trans - Substation Kerr A Line Auto Banks            | 3,190,683            | 3,190,683            |
| 7       | MT Elec Dist - Bozeman Substation Jackrabbit Transformer     | 2,863,106            | 2,863,106            |
| 8       | MT Elec Dist - Substation SSIP Spare Transformers            | 2,730,296            | 2,730,296            |
| 9       | MT Electric - Distribution Management System                 | 2,592,760            | 2,592,760            |
| 10      | MT Elec Dist - OHRC MT Talc - Three Forks                    | 1,560,475            | 1,560,475            |
| 11      | MT Elec Trans - OHRC Big Timber-Melville 50kv                | 1,460,311            | 1,460,311            |
| 12      | MT Elec Trans - Holter Helena Vly Tap Reconductor            | 1,389,041            | 1,389,041            |
| 13      | MT Elec Trans - Butte Substation Sheridan Auto Upgrade       | 1,380,311            | 1,380,311            |
| 14      | MT Elec Trans - 0419 C Falls to Chester Reliability          | 1,243,551            | 1,243,551            |
| 15      | MT Elec Dist - Missoula UGCA New CKT 92                      | 1,132,598            | 1,132,598            |
| 16      | MT Elec Dist - OHCU Billings Eastside New Height             | 1,110,264            | 1,110,264            |
| 17      | MT Elec Trans - 500KV SBSB Colstrip Reactor Replace          | 1,092,113            | 1,092,113            |
| 18      | MT Elec Dist - SBSQ Belgrade West Substation                 | 1,014,034            | 1,014,034            |
| 19      |  |                      |                      |
| 20      | All Other Projects < \$1 Million Each                        | 116,210,432          | 83,406,327           |
| 21      |  |                      |                      |
| 22      | <b>Total Electric Utility Construction Budget</b>            | <b>154,395,405</b>   | <b>121,591,300</b>   |
| 23      |  |                      |                      |
| 24      | <b>Natural Gas Operations</b>                                |                      |                      |
| 25      | MT Gas Trans - Absarokee Compress and Upgrade                | 6,146,333            | 6,146,333            |
| 26      | MT Gas Dist - Butte Base Gas Infrastructure                  | 4,445,600            | 4,445,600            |
| 27      | MT Gas Trans - Compliance Warren-Billings Steam Plant        | 2,825,863            | 2,825,863            |
| 28      | MT Gas Trans - PIM Carway Line Piggable                      | 2,004,569            | 2,004,569            |
| 29      | MT Gas Dist - Bozeman HVGC Express Feed Extension Year 2     | 1,434,655            | 1,434,655            |
| 30      | MT Gas Dist - Livingston Base Gas Infrastructure             | 1,194,455            | 1,194,455            |
| 31      |  |                      |                      |
| 32      | All Other Projects < \$1 Million Each                        | 23,680,946           | 16,395,837           |
| 33      |  |                      |                      |
| 34      | <b>Total Natural Gas Utility Construction Budget</b>         | <b>41,631,451</b>    | <b>34,447,312</b>    |
| 35      |  |                      |                      |
| 36      | <b>Common</b>  |                      |                      |
| 37      | SD AMI Metering  | 16,915,640           | -                    |
| 38      | MT Fleet and Equipment Upgrades                              | 4,365,912            | 4,365,912            |
| 39      | MT Communications Fiber Backbone                             | 2,135,710            | 2,135,710            |
| 40      | Business Tech - LAM Software Gas Transmission                | 1,298,132            | 1,298,132            |
| 41      | MT Facilities - Bozeman Facility Expansion and Upgrade       | 6,976,211            | 6,976,211            |
| 42      | MT Communications MPLS Core Network                          | 1,292,233            | 1,292,233            |
| 43      | MT Facilities - Bozeman City Property Acquisition            | 1,057,073            | 1,057,073            |
| 44      | SD Fleet and Equipment Upgrades                              | 2,075,000            | -                    |
| 45      |  |                      |                      |
| 46      | All Other Projects < \$1 Million Each                        | 27,926,954           | 13,898,129           |
| 47      | (Includes BT, Communications, Facilities, Customer Services) |                      |                      |
| 48      |  |                      |                      |
| 49      | <b>Total Common Utility Construction Budget</b>              | <b>64,042,865</b>    | <b>31,023,400</b>    |
| 50      |  |                      |                      |
| 51      | <b>MT/SD Generation</b>                                      |                      |                      |
| 52      | MT Colstrip Unit 4 Capital Additions - PPL invoice           | 5,205,322            | 5,205,322            |
| 53      | MT - Hydro Hauser Unit 4 Turbine Upgrade                     | 2,483,031            | 2,483,031            |
| 54      | MT - Hydro Thompson Falls Spillway Upgrade                   | 1,734,668            | 1,734,668            |
| 55      | MT - Hydro Ryan Unit 6 Gen Rewind-Restack                    | 1,669,471            | 1,669,471            |
| 56      | MT - Hydro Madison Unit 4 Turbine Upgrade                    | 1,035,389            | 1,035,389            |
| 57      | MT - Dave Gates S/N 743177 25K Hour Maintenance              | 2,530,942            | 2,530,942            |
| 58      | SD Big Stone, Neal 4, Coyote Partner Capital, Internal       | 5,169,561            | -                    |
| 59      |  |                      |                      |
| 60      | All Other Projects < \$1 Million Each                        | 7,251,769            | 7,251,769            |
| 61      |  |                      |                      |
| 62      | <b>Total MT/SD Generation</b>                                | <b>27,080,153</b>    | <b>21,910,592</b>    |
| 63      | <b>TOTAL CONSTRUCTION BUDGET</b>                             | <b>\$287,149,874</b> | <b>\$208,972,604</b> |

| Sch. 33 | MONTANA SOURCES OF PROPANE SUPPLY   |                   |               |                     |                 |
|---------|-------------------------------------|-------------------|---------------|---------------------|-----------------|
|         |                                     | Dekatherm Volumes |               | Avg. Commodity Cost |                 |
|         |                                     | 2017<br>Year      | 2016<br>Year  | 2017<br>Year        | 2016<br>Year    |
| 1       | <b>Name of Supplier</b>             |                   |               |                     |                 |
| 2       |                                     |                   |               |                     |                 |
| 3       | AmeriGas                            | 28,326            | 21,674        | \$6.2439            | \$6.1838        |
| 4       | Gibson Energy, LLC                  | 27,305            | 23,089        | \$7.0779            | \$7.1105        |
| 5       |                                     |                   |               |                     |                 |
| 6       | <b>Total Propane Supply Volumes</b> | <b>55,631</b>     | <b>44,763</b> | <b>\$6.6532</b>     | <b>\$6.6618</b> |

| Sch. 35 |                         | MONTANA CONSUMPTION AND REVENUES - PROPANE |                  |               |               |                   |              |
|---------|-------------------------|--|------------------|---------------|---------------|-------------------|--------------|
|         |                         | Operating Revenues                         |                  | Dkt Sold      |               | Average Customers |              |
|         |                         | 2017<br>Year                               | 2016<br>Year     | 2017<br>Year  | 2016<br>Year  | 2017<br>Year      | 2016<br>Year |
| 1       | <b>Sales of Propane</b> |  |                  |               |               |                   |              |
| 2       |                         |  |                  |               |               |                   |              |
| 3       | Residential             | \$358,145                                  | \$294,653        | 29,281        | 23,298        | 516               | 508          |
| 4       | Commercial / Industrial | 234,773                                    | 200,676          | 20,056        | 16,742        | 70                | 69           |
| 5       |                         |  |                  |               |               |                   |              |
| 6       |                         |  |                  |               |               |                   |              |
| 7       | <b>TOTAL SALES</b>      | <b>\$592,918</b>                           | <b>\$495,329</b> | <b>49,337</b> | <b>40,040</b> | <b>586</b>        | <b>577</b>   |