



Thompson Falls

Montana Property Taxes

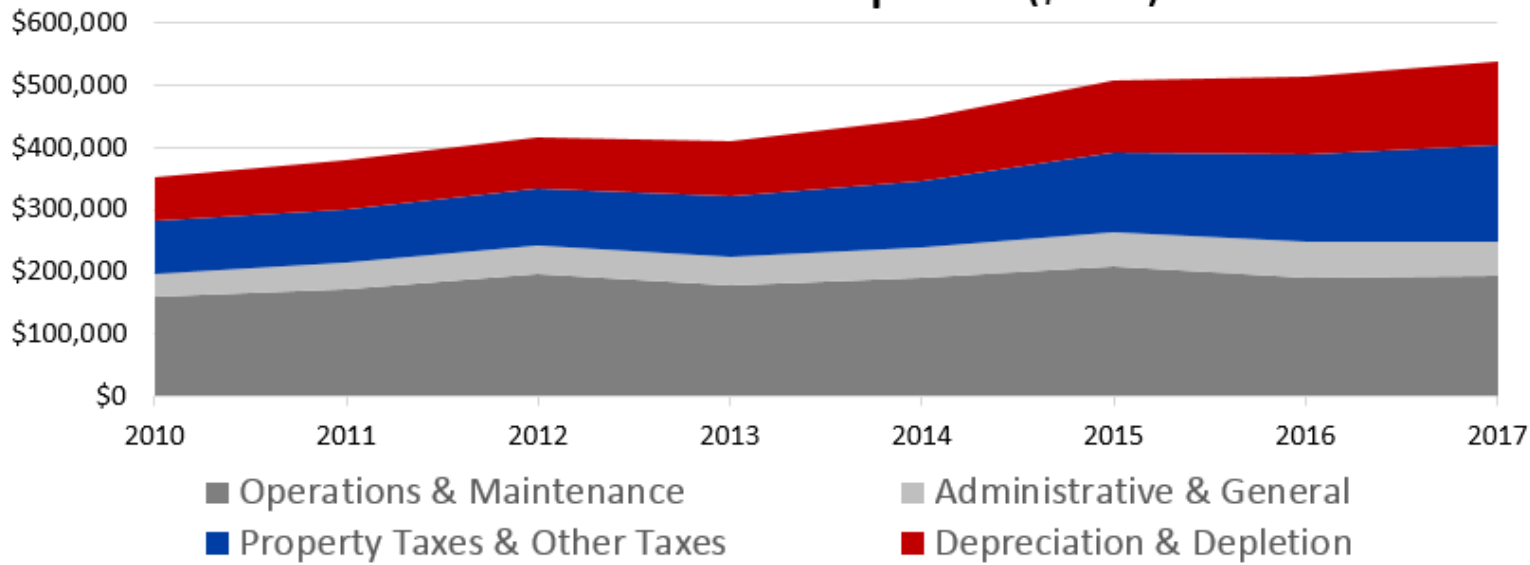
March 2018

NorthWestern[®]
Energy
Delivering a Bright Future



Montana Operating Expenses

NWE's Montana Expenses (\$000's)

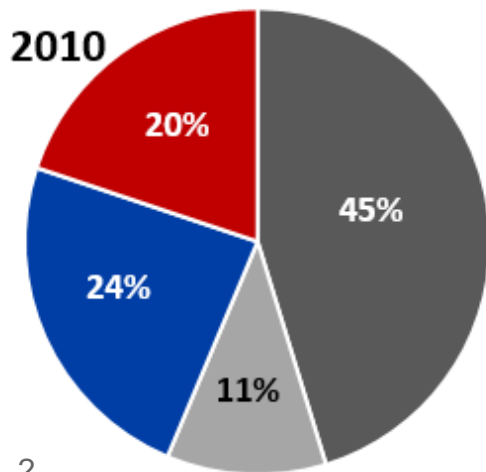


Total Expense increased on average of 6.2% per year since 2010.

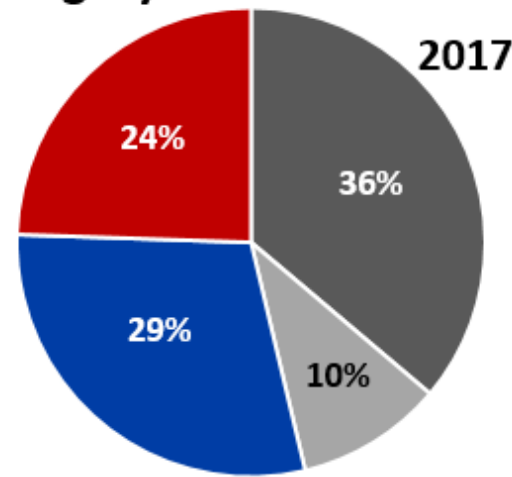
Increase of O&M, A&G (Controllable) Expenses was 3.3%

Our controllable expenses (O&M and A&G) as a percentage of total expenses have gone from 56% concentration in 2010 down to 46% in 2017.

Montana Percentage of Expense by Category - 2010 vs 2017



- Operations & Maintenance
- Administrative & General
- Property Taxes & Other Taxes
- Depreciation & Depletion





Largest Property Taxpayer in Montana

Total 2017 Centrally Assessed Montana Property Taxes by Company

Rank	Company Name	2017 Taxes ¹ (in Millions)	% of Total	Millions										
				\$0	\$20	\$40	\$60	\$80	\$100	\$120	\$140	\$160		
1	NORTHWESTERN ENERGY	150.1	35.7%											
2	BNSF RAILWAY COMPANY	35.9	8.5%											
3	HILAND CRUDE LLC	21.3	5.1%											
4	NORTHERN BORDER PIPELINE COMPANY	13.4	3.2%											
5	QWEST CORPORATION AND OR CENTURY LINK	12.3	2.9%											
6	PUGET SOUND ENERGY	11.8	2.8%											
7	EXPRESS PIPELINE LLC	10.2	2.4%											
8	AVISTA CORPORATION	10.0	2.4%											
9	CHARTER COMMUNICATIONS INC	9.8	2.3%											
10	VERIZON WIRELESS	9.7	2.3%											
11	WBI ENERGY	9.6	2.3%											
12	MONTANA DAKOTA UTILITIES	9.5	2.3%											
13	MONTANA RAIL LINK	9.3	2.2%											
14	ONEOK BAKKEN PIPELINE LLC	7.9	1.9%											
15	PHILLIPS 66 PIPELINE LLC	7.4	1.8%											
16	PORTLAND GENERAL ELECTRIC COMPANY	6.8	1.6%											
17	FLATHEAD ELECTRIC COOP INC	5.8	1.4%											
18	PACIFICORP	5.6	1.3%											
19	BISON PIPELINE LLC	5.5	1.3%											
20	BRIDGER PIPELINE LLC	5.2	1.2%											
21	NATURENER	4.2	1.0%											
22	CENEX PIPELINE LLC	4.1	1.0%											
23	PLAINS PIPELINE LP	4.0	1.0%											
24	FRONT RANGE PIPELINE LLC	3.9	0.9%											
25	YELLOWSTONE PIPELINE CO	3.7	0.9%											
26-132	All other centrally assessed tax payers in Montana (< \$3.5M individually)	43.0	10.2%											
Total Centrally Assessed Montana Company 2017 Property Taxes		420.3	100.0%											

NWE is the largest tax payer in Montana, paying nearly 36% of all centrally assessed property taxes.

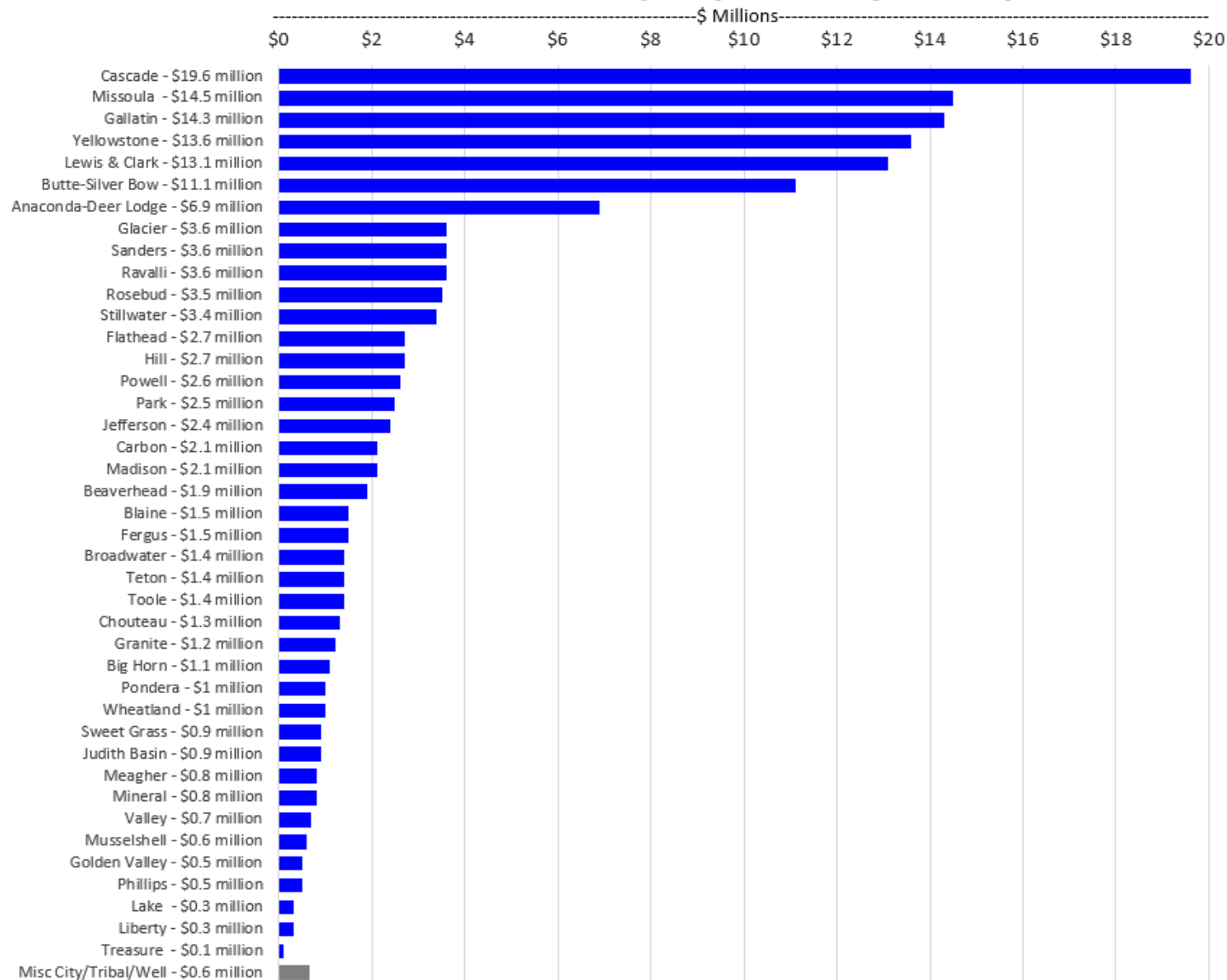
1. Table shows estimated taxes for all companies except NorthWestern Energy. Actual centrally assessed taxes are shown for NorthWestern.



Largest Property Taxpayer in many counties

Reflects diversity of our investments

NWE - 2017 Montana Property Taxes by County



NWE paid over \$150 million in Montana property taxes in 2017, with over \$86 million or 57% of all taxes coming from 6 counties (Cascade, Missoula, Gallatin, Yellowstone, Lewis & Clark and Butte-Silver Bow).

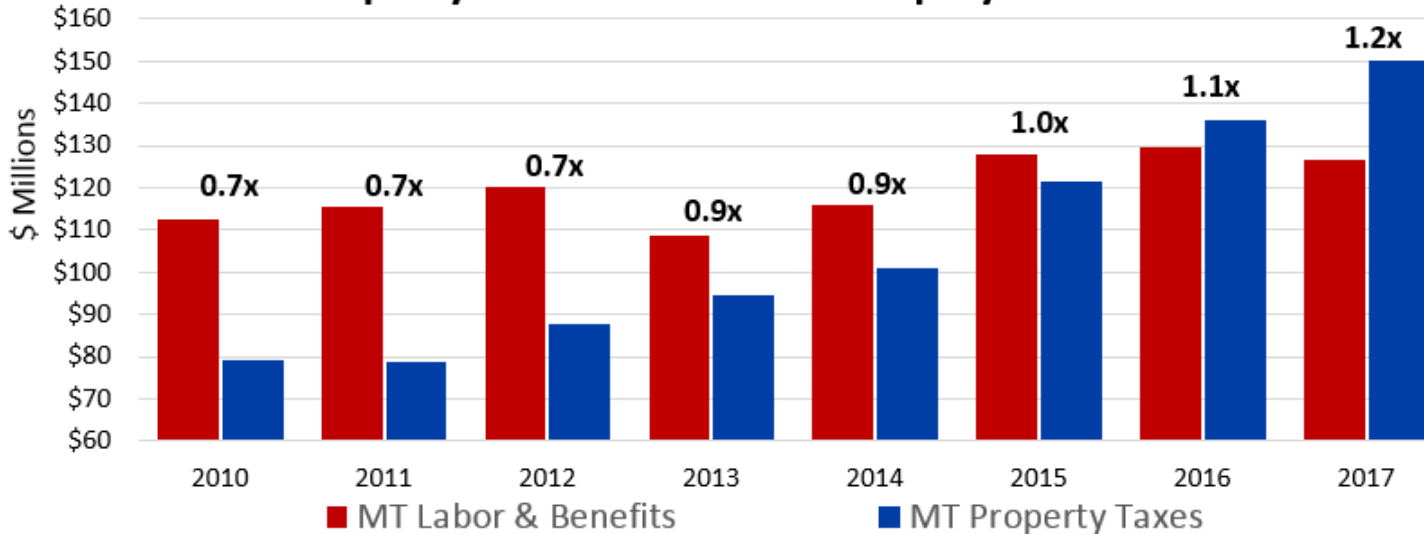




Montana Property Taxes

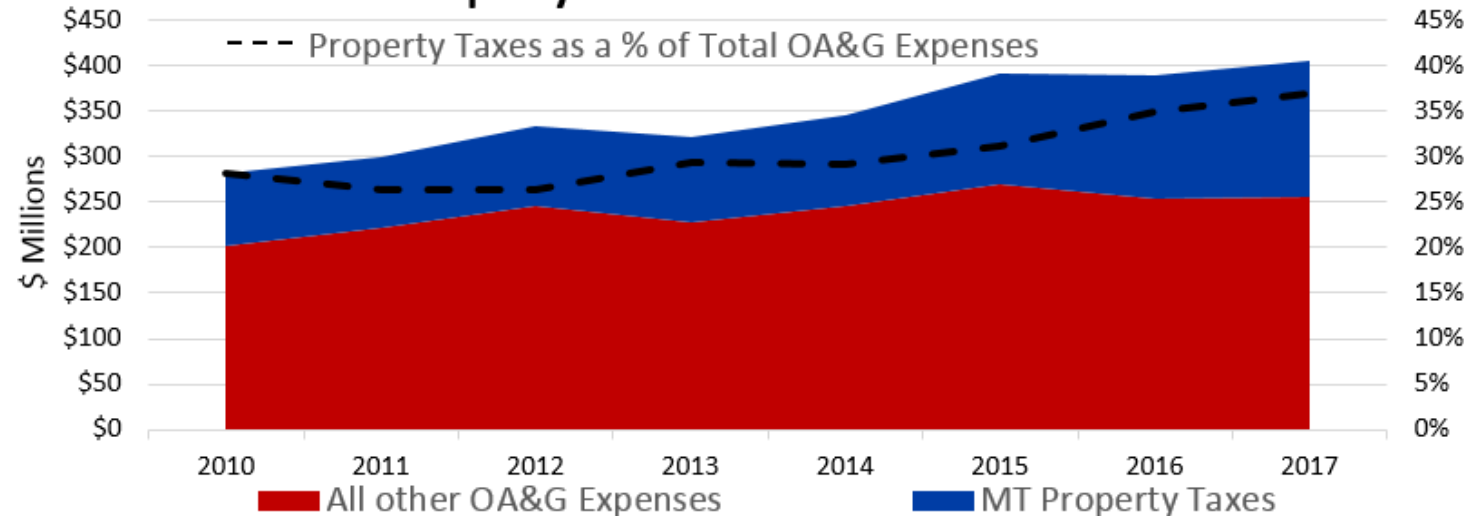
Growing unsustainably

Montana Property Taxes vs Montana Employee Labor and Benefits



NorthWestern Energy's property taxes in Montana as compared to the labor and benefits we pay our Montana employees have gone from 0.7 times in 2010 to 1.2 times in 2017.

Montana Property Taxes vs All Other Montana OA&G

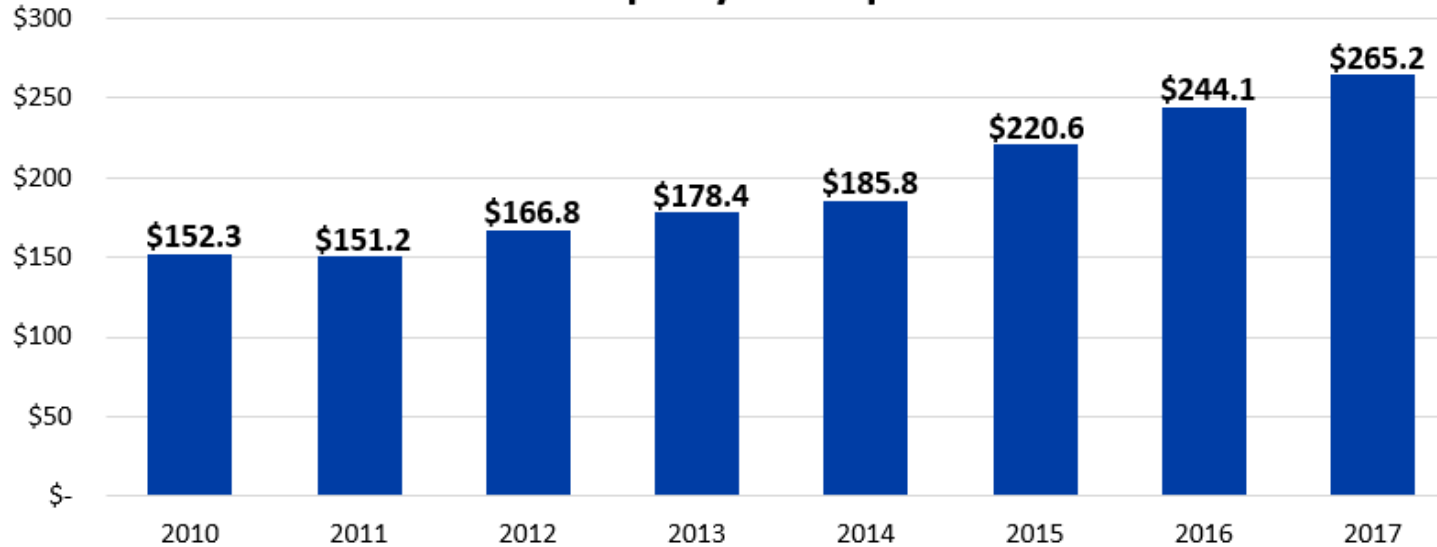


Our MT property taxes as a percentage to total Operating, Administrative and General (OA&G) expenses has gone from 28% in 2010 to 37% in 2017.



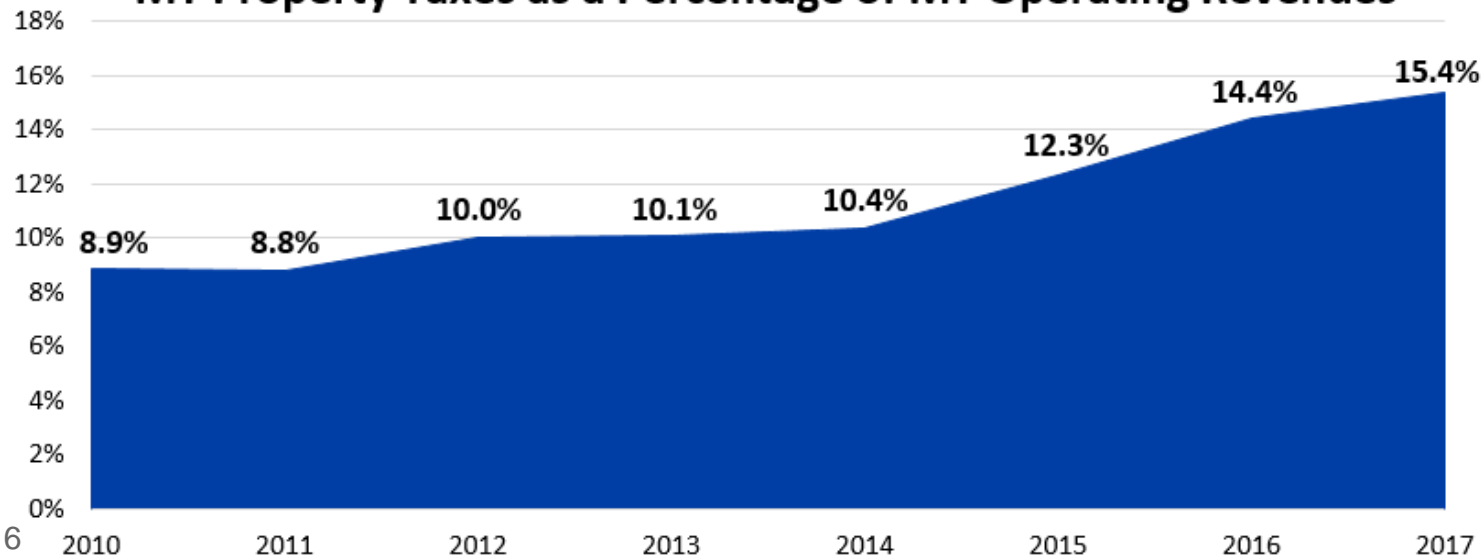
Montana Property Tax Perspective

Montana - Property Taxes per Customer



Both NorthWestern Energy's property taxes in Montana on a per customer basis and also as a percentage of Montana Operating Revenues have increased by an average of 8.2% since 2010.

MT Property Taxes as a Percentage of MT Operating Revenues

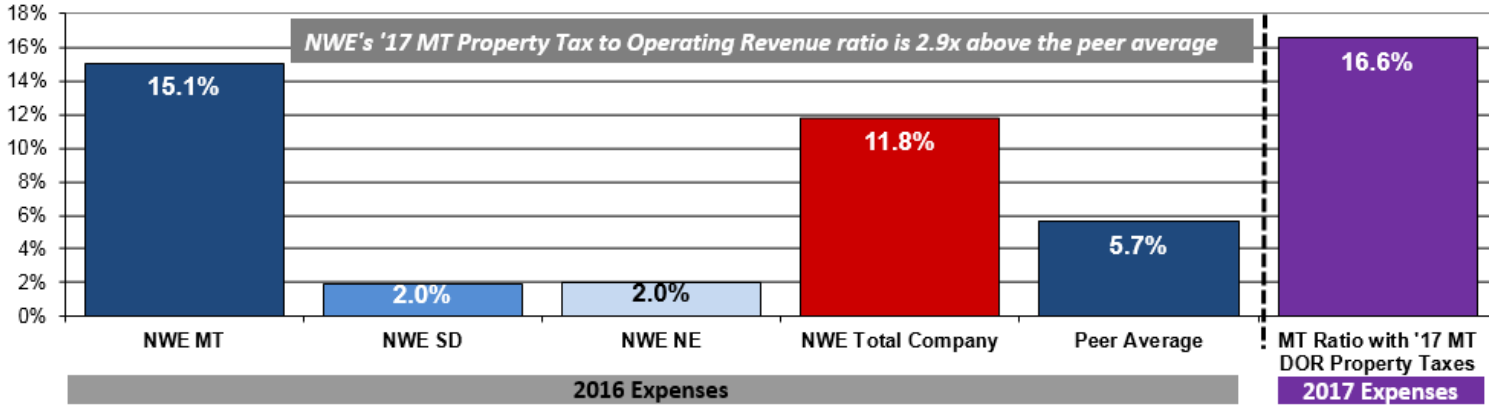


While NWE's utility bills are below the national average, the high percentage of property taxes is a primary driver of why our utility bills are higher than the regional average.



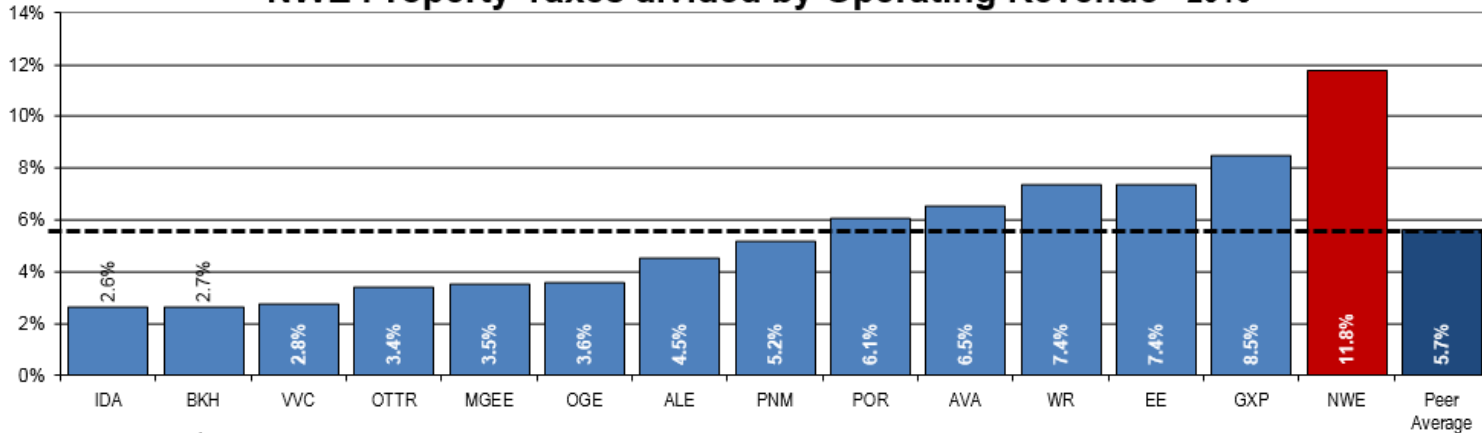
Montana Property Tax Perspective

Property Taxes divided by Operating Revenue (2016 actual & 2017 estimate)



Source: 2016 data - NWE from internal records & Peers from FERC Form 1 reports: Line 14c from page 114 divided by line 2c from page 114
 '17 MT DOR estimated Montana property taxes with 2017 mill rates divided by 2016 Operating Revenues

NWE Property Taxes divided by Operating Revenue - 2016



NWE metric is 2.1x the peer average.

Source: NWE from internal records and peers from FERC Form 1 reports: Line 14c from page 114 divided by line 2c from page 114

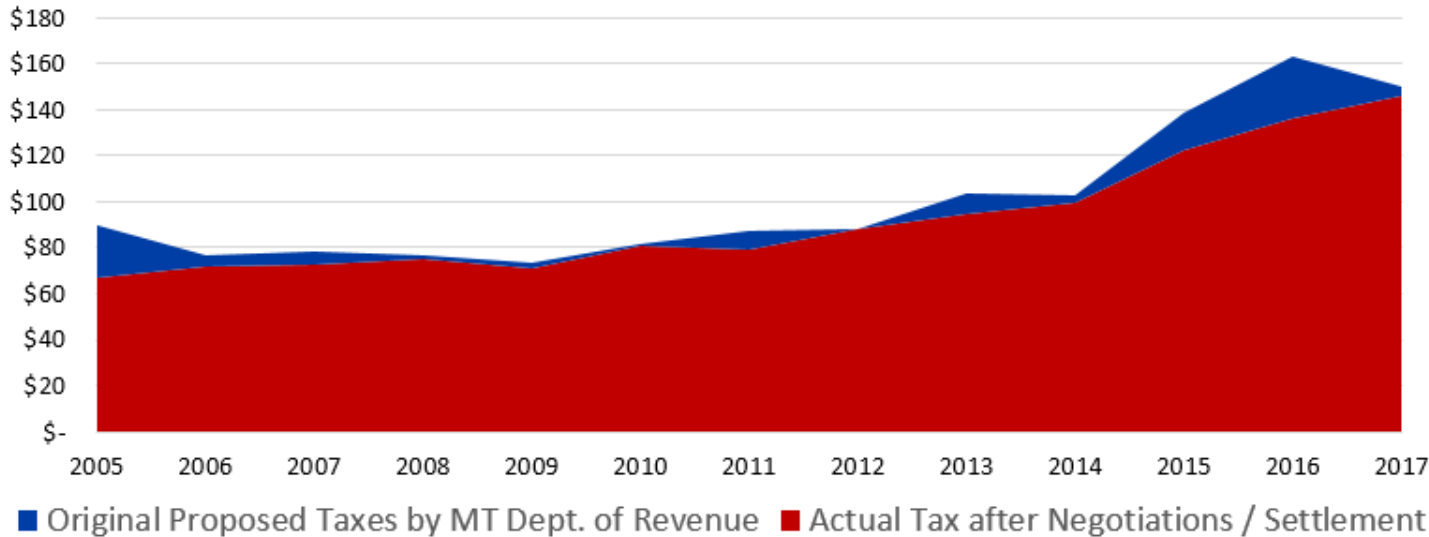
In Montana, our Property Taxes as a percentage of Operating Revenues is 16.6% based on 2017 property tax expenses (purple bar).

Montana's 16.6% ratio is 2.9 times the peer average of 5.7% and 2.0 times the next closest peer – Great Plains Energy (GXP) at 8.5%.



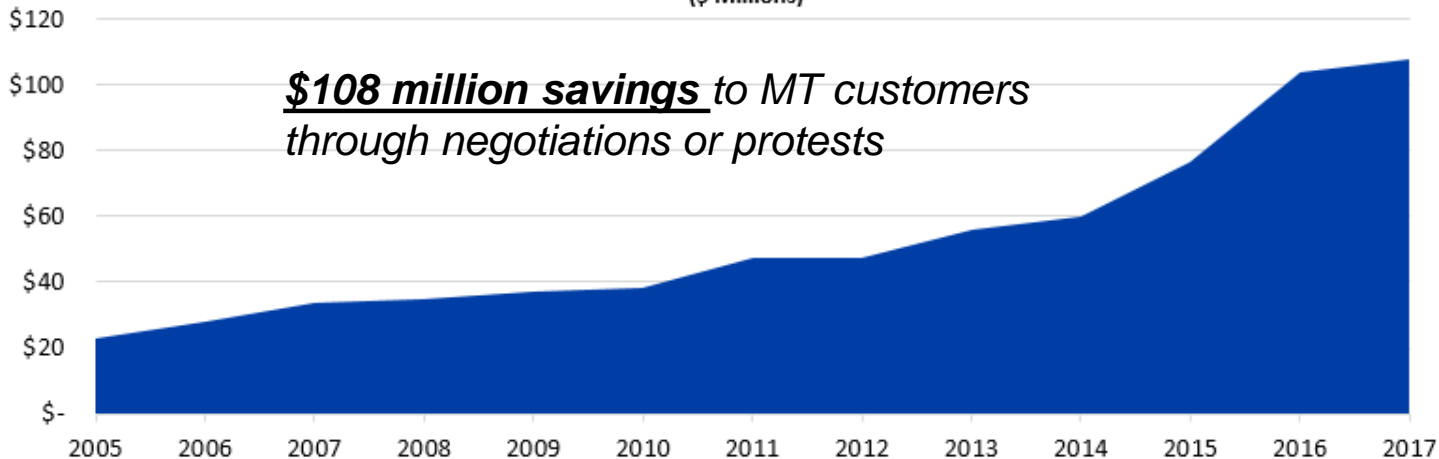
NWE Working to Keep Customer Bills Low

NWE Montana Property Taxes - Actual vs Originally Assessed (\$ Millions)



Since 2005, through negotiations and when necessary protests ('05, '06, & '07) and appeals, NWE has reduced property tax expense in Montana by nearly \$108 million (\$8.3 million average per year) from the Department of Revenue's original assessment.

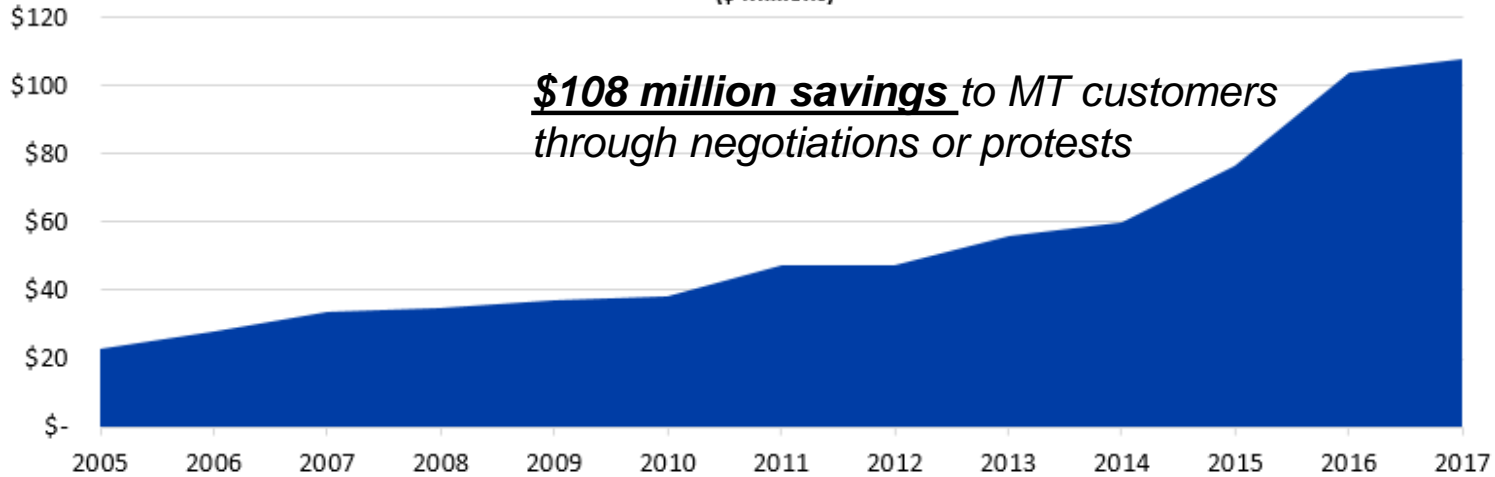
Cumulative Savings of Property Taxes for Customers from NWE Negotiations / Protests (\$ Millions)



NWE Incentivized to Keep MT Property Taxes Low

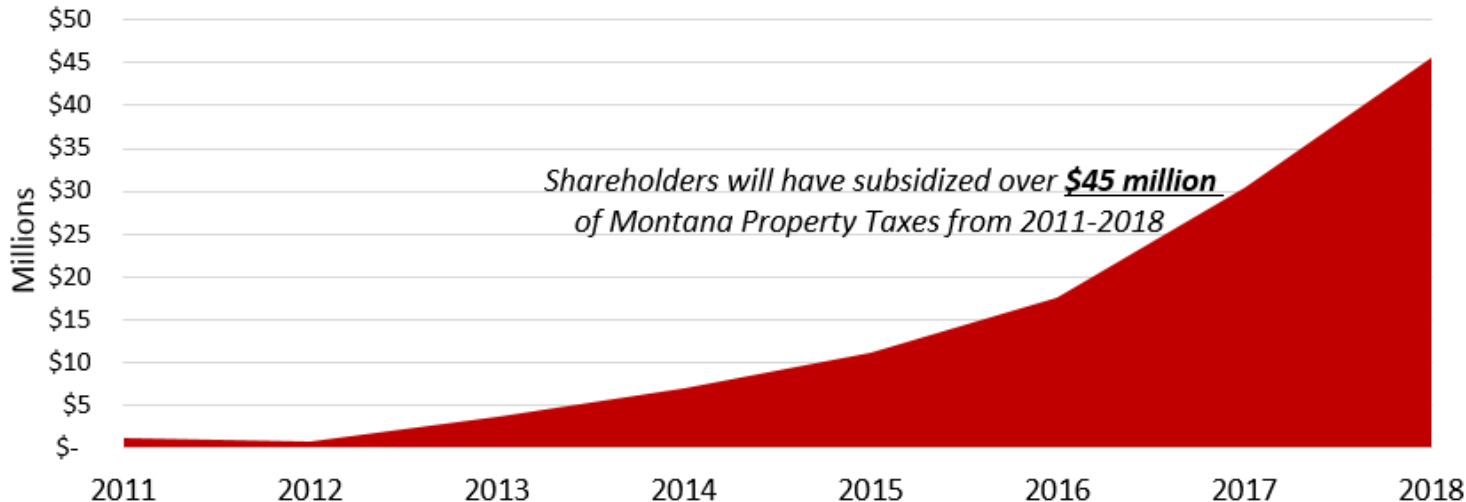
Cumulative Savings of Property Taxes for Customers from NWE Negotiations / Protests

(\$ Millions)



Since 2005, through negotiations and when necessary, protests ('05, '06, & '07) and appeals, we have saved Montana customers nearly \$108 million in property taxes.

Cumulative Montana Shareholder Funded Taxes 2011-2018



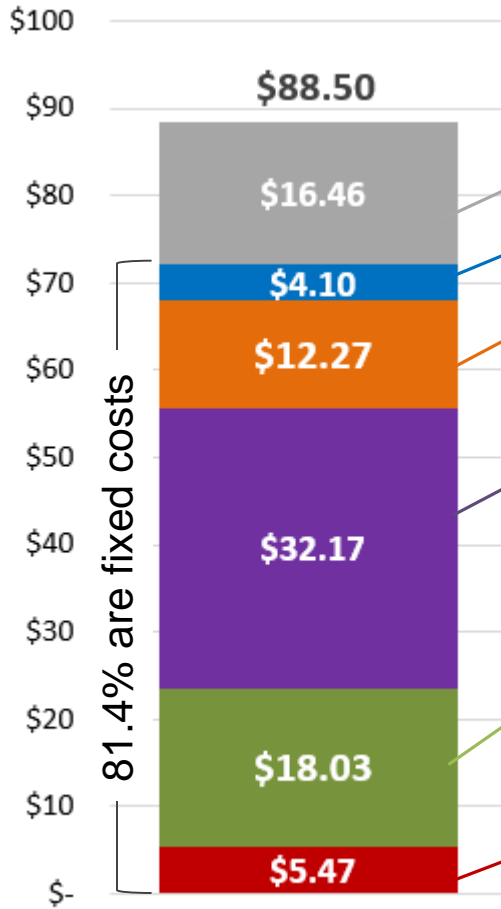
Our 2018 expected shareholder burden will be approximately \$15 million of property taxes.

Source: NorthWestern 2011-2018 Tax Tracker



Make-up of a Typical Residential Bill

Fixed Costs Recovered Through Variable Rates



Variable Supply Costs - fuel (coal/natural gas) to produce the energy. This cost varies throughout the day largely depending on demand

Residential Service Charge – administrative fixed fee

Property Taxes – Montana Centrally Assessed Property Taxes

Generation (fixed costs) - production of energy for our customers– in general, includes fixed cost of physical assets, maintenance, and repairs



Distribution Services - deliveries energy to homes/businesses – in general, includes fixed cost of physical assets, maintenance, and repairs



Transmission System - deliveries energy across our territory – in general, includes fixed cost of physical assets, maintenance, and repairs



NWE MT - 750 kWh per Month

- Transmission Systems
- Property Tax Fees (State & Local)
- Generation (Fixed cost)
- Distribution Services
- Monthly Service Charge
- Variable Supply Costs

Providing utility service is capital intensive. Most costs do not increase or decrease based on customers' volumetric usage.

NWE recovers costs through "spinning meters," compared to electric co-ops that rely more on recovery through higher fixed monthly charges.

NorthWestern Energy typical monthly Montana residential rates for 750 kWh per month as of 10/1/2017

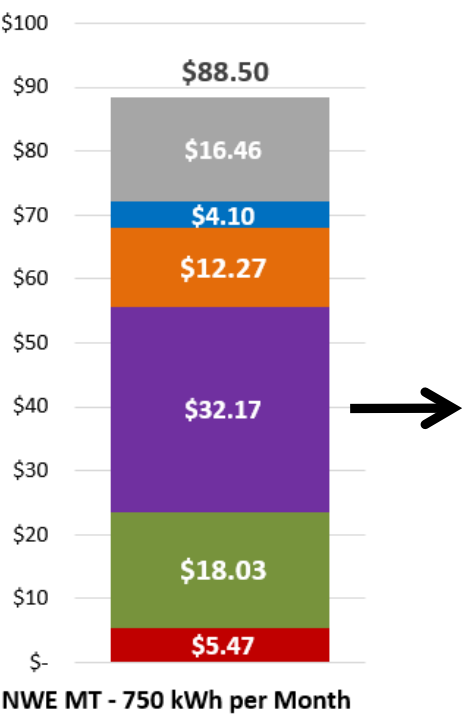




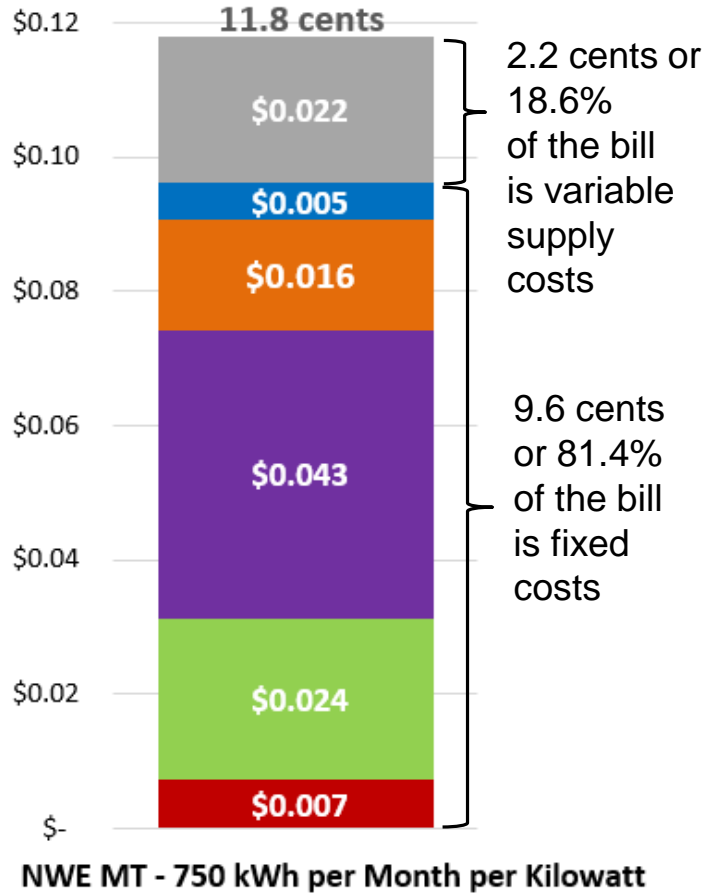
Fixed Costs Recovered Through Variable Charges

Typical NWE Residential Electric Bill in MT

MT 750kWh Bill Per Month



MT 750kWh Bill Per Kilowatt



- Transmission Systems
- Distribution Services
- Property Tax Fees (State & Local)
- Monthly Service Charge
- Generation (Fixed cost)
- Variable Supply Costs

Providing utility service is capital intensive. Most costs do not increase or decrease based on customers' volumetric usage.

NWE recovers costs through "spinning meters," compared to electric co-ops that rely more on recovery through higher fixed monthly charges.

Lower Cost of Capital Benefits Customers

Montana Residential Electric - Typical Bill Breakdown

(\$88.50 based on 750 kWh)

Data based on October 2017 rates & includes CU4, DGGs, Spion Kop and Hydro



Cost of Capital = 21.9% of bill

Cost of capital (Debt cost and Equity return) makes up 21.9% of a typical residential bill. Keeping our cost of capital and other costs as low as possible helps keep bills lower than the national average.