



September 1, 2017

Honorable Mary McNally  
Chair, Energy and Telecommunications  
Interim Committee  
P.O. Box 201706  
Helena, MT 59620-1706

Dear Chair McNally:

This letter is NWE's response to a letter dated August 22, 2017, directed to you from Montana Public Service Commission (MPSC) Commissioners Brad Johnson and Travis Kavulla (hereinafter "Commissioners").

There are three portions of NorthWestern Energy (NWE)'s comments, given at the July 31 meeting of the Energy and Telecommunications Interim Committee (ETIC), to which the Commissioners provide their perspective:

1. The financial health of NWE;
2. MPSC support of deregulation and NWE's position on the QF1 Final Order; and
3. Statutory recommendations.

Relative to each of these issues, NWE provided the committee with handouts of financial analysts' reports that were referred to throughout the comments, and which solidly support the comments of NWE and in many instances are the basis for these comments.

The analysts are independent experts who analyze thousands of publicly traded corporations, utilities, and their regulators. They watch the actions of regulatory agencies like the MPSC throughout the U.S. including reading orders, listening to public meetings, and in the case of Montana, reading the agency's unique press releases. These analysts also follow the comments of individual commissioners very closely and make recommendations and set financial ratings for companies based upon the totality of these actions.

To be clear, regulatory actions include written documents issued by the MPSC as well as verbal statements, public emails, press communications, and even "tweets" from individual commissioners.



### FINANCIAL HEALTH OF NWE

Without restating all of the NWE comments, each of the financial analysts identify the “adverse regulatory environment” in Montana as the greatest financial risk to NWE. Based upon this regulatory uncertainty and unpredictability in Montana, where NWE’s business is concentrated, they have downgraded NWE significantly over the past few months.

For example, The Williams Capital Group (analyst Chris Ellinghaus) reduced the investment rating on NWE from ‘Hold’ to ‘Sell’ and reduced the stock target price from \$64.00 to \$52.00-- on July 31 (the same day ETIC met) after a MPSC hearing the previous Friday. These hits in the financial world increase the cost of doing business for NWE, which ultimately increases the cost of service to the customer.

Over the past two years NWE’s share price growth has been in last place compared to its peer utilities with a growth rate of only 18 percent versus the average growth of our peers of 55 percent. The chart attached as Exhibit 1 shows NWE stock valuations along with specific Commission actions, and the direct correlation between MPSC actions and NWE stock performance compared to its 13 peer utilities.

### DEREGULATION AND NWE POSITION ON QF1 FINAL ORDER

NWE commented on a very limited portion of the QF1 docket Final Order – specifically that language which seeks to implement the policy of deregulation, specifically referring to paragraphs #114 and #135 of the Order.

NWE did not comment on the QF contract price in comments before ETIC. Supply Vice-President John Hines authored an op-ed in July acknowledging the MSPC for setting a “fair and competitive price for solar power.” The op-ed did not discuss contract length.

NWE’s comments were directed to the deregulation component of the QF1 Final Order and, again, reference was to financial analysts who also recognize deregulation when they see it. For example, on July 19 Credit Suisse wrote, “As Montana moves closer to deregulation once again without full retail choice and without a capacity market, we see an increased probability of shortages, price caps, and a potentially destabilized grid down the road.” [Michael Weinstein, Credit Suisse “Commissioner Meeting Takeaways,” July 19, 2017, after an individual meeting with Commissioner Kavulla].

Credit Suisse earlier questioned the legality of the MSPC move, stating, “Historically speaking, the choice to untether customer bills from long-range regulatory stability has been the province of state legislatures rather than regulatory commissions. These latest orders seeking



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“symmetry” for utilities would appear to be inconsistent with both HB 25 as well as other national precedents.” [Michael Weinstein, Credit Suisse NWE Update, July 6, 2017].

Other individuals provided comments to ETIC consistent with NWE’s position on deregulation as adopted by the MPSC in the QF1 docket Final Order. They included former Senator Alan Olson, who introduced and carried HB 25 in 2007, the bill which undid the disaster of Montana’s first foray into electricity deregulation.

They also included Representative Jim Keane (D-Butte) and Bill Ryan, Business Agent for IBEW 44 (and former representative), who both gave comments about the adverse effects of deregulation on Montana businesses and individuals before it was repealed.

Each of these commenters agreed the MPSC action in adopting ‘symmetry’ was, in fact, deregulation.

#### STATUTORY RECOMMENDATIONS

At the request of Chair McNally, NWE provided a ‘one-pager’ of potential statutory changes to provide additional legislative oversight and guideposts for MPSC activity that may otherwise over-step its regulatory function and harm, through the creation of energy policy, the utilities it regulates and the customers they serve.

It appears the Chair’s request was in full recognition of the uncertain Montana regulatory environment that exists and the threat it poses to the utility and customers.

NWE suggested the recommendations to generate continued discussion with ETIC, staff, and stakeholders at future meetings on these important and timely topics.

Yours very truly,

David Hoffman  
Director  
Montana Government Affairs



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Enclosure

cc: ETIC Committee Members  
Montana Public Service Commissioners  
Bob Rowe, CEO, NorthWestern Energy  
Trevor Graffe, ETIC Lead Staff

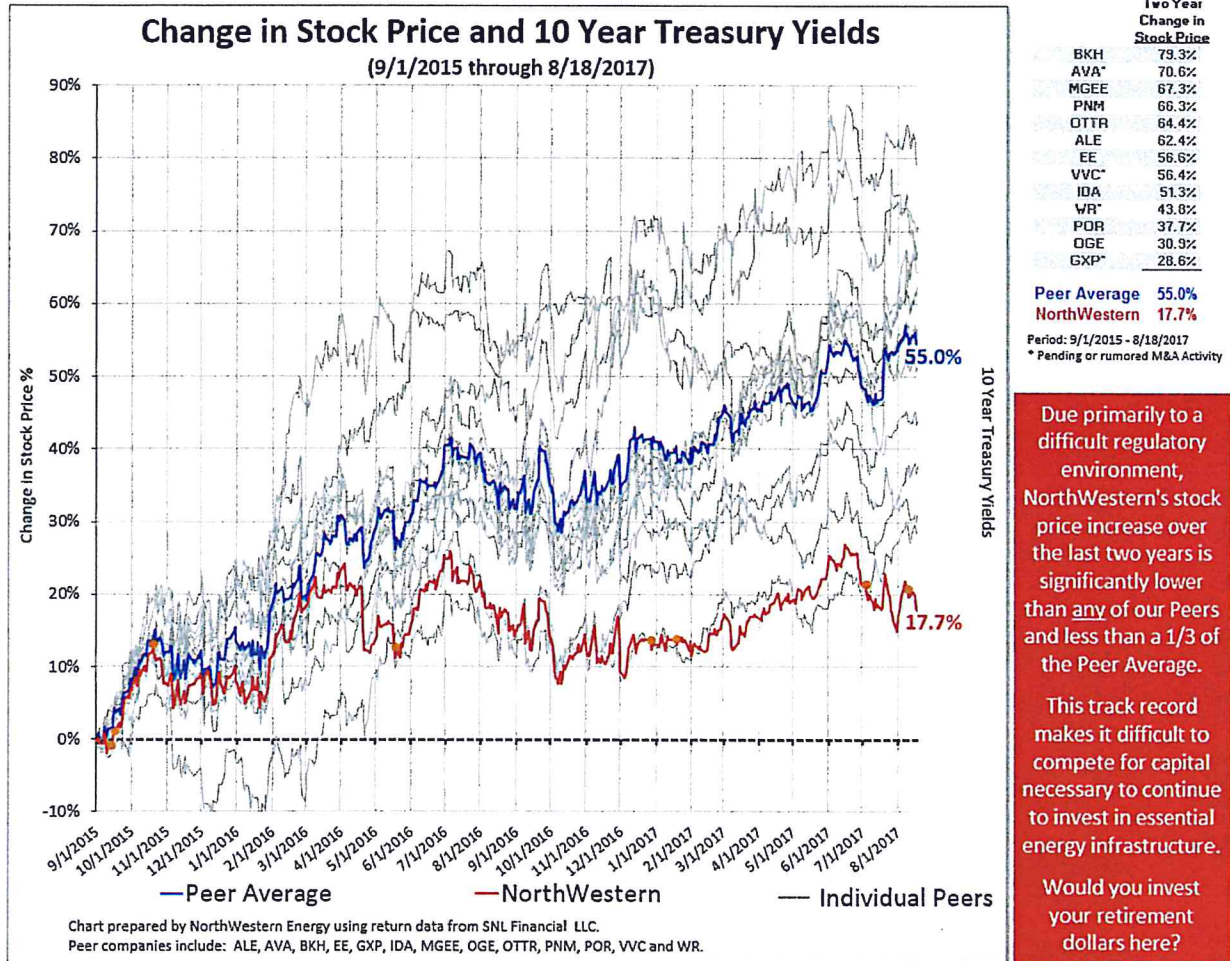


## Exhibit 1

NorthWestern, like all publicly traded companies, is bound by Regulation Fair Disclosure. However, dissemination of information is imperfect and investors learn of, and react to, the information at different times--especially when the information is in the form of a press release posted to the Montana Public Service Commission website or a Tweet from an individual Commissioner. As a result, any individual piece of information may not cause NWE stock price to deviate from the peer group on a specific day. However, given a longer period of time that allows the company-specific information to be evaluated and priced into the stock, the collective impact on stock price can generally be seen.

While the August 22, 2017 letter from Chairman Johnson and Vice Chairman Kavulla points out “shares in NorthWestern Corporation (NWE) have more than doubled in price over the last six years” this statement provides a very narrow perspective. In order to attract and retain the capital necessary to invest in essential energy infrastructure, NWE must compete with every other utility and publically traded company to provide the best return with the least risk. In other words, our stock price performance on a relative basis (i.e. versus our peer average) is a much more important indicator.

The chart below identifies a few of these company-specific information events along with the change in stock price of NorthWestern relative to our peers over the last 2 years – starting with the Commission’s decision to eliminate our lost revenue adjustment mechanism. As you will see, NorthWestern has significantly lagged the peer group average (17.7% vs 55%) as well as every individual peer.



● Significant dates denoted above:

- 1) On 9/9/2015, NWE issues press release on LRAM elimination
- 2) On 10/16/2015, MPSC issues final order on LRAM elimination
- 3) On 3/29/2016, NWE & MPSC issue press releases on Colstrip replacement power costs disallowance
- 4) On 4/20/2016, NWE reports 1st quarter 2016 earnings detailing Colstrip disallowance
- 5) On 11/29/2016, MPSC hydro compliance work session indicating desire for NWE to file an electric rate case
- 6) On 06/23/2017, MPSC Issues 'goose and gander' press release announcing plans to cap length of energy supply contracts.
- 7) On 08/01/2017, MPSC issues press release declining to order NWE to file rate-case information but suggested that "certain cost categories" could be "dropped" from the tracker until the next rate case.
- 8) On 8/7/2017, Vice-Chair Kavulla publishes Opinion Editorial titled "NorthWestern's bad bets have cost consumers hundreds of millions" and suggests NWE is "in a class with the Anaconda Company and Enron."