



NORTHWESTERN ENERGY PUBLIC SERVICE CORPORATION

(A direct, wholly-owned subsidiary of NorthWestern Energy Group, Inc.)

Financial Statements

For the Period Ending December 31, 2024

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of NorthWestern Energy Public Service Corporation
Sioux Falls, South Dakota

Opinion

We have audited the financial statements of NorthWestern Energy Public Service Corporation (the “Company”), which comprise the balance sheet as of December 31, 2024, and the related statements of income, comprehensive income, shareholders' equity, and cash flows for the year then ended, and the related notes to the financial statements (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

/s/ DELOITTE & TOUCHE LLP

February 28, 2025

NORTHWESTERN ENERGY PUBLIC SERVICE CORPORATION

STATEMENTS OF INCOME

(in thousands)

	Year Ended December 31, 2024
Revenues	
Electric	\$ 190,466
Gas	88,985
Total Revenues	279,451
Operating Expenses	
Fuel, purchased supply and direct transmission expense (exclusive of depreciation and depletion shown separately below)	113,999
Operating, administrative, and general	62,723
Property and other taxes	6,924
Depreciation	49,567
Total Operating Expenses	233,213
Operating Income	46,238
Interest Expense, net	(24,433)
Other Income, net	2,392
Income Before Income Taxes	24,197
Income Tax Benefit	6,736
Net Income	\$ 30,933

See Notes to Financial Statements

NORTHWESTERN ENERGY PUBLIC SERVICE CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Year Ended December 31, 2024
Net Income	\$ 30,933
Other comprehensive income, net of tax:	
Postretirement medical liability adjustment	504
Total Other Comprehensive Income	504
Comprehensive Income	\$ 31,437

See Notes to Financial Statements

NORTHWESTERN ENERGY PUBLIC SERVICE CORPORATION

BALANCE SHEETS

(in thousands)

	<u>As of December 31, 2024</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 1,565
Restricted cash	9,691
Accounts receivable, net	37,881
Inventories	33,434
Regulatory assets	12,200
Prepaid expenses and other	12,584
Total current assets	107,355
Property, plant, and equipment, net	1,093,239
Goodwill	93,779
Regulatory assets	96,991
Other noncurrent assets	10,250
Total Assets	\$ 1,401,614
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities:	
Current portion of long-term debt	\$ 63,991
Accounts payable	27,846
Accounts payable to related parties	1,432
Accrued expenses	38,595
Regulatory liabilities	17,155
Total current liabilities	149,019
Long-term debt	488,195
Deferred income taxes	29,788
Noncurrent regulatory liabilities	110,514
Other noncurrent liabilities	32,090
Total Liabilities	809,606
Commitments and Contingencies (Note 17)	
Shareholders' Equity:	
Common stock, par value \$0.01	0
Paid-in capital	580,992
Retained earnings	10,187
Accumulated other comprehensive income	829
Total Shareholders' Equity	592,008
Total Liabilities and Shareholders' Equity	\$ 1,401,614

See Notes to Financial Statements

NORTHWESTERN ENERGY PUBLIC SERVICE CORPORATION

STATEMENTS OF CASH FLOWS

(in thousands)

	<u>Year Ended December 31, 2024</u>
OPERATING ACTIVITIES:	
Net Income	\$ 30,933
Adjustments to reconcile net income to cash provided by operations:	
Depreciation	49,567
Amortization of debt issuance costs	991
Stock-based compensation costs	792
Equity portion of Allowance for Funds Used During Construction	(1,090)
Deferred income taxes	(8,439)
Changes in current assets and liabilities:	
Accounts receivable	1,097
Inventories	(1,717)
Other current assets	(1,828)
Accounts payable	(877)
Accrued expenses	11,238
Regulatory assets	(6,344)
Regulatory liabilities	(3,780)
Other noncurrent assets and liabilities	9,882
Cash Provided by Operating Activities	<u>80,425</u>
INVESTING ACTIVITIES:	
Property, plant, and equipment additions	(67,918)
Other investing activity	(500)
Cash Used in Investing Activities	<u>(68,418)</u>
FINANCING ACTIVITIES:	
Cash contribution from NorthWestern Corporation	253
Proceeds from issuance of common stock	—
Cash dividends to parent	(20,746)
Issuance of long-term debt	40,000
Line of credit repayments, net	(20,000)
Financing costs	(258)
Cash Used in Financing Activities	<u>(751)</u>
Net Increase in Cash, Cash Equivalents, and Restricted Cash	11,256
Cash, Cash Equivalents, and Restricted Cash, beginning of period	0
Cash, Cash Equivalents, and Restricted Cash, end of period	<u><u>\$ 11,256</u></u>

See Notes to Financial Statements

NORTHWESTERN ENERGY PUBLIC SERVICE CORPORATION

STATEMENTS OF COMMON SHAREHOLDERS' EQUITY

(in thousands)

	Number of Common Shares	Number of Treasury Shares	Common Stock	Paid in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2023	0	—	\$ 0	\$ —	\$ —	\$ —	\$ —	\$ 0
Net income	—	—	—	—	—	30,933	—	30,933
Postretirement medical liability adjustment, net of tax	—	—	—	—	—	—	504	504
Stock based compensation	—	—	—	792	—	—	—	792
Cash dividend to parent	—	—	—	—	—	(20,746)	—	(20,746)
Contribution from NorthWestern Corporation (See Note 1)	—	—	—	580,200	—	—	325	580,525
Balance at December 31, 2024	0	—	\$ 0	\$ 580,992	\$ —	\$ 10,187	\$ 829	\$ 592,008

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

(1) Nature of Operations

Northwestern Energy Public Service Corporation (NWE Public Service), a direct wholly-owned subsidiary of NorthWestern Energy Group, Inc., doing business as NorthWestern Energy, provides electricity and / or natural gas to approximately 159,100 customers in South Dakota and Nebraska. We have generated and distributed electricity in South Dakota and distributed natural gas in South Dakota and Nebraska since 1923.

The Financial Statements for the periods included herein have been prepared by NWE Public Service (NorthWestern, we, or us) in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP 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. Events occurring subsequent to December 31, 2024, have been evaluated as to their potential impact to the Financial Statements through the date of issuance.

Holding Company Reorganization

NWE Public Service was incorporated on May 30, 2023, as a direct wholly-owned subsidiary of NorthWestern Corporation (NW Corp) in preparation of a holding company reorganization. On this date, NWE Public Service issued 100 shares of \$0.01 par value common stock to NW Corp for \$1. NWE Public Service had no other financial activity during the year ended December 31, 2023.

On October 2, 2023, NW Corp and NorthWestern Energy Group, Inc. completed a merger transaction pursuant to which NorthWestern Energy Group, Inc. became the holding company parent of NW Corp. On January 1, 2024, NorthWestern Energy Group, Inc. completed the second and final phase of the holding company reorganization. NW Corp contributed the assets and liabilities of its South Dakota and Nebraska regulated utilities to NWE Public Service, and then distributed its equity interest in NWE Public Service and certain other subsidiaries to NorthWestern Energy Group, Inc., resulting in NW Corp owning and operating the Montana regulated utility and NWE Public Service owning and operating the Nebraska and South Dakota utilities, each as a direct subsidiary of NorthWestern Energy Group, Inc. As NWE Public Service did not have any utility operations before January 1, 2024, these Financial Statements do not include comparative prior year results.

The below table represents the net assets that NW Corp contributed to NWE Public Service on January 1, 2024:

Net assets contributed to NWE Public Service on January 1, 2024:

ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 253
Accounts receivable, net	37,547
Inventories	31,717
Regulatory assets	5,681
Prepaid expenses and other	10,755
Total current assets	85,953
Property, plant, and equipment, net	1,067,549
Goodwill	93,779
Regulatory assets	93,933
Other noncurrent assets	9,558
Total Assets	\$ 1,350,772
LIABILITIES	
Current Liabilities:	
Accounts payable	28,751
Accrued expenses	27,392
Regulatory liabilities	20,766
Total current liabilities	76,909
Long-term debt	532,148
Deferred income taxes	25,033
Noncurrent regulatory liabilities	106,307
Other noncurrent liabilities	29,850
Total Liabilities	\$ 770,247
Total Net Assets Contributed to NWE Public Service	\$ 580,525

(2) Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with GAAP 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, uncertain tax position reserves, AROs, regulatory assets and liabilities, allowances for uncollectible accounts, our QF liability, environmental liabilities, unbilled revenues and actuarially determined benefit costs and liabilities. 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

The Company recognizes revenue as customers obtain control of promised goods and services in an amount that reflects consideration expected in exchange for those goods or services. Generally, the delivery of electricity and natural gas results in the transfer of control to customers at the time the commodity is delivered and the amount of revenue recognized is equal to the amount billed to each customer, including estimated volumes delivered when billings have not yet occurred.

Cash Equivalents

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

Restricted Cash

Restricted cash consists primarily of funds held in trust accounts to satisfy the requirements of certain stipulation agreements and insurance reserve requirements.

Accounts Receivable, Net

Accounts receivable are net of allowances for uncollectible accounts of \$0.3 million at December 31, 2024. Receivables include unbilled revenues of \$21.1 million at December 31, 2024.

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 (regulatory liabilities).

If we were required to terminate the application of these provisions to our regulated operations, all such deferred amounts would be recognized in the Statements of Income at that time. This would result in a charge to earnings and accumulated other comprehensive income (AOCI), 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 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. As of December 31, 2024, the only derivative instruments we have qualify for the normal purchases and normal sales exception.

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 8 - Risk Management and Hedging Activities](#), for further discussion of our derivative activity.

Property, Plant and Equipment

Property, plant and equipment are stated at original cost, including contracted services, direct labor and material, allowance for funds used during construction (AFUDC), and indirect charges for engineering, supervision and similar overhead items. All expenditures for maintenance and repairs of utility property, plant and equipment are charged to the appropriate maintenance expense accounts. A betterment or replacement of a unit of property is accounted for as an addition and retirement of utility plant. At the time of such a retirement, the accumulated provision for depreciation is charged with the original cost of the property retired and also for the net cost of removal. Also included in plant and equipment are assets under finance 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 interest expense, while the equity component is included in other income. This rate averaged 6.9% in 2024. AFUDC capitalized totaled \$1.6 million for the year ended December 31, 2024.

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 5 to 95) 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 3.4% for 2024.

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 noncurrent regulatory liabilities.

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 Income Statements and provision for income taxes.

Under the Inflation Reduction Act of 2022 our production tax credits may be transferred to an unrelated entity. Our policy is to account for these transferable credits within income tax expense.

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.

Supplemental Cash Flow Information

	Year Ended December 31, 2024
Cash paid (received) for:	
Production tax credits ⁽¹⁾	\$ (6,867)
Interest	22,952
Significant non-cash transactions:	
Capital expenditures included in trade accounts payable	3,840

(1) Proceeds from production tax credits transferred are included in cash provided by operating activities within the Statement of Cash Flows.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Balance Sheets that sum to the total of the same such amounts shown in the Statements of Cash Flows (in thousands):

	December 31, 2024
Cash and cash equivalents	\$ 1,565
Restricted cash	9,691
Total cash, cash equivalents, and restricted cash shown in the Statements of Cash Flows	\$ 11,256

Restricted cash consists primarily of funds held in trust accounts to satisfy the requirements of certain stipulation agreements and insurance reserve requirements.

Accounting Standards Issued

There were no accounting standards adopted in the current year that had a material impact to our financial condition, results of operations, and cash flows. At this time, we are not expecting the adoption of recently issued accounting standards to have a material impact to our financial condition, results of operations, and cash flows.

(3) Regulatory Matters

South Dakota Natural Gas Rate Review

In June 2024, we filed a natural gas rate review (2023 test year) with the South Dakota Public Utilities Commission (SDPUC) for an annual increase to natural gas rates totaling approximately \$6.0 million. Our request was based on a rate of return of 7.75 percent and rate base of \$95.6 million. In December 2024, the SDPUC issued a final order approving the settlement agreement between NorthWestern and SDPUC Staff for an annual increase in base rates of approximately \$4.6 million and an authorized rate of return of 6.91 percent. The approved settlement is based on a rate base of \$96.2 million. Final rates were effective December 19, 2024.

Nebraska Natural Gas Rate Review

In June 2024, we filed a natural gas rate review (2023 test year) with the Nebraska Public Service Commission (NPSC). The filing requests a base rate annual revenue increase of \$3.6 million. Our request is based on a return on equity of 10.70 percent, a capital structure including 53.13 percent equity, and rate base of \$47.4 million. Interim rates, which increased base natural gas rates \$2.3 million, were implemented on October 1, 2024. Interim rates will remain in effect on a refundable basis until the NPSC issues a final order.

(4) 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. Of these regulatory assets and liabilities, energy supply costs are the only items earning a rate of return. The remaining regulatory items have corresponding assets and liabilities that will be paid for or refunded in future periods.

	Note Reference	Remaining Amortization Period	December 31, 2024 (in thousands)
Flow-through income taxes	12	Plant Lives	\$ 74,250
Environmental clean-up	17	Undetermined	11,257
Supply costs		1 Year	10,309
Excess deferred income taxes	12	Plant Lives	6,580
Pension	14	See Note 14	5,376
Deferred financing costs	11	See Note 11	793
State & local taxes & fees		1 Year	61
Other		Various	565
Total Regulatory Assets			\$ 109,191
Removal cost	6	Plant Lives	\$ 93,152
Excess deferred income taxes	12	Plant Lives	17,725
Supply costs		1 Year	15,840
State & local taxes & fees		1 Year	205
Other		Various	747
Total Regulatory Liabilities			\$ 127,669

Income Taxes

Flow-through income taxes primarily reflect the effects of plant related temporary differences such as flow-through of depreciation, repairs related deductions, and removal costs that we will recover or refund in future rates. We amortize these

amounts as temporary differences reverse. Excess deferred income tax assets and liabilities are recorded as a result of the Tax Cuts and Jobs Act and will be recovered or refunded in future rates. See [Note 12 - Income Taxes](#) for further discussion.

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 17 - Commitments and Contingencies](#). Environmental clean-up costs are typically recoverable in customer rates when they are actually incurred. When cost projections become known and measurable, we coordinate with the appropriate regulatory authority to determine a recovery period.

Supply Costs

The SDPUC and NPSC have authorized the use of electric and natural gas supply cost trackers that enable us to track actual supply costs and either recover the under collection or refund the over collection to our customers. Accordingly, we have recorded a regulatory asset and liability to reflect the future recovery of under collections and refunding of over collections through the ratemaking process. We earn interest on natural gas supply costs under collected, or apply interest to an over collection, of 6.8 percent and 6.9 percent for electric and natural gas, respectively, in South Dakota; and 8.5 percent for natural gas in Nebraska.

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 SDPUC allows recovery of pension and postretirement benefit costs on an accrual basis.

Deferred Financing Costs

Consistent with our historical regulatory treatment, a regulatory asset has been established to reflect the remaining deferred financing costs on long-term debt that has been replaced through the issuance of new debt. These amounts are amortized over the life of the new debt.

Removal Cost

The anticipated costs of removing assets upon retirement are collected from customers in advance of removal activity as a component of depreciation expense. Our depreciation method, including cost of removal, is established by the respective regulatory commissions. Therefore, consistent with this regulated treatment, we reflect this accrual of removal costs for our regulated assets by increasing our regulatory liability. See [Note 6 - Asset Retirement Obligations](#), for further information regarding this item.

(5) Property, Plant and Equipment

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

	December 31, 2024
	(in thousands)
Electric Plant	\$ 1,145,833
Natural Gas Plant	286,843
Plant acquisition adjustment ⁽¹⁾	30,010
Common and Other Plant	72,896
Construction work in process	31,027
Total property, plant and equipment	1,566,609
Less accumulated depreciation	(457,466)
Less accumulated amortization	(15,904)
Net property, plant and equipment	\$ 1,093,239

(1) The plant acquisition adjustment balance above includes our Beethoven wind project acquired in 2015. The acquisition adjustment is amortized on a straight-line basis over the estimated remaining useful life in depreciation expense.

Jointly Owned Electric Generating Plant

We have an ownership interest in three 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 (SD)	Neal #4 (IA)	Coyote (ND)
December 31, 2024			
Ownership percentages	23.4 %	8.7 %	10.0 %
Plant in service	\$ 157,572	\$ 65,426	\$ 52,430
Accumulated depreciation	49,573	39,025	39,887

(6) 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 property, plant and equipment and other noncurrent liabilities. 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 AROs 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 regulatory asset or liability for the difference, which will be surcharged/refunded to customers through the rate making process. We record regulatory assets and liabilities for differences in timing of asset retirement costs recovered in rates and AROs recorded since asset retirement costs are recovered through rates charged to customers.

Our AROs relate to the reclamation and removal costs at our jointly-owned coal-fired generation facilities, U.S. Department of Transportation requirements to cut, purge and cap retired natural gas pipeline segments, and to remove all above-ground wind power facilities and restore the soil surface at the end of their life. The following table presents the change in our ARO (in thousands):

	December 31, 2024
Liability at January 1,	\$ 6,616
Accretion expense	311
Liabilities incurred	—
Liabilities settled	(120)
Revisions to cash flows	34
Liability at December 31,	<u>\$ 6,841</u>

During the twelve months ended December 31, 2024, our ARO liability decreased \$0.1 million for partial settlement of the legal obligations at our jointly-owned coal-fired generation facilities and natural gas pipeline segments.

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. The recorded amounts of costs collected from customers through depreciation rates are classified as a regulatory liability in recognition of the fact that we have collected these amounts that will be used in the future to fund asset retirement costs and do not represent legal retirement obligations. See [Note 4 - Regulatory Assets and Liabilities](#) for removal costs recorded as regulatory liabilities on the Balance Sheets as of December 31, 2024.

(7) Goodwill

We completed our annual goodwill impairment test as of April 1, 2024, 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.

Goodwill by segment is as follows (in thousands):

	December 31, 2024
Electric	\$ 63,667
Natural gas	30,112
Total Goodwill	<u>\$ 93,779</u>

(8) 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, 2024. 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,

(9) 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, accounts payable, and short-term borrowings, the carrying amount of each such item approximates fair value. There are no components of our assets or liabilities measured at fair value in the Financial Statements at December 31, 2024.

Financial Instruments

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

	December 31, 2024	
	Carrying Amount	Fair Value
Liabilities:		
Long-term debt	\$ 552,186	\$ 504,498

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.

(10) Unsecured Credit Facilities

On November 29, 2023, we, along with NorthWestern Energy Group, Inc., entered into a new \$200.0 million unsecured revolver credit facility with base sublimits of \$50.0 million for NorthWestern Energy Group, Inc. and \$150.0 million for NWE Public Service (the HoldCo and NWE Public Service Credit Facility). The HoldCo and NWE Public Service Credit Facility has a maturity date of November 29, 2028. Upon the completion of the holding company reorganization on January 1, 2024, this credit facility became effective. The HoldCo and NWE Public Service Credit Facility has uncommitted features that allow both NorthWestern Energy Group, Inc. and NWE Public Service to request one-year extensions to the maturity date and increase the

size of the credit facility by an additional \$50 million. The credit facility also gives us the flexibility to adjust the sublimits as needed, provided that NorthWestern Energy Group's base sublimit cannot exceed \$100.0 million and NWE Public Service's sublimit cannot exceed \$200.0 million. Borrowings may be made at interest rates equal to (a) SOFR, plus a credit spread adjustment of 10.0 basis points plus a margin of 100.0 to 175.0 basis points, or (b) a base rate, plus a margin of 0.0 to 75.0 basis points.

Commitment fees for the unsecured revolving lines of credit was \$0.2 million for the year ended December 31, 2024.

The availability under the facilities in place for the year ended December 31, 2024, is shown in the following table (in millions):

	2024
Unsecured revolving line of credit, expiring November 2028	\$ 150.0
Amounts outstanding at December 31:	
SOFR borrowings	34.0
Letters of credit	—
	34.0
Net availability as of December 31	\$ 116.0

Our credit facilities include covenants that require us to meet certain financial tests, including a maximum debt to capitalization ratio not to exceed 65 percent. The facilities also contain 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 First Mortgage Bonds would trigger a cross default on the NWE Public Service sublimit of the HoldCo and NWE Public Service Credit Facility; however, a default on the HoldCo and NWE Public Service Credit Facility would not trigger a default on the South Dakota First Mortgage Bonds.

(11) Long-Term Debt and Finance Leases

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

	Due	December 31, 2024
<u>Unsecured Debt:</u>		
Unsecured Revolving Line of Credit	2028	\$ 34,000
<u>Secured Debt:</u>		
Mortgage bonds—		
South Dakota—5.01%	2025	64,000
South Dakota—2.80%	2026	60,000
South Dakota—2.66%	2026	45,000
South Dakota—5.55%	2029	33,000
South Dakota—3.21%	2030	50,000
South Dakota—5.57%	2033	31,000
South Dakota—5.42%	2033	30,000
South Dakota—5.75%	2034	7,000
South Dakota—4.26%	2040	70,000
South Dakota—4.15%	2042	30,000
South Dakota—4.85%	2043	50,000
South Dakota—4.22%	2044	30,000
South Dakota—4.30%	2052	20,000
<u>Other Long Term Debt:</u>		
Discount on Notes and Bonds and Debt Issuance Costs, Net	—	(1,814)
Total Long-Term Debt		\$ 552,186
Less current maturities (including associated debt issuance costs)		(63,991)
Total Long-Term Debt, Net of Current Maturities		\$ 488,195

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. These bonds are secured by substantially all of our electric and natural gas assets associated with our South Dakota and Nebraska utility operations. The South Dakota indenture was transferred from NW Corp to NWE Public Service upon the completion of the holding company reorganization on January 1, 2024.

On March 28, 2024, we issued and sold \$33.0 million aggregate principal amount of South Dakota First Mortgage Bonds at a fixed interest rate of 5.55 percent maturing on March 28, 2029, and \$7.0 million aggregate principal amount of South Dakota First Mortgage Bonds at a fixed interest rate of 5.75 percent maturing on March 28, 2034. These bonds were issued in transactions exempt from the registration requirements of the Securities Act of 1933. Proceeds were used for general utility purposes. The bonds are secured by our electric and natural gas assets associated with its South Dakota and Nebraska utility operations.

As of December 31, 2024, we were in compliance with our financial debt covenants.

Maturities of Long-Term Debt

The aggregate minimum principal maturities of long-term debt during the next five years are \$64.0 million in 2025, \$105.0 million in 2026, \$34 million in 2028, and 33.0 million in 2029.

(12) Income Taxes

Income tax (benefit) expense is comprised of the following (in thousands):

	December 31, 2024
Federal	
Current	\$ (5,989)
Deferred	(997)
Investment tax credits	—
State	
Current	—
Deferred	250
Income Tax Benefit	\$ (6,736)

Deferred income tax expense is comprised of the following (in thousands):

	December 31, 2024
Deferred tax benefit excluding items below	\$ (2,934)
Adjustments to other noncurrent liabilities, regulatory assets, and liabilities	(5,371)
Tax benefit allocated to other comprehensive income	(134)
Adjustments to deferred income taxes for production tax credit cash transfer	7,692
Deferred tax benefit	\$ (747)

Our effective tax rate typically differs from the federal statutory tax rate primarily due to production tax credits and 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 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.

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

	December 31, 2024
Federal statutory rate	21.0 %
State income tax, net of federal provisions	1.0
Production tax credits	(36.3)
Flow-through repairs deductions	(15.9)
Gas repairs safe harbor method change	(10.9)
Amortization of excess deferred income taxes	(1.9)
Plant and depreciation of flow through items	11.1
Prior year permanent return to accrual adjustments	0.8
Other, net	3.3
Effective tax rate	(27.8)%

The table below summarizes the significant differences in income tax expense (benefit) based on the differences between our effective tax rate and the federal statutory rate (in thousands). All of our income from continuing operations is from domestic operations.

	Year Ended December 31, 2024
Income Before Income Taxes	\$ 24,197
Income tax calculated at federal statutory rate	5,081
Permanent or flow through adjustments:	
State income, net of federal provisions	250
Production tax credits	(8,781)
Flow-through repairs deductions	(3,859)
Gas repairs safe harbor method change	(2,628)
Amortization of excess deferred income taxes	(465)
Plant and depreciation of flow through items	2,675
Prior year permanent return to accrual adjustments	185
Other, net	806
	<u>(11,817)</u>
Income Tax Benefit	<u>\$ (6,736)</u>

We are included in NorthWestern Energy Group, Inc.'s consolidated federal and state income tax returns. In accordance with our tax sharing agreement with NorthWestern Energy Group, Inc., we compute our income taxes based upon the separate return method, where we are assumed to file a separate return with the taxing authority, thereby reporting our taxable income and paying the applicable tax to or receiving the appropriate refund from NorthWestern Energy Group, Inc.

In 2023, the Internal Revenue Service (IRS) issued a safe harbor method of accounting for the repair and maintenance of natural gas transmission and distribution property. For the year ending December 31, 2024, after completion of our impact analysis of the gas repairs safe harbor method change, we recorded an income tax benefit of approximately \$2.6 million related to tax deductions for repair costs that were previously capitalized in the 2022 and prior tax years.

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

	December 31, 2024
Production tax credit	\$ 62,094
NOL carryforward	30,124
Unbilled revenue	3,350
Environmental liability	3,283
Compensation accruals	1,693
Reserves and accruals	119
Other, net	2,001
Deferred Tax Asset	<u>102,664</u>
Excess tax depreciation	(113,500)
Flow through depreciation	(13,270)
Pension / postretirement benefits	(1,291)
Regulatory assets and other	(4,391)
Deferred Tax Liability	<u>(132,452)</u>
Deferred Tax Liability, net	<u>\$ (29,788)</u>

As of December 31, 2024, our total federal NOL carryforward was approximately \$143.4 million. Our federal NOL carryforward does not expire. We believe it is more likely than not that sufficient taxable income will be generated to utilize these NOL carryforwards.

At December 31, 2024, our total production tax credit carryforward was approximately \$62.1 million. If unused, our production tax credit carryforwards will expire as follows: \$0.7 million in 2035, \$7.5 million in 2036, \$7.5 million in 2037, \$7.0 million in 2038, \$7.1 million in 2039, \$7.7 million in 2040, \$7.1 million in 2041, \$8.7 million in 2042, and \$8.8 million in 2044. We believe it is more likely than not that sufficient taxable income will be generated to utilize these production tax credit carryforwards.

Tax years 2021 and forward remain subject to examination by the IRS and state taxing authorities.

(13) Comprehensive Income

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

	December 31, 2024		
	Before- Tax Amount	Tax Benefit	Net-of- Tax Amount
Postretirement medical liability adjustment	\$ 637	\$ (133)	\$ 504
Other comprehensive income	\$ 637	\$ (133)	\$ 504

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

	December 31, 2024
Postretirement medical plans	\$ 829
Accumulated other comprehensive income	\$ 829

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

	December 31, 2024	
	Item in the Statements of Income	Postretirement Medical Plans
Beginning balance		\$ —
Amounts reclassified from AOCI	Interest Expense	504
Net current-period other comprehensive income		504
Contribution from Parent		\$ 325
Ending Balance		\$ 829

(14) 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 Energy SD/NE Plan (formerly known as the NorthWestern Corporation 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 percent 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 Plans' funded status is recognized as an asset in our Financial Statements. See [Note 4 - 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	Postretirement Benefits
	December 31, 2024	December 31, 2024
Change in benefit obligation:		
Obligation at beginning of period	\$ 46,662	\$ 3,110
Service cost	493	56
Interest cost	2,219	101
Actuarial (gain)	(1,719)	(710)
Settlements	—	—
Benefits paid	(4,511)	(170)
Benefit Obligation at End of Period	\$ 43,144	\$ 2,387
Change in Fair Value of Plan Assets:		
Fair value of plan assets at beginning of period	54,537	—
Return on plan assets	1,385	—
Employer contributions	1,200	170
Settlements	—	—
Benefits paid	(4,511)	(170)
Fair value of plan assets at end of period	\$ 52,611	\$ —
Funded Status	\$ 9,467	\$ (2,387)
Amounts Recognized in the Balance Sheet Consist of:		
Noncurrent asset	9,467	—
Total Assets	\$ 9,467	\$ —
Current liability	—	(800)
Noncurrent liability	—	(1,587)
Total Liabilities	—	(2,387)
Net amount recognized	\$ 9,467	\$ (2,387)
Amounts Recognized in Regulatory Assets Consist of:		
Prior service credit	—	—
Net actuarial (loss) gain	(992)	—
Amounts recognized in AOCI consist of:		
Prior service cost	—	—
Net actuarial gain	—	1,228
Total	\$ (992)	\$ 1,228

The actuarial gain/loss is primarily due to the change in discount rate assumption and actual asset returns compared with expected amounts.

Net Periodic Cost (Credit)

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

	Pension Benefits	Other Postretirement Benefits
	December 31, 2024	December 31, 2024
Components of Net Periodic Benefit Cost		
Service cost	\$ 493	\$ 56
Interest cost	2,219	101
Expected return on plan assets	(2,740)	—
Amortization of prior service cost (credit)	—	—
Recognized actuarial loss (gain)	—	(73)
Net Periodic Benefit Cost (Credit)	\$ (28)	\$ 84
Previously deferred costs recognized ⁽¹⁾	75	—
Net Periodic Benefit Cost Recognized	\$ 47	\$ 84

(1) Net periodic benefit costs for pension and postretirement benefit plans are recognized for financial reporting based on the authorization of each regulatory jurisdiction in which we operate. A portion of these costs are recorded in regulatory assets and recognized in the Statements of Income as those costs are recovered through customer rates.

For the year ended December 31, 2024, Service costs were recorded in Operating, general, and administrative expense while non-service costs were recorded in Other income, net on the Statements of Income.

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.

Actuarial Assumptions

The measurement dates used to determine pension and other postretirement benefit measurements for the plans are December 31, 2024. 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. During 2022, the plan's actuary conducted an experience study to review five years of plan experience and update these assumptions.

On an annual basis, 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 increase in the discount rate during 2024 decreased our projected benefit obligation by approximately \$2 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 decreased our long term rate of return on assets assumption for NorthWestern Energy SD/NE Pension Plan to 4.58 percent for 2025.

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

	Pension Benefits	Other Postretirement Benefits
	December 31, 2024	December 31, 2024
Discount rate	5.50	5.30
Expected rate of return on assets	5.15	N/A
Long-term rate of increase in compensation levels (non-union)	4.00	4.00
Long-term rate of increase in compensation levels (union)	4.00	4.00
Interest crediting rate	3.30	N/A

The postretirement benefit obligation is calculated assuming that health care costs increase by a 5.00 percent 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, Prudent Man Rule of the Employee Retirement Income Security Act of 1974 and liability-based considerations. 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 invested as long-term cash holdings reduce long-term rates of return;
- Pension Plan portfolio risk is described by volatility in the funded status of the Plans;
- 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 pension plans overall funded status, (such assets will be described as Liability Hedging Fixed Income assets);
- 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 percent, is as follows:

	NorthWestern Energy SD/NE Pension
	December 31, 2024
Fixed income securities	90.0 %
Opportunistic fixed income	3.0
Global equities	7.0
Private real estate	—

The actual allocation by plan is as follows:

	NorthWestern Energy SD/NE Pension
	December 31, 2024
Cash and cash equivalents	0.8 %
Fixed income securities	89.4
Opportunistic fixed income	2.9
Global equities	6.9
Private real estate	—
	100.0 %

Generally, the asset mix will be rebalanced to the target mix as individual portfolios approach their minimum or maximum levels. The guidelines allow for a transition to targets over time as assets are reallocated to newly-approved asset classes of opportunistic fixed income and private real estate. Debt securities consist of U.S. and international instruments including emerging markets and high yield instruments, as well as government, corporate, asset backed and mortgage backed securities. While the portfolio may invest in high yield securities, the average quality must be rated at least "investment grade" by rating agencies. Equity, real estate and fixed income portfolios may be comprised of both active and passive management strategies. 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. We also invest in global equities with exposure to developing and emerging markets. Equity investments may also be diversified across investment styles such as growth and value. Derivatives, options and futures are permitted for the purpose of reducing risk but may not be used for speculative purposes. Real estate investments will consist of global equity or debt interests in tangible property consisting of land, buildings, and other improvements in commercial and residential sectors.

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 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 Public Service's or any affiliate's stock is not permitted; however, any holding in a diversified mutual fund or collective investment fund is permitted.

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. Additional funding relief was passed in the American Rescue Plan Act of 2021, providing for longer amortization and interest rate smoothing, which we elected to use. We expect to continue to make contributions to the pension plans in 2024 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.

Annual contributions to the pension plan are as follows (in thousands):

	2024
NorthWestern Energy Pension Plan	1,200
	<u>\$ 1,200</u>

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

	Pension Benefits	Other Postretirement Benefits
2025	3,974	790
2026	3,856	230
2027	3,785	219
2028	3,829	174
2029	4,191	180
2030-2034	19,165	929

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 the plan. We also contribute various percentages of employees' gross compensation to the plan. Company contributions for the year ended December 31, 2024 were \$3.1 million.

(15) Stock-Based Compensation

Our employees participate in the NorthWestern Energy Group, Inc. Amended and Restated Equity Compensation Plan (ECP), which includes restricted stock awards and performance share awards. Stock-based compensation expense is allocated to us based on the outstanding awards held by our employees and our allocation of labor costs. 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.

We recognized total stock-based compensation expense of \$0.6 million, for the year ended December 31, 2024, and related income tax benefit of \$(0.1) million for the year ended December 31, 2024.

(16) Common Stock

We have 100 shares of common stock authorized with a \$0.01 par value. We have 100 shares of common stock issued and outstanding.

Dividend Restrictions

Under various state regulatory agreements, debt agreements and the Federal Power Act, we have restrictions, including minimum equity ratios, that limit the amount of dividend distributions that can be made.

Our ability to pay dividends is limited by the terms of various debt agreements, pursuant to which, we are required to maintain a debt to capitalization ratio of no more than 0.65 to 1.00.

As of December 31, 2024, approximately \$294.6 million of our net assets were available for the payment of dividends under our most restrictive dividend restriction.

(17) Commitments and Contingencies

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 24 years. Costs incurred under these contracts are included in Fuel, purchased power and direct transmission expense in the Statements of Income and were approximately \$100.6 million for the year ended December 31, 2024. As of December 31, 2024, our commitments under these contracts were \$81.5 million in 2025, \$53.0 million in 2026, \$50.2 million in 2027, \$50.4 million in 2028, \$47.6 million in 2029, and \$175.0 million thereafter. These commitments are not reflected in our Financial Statements.

ENVIRONMENTAL LIABILITIES AND REGULATION

Environmental Matters

The operation of electric generating, transmission and distribution facilities, and gas 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, our environmental reserve, which relates primarily to the remediation of former manufactured gas plant sites owned by us or for which we are responsible, is estimated to range between \$12.8 million to \$19.1 million. As of December 31, 2024, we had a reserve of approximately \$15.7 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.

The following summarizes the change in our environmental liability (in thousands):

	December 31, 2024
Liability at January 1,	\$ 16,848
Deductions	(1,846)
Charged to costs and expense	633
Liability at December 31,	<u>\$ 15,635</u>

We are permitted to recover the remediation costs related to certain environmental liabilities within rates. Over time, as costs become determinable, we may seek authorization to recover such costs in rates or seek insurance reimbursement as available and applicable; therefore, although we cannot guarantee regulatory recovery for all remediation costs, we do not expect these costs to have a material effect on our consolidated financial position or results of operations.

Manufactured Gas Plants - Approximately \$15.4 million of our environmental reserve accrual is related to the following manufactured gas plants.

South Dakota - 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 Agriculture and Natural Resources, and conducting ongoing monitoring and operation and maintenance activities. As of December 31, 2024, the reserve for remediation costs at this site was approximately \$7.2 million, and we estimate that approximately \$2.1 million of this amount will be incurred through 2028. The SDPUC permits the recovery of these costs within rates.

Nebraska - We 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.

Global Climate Change - National and international actions have been initiated to address global climate change and the contribution of greenhouse gas (GHG) including, most significantly, carbon dioxide (CO₂) and methane emissions from natural gas. These actions include legislative proposals, Executive, Congressional and EPA actions at the federal level, state level activity, investor activism and private party litigation relating to emissions. Coal-fired plants have come under particular scrutiny due to their level of emissions. We have joint ownership interests in three 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.

EPA Rules - Congress has not passed any federal climate change legislation regarding GHG emissions from coal fired plants, and we cannot predict the timing or form of any potential legislation. Section 111(d) of the Clean Air Act (CAA) confers authority on EPA and the states to regulate emissions, including GHGs, from existing stationary sources. In April 2024, the EPA released final rules related to greenhouse gas (GHG) emission standards (GHG Rules) for existing coal-fired facilities and new coal and natural gas-fired facilities as well as final rules strengthening the MATS requirements (MATS Rules). In particular, the GHG rules will (i) strengthen the current New Source Performance Standards for newly built fossil fuel-fired stationary combustion turbines (generally natural gas-fired); (ii) establish emission guidelines for states to follow in limiting carbon pollution from existing fossil fuel-fired steam generating electric generating units (including coal, oil and natural gas-fired units); and (iii) establish emission guidelines for large, frequently used existing fossil fuel-fired stationary combustion turbines (generally natural gas-fired). The MATS Rules will strengthen emission limits for acid gases, mercury, and other hazardous air pollutants from new and existing electric generating units. Compliance with the rules will require expensive upgrades at Colstrip Units 3 and 4 with proposed compliance dates that may not be achievable and / or require technology that is unproven, resulting in significant impacts to costs of the facilities. The final MATS and GHG Rules require compliance as early as 2027 and 2032, respectively.

Previous efforts by the EPA were met with extensive litigation, and this time is no different. We, along with many other utilities, electric cooperatives, organizations, and states, have petitioned for judicial review of the GHG and MATS Rules with the U.S. Court of Appeals for the D.C. Circuit. The United States Supreme Court denied the multiple stay requests related to the MATS Rule and the GHG Rule. The litigation on the merits continues for both the MATS and GHG rules in the D.C. Circuit Court of Appeals, and decisions are expected in 2025 unless the EPA reconsiders the underlying rules. If the MATS Rules and GHG Rules are implemented, it would result in additional material compliance costs. We will continue working with federal

and state regulatory authorities, other utilities, and stakeholders to seek relief from the MATS and GHG regulations that, in our view, disproportionately impact customers in our region.

These GHG Rules and MATS Rules as well as future additional environmental requirements - federal or state - 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 or hazardous air pollutants may not be available within a timeframe consistent with the implementation of any such requirements.

Regional Haze Rules - In January 2017, the EPA published amendments to the requirements under the CAA for state plans for protection of visibility - regional haze rules. 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.

The states of North Dakota and South Dakota have developed and submitted to the EPA, for its approval, their respective State Implementation Plans (SIP) for Regional Haze compliance. While these states, among others, did not meet the EPA's July 31, 2021 submission deadline, they were all submitted in 2022. The draft North Dakota SIP does not require any additional controls at the Coyote generating facility. Similarly, the draft South Dakota SIP does not require any additional controls at the Big Stone generating facility. Until these SIPs are finalized and approved by EPA, the potential remains that installation of additional emissions controls might be required at these facilities.

Jointly Owned Plants - We have joint ownership in generation plants located in South Dakota, North Dakota, and Iowa that are or may become subject to the various regulations discussed above that have been or may be issued or proposed.

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

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

(18) Revenue from Contracts with Customers

Accounting Policy

Our revenues are primarily from tariff based sales. 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 do not have a shift in the timing or pattern of 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.

Nature of Goods and Services

We currently provide retail electric and natural gas services to two primary customer classes. Our largest customer class consists of residential customers, which include single private dwellings and individual apartments. Our commercial customers consist primarily of main street businesses.

Electric Segment - Our regulated electric utility business primarily provides generation, transmission, and distribution services to our customers. We recognize revenue when electricity is delivered to the customer. Payments on our tariff based sales are generally due in 20-30 days after the billing date.

Natural Gas Segment - Our regulated natural gas utility business primarily provides transmission and distribution services to our customers in our South Dakota and Nebraska jurisdictions. We recognize revenue when natural gas is delivered to the customer. Payments on our tariff based sales are generally due in 20-30 days after the billing date.

Disaggregation of Revenue

The following tables disaggregate our revenue for the twelve months ended by major source and customer class (in millions):

December 31, 2024	Electric	Natural Gas	Total
South Dakota	\$ 70.0	\$ 26.9	\$ 96.9
Nebraska	—	21.2	21.2
Residential	70.0	48.1	118.1
South Dakota	111.8	18.1	129.9
Nebraska	—	11.4	11.4
Commercial	111.8	29.5	141.3
Other	3.3	—	3.3
Total Retail Revenues	185.1	77.6	262.7
Regulatory Amortization	3.8	4.4	8.2
Wholesale and other	1.6	7.0	8.6
Total Revenues	\$ 190.5	\$ 89.0	\$ 279.5

(19) Related Party Transactions and Shared Services

Our parent, NorthWestern Energy Group, Inc., is organized as a holding company. As part of a holding company we receive services and share costs with Northwestern Energy Group, Inc., and its other subsidiaries pursuant to an Intercompany Services Agreement (ISA) that became effective in 2023. The ISA was approved by the Montana Public Service Commission (MPSC), whom regulates NorthWestern Corporation, a direct and wholly-owned subsidiary of NorthWestern Energy Group, Inc. In accordance with the ISA, NorthWestern Corporation, which employs all or substantially all of the employees of NorthWestern Energy Group, Inc. and its subsidiaries, will provide all labor related services to us. Pursuant to the ISA, all rendered services are at cost. For the year ended December 31, 2024, the total cost of labor and benefits associated with the services provided to us by NorthWestern Corporation employees was \$39.3 million.

Additionally, pursuant to the ISA, when utility-related operating, administrative, and general costs are attributable to more than one entity within the holding company structure and are unable to be direct charged (Shared OA&G Costs), these costs will be allocated amongst the entities pursuant to a Cost Allocation Manual. The nature of these Shared OA&G Costs includes operations supervision and engineering, energy supply marketing, networking communications, information technology, human resources, accounting, legal, and other such administrative costs.

Outstanding payables and receivables associated with related party transactions under the ISA are cash settled monthly.