Schedule No. EPCC-1

## ANNUAL POWER COSTS AND CREDITS ADJUSTMENT MECHANISM

APPLICABILITY: Applicable to all electricity supply customers of the utility.

PURPOSE: This Schedule sets forth the criteria and accounting provisions that permit the Utility to recover its annual Costs and Credits, as defined below.

COSTS AND CREDITS: Costs and Credits included in this Mechanism are identified as follows, including the applicable Federal Energy Regulatory Commission ("FERC") account numbers:

1. Power Costs and Credits:
    a. Power Costs:
        i. Fuel – FERC Accounts 547 and 501.
        ii. Costs of reagents that vary with the consumption of fuel and power generation. This includes limestone, ammonia, other chemicals, and associated freight.
        iii. Purchases excluding Qualifying Facilities ("QF") Costs – FERC Account 555
        iv. Purchased capacity costs, including Operating Reserves and Capacity Purchases – FERC Account 555
        v. Other Power Supply Expenses – FERC Account 557
        vi. Transmission – FERC Account 565

    b. Credits:
        i. Sales – FERC Account 447
        ii. Production Tax Credits – FERC Account 409.1. Production tax credits will be net of any transaction costs or discounts resulting from any sales or transfers of production tax credits.
        iii. Yellowstone National Park Contract Sales – FERC Account 442.1
        iv. Revenue Credits – FERC Account 555

2. QF Costs - Subject to the STIPULATIONS section below, QF costs are identified as follows:
    a. QF Purchases – FERC Account 555

3. Demand Side Management (DSM) Costs:
    a. DSM costs – FERC Account 930.2

4. Montana Public Service Commission ("MPSC" or "Commission") and Montana Consumer Counsel ("MCC") taxes:
    a. MPSC and MCC taxes associated with the revenues collected through this Mechanism.

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

A. Base Power Costs and Credit: Base Power Costs and Credits rates are developed from the Power Costs and Credits described above in the COSTS AND CREDITS section of the Schedule at the time such costs, credits, and rates, are reviewed and approved by the Commission.

B. BASE QF Costs: Base QF Costs rates are developed and based on QF costs described above in the COSTS AND CREDITS section of this Schedule at the time such costs and rates are reviewed and approved by the Commission.

C. Base DSM Costs: Base DSM Costs rates are developed and based on DSM costs described above in the COSTS AND CREDITS section of this Schedule at the time such costs and rates are reviewed and approved by the Commission.

The base rates established under this Mechanism are adjusted within an electric utility general rate filing, or otherwise upon Commission approval.

ADJUSTMENT MECHANISM: This Mechanism adjusts for the differences between:

1. Recovered Base Power Costs and Credits (Base Power Costs and Credits rates multiplied by actual loads resulting in Base Power Costs and Credits Rate Revenues) and actual Power Costs and Credits for the applicable tracking period, as set forth below. The Power Costs and Credits Deferred Account (Account 191) shall reflect the difference between rate revenues and actual costs and credits on a quarterly basis, subject to application of the sharing provisions as described below.

2. Recovered Base QF Costs (Base QF Costs rates multiplied by actual loads resulting in Base QF Costs Rate Revenues) and actual QF Costs as set forth below. The Power Costs and Credits Deferred Account (Account 191) shall reflect the difference between rate revenues and actual costs on a quarterly basis as described below. The difference is not subject to sharing provisions.

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3. Recovered Base DSM Costs (Base DSM Costs rates multiplied by actual loads resulting in Base DSM Costs Rate Revenues) and actual DSM Costs as set forth below. The Power Costs and Credits Deferred Account (Account 191) shall reflect the difference between rate revenues and actual costs on a quarterly basis as described below. The difference is not subject to sharing provisions.

The Utility also recovers the MPSC and MCC taxes associated with the revenues collected through this Mechanism. The MPSC and MCC taxes are not subject to sharing provisions.

QUARTERLY ADJUSTMENT: The Mechanism's Quarterly adjustment shall be derived by:

1. Computing the difference between Base Power Costs and Credits Rates Revenues and actual Power Costs and Credits on a quarterly basis. 90% of the difference is recorded as a deferral and rebated to customers (when costs are less than revenues), or surcharged to customers (when costs are greater than revenues).

2. Computing the difference between Base QF Costs Rate Revenues and actual QF Costs for the period. One hundred percent of the difference is recorded as a deferral and rebated to customers (when costs are less than revenues) or surcharged to customers (when costs are greater than revenues).

3. Computing the difference between Base DSM Costs Rate Revenues and actual DSM Costs for the period. One hundred percent of the difference is recorded as a deferral and rebated to customers (when costs are less than revenues) or surcharged to customers (when costs are greater than revenues).

4. The quarterly adjustment shall also include a true-up of the remaining deferred account balance(s) for prior period(s).

5. While MPSC and MCC taxes (FERC Account 408.1) associated with the revenues collected through this Mechanism are not included in the Costs and Credits, these taxes are separately tracked and recovered in conjunction with this Mechanism. One hundred percent of the actual MPSC and MCC tax expenses for the previous period will be recorded as a deferral and surcharged to customers.

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

A. Current Period Power Costs and Credits Deferred Account Balance: The deferred account balance shall reflect adjustments described above under the QUARTERLY ADJUSTMENTS section, on a quarterly basis for the Accounting Period.

B. Accounting Period: The Accounting Period shall be for the 12-month period beginning July 1 of each year through June 30 of the following year.

C. Deferred Account Rates: The Deferred Account Rates shall be derived to reflect amortization of the associated current deferred account balance on a quarterly basis, including any prior period(s) deferred account balances.

D. Interest Rate Applied to Deferred Account Balances: The interest rate applied to deferred balances will be equal to one-twelfth of the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15, or its successor publication.

STIPULATIONS

Related to QF Tier II resources, for the purpose of establishing base costs and actual costs, in Order No. 7563d,¶¶ 9 - 11, Docket No. D2017.5.39 (January 9, 2019) the Montana Public Service Commission accepted NorthWestern's use of the scheduled volumes and prices found in Appendix D to the stipulation the Commission approved in Consolidated Dockets D97.7.90 & D2001.1.5, Order No. 5986w/6353c, (January 31, 2002) ("First Stipulation"). The Commission further accepted the methodology stated in the stipulation in Consolidated Dockets D2003.6.77 & D2004.6.90, Order No. 6496f/6574e. (December 16, 2005).

To compute actual costs when QF Tier II resources produce less than the annual volume specified in the First Stipulation for the actual year, the energy by which production is short, or the replacement energy, is valued using one of two criteria below.

1. Normal Performance Replacement Energy Criteria – The annual adjusted value of Normal Replacement Energy shall be determined by multiplying the annual replacement MWhs by the lower of i.) the Mid Columbia base-load (combination of On-Peak and Off-Peak) Dow Jones Index; or ii.) the average short-term market purchase price for the PCCAM year. For purposes of computing actual costs, except for Extended Outage Replacement Energy described in section B below, this dollar amount shall then be removed from base costs and replaced at the price level specified for the actual year in the First Stipulation.

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2. Extended Outage Replacement Energy Criteria – "Extended Outage" shall mean any QF Tier II resource outage in which the Utility can reasonably be assured will last more than 90 days and cause the production to be less than the volume specified for the actual year in the First Stipulation. If it becomes known that one or more of the QF Tier II resources will experience an Extended Outage period, the Utility shall have the right, but not the obligation, at the point the Extended Outage is determined, to prospectively procure replacement energy equivalent to the expected QF Tier II resource energy output (or remaining portion thereof) at a specific price for the same period as the outage (or remaining portion thereof). Accordingly, Extended Outage Replacement Energy is not subject to the treatment identified for Normal Performance Replacement Energy in section A above. If the Utility elects to procure replacement energy for an Extended Outage, it shall, at the point an Extended Outage is determined, inform the Commission and the Montana Consumer Counsel in a timely manner of the term, price, and quantity of such energy. For purposes of computing actual costs, the value of Extended Outage Replacement Energy shall be determined by multiplying the MWhs by the price specified for the actual year in the First Stipulation.

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

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