2018 Earnings Webcast

February 12, 2019

NorthWestern Energy
Delivering a Bright Future

Presenting Today

Bob Rowe,
President & CEO

Brian Bird,
Vice President & CFO

Forward Looking Statements

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

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

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2018 Highlights

- **Net income for the year increased $34.3 million, or 21.1%, as compared to the same period in 2017.** This increase was primarily due to a gain related to the adjustment of our electric Qualifying Facilities (QF) liability, demand for electric transmission, customer growth and favorable weather in South Dakota, and the net impact of the Tax Cuts and Jobs Act. These improvements were partly offset by an increase in depreciation expense.
- Diluted earnings per share increased $0.58, or 17.4%, as compared to the same period in 2017.
  - After adjusting to remove benefits of the QF gain, TCJA and a small amount of favorable weather, Non-GAAP* earnings per share increased $0.09, or 2.7%, as compared to the same period in 2017.
- We filed an electric general rate review with the Montana Public Service Commission at the end of September. We are requesting a $34.9 million, or 6.6% annual increase to base revenues primarily as a result in increased property taxes and capital investment.
- The Board of Directors declared a quarterly dividend of $0.575 per share payable March 29th to shareholders of record as of March 15th, 2019.

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** See slides 12, 30, 35 & 36 for additional information and Non-GAAP disclosures.*

Summary Financial Results
(Full Year)

(in millions except per share amounts)

	Twelve Months Ended December 31,			
	2018	2017	Variance	% Variance
Operating Revenues	$ 1,192.0	$ 1,305.7	$ (113.7)	(8.7%)
Cost of Sales	272.9	410.3	(137.4)	(33.5%)
Gross Margin [(1)]	**919.1**	**895.4**	**23.7**	**2.6%**
Operating Expenses				
Operating, general & administrative	307.1	294.8	12.3	4.2%
Property and other taxes	171.3	162.6	8.7	5.4%
Depreciation and depletion	174.5	166.1	8.4	5.1%
Total Operating Expenses	**652.9**	**623.5**	**29.4**	**4.7%**
Operating Income	**266.3**	**271.8**	**(5.5)**	**(2.0%)**
Interest Expense	(92.0)	(92.3)	0.3	0.3%
Other Income / (Expense)	4.0	(3.4)	7.4	217.6%
Income Before Taxes	**178.3**	**176.1**	**2.2**	**1.2%**
Income Tax Benefit / (Expense)	18.7	(13.4)	32.1	239.6%
Net Income	**$ 197.0**	**$ 162.7**	**$ 34.3**	**21.1%**
Effective Tax Rate	(10.5%)	7.6%	(18.1%)	
Diluted: Average Shares Outstanding	50.2	48.7	1.6	3.3%
Diluted Earnings Per Share	$3.92	$3.34	$0.58	17.4%
Dividends Paid per Common Share	$2.20	$ 2.10	$ 0.10	4.8%

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

Gross Margin
(Full Year)

(dollars in millions)

	Twelve Months Ended December 31,			
	2018	2017	Variance[1]	
Electric	$ 726.5	$ 703.1	$ 23.4	3.3%
Natural Gas	192.6	192.3	0.3	0.2%
Total Gross Margin [1]	**$ 919.1**	**$ 895.4**	**$ 23.7**	**2.6%**

Increase in gross margin due to the following factors:

$ 25.1	Electric QF liability adjustment
6.2	Electric transmission
3.3	Natural gas retail volumes
0.4	Montana natural gas rates
0.3	Electric retail volumes
(6.1)	Impacts of Tax Cuts and Jobs Act (jurisdictional settlements)
(1.5)	PCCAM supply cost recovery
2.3	Other
$ 30.0	**Change in Gross Margin Impacting Net Income**
$ (17.4)	Impacts of Tax Cuts and Jobs Act
(0.5)	Natural gas gathering fees
(0.4)	Natural gas production taxes
11.7	Property taxes recovered in trackers
0.3	Production tax credits flowed-through trackers
$ (6.3)	**Change in Gross Margin Offset Within Net Income**
$ 23.7	**Increase in Gross Margin**

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

Weather
(Full Year)

Heating Degree - Days	Full Year Degree Days			Full Year 2018 as compared with:	
	2018	2017	Historic Average	2017	Historic Average
Montana	7,978	8,001	7,761	<1% warmer	3% colder
South Dakota	8,385	7,102	7,752	18% colder	8% colder
Nebraska	6,792	5,551	6,402	22% colder	6% colder

Cooling Degree-Days	Full Year Degree Days			Full Year 2018 as compared with:	
	2018	2017	Historic Average	2017	Historic Average
Montana	337	524	409	36% cooler	18% cooler
South Dakota	951	729	733	30% warmer	30% warmer

We estimate favorable weather in 2018 has contributed approximately $1.3M pretax benefit as compared to normal and $2.1M pretax detriment as compared to 2017.

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Operating Expenses
(Full Year)

(dollars in millions)

	Twelve Months Ended December 31,			
	2018	2017	Variance	
Operating, general & admin.	$ 307.1	$ 294.8	$ 12.3	4.2%
Property and other taxes	171.3	162.6	8.7	5.4%
Depreciation and depletion	174.5	166.1	8.4	5.1%
Operating Expenses	**$ 652.9**	**$ 623.5**	**$ 29.4**	**4.7%**

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

$ 7.2	Employee benefits
3.3	Hazard trees
(3.7)	Distribution System Infrastructure Project expenses
(3.3)	Labor
(2.6)	Maintenance costs
1.2	Other
$ 2.1	**Change in OG&A Items Impacting Net Income**
$ 10.3	Pension and other postretirement benefits
1.1	Operating expense recovered in trackers
(0.7)	Non-employee directors deferred compensation
(0.5)	Natural gas gathering fees
$ 10.2	**Change in OG&A Items Offset Within Net Income**
$ 12.3	**Increase in Operating, General & Administrative Expenses**

$8.7 million increase in property and other taxes due primarily to plant additions and higher annual estimated property valuations in Montana.

$8.4 million increase in depreciation and depletion expense primarily due to plant additions.

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Operating to Net Income
(Full Year)

(dollars in millions)

	Twelve Months Ended December 31,			
	2018	2017	Variance	
Operating Income	**$ 266.3**	**$ 271.8**	**($ 5.5)**	**(2.0%)**
Interest Expense	(92.0)	(92.3)	0.3	0.3%
Other Income / (Expense)	4.0	(3.4)	7.4	217.6%
Income Before Taxes	**178.3**	**176.1**	**2.2**	**1.2%**
Income Tax Benefit / (Expense)	18.7	(13.4)	32.1	239.6%
Net Income	**$ 197.0**	**$ 162.7**	**$ 34.3**	**21.1%**

$0.3 million decrease in interest expenses was primarily due to refinancing of debt in 2017, partly offset by rising interest rates.

$7.4 million improvement in other income was due to a $10.3 million decrease in other pension expense (which is offset in OG&A expense) partly offset by lower capitalization of AFUDC.

$32.1 million decrease in income tax expense due primarily to a benefit of approximately $19.8 million associated with the final measurement of excess deferred taxes and the impact of the lower federal tax rate of 21.0% compared to 35.0% in 2017.

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Income Tax Reconciliation
(Full Year)

(in millions)	Twelve Months Ended December 31,				
	2018		2017		Variance
Income Before Income Taxes	**$178.3**		**$176.1**		**$2.2**
Income tax calculated at federal statutory rate	37.4	21.0%	61.6	35.0%	(24.2)
Permanent or flow through adjustments:					
State income, net of federal provisions	1.6	0.9%	(3.3)	(1.9%)	4.9
Impact of Tax Cut and Jobs Act	(19.8)	(11.1%)	-	-	(19.8)
Flow - through repairs deductions	(19.3)	(10.8%)	(30.5)	(17.3%)	11.2
Production tax credits	(10.9)	(6.1%)	(11.0)	(6.3%)	0.1
Prior year permanent return accrual adjustments	(3.0)	(1.7%)	(0.6)	(0.3%)	(2.4)
Plant and depreciation of flow through items	(2.2)	(1.2%)	(2.2)	(1.3%)	-
Share-based compensation	0.2	0.1%	(0.4)	(0.2%)	0.6
Other, net	(2.7)	(1.6%)	(0.2)	(0.1%)	(2.5)
Sub-total	(56.1)	(31.5%)	(48.2)	(27.4%)	(7.9)
Income Tax (Benefit) / Expense	**$ (18.7)**	**(10.5%)**	**$ 13.4**	**7.6%**	**$ (32.1)**

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Balance Sheet

(dollars in millions)	Year Ended December 31, 2018	2017
Cash and cash equivalents	$ 7.9	$ 8.5
Restricted cash	7.5	3.6
Accounts receivable, net	162.4	182.3
Inventories	50.8	52.4
Other current assets	49.2	49.6
Goodwill	357.6	357.6
PP&E and other non-current assets	5,009.1	4,767.0
Total Assets	**$ 5,644.4**	**$ 5,420.9**
Payables	87.0	85.2
Current maturities of long-term debt & capital leases	2.3	2.1
Short-term borrowings	-	319.6
Other current liabilities	257.7	225.4
Long-term debt & capital leases	2,122.3	1,815.6
Other non-current liabilities	1,232.7	1,174.1
Shareholders' equity	1,942.4	1,798.9
Total Liabilities and Equity	**$ 5,644.4**	**$ 5,420.9**
Capitalization:		
Current maturities of long-term debt & capital leases	2.3	2.1
Short Term borrowings	-	319.6
Long Term Debt & Capital Leases	2,122	1,815.6
Less: Basin Creek Capital Lease	(22)	(24.3)
Less: New Market Tax Credit Financing Debt	(27)	(27.0)
Shareholders' Equity	1,942.4	1,798.9
Total Capitalization	**$ 4,017.7**	**$ 3,884.9**
Ratio of Debt to Total Capitalization	**51.7%**	**53.7%**

Improvement in debt to capitalization ratio; which is now closer to bottom end of 50%-55% targeted range.

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Cash Flow

(dollars in millions)	Twelve Months Ending December 31, 2018	2017
Operating Activities		
Net Income	$ 197.0	$ 162.7
Non-Cash adjustments to net income	169.5	182.7
Changes in working capital	51.8	(15.3)
Other non-current assets & liabilities	(36.3)	(7.4)
Cash provided by Operating Activities	**382.0**	**322.7**
Investing Activities		
PP&E additions	(284.0)	(276.4)
Acquisitions / Investments	(21.0)	-
Proceeds from sale of assets	0.1	0.4
Cash used in Investing Activities	**(304.9)**	**(276.1)**
Financing Activities		
Proceeds from issuance of common & treasury stock, net	47.0	54.8
(Repayments) / issuance of borrowings, net	(11.6)	18.7
Dividends on common stock	(109.2)	(101.3)
Financing costs	(0.1)	(16.4)
Cash used in Financing Activities	**(73.8)**	**(44.2)**
Increase in Cash, Cash Equiv. & Restricted Cash	**3.3**	**2.5**
Beginning Cash, Cash Equiv. & Restricted Cash	12.0	9.5
Ending Cash, Cash Equiv. & Restricted Cash	**$ 15.3**	**$ 12.0**

Cash from operating activities improved by $59.3 million primarily due to higher net income, improved customer receipts, the receipt of insurance proceeds during the current period.

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Adjusted Non-GAAP Earnings
(Full Year)

(in millions)	GAAP Twelve Months Ended Dec. 31, 2018	Favorable Weather	Gain on Qualifying Facilities (Periodic Liability Reset)	(2) Impact of Tax Cuts & Jobs Act Jurisdictional Settlements	(3) Move Pension Expense to OG&A (disaggregated with ASU 2017-07)	Non-employee Deferred Compensation	Non GAAP Twelve Months Ended Dec. 31, 2018	Non-GAAP Variance: Variance $	%	Non GAAP Twelve Months Ended Dec. 31, 2017	Non-employee Deferred Compensation	(3) Move Pension Expense to OG&A (disaggregated with ASU 2017-07)	Favorable Weather	GAAP Twelve Months Ended Dec. 31, 2017
Revenues	$1,192.0	(1.3)	-	6.1	-	-	$1,196.8	($105.4)	-8.1%	$1,302.2	-	-	(3.4)	$1,305.7
Cost of sales	272.9	-	17.5	-	-	-	290.4	(119.9)	-29.2%	410.3	-	-	-	410.3
Gross Margin (1)	**919.1**	**(1.3)**	**(17.5)**	**6.1**	-	-	**906.4**	**14.5**	**1.6%**	**891.9**	-	-	**(3.4)**	**895.4**
Op. Expenses														
OG&A	307.1	-	-	(3.3)	(0.6)	(0.1)	303.1	(0.6)	-0.2%	303.7	(0.8)	9.7	-	294.8
Prop. & other taxes	171.3	-	-	-	-	-	171.3	8.7	5.4%	162.6	-	-	-	162.6
Depreciation	174.5	-	-	-	-	-	174.5	8.4	5.1%	166.1	-	-	-	166.1
Total Op. Exp.	**652.9**	-	-	**(3.3)**	**(0.6)**	**(0.1)**	**648.9**	**16.5**	**2.6%**	**632.4**	**(0.8)**	**9.7**	-	**623.5**
Op. Income	**266.3**	**(1.3)**	**(17.5)**	**9.4**	**0.6**	**0.1**	**257.6**	**(1.9)**	**-0.7%**	**259.5**	**0.8**	**(9.7)**	**(3.4)**	**271.8**
Interest expense	(92.0)	-	-	-	-	-	(92.0)	0.3	0.3%	(92.3)	-	-	-	(92.3)
Other (Exp.) Inc., net	4.0	-	-	-	(0.6)	(0.1)	3.3	(2.2)	-40.0%	5.5	(0.8)	9.7	-	(3.4)
Pretax Income	**178.3**	**(1.3)**	**(17.5)**	**9.4**	-	-	**168.9**	**(3.8)**	**-2.2%**	**172.7**	-	-	**(3.4)**	**176.1**
Income tax	18.7	0.3	4.4	(22.2)	-	-	1.2	13.3	110.0%	(12.1)	-	-	1.3	(13.4)
Net Income	**$197.0**	**(1.0)**	**(13.1)**	**(12.8)**	-	-	**$170.1**	**$9.5**	**5.9%**	**$160.6**	-	-	**(2.1)**	**$162.7**
ETR	-10.5%	25.3%	25.3%	235.9%	-	-	-0.7%			7.0%	-	-	38.5%	7.6%
Diluted Shares	50.2						50.2	1.5	3.1%	48.7				48.7
Diluted EPS	**$3.92**	(0.02)	(0.26)	(0.25)	-	-	$3.39	$0.09	2.7%	$3.30	-	-	(0.04)	**$3.34**

The adjusted non-GAAP measures presented in the table above are being shown to reflect significant items that were not contemplated in our original guidance, however they should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

Note: Additional information on Tax Cuts and Jobs Act Non-GAAP adjustment can be found on slide 35 of this presentation.

(1) During the first quarter of 2018, we revised our presentation of revenues associated with being a market participant in the Southwest Power Pool to net them with the associated cost of sales. These revenues were previously recorded gross in electric revenues in the Condensed Consolidated Statement of Income. This results in a decrease in electric revenue and a corresponding decrease in cost of sales. There was no impact to operating or net income. We assessed the materiality of this change in presentation, taking into account quantitative and qualitative factors, and determined it to be immaterial. We applied the change in presentation prospectively.

(2) Impact of Tax Cuts & Jobs (TCJA) Jurisdictional Settlements includes the addback of $6.1M pretax revenue deferred for customer refunds in excess of the income tax benefits realized in 2018 and $3.3M of pretax expense related to hazard tree removal that was originally proposed to be funded with 50% of TCJA benefits (in lieu of customer refunds). This treatment was ultimately conceded in the settlement in exchange for agreement by the stipulating parties to not oppose a known-and-measurable adjustment equal to the actual 2018 expenditures for hazard tree removal included in our Montana electric rate review 2017 test year. These increases to Non-GAAP earnings were more than offset by the removal of a $19.8M income tax benefit in 2018 related to the final adjustment of excess deferred taxes and $2.4M of increased tax expense related to the two pretax items previously discussed (($6.1M + $3.3M) x 25.3% = $2.4M). These sum to equal the $22.2M increase to income tax expense ($19.8M + $2.4m) and ultimately result in $12.8M reduction to GAAP Net Income.

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

Looking Forward

Regulatory

- MPSC to review Montana general electric rate review, filed in September 2018.
- We expect to file an associated FERC rate case for our Montana transmission assets in the first quarter 2019.

Continue to Invest in our T&D infrastructure

- Comprehensive infrastructure capital investment program to ensure safety, capacity and reliability.
- Natural gas pipeline investment (SAFE PIPES Act, Integrity Verification Process and Pipeline & Hazardous Materials Safety Administration proposed regulations).
- Grid modernization, advanced distribution management system and advanced metering infrastructure investment

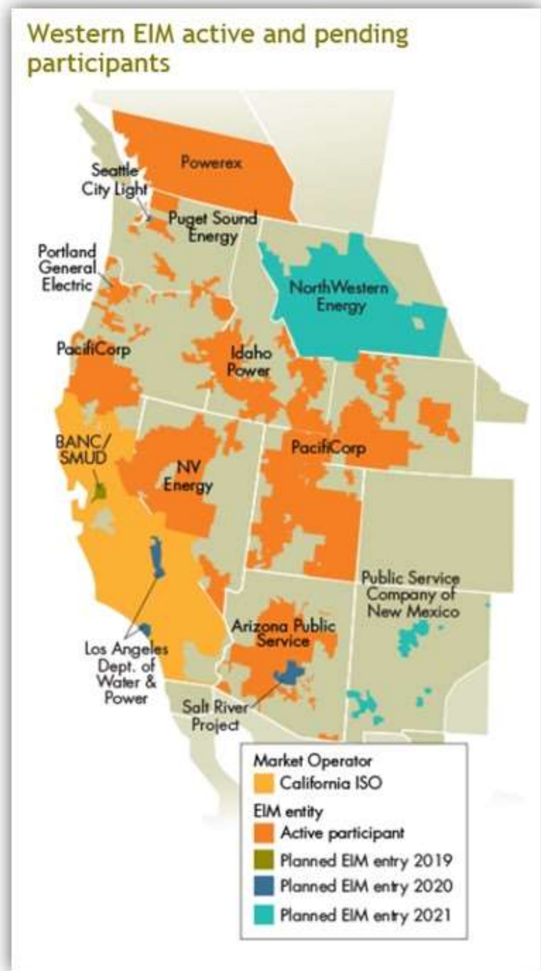
NWE plans to join Western Energy Imbalance Market (EIM)

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

Cost Control Efforts

- Continue to monitor costs, including labor, benefits and property tax valuations to mitigate increases.

Advance Electricity Resource Planning efforts in South Dakota and Montana



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Montana Electric Tracker Update

The MPSC issued a final order in January 2019 approving a Power Cost & Credit Adjustment Mechanism (PCCAM) with the following provisions:

- A baseline of power supply costs;
- Symmetrical deadband of +/- $4.1 million from the established baseline. Supply cost variances above or below the deadband are shared 90/10 with customers/shareholders, respectively; and
- Retroactive implementation to the effective date of the new legislation (July 1, 2017).

Our 2018 results include a net reduction in the recovery of supply costs from customers of approximately $1.5 million in the Consolidated Statements of Income, which includes the following:

- For the 2017/2018 period, actual costs were below base revenues by approx. $3.4 million, resulting in no refund to customers.
- For the 2018/2019 period, actual costs were above base revenues by approx. $11.8 million, resulting in a regulatory asset for collection from customers of approx. $6.9 million and a $4.9 million reduction in recovery of supply costs for the first six months of the period.

($Millions)	(12 months)		(first 6 months)		(18 month*)
Tracker Period (July 1-June 30)	**2017 / 2018**	+	**2018 / 2019**	=	**Total**
Cost Above(Below) Baseline	**($3.4)**		**$11.8**		$8.4
Less: Deadband ($0 to $4.1 million)	($3.4)		$4.1		$0.7
Amount Above(Below) Deadband subject to 90/10 sharing	**-**		**$7.7**		**$7.7**
Customer Funded (Refunded)					
90% of variance Above (Below) Deadband	-		$6.9		$6.9
Shareholder Funded (Retained)					
10% of variance Above (Below) Deadband	-		$0.8		$0.8
Deadband	($3.4)		$4.1		$0.7
Total Shareholder Under (Over) Recovery of Supply Costs	**($3.4)**	+	**$4.9**	=	**$1.5**

x 90%

x 10%

x 100%

** 2018 included 18 months of PCCAM impact as a result of the retroactive implementation to July 1, 2017.*

Estimated Impacts of the Tax Cuts & Jobs Act


O'Dell Creek in the Madison River Valley

Montana: In December 2018, the MPSC approved a settlement agreement providing a $20.5 million one-time customer credit to electric and natural gas customers. In addition, the settlement provides:

- A $1.3 million annual reduction in natural gas rates beginning 2019 and funds for low-income energy assistance and weatherization.
- Agreement of the parties not to oppose our request to include up to $3.5 million of costs to address hazard tree removal in our 2018 electric rate review filing.
- Issues related to the revaluation of deferred income taxes will also be addressed in rate review.

South Dakota: In September 2018, the SDPUC approved a settlement that resulted in a $3.0 million customer credit in the fourth quarter of 2018 and a two-year rate moratorium (until January 1, 2021).

Nebraska: In August 2018, the NPSC approved a settlement to evaluate the impact of the TCJA on an annual basis and had no impact on our financial statements.

Consolidated Impact: 2018 results include a net benefit related to the impact of the TCJA, which includes:

- An income tax benefit of $19.8 million due to final revaluation of deferred income tax liabilities.
- A net loss of $6.1 million resulting from $23.5 million in customer credits from approved tax settlements partially offset by a $17.4 million reduction in income tax expense due to the reduction in federal tax rate.
- $3.3 million of expense related to our hazard tree program as agreed in our Montana settlement. Our initial filing with the MPSC instead proposed using a portion of the TCJA benefits to fund this expenditure.

We expect a reduction in our cash flows from operations ranging from $20 - $22 million in 2019, as a result of customer credits. Due to our existing NOL position and other tax credits, we expect to be a cash tax payer during 2020, with credits reducing our cash tax obligation into 2022. We estimate that our effective income tax rate will range from 0% to 5% in 2019.

NWE Energy Supply Resource Plans

South Dakota Electricity Supply Resource Plan

- Published fall of 2018, the plan focuses on modernization of our fleet to improve reliability and flexibility, maintain compliance in Southwest Power Pool, and lowering operating costs.
  The plan identifies 90MWs of existing generation that should be retired and replaced over the next 10 years (in addition to 8MWs of mobile generation that will be installed by end of 2019).
- We expect to issue a all-source request for proposal in the second quarter of 2019 to replace 60 MW of combustion turbine generation by late 2021.


Ryan Dam Upgrade

Montana Electricity Supply Resource Plan

- Draft plan to be filed in the first quarter of 2019 and expected to be finalized mid-2019 after a 60 day public comment period. The plan will address our significant generation capacity deficits and negative reserve margin.
  - Our current peak requirement for energy is about 1,400 MW. We are currently 630 MW short, which is subject to market purchases. We forecast that our generation portfolio will be 725 MW short by 2025.
  - Planned regional retirements of 3,500 MW of coal-fired generation are forecasted by the Northwest Power and Conservation Council causing regional energy shortages as early as 2021.
- We expect to solicit competitive all-source proposals in 2019 for up to 200 MW of peaking capacity available by 2022.
  - These supply additions would meet ~25% of our projected need in 2025.
  - We expect the process will be repeated in subsequent years to provide a resource-adequate energy and capacity portfolio (~200 MWs of capacity per year from 2022 to 2025) .

The all-source capacity additions discussed above are subject to a competitive solicitation process administered by independent evaluators. As a result, we have not included the necessary capital investment in our current five year capital forecast. These additions could increase our capital spending in excess of $200 million over the next five years.

Montana Electric Rate Case

Background

- First general electric rate case in Montana since 2009.
- While we have efficiently managed operating and administrative costs, increased Montana property taxes and significant investment in the system have compelled the request for rate relief.

Filing (Docket D2018.2.12)

- Filed with the MPSC in September 2018 based on 2017 test year and $2.34 billion of rate base.
- Requesting $34.9 million annual increase to electric rates. This reflects a 6.6% increase to Montana electric revenues and a 7.4% increase to the typical residential bill.
- 10.65% return on equity, 4.26% cost of debt, 49.4% equity and 7.42% return on rate base[1]
- Requested $13.8 million interim increase effective Nov. 1, 2018. We expect to receive a decision on our interim request after intervenor testimony is filed. If the MPSC does not issue an order within nine months of the filing, new rates may be placed into effect on an interim and refundable basis.
- Requests the following additional items
  - Approval to capitalize Demand Side Management Costs
  - Establish a new baseline for PCCAM costs
  - Place Two Dot Wind in rate base
  - Approval of new net metering customer class and rate for new residential private generation customers

Timeline

- Intervenor testimony – February 12, 2019 (extended from February 8)
- NorthWestern Rebuttal testimony and cross-intervenor testimony – April 5, 2019
- Hearing commences – May 13, 2019

1. Except for Colstrip Unit 4 which has an lifetime ROR of 8.25% per D2008.6.69 (Order No. 6925f)

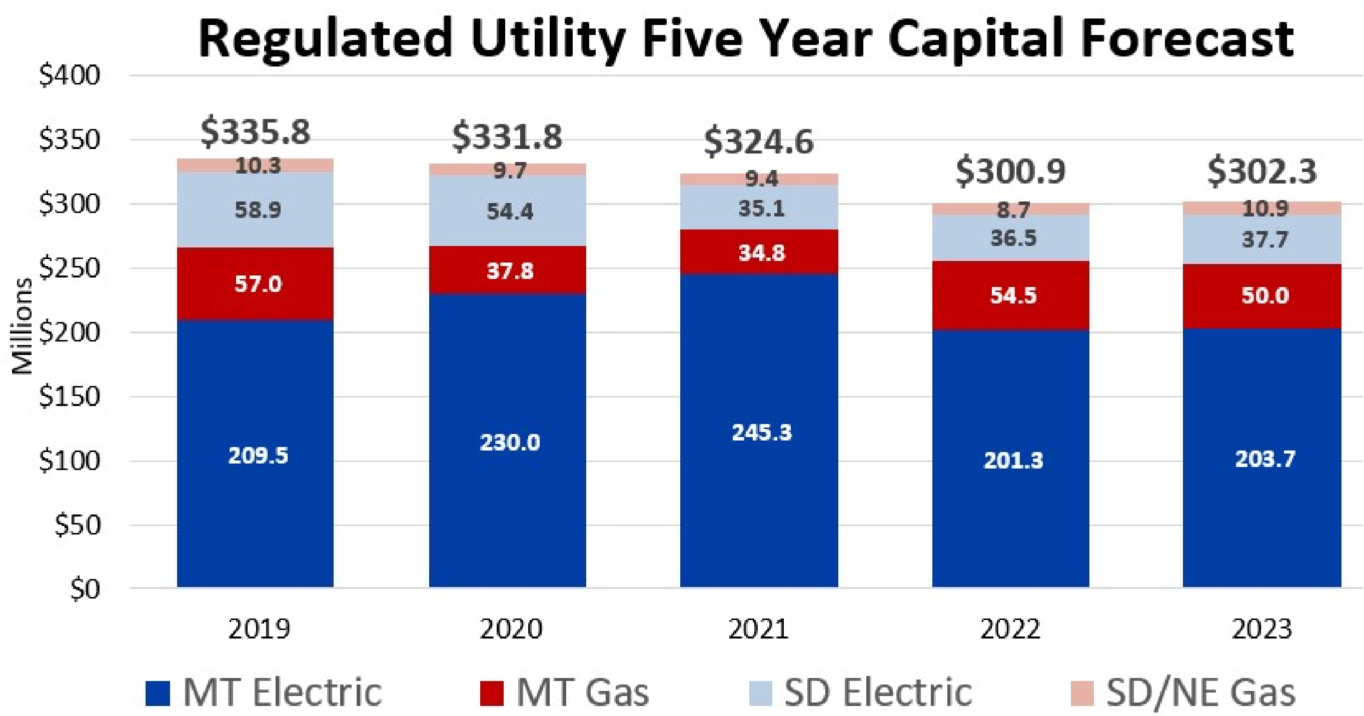
Capital Investment Forecast

$1.6 billion of total capital investment over five years.

Increased investment in first three years primarily as a result of advanced metering infrastructure (AMI).

We anticipate funding the expenditures with a combination of cash flows (aided by NOLs available into 2020) and long-term debt issuances.

Significant capital investments that are not in the above projections or further negative regulatory actions could necessitate additional equity funding.



$ Millions	2019	2020	2021	2022	2023
Electric	$ 268.4	$ 284.4	$ 280.5	$ 237.8	$ 241.4
Naural Gas	67.4	47.4	44.1	63.1	60.9
Total Capital Forecast	$ 335.8	$ 331.8	$ 324.6	$ 300.9	$ 302.3

Capital projections above do not include investment necessary to address capacity issues as identified in the South Dakota and pending* Montana Electricity Supply Resource Procurement Plans.

**Draft plan to be release by end of first quarter 2019.*

NorthWestern Energy
Delivering a Bright Future

Conclusion


Pure Electric & Gas Utility
Solid Utility Foundation
Best Practices Corporate Governance
Attractive Future Growth Prospects
Strong Earnings & Cash Flows

Appendix

Appendix

Segment Results
(Full Year)

(Unaudited) (in thousands)

Twelve Months Ending December 31, 2018	**Electric**	**Gas**	**Other**	**Total**
Operating revenues	$ 921,093	$ 270,916	$ -	$ 1,192,009
Cost of sales	194,608	78,275	-	272,883
Gross margin [(1)]	726,485	192,641	-	919,126
Operating, general and administrative	223,598	82,864	657	307,119
Property and other taxes	134,681	36,569	9	171,259
Depreciation & depletion	144,636	29,822	18	174,476
Operating Income (loss)	223,570	43,386	(684)	266,272
Interest expense	(79,033)	(5,858)	(7,097)	(91,988)
Other income	2,794	962	210	3,966
Income tax (expense) benefit	21,686	9,268	(12,244)	18,710
Net income (loss)	$ 169,017	$ 47,758	$ (19,815)	$ 196,960

Twelve Months Ending December 31, 2017	**Electric**	**Gas**	**Other**	**Total**
Operating revenues	$ 1,037,053	$ 268,599	$ -	$ 1,305,652
Cost of sales	334,029	76,320	-	410,349
Gross margin [(1)]	703,024	192,279	-	895,303
Operating, general and administrative	216,003	78,757	43	294,803
Property and other taxes	127,391	35,214	9	162,614
Depreciation & depletion	136,556	29,548	33	166,137
Operating income	223,074	48,760	(85)	271,749
Interest expense	(82,454)	(5,920)	(3,889)	(92,263)
Other (expense) income	(3,487)	(878)	950	(3,415)
Income tax (expense) benefit	(7,424)	(6,684)	740	(13,368)
Net income (loss)	$ 129,709	$ 35,278	$ (2,284)	$ 162,703

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

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Electric Segment
(Full Year)

(dollars in millions)	Results 2018	2017	Change	% Change
Retail revenues	$ 847.3	$ 874.4	$ (27.1)	(3.1) %
Regulatory amortization	9.8	3.7	6.1	164.9
Total retail revenue	857.1	878.1	(21.0)	(2.4)
Transmission	58.1	59.7	(1.6)	(2.7)
Wholesale and other	5.9	99.3	(93.4)	(94.1)
Total Revenues	**921.1**	**1,037.1**	**(116.0)**	**(11.2)**
Total Cost of Sales	**194.6**	**334.0**	**(139.4)**	**(41.7)**
Gross Margin (1)	**726.5**	**703.1**	**23.4**	**3.3 %**

	Revenues 2018 (in thousands)	Revenues 2017 (in thousands)	Megawatt Hours (MWH) 2018 (in thousands)	Megawatt Hours (MWH) 2017 (in thousands)	Avg. Customer Count 2018	Avg. Customer Count 2017
Retail Electric						
Montana	$ 287,358	$ 299,725	2,518	2,540	299,438	295,427
South Dakota	64,171	60,246	598	546	50,546	50,247
Residential	**351,529**	**359,971**	**3,116**	**3,086**	**349,984**	**345,674**
Montana	329,611	348,139	3,169	3,235	67,547	66,484
South Dakota	93,992	91,969	1,072	992	12,741	12,669
Commercial	**423,603**	**440,108**	**4,241**	**4,227**	**80,288**	**79,153**
Industrial	42,577	42,194	2,593	2,324	75	75
Other	29,600	32,110	166	195	6,185	6,195
Total Retail Electric	**$ 847,309**	**$ 874,383**	**10,116**	**9,832**	**436,532**	**431,097**

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

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Appendix

Natural Gas Segment (Full Year)

(dollars in millions)	Results 2018	Results 2017	Results Change	Results % Change
Retail revenues	$ 235.3	$ 233.8	$ 1.5	0.6 %
Regulatory amortization	(4.2)	(5.4)	1.2	(22.2)
Total retail revenue	231.1	228.4	2.7	1.2
Wholesale and other	39.8	40.2	(0.4)	(1.0)
Total Revenues	**270.9**	**268.6**	**2.3**	**0.9**
Total Cost of Sales	**78.3**	**76.3**	**2.0**	**2.6**
Gross Margin (1)	**$ 192.6**	**$ 192.3**	**$ 0.3**	**$ 0.2 %**

	Revenues		Dekatherms (Dkt)		Avg. Customer Count	
	2018	2017	2018	2017	2018	2017
	(in thousands)					
Retail Gas						
Montana	$ 102,721	$ 108,949	13,818	13,782	172,477	170,236
South Dakota	25,359	21,777	3,296	2,768	39,628	39,470
Nebraska	23,416	20,135	2,834	2,359	37,306	37,234
Residential	**151,496**	**150,861**	**19,948**	**18,909**	**249,411**	**246,940**
Montana	51,700	54,729	7,288	7,230	23,839	23,500
South Dakota	17,984	15,706	3,348	2,873	6,673	6,540
Nebraska	11,953	10,433	2,054	1,759	4,816	4,773
Commercial	**81,637**	**80,868**	**12,690**	**11,862**	**35,328**	**34,813**
Industrial	1,159	1,119	171	152	245	253
Other	986	958	156	141	163	158
Total Retail Gas	**$ 235,278**	**$ 233,806**	**32,965**	**31,064**	**285,147**	**282,164**

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

NorthWestern Energy
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Summary Financial Results
(Fourth Quarter)

(in millions except per share amounts)	Three Months Ended December 31, 2018	2017	Variance	% Variance
Operating Revenues	$ 308.8	$ 344.5	$ (35.7)	(10.4%)
Cost of Sales	72.4	109.0	(36.6)	(33.6%)
Gross Margin [(1)]	**236.4**	**235.5**	**0.9**	**0.4%**
Operating Expenses				
Operating, general & administrative	85.2	76.2	9.0	11.8%
Property and other taxes	43.0	44.1	(1.1)	(2.5%)
Depreciation and depletion	43.6	41.7	1.9	4.6%
Total Operating Expenses	**171.8**	**162.0**	**9.8**	**6.0%**
Operating Income	**64.6**	**73.5**	**(8.9)**	**(12.1%)**
Interest Expense	(23.8)	(22.3)	(1.5)	(6.7%)
Other Income	2.2	-	2.2	
Income Before Taxes	**43.0**	**51.2**	**(8.2)**	**(16.0%)**
Income Tax Benefit / (Expense)	23.4	(3.3)	26.7	809.1%
Net Income	**$ 66.4**	**$ 47.9**	**$ 18.5**	**38.6%**
Effective Tax Rate	(54.4%)	6.4%	(60.8%)	
Diluted: Shares Outstanding	50.6	49.0	1.6	3.2%
Diluted Earnings Per Share	$ 1.31	$ 0.98	$ 0.33	33.7%
Dividends Paid per Common Share	$ 0.55	$ 0.525	$ 0.025	4.8%

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

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Appendix

Gross Margin
(Fourth Quarter)

(dollars in millions)

	Three Months Ended December 31,			
	2018	2017	Variance[1]	
Electric	$ 176.6	$ 175.0	$ 1.6	0.9%
Natural Gas	59.8	60.5	(0.7)	(1.2%)
Total Gross Margin	**$ 236.4**	**$ 235.5**	**$ 0.9**	**0.4%**

Increase in gross margin due to the following factors:

$	(6.1)	Impacts of Tax Cuts and Jobs Act (jurisdictional settlements)
	(1.6)	Montana natural gas supply rates
	2.1	Electric transmission
	1.0	Natural gas retail volumes
	0.3	PCCAM supply cost recovery
	2.0	Other
$	**(2.3)**	**Change in Gross Margin Impacting Net Income**
$	4.6	Property taxes recovered in trackers
	0.5	Production tax credits flowed-through trackers
	(1.0)	Impacts of Tax Cuts and Jobs Act
	(0.5)	Operating expenses recovered in trackers
	(0.4)	Natural gas production taxes
$	**3.2**	**Change in Gross Margin Offset Within Net Income**
$	**0.9**	**Increase in Gross Margin**

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

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Weather
(Fourth Quarter)

Heating Degree - Days	Q4 Degree Days			Q4 2018 as compared with:	
	2018	2017	Historic Average	2017	Historic Average
Montana	2,884	3,076	2,942	6% warmer	2% warmer
South Dakota	2,286	1,826	2,100	25% colder	9% colder
Nebraska	1,854	1,414	1,750	31% colder	6% colder

We estimate unfavorable weather in fourth quarter 2018 resulted in a $1.0M pretax detriment as compared to normal and $2.8M pretax detriment as compared to period in 2017.

Appendix

Operating Expenses
(Fourth Quarter)

(dollars in millions)

	Three Months Ended December 31,			
	2018	2017	Variance	
Operating, general & admin.	$ 85.2	$ 76.2	$ 9.0	11.8%
Property and other taxes	43.0	44.1	(1.1)	(2.5%)
Depreciation and depletion	43.6	41.7	1.9	4.6%
Operating Expenses	**$ 171.8**	**$ 162.0**	**$ 9.8**	**6.0%**

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

$ 5.3	Employee benefits
2.1	Hazard trees
0.7	Maintenance costs
(1.1)	Distribution System Infrastructure Project expense
(0.5)	Labor
0.2	Other
$ 6.7	**Change in OG&A Items Impacting Net Income**
$ 2.4	Pension and other postretirement benefits
0.6	Operating expenses recovered in trackers
(0.7)	Non-employee directors deferred compensation
$ 2.3	**Change in OG&A Items Offset Within Net Income**
$ 9.0	**Increase in Operating, General & Administrative Expenses**

$1.1 million decrease in property and other taxes due primarily to an accrual true up in 2017 partially offset by plant additions and higher annual estimated property valuations in Montana.

$1.9 million increase in depreciation and depletion expense primarily due to plant additions.

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Appendix

Operating to Net Income
(Fourth Quarter)

(dollars in millions)

	Three Months Ended December 31,			
	2018	2017	Variance	
Operating Income	**$ 64.6**	**$ 73.5**	**$ (8.9)**	**(12.1%)**
Interest Expense	(23.8)	(22.3)	(1.5)	(6.7%)
Other Income / (Expense)	2.2	-	2.2	-
Income Before Taxes	**43.0**	**51.2**	**(8.2)**	**(16.0%)**
Income Tax Benefit / (Expense)	23.4	(3.3)	26.7	809.1%
Net Income	**$ 66.4**	**$ 47.9**	**$ 18.5**	**38.6%**

$1.5 million increase in interest expenses was primarily due to rising interest rates in 2018 compared to 2017.

$2.2 million improvement in other income was due to a decrease in other pension expense partly offset by a decrease in the value of deferred shares held in trust for non-employee directors deferred compensation (both of which are offset in operating, general, and administrative expenses with no impact to net income).

$26.7 million decrease in income tax expense due primarily to a $19.8 million benefit associated with a final measurement of excess deferred taxes and lower federal tax rate (21.0% compared to 35.0% in 2017) as a result of the TCJA.

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Appendix

Income Tax Reconciliation
(Fourth Quarter)

(in millions)	Three Months Ended December 31,				
	2018		2017		Variance
Income Before Income Taxes	**$43.0**		**$51.2**		**($8.2)**
Income tax calculated at federal statutory rate	9.0	21.0%	17.9	35.0%	(8.9)
Permanent or flow through adjustments:					
State income, net of federal provisions	(0.6)	(1.4%)	(1.3)	(2.5%)	0.7
Impact of Tax Cut and Jobs Act	(19.8)	(46%)	-	-	(19.8)
Flow - through repairs deductions	(6.2)	(14.4%)	(9.9)	(19.3%)	3.7
Production tax credits	(2.8)	(6.5%)	(3.5)	(6.8%)	0.7
Prior year permanent return accrual adjustments	-	(0%)	0.2	0.4%	(0.2)
Plant and depreciation of flow through items	(0.6)	(1.4%)	-	-	(0.6)
Share based compensation	(0.1)	(0.3%)	-	-	(0.1)
Other, net	(2.3)	(5.4%)	(0.1)	(0.3%)	(2.2)
Sub-total	(32.4)	(75.4%)	(14.6)	(28.6%)	(17.8)
Income Tax (Benefit) / Expense	**$ (23.4)**	**(54.4%)**	**$ 3.3**	**6.4%**	**$ (26.7)**

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Appendix

Adjusted Non-GAAP Earnings
(Fourth Quarter)

(in millions)	GAAP Three Months Ended Dec. 31, 2018	Unfavorable Weather	Gain on Qualified Facilities (Periodic Liability Reset)	Impact of Tax Cuts & Jobs Act Jurisdictional Settlements (2)	Move Pension Expense to OG&A (disaggregated with ASU 2017-07) (3)	Non-employee Deferred Compensation	Non GAAP Three Months Ended Dec. 31, 2018	Non-GAAP Variance Variance $	%	Non GAAP Three Months Ended Dec. 31, 2017	Non-employee Deferred Compensation	Move Pension Expense to OG&A (disaggregated with ASU 2017-07) (3)	Favorable Weather	GAAP Three Months Ended Dec. 31, 2017
Revenues	$308.8	1.0		6.1			$315.9	($26.8)	-7.8%	$342.7			(1.8)	$344.5
Cost of sales	72.4						72.4	(36.6)	-33.6%	109.0				109.0
Gross Margin (1)	**236.4**	**1.0**	**-**	**6.1**	**-**	**-**	**243.5**	**9.8**	**4.2%**	**233.7**	**-**	**-**	**(1.8)**	**235.5**
Op. Expenses														
OG&A	85.2			(3.3)	(0.4)	-	81.5	4.2	5.4%	77.3	(0.8)	1.9		76.2
Prop. & other taxes	43.0						43.0	(1.1)	-2.5%	44.1				44.1
Depreciation	43.6						43.6	1.9	4.6%	41.7				41.7
Total Op. Exp.	**171.8**	**-**	**-**	**(3.3)**	**(0.4)**	**-**	**168.1**	**5.0**	**3.1%**	**163.1**	**(0.8)**	**1.9**	**-**	**162.0**
Op. Income	**64.6**	**1.0**	**-**	**9.4**	**0.4**	**-**	**75.4**	**4.8**	**6.8%**	**70.6**	**0.8**	**(1.9)**	**(1.8)**	**73.5**
Interest expense	(23.8)						(23.8)	(1.5)	-6.7%	(22.3)				(22.3)
Other (Exp.) Inc., net	2.2				(0.4)	-	1.8	0.7	63.6%	1.1	(0.8)	1.9		-
Pretax Income	**43.0**	**1.0**	**-**	**9.4**	**-**	**-**	**53.4**	**4.0**	**8.1%**	**49.4**	**-**	**-**	**(1.8)**	**51.2**
Income tax	23.4	(0.3)	-	(22.2)	-	-	1.0	3.6	138.1%	(2.6)	-	-	0.7	(3.3)
Net Income	**$66.4**	**0.7**	**-**	**(12.8)**	**-**	**-**	**$54.4**	**$7.6**	**16.2%**	**$46.8**	**-**	**-**	**(1.1)**	**$47.9**
ETR	-54.4%	25.3%	-	235.9%	-	-	-1.8%			5.3%	-	-	38.5%	6.4%
Diluted Shares	50.6						50.6	1.6	3.3%	49.0				49.0
Diluted EPS	$1.31	0.01	-	(0.25)	-	-	$1.07	$0.11	11.5%	$0.96	-	-	(0.02)	$0.98

The adjusted non-GAAP measures presented in the table above are being shown to reflect significant items that were not contemplated in our original guidance, however they should not be considered a substitute for financial results and measures determined or calculated in accordance with GAAP.

Note: Additional information on Tax Cuts and Jobs Act Non-GAAP adjustment can be found on slide 35 of this presentation.

(1) During the first quarter of 2018, we revised our presentation of revenues associated with being a market participant in the Southwest Power Pool to net them with the associated cost of sales. These revenues were previously recorded gross in electric revenues in the Condensed Consolidated Statement of Income. This results in a decrease in electric revenue and a corresponding decrease in cost of sales. There was no impact to operating or net income. We assessed the materiality of this change in presentation, taking into account quantitative and qualitative factors, and determined it to be immaterial. We applied the change in presentation prospectively.

(2) Impact of Tax Cuts & Jobs (TCJA) Jurisdictional Settlements includes the addback of $6.1M pretax revenue deferred for customer refunds in excess of the income tax benefits realized in 2018 and $3.3M of pretax expense related to hazard tree removal that was originally proposed to be funded with 50% of TCJA benefits (in lieu of customer refunds). This treatment was ultimately conceded in the settlement in exchange for agreement by the stipulating parties to not oppose a known-and-measurable adjustment equal to the actual 2018 expenditures for hazard tree removal included in our Montana electric rate review 2017 test year. These increases to Non-GAAP earnings were more than offset by the removal of a $19.8M income tax benefit in 2018 related to the final adjustment of excess deferred taxes and $2.4M of increased tax expense related to the two pretax items previously discussed (($6.1M + $3.3M) x 25.3% = $2.4M). These sum to equal the $22.2M increase to income tax expense ($19.8M + $2.4m) and ultimately result in $12.8M reduction to GAAP Net Income.

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

Appendix

Segment Results
(Fourth Quarter)

(Unaudited) (in thousands)

Three Months Ending December 31, 2018	Electric	Gas	Other	Total
Operating revenues	$ 227,837	$ 80,979	$ -	$ 308,816
Cost of sales	51,210	21,159	-	72,369
Gross margin (1)	176,627	59,820	-	236,447
Operating, general and administrative	62,047	22,849	257	85,153
Property and other taxes	33,856	9,094	3	42,953
Depreciation & depletion	36,142	7,457	-	43,599
Operating Income (loss)	44,582	20,420	(260)	64,742
Interest expense	(20,125)	(1,407)	(2,254)	(23,786)
Other income	1,430	609	129	2,168
Income tax (expense) benefit	27,016	10,640	(14,288)	23,368
Net income (loss)	$ 52,903	$ 30,262	$ (16,673)	$ 66,492

Three Months Ending December 31, 2017	Electric	Gas	Other	Total
Operating revenues	$ 262,163	$ 82,385	$ -	$ 344,548
Cost of sales	87,171	21,854	-	109,025
Gross margin (1)	174,992	60,531	-	235,523
Operating, general and administrative	55,393	19,801	1,004	76,198
Property and other taxes	34,567	9,526	1	44,094
Depreciation & depletion	34,254	7,393	9	41,656
Operating Income (loss)	50,778	23,811	(1,014)	73,575
Interest expense	(19,709)	(1,456)	(1,141)	(22,306)
Other (expense) income	(727)	(168)	856	(39)
Income tax (expense) benefit	139	(2,884)	(591)	(3,336)
Net income (loss)	$ 30,481	$ 19,303	$ (1,890)	$ 47,894

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

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Appendix

Electric Segment
(Fourth Quarter)

(dollars in millions)	Results 2018	Results 2017	Results Change	Results % Change
Retail revenues	$ 208.8	$ 217.2	$ (8.4)	(3.9) %
Regulatory amortization	2.4	1.0	1.4	140.0
Total retail revenue	211.2	218.2	(7.0)	(3.2)
Transmission	15.3	21.0	(5.7)	(27.1)
Wholesale and other	1.3	23.0	(21.7)	(94.3)
Total Revenues	**227.8**	**262.2**	**(34.4)**	**(13.1)**
Total Cost of Sales	**51.2**	**87.1**	**(35.9)**	**(41.2)**
Gross Margin (1)	**176.6**	**175.1**	**1.5**	**0.9** %

	Revenues 2018	Revenues 2017	Megawatt Hours (MWH) 2018	Megawatt Hours (MWH) 2017	Avg. Customer Count 2018	Avg. Customer Count 2017
	(in thousands)					
Retail Electric						
Montana	$ 73,061	$ 77,095	659	658	300,877	297,172
South Dakota	14,621	14,104	136	120	50,645	50,424
Residential	**87,682**	**91,199**	**795**	**778**	**351,522**	**347,596**
Montana	80,549	86,349	787	799	67,940	66,890
South Dakota	23,307	23,333	273	245	12,702	12,698
Commercial	**103,856**	**109,682**	**1,060**	**1,044**	**80,642**	**79,588**
Industrial	11,268	10,893	732	599	75	74
Other	6,032	5,417	17	16	5,960	5,804
Total Retail Electric	**$ 208,838**	**$ 217,191**	**2,604**	**2,437**	**438,199**	**433,062**

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

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Natural Gas Segment
(Fourth Quarter)

(dollars in millions)	Results 2018	Results 2017	Results Change	Results % Change
Retail revenues	$ 72.2	$ 74.2	$ (2.0)	(2.7) %
Regulatory amortization	(1.4)	(1.9)	0.5	(26.3)
Total retail revenue	70.8	72.3	(1.5)	(2.1)
Wholesale and other	10.2	10.1	0.1	1.0
Total Revenues	**81.0**	**82.4**	**(1.4)**	**(1.7)**
Total Cost of Sales	**21.2**	**21.9**	**(0.7)**	**(3.2)**
Gross Margin (1)	**$ 59.8**	**$ 60.5**	**$ (0.7)**	**$ (1.2) %**

	Revenues (in thousands)		Dekatherms (Dkt) (in thousands)		Avg. Customer Count	
	2018	2017	2018	2017	2018	2017
Retail Gas						
Montana	$ 34,865	$ 38,694	4,858	4,987	173,648	171,536
South Dakota	6,614	4,957	816	632	40,085	39,833
Nebraska	5,143	4,943	689	530	37,505	37,455
Residential	**46,622**	**48,594**	**6,363**	**6,149**	**251,238**	**248,824**
Montana	16,826	18,422	2,435	2,464	23,990	23,649
South Dakota	5,587	4,207	976	801	6,735	6,675
Nebraska	2,547	2,383	499	380	4,884	4,812
Commercial	**24,960**	**25,012**	**3,910**	**3,645**	**35,609**	**35,136**
Industrial	349	344	53	46	242	252
Other	275	278	44	39	163	161
Total Retail Gas	**$ 72,206**	**$ 74,228**	**10,370**	**9,879**	**287,252**	**284,373**

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

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Appendix

Qualified Facility Earnings Benefit

The $25.1 million earnings improvement, recorded in the 2nd quarter of 2018, related to certain Qualified Facilities (QF) contracts is a result of:

- A **$17.5 million benefit** resulting from the reduction of the estimated future liability of unrecoverable QF costs. The primary driver of the reduction is due to price escalation that was lower than the three percent assumption in the liability, which was also adjusted in 2015. <u>Due to the periodic nature of this estimated liability adjustment, this benefit has been excluded from non-GAAP earnings.</u>
- A **$7.6 million benefit** due to the annual adjustment to reflect lower actual output and pricing of QF related supply costs driven largely by outages at two QF facilities. <u>Due to the annual nature of this adjustment to actual costs, this benefit has NOT been excluded from non-GAAP earnings.</u>

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

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Appendix

2018 Non-GAAP Adjustment for TCJA

(in millions)	(1) Revenue Deferred for Settlements in excess of Tax Benefit	(2) Expense for Hazard Tree Program	(3) Final Adjustment of Excess Deferred Taxes	Non GAAP Impact of Tax Cuts & Jobs Act Jurisdictional Settlements
Revenues	$6.1	-	-	$6.1
Cost of sales	-	-	-	-
Gross Margin	**6.1**	**-**	**-**	**6.1**
Op. Expenses				-
OG&A	-	(3.3)	-	(3.3)
Prop. & other taxes	-	-	-	-
Depreciation	-	-	-	-
Total Op. Exp.	**-**	**(3.3)**	**-**	**(3.3)**
Op. Income	**6.1**	**3.3**	**-**	**9.4**
Interest expense	-	-	-	-
Other (Exp.) Inc., net	-	-	-	-
Pretax Income	**6.1**	**3.3**	**-**	**9.4**
Income tax	(1.5)	(0.8)	(19.8)	(22.2)
Net Income	**$4.6**	**2.5**	**(19.8)**	**($12.8)**
ETR	25.3%	25.3%	-	235.9%
Diluted Shares	50.2	50.2	50.2	50.2
Diluted EPS	$0.09	0.05	(0.39)	(0.25)

(1) Impact of Tax Cuts & Jobs (TCJA) Jurisdictional Settlements includes the addback of $6.1M pretax revenue deferred for customer refunds in excess of the income tax benefits realized in 2018; and

(2) $3.3M of pretax expense related to hazard tree removal that was originally proposed to be funded with 50% of TCJA benefits (in lieu of customer refunds). This treatment was ultimately conceded in the settlement in exchange for agreement by the stipulating parties to not oppose a known-and-measurable adjustment equal to the actual 2018 expenditures for hazard tree removal included in our Montana electric rate review 2017 test year.

(3) These increases to Non-GAAP earnings were more than offset by the removal of a $19.8M income tax benefit in 2018 related to the final adjustment of excess deferred taxes.

Appendix

Non-GAAP Financial Measures

Pre-Tax Adjustments ($ Millions)	2013	2014	2015	2016	2017	2018
Reported GAAP Pre-Tax Income	**$ 108.3**	**$ 110.4**	**$ 181.2**	**$ 156.5**	**$ 176.1**	**$ 178.3**
Non-GAAP Adjustments to Pre-Tax Income:						
Weather	(3.7)	(1.3)	13.2	15.2	(3.4)	(1.3)
Release of MPSC DGGS deferral	-	-	-	-	-	-
Lost revenue recovery related to prior periods	(1.0)	-	-	(14.2)	-	-
DGGS FERC ALJ initial decision - portion related to 2011	-	-	-	-	-	-
MSTI Impairment	-	-	-	-	-	-
Favorable CELP arbitration decision	-	-	-	-	-	-
Remove hydro acquisition transaction costs	6.3	15.4	-	-	-	-
Exclude unplanned hydro earnings	-	(8.7)	-	-	-	-
Remove benefit of insurance settlement	-	-	(20.8)	-	-	-
QF liability adjustment	-	-	6.1	-	-	(17.5)
Electric tracker disallowance of prior period costs	-	-	-	12.2	-	-
Transmission impacts (unfavorable hydro conditions)	-	-	-	-	-	-
Settlement of Workers Compensation Claim	-	-	-	-	-	-
Remove Montana Rate Adjustments not included in guidance						-
Increased pension expense	-	-	-	-	-	-
Transaction costs related to Colstrip Unit 4 sales process						-
Income tax adjustment	-		-		-	9.4
Unplanned Equity Dilution from Hydro transaction						-
Adjusted Non-GAAP Pre-Tax Income	**$ 109.8**	**$ 115.8**	**$ 179.7**	**$ 169.7**	**$ 172.7**	**$ 168.8**

Tax Adjustments to Non-GAAP Items ($ Millions)	2013	2014	2015	2016	2017	2018
GAAP Net Income	**$ 94.0**	**$ 120.7**	**$ 151.2**	**$ 164.2**	**$ 162.7**	**$ 197.0**
Non-GAAP Adjustments Taxed at 38.5%:						
Weather	(2.3)	(0.8)	8.1	9.3	(2.1)	(1.0)
Release of MPSC DGGS deferral	-	-	-	-	-	-
Lost revenue recovery related to prior periods	(0.6)	-	-	(8.7)	-	-
DGGS FERC ALJ initial decision - portion related to 2011	-	-	-	-	-	-
MSTI Impairment	-	-	-	-	-	-
Favorable CELP arbitration decision	-	-	-	-	-	-
Remove hydro acquisition transaction costs	3.9	9.5	-	-	-	-
Exclude unplanned hydro earnings	-	(5.4)	-	-	-	-
Remove benefit of insurance settlement	-	-	(12.8)	-	-	-
QF liability adjustment	-	-	3.8	-	-	(13.1)
Electric tracker disallowance of prior period costs	-	-	-	7.5	-	-
Transmission impacts (unfavorable hydro conditions)	-	-	-	-	-	-
Settlement of Workers Compensation Claim	-	-	-	-	-	-
Remove Montana Rate Adjustments not included in guidance	-	-	-	-	-	-
Increased pension expense	-	-	-	-	-	-
Transaction costs related to Colstrip Unit 4 sales process	-	-	-	-	-	-
Income tax adjustment	-	(18.5)	-	(12.5)	-	(12.8)
Unplanned Equity Dilution from Hydro transaction						
Non-GAAP Net Income	**$ 94.9**	**$ 105.5**	**$ 150.3**	**$ 159.8**	**$ 160.6**	**$ 170.2**

Non-GAAP Diluted Earnings Per Share	2013	2014	2015	2016	2017	2018
Diluted Average Shares (Millions)	*38.2*	*40.4*	*47.6*	*48.5*	*48.7*	*50.2*
Reported GAAP Diluted earnings per share	**$ 2.46**	**$ 2.99**	**$ 3.17**	**$ 3.39**	**$ 3.34**	**$ 3.92**
Non-GAAP Adjustments:						
Weather	(0.05)	(0.02)	0.17	0.19	(0.04)	(0.02)
Release of MPSC DGGS deferral	-	-	-	-	-	-
Lost revenue recovery related to prior periods	(0.02)	-	-	(0.18)	-	-
DGGS FERC ALJ initial decision - portion related to 2011	-	-	-	-	-	-
MSTI Impairment	-	-	-	-	-	-
Favorable CELP arbitration decision	-	-	-	-	-	-
Remove hydro acquisition transaction costs	0.11	0.24	-	-	-	-
Exclude unplanned hydro earnings	-	(0.14)	-	-	-	-
Remove benefit of insurance settlements & recoveries	-	-	(0.27)	-	-	-
QF liability adjustment	-	-	0.08	-	-	(0.26)
Electric tracker disallowance of prior period costs	-	-	-	0.16	-	-
Transmission impacts (unfavorable hydro conditions)	-	-	-	-	-	-
Settlement of Workers Compensation Claim	-	-	-	-	-	-
Remove Montana rate adjustments not included in guidance	-	-	-	-	-	-
Increased pension expense	-	-	-	-	-	-
Transaction costs related to Colstrip Unit 4 sales process	-	-	-	-	-	-
Income tax adjustment	-	(0.47)	-	(0.26)	-	(0.25)
Unplanned Equity Dilution from Hydro transaction	-	0.08	-	-	-	-
Non-GAAP Diluted Earnings Per Share	**$ 2.50**	**$ 2.68**	**$ 3.15**	**$ 3.30**	**$ 3.30**	**$ 3.39**

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

The presentation of these non-GAAP measures is intended to supplement investors' understanding of our financial performance and not to replace other GAAP measures as an indicator of actual operating performance. Our measures may not be comparable to other companies' similarly titled measures.

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