

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of the Application of**

**PUGET SOUND ENERGY**

**For an Order Authorizing the Sale of  
All of Puget Sound Energy's Interests in  
Colstrip Unit 4 and Certain of Puget  
Sound Energy's Interests in the Colstrip  
Transmission System**

**Docket UE-200015**

**SUPPLEMENTAL APPLICATION**

**I. INTRODUCTION**

*I.* Puget Sound Energy (“PSE”) submits to the Washington Utilities and Transportation Commission (the “Commission”) this Supplemental Application, which supplements its original Application filed on February 19, 2020, and seeks authorization of the following transactions:

- (i) the sale of one-half (i.e., 12.5 percent) of PSE’s 25 percent undivided ownership interests in Colstrip Unit 4 to NorthWestern Energy pursuant to the terms and conditions of the Colstrip Unit 4 Purchase and Sale Agreement, dated as of December 9, 2019, between NorthWestern Energy and PSE (the “NorthWestern Energy Colstrip Unit 4 Purchase and Sale Agreement”),<sup>1</sup> as amended by that certain Amendment No. 1 to Colstrip Unit 4 Purchase and Sale Agreement, dated as of August 14, 2020, between NorthWestern Energy and PSE (“Amendment No. 1 to the

---

<sup>1</sup> Please see the Fifth Exhibit to the Prefiled Direct Testimony of Ronald J. Roberts, Exh. RJR-6, for a copy of the NorthWestern Energy Colstrip Unit 4 Purchase and Sale Agreement.

NorthWestern Energy Colstrip Unit 4 Purchase and Sale Agreement”);<sup>2</sup>

- (ii) the sale of one-half (i.e., 12.5 percent) of PSE’s 25 percent undivided ownership interests in Colstrip Unit 4 to Talen Montana, LLC (“Talen Montana”) pursuant to the terms and conditions of the Colstrip Unit 4 Purchase and Sale Agreement, dated as of August 14, 2020, between Talen Montana and PSE (the “Talen Montana Colstrip Unit 4 Purchase and Sale Agreement”);<sup>3</sup>
- (iii) the sale of certain PSE interests in the Colstrip Transmission System pursuant to the terms and conditions of the Colstrip Transmission System Purchase and Sale Agreement, dated as of December 9, 2019, between NorthWestern Energy and PSE (the “Colstrip Transmission System Purchase and Sale Agreement”);<sup>4</sup>
- (iv) the NorthWestern Energy power purchase agreement (“PPA”), dated as of December 9, 2019, between NorthWestern Energy and PSE, as amended by Amendment No. 1 to the NorthWestern Energy Colstrip Unit 4 Purchase and Sale Agreement (the “NorthWestern Energy PPA”)<sup>5</sup> for the sale by NorthWestern Energy to PSE of forty-five (45) megawatts (MW) of capacity from Colstrip Unit 4 for a term commencing on the hour ending 0100 on the date following closing and will continue for a period that expires at the earlier of (a) 258 weeks after closing or (b) December 31, 2025; and
- (v) the Talen Montana PPA, dated as of August 14, 2019, between Talen Montana and PSE (the “Talen Montana PPA”)<sup>6</sup> for the sale by Talen Montana to PSE of

---

<sup>2</sup> Please see the Seventh Exhibit to the Prefiled Supplemental Direct Testimony of Ronald J. Roberts, Exh. RJR-16, for a copy of the Amendment No. 1 to the NorthWestern Energy Colstrip Unit 4 Purchase and Sale Agreement.

<sup>3</sup> Please see the Ninth Exhibit to the Prefiled Supplemental Direct Testimony of Ronald J. Roberts, Exh. RJR-18, for a copy of the Talen Montana Colstrip Unit 4 Purchase and Sale Agreement.

<sup>4</sup> Please see the Sixth Exhibit to the Prefiled Direct Testimony of Ronald J. Roberts, Exh. RJR-7, for a copy of the Colstrip Transmission System Purchase and Sale Agreement.

<sup>5</sup> Please see the Seventh Exhibit to the Prefiled Direct Testimony of Ronald J. Roberts, Exh. RJR-8C, for a copy of the NorthWestern Energy PPA. Please see the Seventh Exhibit to the Prefiled Supplemental Direct Testimony of Ronald J. Roberts, Exh. RJR-16, for a copy of the Amendment No. 1 to the NorthWestern Energy Colstrip Unit 4 Purchase and Sale Agreement.

<sup>6</sup> Please see the Ninth Exhibit to the Prefiled Supplemental Direct Testimony of Ronald J. Roberts, Exh. RJR-18, at 53-57 for a copy of the Talen Montana PPA.

forty-five (45) MW of capacity from Colstrip Unit 4 for a term commencing on the hour ending 0100 on the date following closing and will continue for a period that expires at the earlier of (a) 258 weeks after closing or (b) December 31, 2025.

This Supplemental Agreement uses the term “Proposed Transactions” to refer, collectively, to (i) the NorthWestern Energy Colstrip Unit 4 Purchase and Sale Agreement, (ii) the Amendment No. 1 to Colstrip Unit 4 Purchase and Sale Agreement, (iii) Talen Montana Colstrip Unit 4 Purchase and Sale Agreement, (iv) the Colstrip Transmission System Purchase and Sale Agreement, (v) the NorthWestern Energy PPA, and (vi) the Talen Montana PPA.

2. Each of the Proposed Transactions is a necessary step in preparing PSE for the period beginning January 1, 2026, in which PSE will no longer be able to serve retail customer loads with power from coal-fired generation due to the Washington Clean Energy Transformation Act. The Proposed Transactions are also necessary due to the operational uncertainties surrounding Colstrip Unit 4, including the changing landscape of evolving energy markets, new environmental regulations, potential carbon pricing, aging infrastructure, periodic litigation, and potential valuation differences among its six owners—all of which limit the ongoing viability of Colstrip Unit 4. The Proposed Transactions would allow PSE to dispose of its Colstrip Unit 4 interests while simultaneously benefitting customers with lower power prices, would provide net present value financial benefits to retail customers for the period 2020 through 2025, would cap PSE’s liabilities with compliance costs associated with Colstrip Unit 4, would significantly reduce PSE’s greenhouse gas emissions, and the loss of capacity resulting

from the sale of Colstrip Unit 4 would be partially mitigated by the NorthWestern Energy and Talen Montana PPAs.

3. Accordingly, in this Supplemental Application, PSE respectfully requests that the Commission issue an order

- (i) approving the Proposed Transactions pursuant to Chapter 80.12 RCW and Chapter 480-143 WAC; and
- (ii) approving the accounting treatment proposed by PSE in this Supplemental Application.

4. PSE respectfully requests the Commission issue an order authorizing each of the Proposed Transactions on or before December 15, 2020.

## **II. PARTIES AND COMMUNICATIONS**

### **A. The Applicant: PSE**

5. PSE is an investor-owned electric and gas utility service with over 1,000,000 electric customers and 765,000 natural gas customers primarily in Western Washington. The full and correct name and business address for PSE is:

Puget Sound Energy  
335 110th Avenue SE  
Bellevue, WA 98004-5579

6. PSE requests that all notices, correspondence and pleadings be sent to:

Susan E. Free  
Steven Secrist  
Puget Sound Energy  
335 110th Avenue NE  
Bellevue, WA 98004  
Email: [Susan.Free@pse.com](mailto:Susan.Free@pse.com)  
[Steve.Secrist@pse.com](mailto:Steve.Secrist@pse.com)  
Ph: (425) 456-2105

Sheree Strom Carson, WSBA #25349  
Jason Kuzma, WSBA #31830  
David S. Steele, WSBA #45640  
Perkins Coie LLP  
10885 NE Fourth Street, Suite 700  
Bellevue, WA 98004-5579  
Email: [scarson@perkinscoie.com](mailto:scarson@perkinscoie.com)  
[jkuzma@perkinscoie.com](mailto:jkuzma@perkinscoie.com)  
[dstele@perkinscoie.com](mailto:dstele@perkinscoie.com)  
[psedrs@perkinscoie.com](mailto:psedrs@perkinscoie.com)  
Phone: (425) 635-1416  
Mobile: (206) 499-2438

**B. The Purchasers**

**1. NorthWestern Energy**

7. NorthWestern Energy is an investor-owned electric and gas utility with over 718,300 residential and business customers in Montana, South Dakota, and Nebraska. The full and correct name and business address for NorthWestern Energy is:

NorthWestern Corporation  
208 North Montana Ave. Suite 205  
Helena, MT 59601

**2. Talen Montana**

8. Talen Montana is an independent power producer and currently has a 30 percent undivided ownership interest in Colstrip Unit 3 and no ownership interest in Colstrip Unit 4. Talen Montana also serves as the operator of Colstrip Units 3 & 4. The full and correct name and business address for Talen Montana is:

Talen Montana, LLC  
303 N Broadway #400  
Billings, MT 59101

### III. DESCRIPTION OF THE PROPOSED TRANSACTIONS

#### A. Background of Colstrip Unit 4 and the Colstrip Transmission System

##### 1. Colstrip Unit 4

9. Colstrip Unit 4 is a 740 MW coal fired steam plant located in Colstrip, Montana. Construction for Colstrip Unit 4 started in 1979 and it began operating 1986. Since that time, Colstrip Unit 4 has operated in conjunction with Colstrip Unit 3, and neighboring Colstrip Units 1 & 2 (together the “Colstrip Generating Station”). Colstrip Unit 4 is jointly owned by the following five regulated utilities:

**Table 1. Ownership Structure of Colstrip Unit 4**

<b>Owner</b>	<b>Ownership Interest</b>
NorthWestern Energy	30%
Puget Sound Energy	25%
Portland General Electric	20%
Avista	15%
PacifiCorp	10%

Colstrip Unit 3 is jointly owned by the following four regulated utilities and one independent power producer:

**Table 2. Ownership Structure of Colstrip Unit 3**

<b>Owner</b>	<b>Ownership Interest</b>
Talen Montana	30%
Puget Sound Energy	25%
Portland General Electric	20%
Avista	15%
PacifiCorp	10%

10. Each of Colstrip Units 3 & 4 consists of a fuel supply system, a coal-fired boiler, a steam turbine-generator, a cooling tower, step-up transformers, piping, pollution control equipment, ash handling and disposal ponds, and electric distribution and auxiliary equipment. Colstrip Units 3 & 4 are paired, sharing certain common systems. In addition, Colstrip Units 1 & 2 and Colstrip Units 3 & 4 share certain common facilities (administrative buildings, supply warehouse, water supply system, transmission lines, etc.).

**2. The Colstrip Project Transmission System**

11. The Colstrip Project Transmission System was built in the mid-1980s and is jointly owned by Avista, NorthWestern Energy, PacifiCorp, Portland General Electric, and PSE. The Colstrip Project Transmission System consists of a 500 kilovolt (kV) transmission system in two segments:

- (i) a segment between Colstrip, Montana and Broadview, Montana, and
- (ii) a segment between Broadview, Montana and Townsend, Montana (there is no substation at Townsend, Montana).

12. The Bonneville Power Administration (“BPA”) owns and operates a 500 kV double circuit transmission system between Townsend, Montana and Garrison, Montana (commonly referred to as the Eastern Intertie), which connects the Colstrip Project Transmission System to the Federal Columbia River Transmission System.

13. The Amended and Restated Colstrip Project Transmission Agreement, dated as of September 27, 2013, by and among NorthWestern Energy, PSE, Avista Corporation, Portland General Electric Company, and PacifiCorp (the “Colstrip Project Transmission Agreement”) provides for the engineering, design, and construction of the Colstrip Project Transmission System.

14. Each party to the Colstrip Project Transmission Agreement is to receive an undivided ownership interests in the transmission facilities as a tenant in common. Each party to the Colstrip Project Transmission Agreement is entitled to use its share of capacity in the respective segments of the Colstrip Project Transmission System identified in Table 3 below:

**Table 3. Capacity Shares of the Respective Segments of the Colstrip Project Transmission System**

<b>Owner</b>	<b>Colstrip-Broadview</b>	<b>Broadview-Townsend</b>
NorthWestern Energy	36%	24%
Puget Sound Energy	33%	39%
Portland General Electric	14%	16%
Avista Corporation	10%	12%
PacifiCorp	7%	8%



**B. Overview of the Proposed Transactions**

**1. Proposed Transactions with NorthWestern Energy**

15. On December 9, 2019, PSE and NorthWestern Energy entered into the NorthWestern Energy Colstrip Unit 4 Purchase and Sale Agreement and the Colstrip Transmission System Purchase and Sale Agreement. In addition to these purchase and sale documents is the Northwestern Energy PPA. A summary of the commercial terms of these documents are described below.

16. In April of 2020, Talen Montana provided notice that it was electing to exercise its right of first refusal pursuant to section 24(f) of the Colstrip Units 3 & 4 Ownership and Operation Agreement<sup>7</sup> to purchase a proportionate interest in PSE's 25 percent undivided ownership interest in Colstrip Unit 4 to be transferred to NorthWestern Energy pursuant to the terms and conditions of the NorthWestern Energy Colstrip Unit 4 Purchase and Sale Agreement. As a result of Talen Montana's exercise of its right of first refusal, NorthWestern Energy and PSE entered into Amendment No. 1 to the NorthWestern Energy Colstrip Unit 4 Purchase and Sale Agreement to reflect the reduction in interests in Colstrip Unit 4 to be acquired by NorthWestern Energy.

---

<sup>7</sup> "Colstrip Units 3 & 4 Ownership and Operation Agreement" refers to that certain Ownership and Operation Agreement, dated as of May 6, 1981, by The Montana Power Company, Puget Sound Power and Light Company, The Washington Water Power Light Company, Portland General Electric Company, Pacific Power and Light Company, and Basin Electric Power Company, as amended and revised. Please see the Second Exhibit to the Prefiled Direct Testimony of Ronald J. Roberts, Exh. RJR-3, for a copy of the Ownership and Operation Agreement.

**a. Sale by PSE and Purchase by NorthWestern Energy of the NorthWestern Energy Colstrip 4 Interests**

17. The NorthWestern Energy Colstrip Unit 4 Purchase and Sale Agreement, as amended by Amendment No. 1 to the Colstrip Unit 4 Purchase and Sale Agreement, proposes the sale by PSE to NorthWestern Energy of the following:

- (i) **NorthWestern Energy Colstrip 4 Interests**. PSE will sell one-half (i.e., 12.5 percent) of PSE's 25 percent undivided ownership interest in the 740 MW Colstrip Unit 4 to NorthWestern Energy (the "NorthWestern Energy Colstrip 4 Interests");
- (ii) **NorthWestern Energy Colstrip 4 Real Property Interests**. PSE will transfer to NorthWestern Energy the portion of PSE's real property rights associated with the NorthWestern Energy Colstrip 4 Interests (the "NorthWestern Energy Colstrip 4 Real Property Interests");
- (iii) **NorthWestern Energy Common Facilities Interests**. PSE will transfer to NorthWestern Energy the portion of PSE's interest in the common facilities and associated assets related to the NorthWestern Energy Colstrip 4 Interests (the "Common NorthWestern Energy Facilities Interest"); and
- (iv) **NorthWestern Energy Colstrip 4 Material Contract Interests**. PSE will transfer to NorthWestern Energy the portion of PSE's rights under the contracts, leases and agreements related to the NorthWestern Energy Colstrip 4 Interests (the "NorthWestern Energy Colstrip 4 Material Contract Interests").

18. The NorthWestern Energy Colstrip 4 Interests, the NorthWestern Energy Colstrip 4 Real Property Interests, the NorthWestern Energy Common Facilities Interest, and the NorthWestern Energy Colstrip 4 Material Contract Interests are referred to as the "NorthWestern Energy Transferred Assets." As consideration for the purchase of the

NorthWestern Energy Transferred Assets, NorthWestern Energy will pay to PSE a purchase price of fifty cents (\$0.50).

**b. The Colstrip Transmission System Purchase and Sale Agreement**

19. The Colstrip Transmission System Purchase and Sale Agreement proposes the sale by PSE and purchase by NorthWestern Energy of the following assets, free and clear of all liens other than certain permitted liens:

- (i) **Puget Transmission Assets**. The Puget Transmission Assets, which consist of the following:
  - (a) **Initial Purchase Assets**. The Initial Purchase Assets, which consist of an undivided interest in PSE's interest in the Colstrip Transmission System representing not less than 95 MW, consisting of not less than a four and 2/10ths percent (4.2%) interest in the Colstrip-to-Broadview segment and a four and 9/10ths percent (4.9%) interest in the Broadview-to-Townsend segment of the Colstrip Transmission System (the "Initial Purchase Assets").
  - (b) **Option Assets**. The Option Assets, which consist of an option of NorthWestern Energy to acquire an undivided ownership interest in PSE's interest in the Colstrip Transmission System representing not less than 90 MW, consisting of not less than a four percent (4%) interest in the Colstrip-to-Broadview segment and a four and 2/10ths percent (4.2%) interest in the Broadview-to-Townsend segment of the Colstrip Transmission System (the "Option Assets").
- (ii) **Puget Transmission Assets Real Property Interests**. PSE will transfer to NorthWestern Energy the portion of PSE's real property rights associated with the Puget Transmission Assets; and
- (iii) **Puget Transmission Assets Material Contract Interests**. PSE will transfer to NorthWestern Energy the portion of

PSE's rights under the contracts, leases and agreements  
related to the Puget Transmission Assets

20. At least three business days prior to the closing for the acquisition of each of the Initial Purchase Assets and the Option Assets, PSE will deliver to NorthWestern Energy a calculation of the depreciated net book value of the Initial Purchase Assets and the Option Assets, respectively. The purchase price for the Initial Purchase Assets will be the depreciated net book value of the Initial Purchase Assets, and the purchase price for the Options Assets will be the depreciated net book value of the Options Assets.

**c. The NorthWestern Energy PPA**

21. PSE and NorthWestern Energy have agreed to use the Western Systems Power Pool ("WSPP") Agreement as the master agreement for PSE's purchases of power from NorthWestern Energy from Colstrip Unit 4 through 2025. The WSPP Agreement represents a default standardized contract for electric power sales and physical options. The WSPP Agreement, by its terms, only applies to transactions between WSPP members, such as PSE and NorthWestern Energy. The WSPP Agreement provides parties with the flexibility on the major terms to modify the agreement, by their mutual agreement, to be applied to any WSPP transaction as discussed below.

22. PSE and NorthWestern Energy have agreed upon a confirmation agreement of the specific terms to the transaction, including changes to the base WSPP Agreement to which the parties mutually agree. The commercial terms are set forth in the form confirmation for the NorthWestern Energy PPA, as revised by Amendment No. 1 to the NorthWestern Energy Colstrip Unit 4 Purchase and Sale Agreement.

**2. Proposed Transactions with Talen Montana**

23. As mentioned previously, Talen Montana provided notice in April 2020 that it was electing to exercise its right of first refusal pursuant to section 24(f) of the Colstrip Units 3 & 4 Ownership and Operation Agreement to purchase a proportionate interest in PSE's 25 percent undivided ownership interest in Colstrip Unit 4 to be transferred to NorthWestern Energy pursuant to the terms and conditions of the NorthWestern Energy Colstrip Unit 4 Purchase and Sale Agreement. As a result of Talen Montana's exercise of its right of first refusal, Talen Montana and PSE entered the Talen Montana Colstrip Unit 4 Purchase and Sale Agreement to reflect the interests in Colstrip Unit 4 to be acquired by Talen Montana.

**a. Sale by PSE and Purchase by Talen Montana of the Talen Montana Colstrip 4 Interests**

24. The Talen Montana Colstrip Unit 4 Purchase and Sale Agreement proposes the sale by PSE to Talen Montana of the following:

- (i) **Talen Montana Colstrip 4 Interests.** PSE will sell one-half (i.e., 12.5 percent) of PSE's 25 percent undivided ownership interest in the 740 MW Colstrip Unit 4 to Talen Montana (the "Talen Montana Colstrip 4 Interests");
- (ii) **Talen Montana Colstrip 4 Real Property Interests.** PSE will transfer to Talen Montana the portion of PSE's real property rights associated with the Talen Montana Colstrip 4 Interests (the "Talen Montana Colstrip 4 Real Property Interests");
- (iii) **Talen Montana Common Facilities Interests.** PSE will transfer to Talen Montana the portion of PSE's interest in the common facilities and associated assets related to the Talen Montana Colstrip 4 Interests (the "Common Talen Montana Facilities Interest"); and

- (iv) **Talen Montana Colstrip 4 Material Contract Interests.** PSE will transfer to Talen Montana the portion of PSE's rights under the contracts, leases and agreements related to the Talen Montana Colstrip 4 Interests (the "Talen Montana Colstrip 4 Material Contract Interests").

25. The Talen Montana Colstrip 4 Interests, the Talen Montana Colstrip 4 Real Property Interests, the Talen Montana Common Facilities Interest, and the Talen Montana Colstrip 4 Material Contract Interests are referred to as the "Talen Montana Transferred Assets." As consideration for the purchase of the Talen Montana Transferred Assets, Talen Montana will pay to PSE a purchase price of fifty cents (\$0.50).

**b. The Talen Montana PPA**

26. PSE and Talen Montana have also agreed to use the WSPP Agreement as the master agreement for PSE's purchases of power from Talen Montana from Colstrip Unit 4 through 2025. The WSPP Agreement represents a default standardized contract for electric power sales and physical options. The WSPP Agreement, by its terms, only applies to transactions between WSPP members, such as PSE and Talen Montana. The WSPP Agreement provides parties with the flexibility on the major terms to modify the agreement, by their mutual agreement, to be applied to any WSPP transaction as discussed below.

27. PSE and Talen Montana have agreed upon a confirmation agreement of the specific terms to the transaction, including changes to the base WSPP Agreement to which the parties mutually agree. The commercial terms are set forth in the form confirmation for the Talen Montana PPA.

#### **IV. JURISDICTION AND AUTHORITY REGARDING SALE**

##### **A. Applicable Statutes and Regulations**

28. RCW 80.12.020(1) requires a public service company to obtain Commission approval for the sale of facilities, which are necessary or useful in the performance of its duties to the public. *See also* WAC 480-143-120. PSE's interests in Colstrip Unit 4 and its other interests at issue in this Supplemental Application are necessary and useful in the performance of PSE's duties to the public. WAC 480-143-180. Thus, Commission authorization is necessary for PSE to close the Proposed Transactions. Pursuant to WAC 480-143-170, the Commission shall approve an application for the sale of necessary and useful property if the transaction is consistent with the public interest.

##### **B. Information Required by WAC 480-143-120**

29. Attached to this Supplemental Application are the following documents required by WAC 480-143-120:

- (i) Attachment A to this Supplemental Application is a copy of PSE's Form 10-Q for the quarterly period ended June 30, 2020—the current financial statements for PSE.
- (ii) Attachment B to this Supplemental Application is a copy of the Colstrip Unit 4 Purchase and Sale Agreement, dated as of December 9, 2019, between NorthWestern Energy Corporation and PSE—the agreement for the proposed sale by PSE to NorthWestern Energy of one-half of PSE's 25 percent (i.e., 12.5 percent) undivided ownership interest in Colstrip Unit 4.
- (iii) Attachment C to this Supplemental Application is a copy of the Colstrip Transmission System Purchase and Sale Agreement, dated as of December 9, 2019, between NorthWestern Energy Corporation and PSE—the agreement for the proposed sale by PSE to NorthWestern

Energy of certain of PSE's interests in the Colstrip Transmission System.

- (iv) Attachment D to this Supplemental Application is a copy of Amendment No. 1 to Colstrip Unit 4 Purchase and Sale Agreement, dated as of August 14, 2020, between NorthWestern Energy and PSE, which amends the Colstrip Unit 4 Purchase and Sale Agreement, dated as of December 9, 2019, between NorthWestern Energy Corporation and PSE.
- (v) Attachment E to this Supplemental Application is a copy of the Colstrip Unit 4 Purchase and Sale Agreement, dated as of August 14, 2020, between Talen Montana and PSE.

**C. The Commission Should Authorize the Proposed Transactions Because the Proposed Transactions Are Consistent with the Public Interest**

30. The Commission should authorize the Proposed Transactions because they are consistent with the public interest. Although the Colstrip Generating Station assets have traditionally been a low-cost source of power for PSE customers, the enactment of the Clean Energy Transformation Act in 2019 ensures that the Colstrip Generating Station has no future in supplying retail electricity customers in the State of Washington, beginning January 1, 2026. Although the new law does mitigate the risk of stranded cost recovery for PSE by requiring the Commission to accelerate depreciation schedules for any coal-fired resource to a date no later than December 31, 2025, the fact remains that, as a co-owner of Colstrip Unit 4, PSE cannot dictate the closure of the facilities and could continue to incur substantial operating costs without a clear market into which it could sell the output. Therefore, PSE must consider options available to eliminate or mitigate continued losses after PSE can no longer continue to supply its retail customers with output from Colstrip Unit 4 after December 31, 2025.



31. In addition, the benefits of coal-fired generation have increasingly been eroded over the past decade. Coal-fired generating units face increasing compliance costs in light of declining electricity market prices due to increased competition from low-cost natural gas generation and increasing penetration of renewable resources. At the same time, the costs of maintaining and operating Colstrip Unit 4 continues to escalate. These escalating operations and maintenance costs reflect the escalating costs encountered by other coal-fired generation units and the difficulties that coal-fired generating units are having in remaining competitive with declining electricity market prices resulting from competition with relatively inexpensive natural gas generation and increased penetration of renewable energy resources.

32. Further, there is significant uncertainty surrounding Talen Montana, the operator of Colstrip Units 3 & 4. Talen Montana is an independent power producer and the volatility of the market has had a dramatic impact on Talen Montana. Over the past few years, Talen Montana has expressed concern regarding mounting losses with respect to its interests in the Colstrip Generating Station and is struggling to remain viable. Given this and significant periodic litigation over the last several years, Talen Montana had resigned as operator, and subsequently withdrew its resignation, which contributes to the uncertainty surrounding Colstrip Unit 4.

33. In light of these constraints and the ongoing viability of the Colstrip Generating Station generally, and Colstrip Unit 4 specifically, the Proposed Transactions are consistent with the public interest because they:

- (i) accelerate PSE's path to compliance with the Clean Energy Transformation Act (subject to final resolution of Colstrip Unit 3) and significantly reduce PSE's greenhouse gas

emissions with an annual average reduction of 350,000 metric tons of carbon dioxide;

- (ii) allow PSE to dispose of its interests in Colstrip Unit 4 while simultaneously benefitting customers from lower power prices;
- (iii) are projected to provide benefits to retail customers for the period 2020 through 2025 with a projected net present value of
  - \$33 million, if PSE does not hedge market prices associated with either (a) the net reduction of 95 MW of capacity resulting from the proposed transactions or (b) the 90 MW of output from Colstrip Unit 4 that PSE will purchase under the NorthWestern Energy PPA and the Talen Montana PPA; or
  - \$6 million, if PSE (a) hedges market prices associated with the net reduction of 95 MW of capacity resulting from the proposed transactions or (b) but does not hedge market prices associated with the 90 MW of output from Colstrip Unit 4 that PSE will purchase under the NorthWestern Energy PPA and the Talen Montana PPA;
- (iv) cap PSE's liabilities associated with compliance costs associated with Colstrip Unit 4 as of the date of closing of the Colstrip Unit 4 Purchase and Sale Agreement; and
- (v) partially mitigate the loss of capacity resulting from the sale of Colstrip Unit 4 by the NorthWestern Energy PPA and the Talen Montana PPA, which will allow PSE to purchase 90 MW of output of Colstrip Unit 4 during the period a term commencing on the hour ending 0100 on the date following closing and will continue for a period that expires at the earlier of (a) 258 weeks after closing or (b) December 31, 2025.

34. For the reasons discussed above, the Proposed Transactions are consistent with the public interest, and the Commission should authorize the Proposed Transactions.

## V. ACCOUNTING TREATMENT

35. PSE respectfully requests the accounting treatment associated with the Proposed Transactions, as further described in in the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-1CT, and the Prefiled Supplemental Direct Testimony of Susan E. Free, Exh. SEF-5T, which includes the following:

- (i) that, at the time of the sale, PSE retires the book value of the Colstrip Unit 4 generation assets and remediation costs for the generation assets and transfers the unrecovered balances to regulatory assets,
- (ii) that PSE continues to include the amount of depreciation related to Colstrip Unit 4 in rates through 2025 to address the unrecovered plant and remediation regulatory assets and estimated Colstrip Unit 4 decommissioning,
- (iii) that PSE continues to include recovery of decommissioning in depreciation rates in order to continue to build a reserve for these costs,
- (iv) that PSE retires those certain transmission assets included in the Colstrip Transmission Purchase and Sale Agreement and records any gain or loss in the same manner as any other gain or loss on utility plant, and
- (v) that, on an interim basis and for purposes of calculating the monthly PCA imbalance, PSE includes the amount of the Colstrip Unit 4 production operations and maintenance cost approved in rates as a credit to actual costs for purposes of calculating the PCA imbalance in order to align with the structure of the NorthWestern Energy PPA and the Talen Montana PPA.

## VI. TIMING

36. PSE respectfully requests that the Commission issue its Order on or before December 15, 2020.

**VII. PREFILED DIRECT TESTIMONY, SUPPLEMENTAL TESTIMONY,  
AND EXHIBITS ACCOMPANYING THE SUPPLEMENTAL APPLICATION**

37. The prefiled direct testimony and exhibits accompanying the Supplemental Application are:

- (i) **Prefiled Direct Testimony of Ronald J. Roberts, Exh. RJR-1CT.** Mr. Roberts' testimony addresses the current operating conditions surrounding Colstrip Unit 4, the need for the Proposed Transactions, the alternatives considered, the benefits of the Proposed Transactions, PSE's process for reviewing and approving the Proposed Transactions, and why the Proposed Transactions are consistent with the public interest. Exhibits to Mr. Roberts' prefiled direct testimony will include the following:
- the First Exhibit to the Prefiled Direct Testimony of Ronald J. Roberts, Exh. RJR-2, which provides the professional qualifications of Ronald J. Roberts;
  - the Second Exhibit to the Prefiled Direct Testimony of Ronald J. Roberts, Exh. RJR-3, which provides a copy of the Colstrip Units 3 & 4 Ownership and Operation Agreement;
  - the Third Exhibit to the Prefiled Direct Testimony of Ronald J. Roberts, Exh. RJR-4, which provides a copy of the Colstrip Common Facilities Agreement;
  - the Fourth Exhibit to the Prefiled Direct Testimony of Ronald J. Roberts, Exh. RJR-5C, which provides a copy of the Memorandum to the PSE Board of Directors, dated October 22, 2019, seeking approval of the Proposed Transactions;
  - the Fifth Exhibit to the Prefiled Direct Testimony of Ronald J. Roberts, Exh. RJR-6, which provides a copy of the Colstrip Unit 4 Purchase and Sale Agreement;
  - the Sixth Exhibit to the Prefiled Direct Testimony of Ronald J. Roberts, Exh. RJR-7, which provides a copy of the Colstrip Transmission System Purchase and Sale Agreement; and

- the Seventh Exhibit to the Prefiled Direct Testimony of Ronald J. Roberts, Exh. RJR-8, which provides a copy of the confirmation for the NorthWestern Energy PPA.

(ii) **Prefiled Direct Testimony of Cindy L. Song, Exh. CLS-1CT**. Ms. Song’s testimony provides the quantitative analysis performed in support of the potential sale of PSE’s interests in Colstrip Unit 4. Exhibits to Ms. Song’s prefiled direct testimony include the following:

- the First Exhibit to the Prefiled Direct Testimony of Cindy L. Song, Exh. CLS-2, which provides the professional qualifications of Cindy L. Song;
- the Second Exhibit to the Prefiled Direct Testimony of Cindy L. Song, Exh. CLS-3, which provides the results of PSE’s quantitative analysis of the Proposed Transactions, dated July 22, 2019;
- the Third Exhibit to the Prefiled Direct Testimony of Cindy L. Song, Exh. CLS-4, which provides the results of PSE’s quantitative analysis of the Proposed Transactions, dated August 23, 2019;
- the Fourth Exhibit to the Prefiled Direct Testimony of Cindy L. Song, Exh. CLS-5, which provides the results of PSE’s quantitative analysis of the Proposed Transactions, dated August 29, 2019;
- the Fifth Exhibit to the Prefiled Direct Testimony of Cindy L. Song, Exh. CLS-6, which provides the results of PSE’s quantitative analysis of the Proposed Transactions, dated September 11, 2019; and
- the Sixth Exhibit to the Prefiled Direct Testimony of Cindy L. Song, Exh. CLS-7, which provides the results of PSE’s quantitative analysis of the Proposed Transactions, dated October 21, 2019; and

(iii) **Prefiled Direct Testimony of Thomas M. Flynn, Exh. TMF-1T**. Mr. Flynn’s testimony provides an explanation as to why the sale of certain of PSE’s interests in the Colstrip Transmission System pursuant to the

Colstrip Transmission System Purchase and Sale Agreement should not affect the 380 megawatts of Available Transmission Capacity currently made available by PSE's transmission function under PSE's Open Access Transmission Tariff and posted by PSE's transmission function on PSE's Open Access Same-Time Information System. Exhibits to Mr. Flynn's prefiled direct testimony include the following:

- the First Exhibit to the Prefiled Direct Testimony of Thomas M. Flynn, Exh. TMF-2, which provides the professional qualifications of Thomas M. Flynn;
- the Second Exhibit to the Prefiled Direct Testimony of Thomas M. Flynn, Exh. TMF-3, which provides the Amended and Restated Colstrip Project Transmission Agreement, dated as of September 27, 2013, by and among NorthWestern Energy, Puget Sound Energy, Avista Corporation, Portland General Electric Company, and PacifiCorp; and
- the Third Exhibit to the Prefiled Direct Testimony of Thomas M. Flynn, Exh. TMF-4, which provides the Amended and Restated Transmission Agreement, dated April 17, 1981, by the United States of America, Department of Energy, acting by and through BPA, The Montana Power Company (now NorthWestern Energy), Pacific Power & Light Company, Portland General Electric Company, Puget Sound Power & Light Company (now Puget Sound Energy), The Washington Water Power Company (now Avista), and Basin Electric Power Cooperative.

- (iv) **Prefiled Direct Testimony of Susan E. Free, Exh. SEF-1CT.** Ms. Free's testimony provides (a) an overview of the 2017 GRC Settlement Agreement<sup>1</sup> as it relates to the unrecovered costs associated with the Colstrip Generating Station and how the 2017 GRC Settlement Agreement<sup>8</sup> impacts the accounting for the Proposed Transactions; (b) the impact on rates from PSE's 2019 general rate case, which assumes PSE's continued ownership of Colstrip Unit 4; (c) the accounting treatment for the unrecovered

---

<sup>8</sup> See *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-170033 & UG-170034 (consolidated), Order 08, Appx. B (Dec. 5, 2017) (the "2017 GRC Settlement Agreement").

plant balance for the generation assets associated with Colstrip Unit 4; (d) the accounting treatment for the decommissioning and remediation costs for the generating assets associated with Colstrip Unit 4; (e) the accounting treatment for the gain or loss on the sale of the transmission assets; and (f) the impacts on PSE's PCA. Exhibits to Ms. Free's prefiled direct testimony include the following:

- the First Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-2, which provides the professional qualifications of Susan E. Free;
- the Second Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-3, which is the Colstrip Annual Report filed by PSE on January 7, 2020, in Docket UE-170033; and
- the Third Exhibit to the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-4, which is a presentation of PSE's proposed treatment of production operations and maintenance costs in the PCA imbalance calculation.

38. The prefiled supplemental direct testimony and exhibits accompanying the Supplemental Application are:

- (i) **Prefiled Direct Testimony of Ronald J. Roberts, Exh. RJR-9T.** Mr. Roberts' testimony addresses the process behind and substance of Amendment No. 1 to the NorthWestern Energy Colstrip Unit 4 Purchase and Sale Agreement and the Talen Montana Colstrip Unit 4 Purchase and Sale Agreement. Exhibits to Mr. Roberts' prefiled supplemental testimony will include the following:
- the First Exhibit to the Prefiled Supplemental Direct Testimony of Ronald J. Roberts, Exh. RJR-10, which provides the PSE offer, dated January 10, 2020, to Talen Montana pursuant to section 24(f) of the Colstrip Units 3 & 4 Ownership and Operation Agreement;
  - the Second Exhibit to the Prefiled Supplemental Direct Testimony of Ronald J. Roberts, Exh. RJR-11, which provides the PSE offer, dated January 10,

2020, to Portland General Electric Company pursuant to section 28(f) of the Colstrip Transmission Agreement;

- the Third Exhibit to the Prefiled Supplemental Direct Testimony of Ronald J. Roberts, Exh. RJR-12, which provides the acceptance, dated April 8, 2020, by Talen Montana of PSE's offer pursuant to section 24(f) of the Colstrip Units 3 & 4 Ownership and Operation Agreement;
- the Fourth Exhibit to the Prefiled Supplemental Direct Testimony of Ronald J. Roberts, Exh. RJR-13, which provides the conditional exercise, dated April 8, 2020, by NorthWestern Energy of its right of first refusal pursuant to section 24(f) of the Colstrip Units 3 & 4 Ownership and Operation Agreement;
- the Fifth Exhibit to the Prefiled Supplemental Direct Testimony of Ronald J. Roberts, Exh. RJR-14, which provides the conditional exercise, dated April 8, 2020, by NorthWestern Energy of its right of first refusal pursuant to section 28(f) of the Colstrip Transmission Agreement;
- the Sixth Exhibit to the Prefiled Supplemental Direct Testimony of Ronald J. Roberts, Exh. RJR-15, which provides the PSE notice, dated April 13, 2020, to Owners of Colstrip Unit 4 regarding the results of the exercises of the rights of first refusal;
- the Seventh Exhibit to the Prefiled Supplemental Direct Testimony of Ronald J. Roberts, Exh. RJR-16, which provides the Amendment No. 1 to Colstrip Unit 4 Purchase and Sale Agreement, dated as of August 14, 2020, between NorthWestern Energy and PSE;
- the Eighth Exhibit to the Prefiled Supplemental Direct Testimony of Ronald J. Roberts, Exh. RJR-17, which provides the Comparison of the Colstrip Unit 4 Purchase and Sale Agreement, dated as of August 14, 2020, between NorthWestern Energy and PSE, as amended by Amendment No. 1 to the



Colstrip Unit 4 Purchase and Sale Agreement, dated as of August 14, 2020, between NorthWestern Energy and PSE;

- the Ninth Exhibit to the Prefiled Supplemental Direct Testimony of Ronald J. Roberts, Exh. RJR-18, which provides the Colstrip Unit 4 Purchase and Sale Agreement, dated as of August 14, 2020, between Talen Montana and PSE;
- the Tenth Exhibit to the Prefiled Supplemental Direct Testimony of Ronald J. Roberts, Exh. RJR-19, which provides the Colstrip Unit 4 Purchase and Sale Agreement, dated as of August 14, 2020, between Talen Montana and PSE with the Colstrip Unit 4 Purchase and Sale Agreement, dated as of August 14, 2020, between NorthWestern Energy and PSE, as amended by Amendment No. 1 to the Colstrip Unit 4 Purchase and Sale Agreement, dated as of August 14, 2020, between NorthWestern Energy and PSE;
- the Eleventh Exhibit to the Prefiled Supplemental Direct Testimony of Ronald J. Roberts, Exh. RJR-20C, which provides a copy of the Talen Montana PPA; and
- the Twelfth Exhibit to the Prefiled Supplemental Direct Testimony of Ronald J. Roberts, Exh. RJR-21, which provides the Amended and Restated Project Committee Vote Sharing Agreement, dated as of October 16, 2009, between NorthWestern Energy and Talen Montana.

- (ii) **Prefiled Supplemental Direct Testimony of Cindy L. Song, Exh. CLS-8T.** Ms. Song's supplemental direct testimony provides any updated quantitative analysis in support of the potential sale of PSE's interests in Colstrip Unit 4.
- (iii) **Prefiled Supplemental Direct Testimony of Thomas M. Flynn, Exh. TMF-5T.** Mr. Flynn's supplemental direct testimony updates the Prefiled Direct Testimony of Thomas M. Flynn, Exh. TMF-1T, in light of events that have occurred since February 19, 2020.

- (iv) **Prefiled Supplemental Direct Testimony of Susan E. Free, Exh. SEF-5T.** Ms. Free's supplemental direct testimony updates the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-1CT, in light of events that have occurred since February 19, 2020.

### VIII. REQUEST

39. For the reasons stated above, PSE requests a Commission order:
- (i) approving the Proposed Transactions pursuant to Chapter 80.12 RCW and Chapter 480-143 WAC; and
  - (ii) approving the accounting treatment proposed by PSE in this Supplemental Application and described in the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-1CT, and the Prefiled Supplemental Direct Testimony of Susan E. Free, Exh. SEF-5T.

Respectfully submitted this 20th day of August, 2020.

PERKINS COIE LLP



By \_\_\_\_\_

Jason Kuzma, WSBA #31830  
Sheree Strom Carson, WSBA #25349  
David S. Steele, WSBA #45640  
Perkins Coie LLP  
10885 NE Fourth Street, Suite 700  
Bellevue, WA 98004-5579  
Phone: (425) 635-1416  
Mobile: (206) 499-2438  
Email: [jkuzma@perkinscoie.com](mailto:jkuzma@perkinscoie.com)  
[scarson@perkinscoie.com](mailto:scarson@perkinscoie.com)  
[dstele@perkinscoie.com](mailto:dstele@perkinscoie.com)

*Attorneys for Puget Sound Energy*

# **ATTACHMENT A**

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **June 30, 2020**  
OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number	Exact name of registrant as specified in its charter, state of incorporation, address of principal executive offices, telephone number	I.R.S. Employer Identification Number
------------------------	--	---------------------------------------



1-16305	<b>PUGET ENERGY, INC.</b> A Washington Corporation 355 110th Ave NE Bellevue, Washington 98004 (425) 454-6363	91-1969407
---------	---	------------



1-4393	<b>PUGET SOUND ENERGY, INC.</b> A Washington Corporation 355 110th Ave NE Bellevue, Washington 98004 (425) 454-6363	91-0374630
--------	---	------------

**Securities Registered pursuant to Section 12(b) of the Securities Exchange Act of 1934**

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

Indicate by check mark whether the registrants: (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Puget Energy, Inc.	Yes	/X/	No	//	Puget Sound Energy, Inc.	Yes	/X/	No	//
--------------------	-----	-----	----	----	--------------------------	-----	-----	----	----

Indicate by check mark whether the registrants have submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Puget Energy, Inc.	Yes	/X/	No	//	Puget Sound Energy, Inc.	Yes	/X/	No	//
--------------------	-----	-----	----	----	--------------------------	-----	-----	----	----

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer," a smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Puget Energy, Inc.	Large accelerated filer	//	Accelerated filer	//	Non-accelerated filer	/X/	Smaller reporting company	//	Emerging growth company	//
Puget Sound Energy, Inc.	Large accelerated filer	//	Accelerated filer	//	Non-accelerated filer	/X/	Smaller reporting company	//	Emerging growth company	//

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. //

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Puget Energy, Inc.	Yes	//	No	/X/	Puget Sound Energy, Inc.	Yes	//	No	/X/
--------------------	-----	----	----	-----	--------------------------	-----	----	----	-----

All of the outstanding shares of voting stock of Puget Energy, Inc. are held by Puget Equico LLC, an indirect wholly-owned subsidiary of Puget Holdings LLC. All of the outstanding shares of voting stock of Puget Sound Energy, Inc. are held by Puget Energy, Inc.

## Table of Contents

	<u>Page</u>
<a href="#"><u>Definitions</u></a>	<a href="#"><u>3</u></a>
<a href="#"><u>Filing Format</u></a>	<a href="#"><u>4</u></a>
<a href="#"><u>Forward-Looking Statements</u></a>	<a href="#"><u>4</u></a>
<b>Part I. <a href="#"><u>Financial Information</u></a></b>	<b><a href="#"><u>6</u></a></b>
<b>Item 1. <a href="#"><u>Financial Statements</u></a></b>	<b><a href="#"><u>6</u></a></b>
<b><a href="#"><u>Puget Energy, Inc.</u></a></b>	
<a href="#"><u>Consolidated Statements of Income – Three and Six Months Ended June 30, 2020 and 2019</u></a>	<a href="#"><u>6</u></a>
<a href="#"><u>Consolidated Statements of Comprehensive Income – Three and Six Months Ended June 30, 2020 and 2019</u></a>	<a href="#"><u>7</u></a>
<a href="#"><u>Consolidated Balance Sheets – June 30, 2020 and December 31, 2019</u></a>	<a href="#"><u>8</u></a>
<a href="#"><u>Consolidated Statements of Common Shareholder's Equity - June 30, 2020, and December 31, 2019</u></a>	<a href="#"><u>10</u></a>
<a href="#"><u>Consolidated Statements of Cash Flows – Six Months Ended June 30, 2020 and 2019</u></a>	<a href="#"><u>11</u></a>
<b><a href="#"><u>Puget Sound Energy, Inc.</u></a></b>	
<a href="#"><u>Consolidated Statements of Income – Three and Six Months Ended June 30, 2020 and 2019</u></a>	<a href="#"><u>12</u></a>
<a href="#"><u>Consolidated Statements of Comprehensive Income – Three and Six Months Ended June 30, 2020 and 2019</u></a>	<a href="#"><u>13</u></a>
<a href="#"><u>Consolidated Balance Sheets – June 30, 2020 and December 31, 2019</u></a>	<a href="#"><u>14</u></a>
<a href="#"><u>Consolidated Statements of Common Shareholder's Equity - June 30, 2020, and December 31, 2019</u></a>	<a href="#"><u>16</u></a>
<a href="#"><u>Consolidated Statements of Cash Flows – Six Months Ended June 30, 2020 and 2019</u></a>	<a href="#"><u>17</u></a>
<b><a href="#"><u>Notes</u></a></b>	
<a href="#"><u>Combined Notes to Consolidated Financial Statements</u></a>	<a href="#"><u>18</u></a>
<b>Item 2. <a href="#"><u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></a></b>	<b><a href="#"><u>41</u></a></b>
<b>Item 3. <a href="#"><u>Quantitative and Qualitative Disclosure About Market Risk</u></a></b>	<b><a href="#"><u>73</u></a></b>
<b>Item 4. <a href="#"><u>Controls and Procedures</u></a></b>	<b><a href="#"><u>74</u></a></b>
<b>Part II. <a href="#"><u>Other Information</u></a></b>	<b><a href="#"><u>75</u></a></b>
<b>Item 1. <a href="#"><u>Legal Proceedings</u></a></b>	<b><a href="#"><u>75</u></a></b>
<b>Item 1A. <a href="#"><u>Risk Factors</u></a></b>	<b><a href="#"><u>75</u></a></b>
<b>Item 6. <a href="#"><u>Exhibits</u></a></b>	<b><a href="#"><u>75</u></a></b>
<b><a href="#"><u>Exhibit Index</u></a></b>	<b><a href="#"><u>75</u></a></b>
<b><a href="#"><u>Signatures</u></a></b>	<b><a href="#"><u>77</u></a></b>

## DEFINITIONS

ARO	Asset Retirement and Environmental Obligations
ASU	Accounting Standards Update
ASC	Accounting Standards Codification
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization
EIM	Energy Imbalance Market
ERF	Expedited Rate Filing
FASB	Financial Accounting Standards Board
GAAP	U.S. Generally Accepted Accounting Principles
GRC	General Rate Case
ISDA	International Swaps and Derivatives Association
LIBOR	London Interbank Offered Rate
LNG	Liquefied Natural Gas
MMBtu	One Million British Thermal Units
MWh	Megawatt Hour (one MWh equals one thousand kWh)
NAESB	North American Energy Standards Board
NPNS	Normal Purchase Normal Sale
PCA	Power Cost Adjustment
PCORC	Power Cost Only Rate Case
PGA	Purchased Gas Adjustment
PTC	Production Tax Credit
PSE	Puget Sound Energy, Inc.
Puget Energy	Puget Energy, Inc.
Puget Holdings	Puget Holdings, LLC
Puget LNG	Puget Liquid Natural Gas, LLC
REP	Residential Exchange Program
SERP	Supplemental Executive Retirement Plan
TCJA	Tax Cuts and Jobs Act
Washington Commission	Washington Utilities and Transportation Commission
WSPP	WSPP, Inc.

## FILING FORMAT

This report on Form 10-Q is a Quarterly Report filed separately by two registrants, Puget Energy, Inc. (Puget Energy) and Puget Sound Energy, Inc. (PSE). Any references in this report to “the Company” are to Puget Energy and PSE collectively.

## FORWARD-LOOKING STATEMENTS

Puget Energy and PSE include the following cautionary statements in this Form 10-Q to make applicable and to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by or on behalf of Puget Energy or PSE. This report includes forward-looking statements, which are statements of expectations, beliefs, plans, objectives and assumptions of future events or performance. Words or phrases such as “anticipates,” “believes,” “continues,” “could,” “estimates,” “expects,” “future,” “intends,” “may,” “might,” “plans,” “potential,” “predicts,” “projects,” “should,” “will likely result,” “will continue” or similar expressions are intended to identify certain of these forward-looking statements and may be included in discussion of, among other things, our anticipated operating or financial performance, business plans and prospects, planned capital expenditures and other future expectations. In particular, these include statements relating to future actions, business plans and prospects, future performance expenses, the outcome of contingencies, such as legal proceedings, government regulation and financial results.

Forward-looking statements reflect current expectations and involve risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed. There can be no assurance that Puget Energy’s and PSE’s expectations, beliefs or projections will be achieved or accomplished.

In addition to other factors and matters discussed elsewhere in this report, some important risks that could cause actual results or outcomes for Puget Energy and PSE to differ materially from past results and those discussed in the forward-looking statements include:

- Governmental policies and regulatory actions, including those of the Federal Energy Regulatory Commission (FERC) and the Washington Utilities and Transportation Commission (Washington Commission), that may affect our ability to recover costs and earn a reasonable return, including but not limited to disallowance or delays in the recovery of capital investments and operating costs and discretion over allowed return on investment;
- Changes in, adoption of and compliance with laws and regulations, including decisions and policies concerning the environment, climate change, greenhouse gas or other emissions or by products of electric generation (including coal ash or other substances), natural resources, and fish and wildlife (including the Endangered Species Act) as well as the risk of litigation arising from such matters, whether involving public or private claimants or regulatory investigative or enforcement measures;
- Changes in tax law, related regulations or differing interpretation, or enforcement of applicable law by the Internal Revenue Service (IRS) or other taxing jurisdiction; and PSE’s ability to recover costs in a timely manner arising from such changes;
- Inability to realize deferred tax assets and use production tax credits (PTCs) due to insufficient future taxable income;
- Accidents or natural disasters, such as hurricanes, windstorms, earthquakes, floods, fires and landslides, and other acts of God, terrorism, asset-based or cyber-based attacks, pandemic or similar significant events, which can interrupt service and lead to lost revenue, cause temporary supply disruptions and/or price spikes in the cost of fuel and raw materials and impose extraordinary costs;
- The impact of widespread health developments, including the recent global coronavirus (COVID–19) pandemic, and responses to such developments (such as voluntary and mandatory quarantines, including government stay at home orders, as well as shut downs and other restrictions on travel, commercial, social and other activities) could materially and adversely affect, among other things, electric and natural gas demand, customers’ ability to pay, supply chains, availability of skilled work-force, contract counterparties, liquidity and financial markets;
- Commodity price risks associated with procuring natural gas and power in wholesale markets from creditworthy counterparties;
- Wholesale market disruption, which may result in a deterioration of market liquidity, increase the risk of counterparty default, affect the regulatory and legislative process in unpredictable ways, negatively affect wholesale energy prices and/or impede PSE’s ability to manage its energy portfolio risks and procure energy supply, affect the availability and access to capital and credit markets and/or impact delivery of energy to PSE from its suppliers;
- Financial difficulties of other energy companies and related events, which may affect the regulatory and legislative process in unpredictable ways, adversely affect the availability of and access to capital and credit markets and/or impact delivery of energy to PSE from its suppliers;
- The effect of wholesale market structures (including, but not limited to, regional market designs or transmission organizations) or other related federal initiatives;
- PSE electric or natural gas distribution system failure, blackouts or large curtailments of transmission systems (whether PSE’s or others’), or failure of the interstate natural gas pipeline delivering to PSE’s system, all of which can affect PSE’s ability to deliver power or natural gas to its customers and generating facilities;

- Electric plant generation and transmission system outages, which can have an adverse impact on PSE's expenses with respect to repair costs, added costs to replace energy or higher costs associated with dispatching a more expensive generation resource;
- The ability to restart generation following a regional transmission disruption;
- The ability of a natural gas or electric plant to operate as intended;
- Changes in climate or weather conditions in the Pacific Northwest, which could have effects on customer usage and PSE's revenue and expenses;
- Regional or national weather, which could impact PSE's ability to procure adequate supplies of natural gas, fuel or purchased power to serve its customers and the cost of procuring such supplies;
- Variable hydrological conditions, which can impact streamflow and PSE's ability to generate electricity from hydroelectric facilities;
- Variable wind conditions, which can impact PSE's ability to generate electricity from wind facilities;
- The ability to renew contracts for electric and natural gas supply and the price of renewal;
- Industrial, commercial and residential growth and demographic patterns in the service territories of PSE;
- General economic conditions in the Pacific Northwest, which may impact customer consumption or affect PSE's accounts receivable;
- The loss of significant customers, changes in the business of significant customers or the condemnation of PSE's facilities as a result of municipalization or other government action or negotiated settlement, which may result in changes in demand for PSE's services;
- The failure of information systems or the failure to secure information system data, which may impact the operations and cost of PSE's customer service, generation, distribution and transmission;
- Opposition and social activism that may hinder PSE's ability to perform work or construct infrastructure;
- Capital market conditions, including changes in the availability of capital and interest rate fluctuations;
- Employee workforce factors including strikes; work stoppages; absences due to pandemics, accidents, natural disasters or other significant, unforeseeable events; availability of qualified employees or the loss of a key executive;
- The ability to obtain insurance coverage, the availability of insurance for certain specific losses, and the cost of such insurance;
- The ability to maintain effective internal controls over financial reporting and operational processes;
- Changes in Puget Energy's or PSE's credit ratings, which may have an adverse impact on the availability and cost of capital for Puget Energy or PSE generally; and
- Deteriorating values of the equity, fixed income and other markets which could significantly impact the value of investments of PSE's retirement plan, post-retirement medical benefit plan trusts and the funding of obligations thereunder.

Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by law, the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of any such factor on the business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. For further information, see Item 1A, "Risk Factors" in the Company's most recent Annual Report on Form 10-K for the year ended December 31, 2019.



**PART I FINANCIAL INFORMATION**

Item 1. **Financial Statements**

**PUGET ENERGY, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Dollars in Thousands)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
<b>Operating revenue:</b>				
Electric	\$ 468,366	\$ 510,742	\$ 1,137,456	\$ 1,309,670
Natural gas	177,609	153,457	548,640	458,125
Other	5,704	6,731	11,713	17,974
<b>Total operating revenue</b>	<b>651,679</b>	<b>670,930</b>	<b>1,697,809</b>	<b>1,785,769</b>
<b>Operating expenses:</b>				
<b>Energy costs:</b>				
Purchased electricity	125,487	124,001	291,229	394,703
Electric generation fuel	32,974	37,601	96,598	114,800
Residential exchange	(16,167)	(15,972)	(40,801)	(41,135)
Purchased natural gas	61,257	41,116	216,133	140,503
Unrealized (gain) loss on derivative instruments, net	(12,162)	30,332	36,379	15,145
Utility operations and maintenance	148,120	149,424	303,042	307,379
Non-utility expense and other	15,841	10,620	28,803	24,377
Depreciation & amortization	136,865	164,715	301,681	345,412
Conservation amortization	20,321	20,029	47,714	53,315
Taxes other than income taxes	68,793	69,949	174,297	178,695
<b>Total operating expenses</b>	<b>581,329</b>	<b>631,815</b>	<b>1,455,075</b>	<b>1,533,194</b>
<b>Operating income(loss)</b>	<b>70,350</b>	<b>39,115</b>	<b>242,734</b>	<b>252,575</b>
<b>Other income (expense):</b>				
Other income	16,576	15,439	30,635	29,003
Other expense	(8,468)	(1,825)	(10,750)	(3,601)
<b>Interest charges:</b>				
AFUDC	3,914	3,570	7,557	6,920
Interest expense	(106,793)	(87,770)	(195,677)	(175,786)
<b>Income (loss) before income taxes</b>	<b>(24,421)</b>	<b>(31,471)</b>	<b>74,499</b>	<b>109,111</b>
<b>Income tax (benefit) expense</b>	<b>(1,188)</b>	<b>1,481</b>	<b>2,796</b>	<b>9,909</b>
<b>Net income (loss)</b>	<b>\$ (23,233)</b>	<b>\$ (32,952)</b>	<b>\$ 71,703</b>	<b>\$ 99,202</b>

*The accompanying notes are an integral part of the financial statements.*

**PUGET ENERGY, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Dollars in Thousands)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income (loss)	\$ (23,233)	\$ (32,952)	\$ 71,703	\$ 99,202
Other comprehensive income (loss):				
Net unrealized gain (loss) from pension and postretirement plans, net of tax of \$433, \$25, \$1,806 and \$50, respectively	1,630	91	6,800	183
Other comprehensive income (loss)	1,630	91	6,800	183
Comprehensive income (loss)	<u>\$ (21,603)</u>	<u>\$ (32,861)</u>	<u>\$ 78,503</u>	<u>\$ 99,385</u>

*The accompanying notes are an integral part of the financial statements.*

**PUGET ENERGY, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in Thousands)  
(Unaudited)

**ASSETS**

	June 30, 2020	December 31, 2019
Utility plant (at original cost, including construction work in progress of \$720,680 and \$591,199 respectively):		
Electric plant	\$ 8,999,303	\$ 8,811,889
Natural gas plant	4,078,221	3,916,040
Common plant	1,093,033	1,096,649
Less: Accumulated depreciation and amortization	(3,460,359)	(3,236,240)
Net utility plant	<u>10,710,198</u>	<u>10,588,338</u>
Other property and investments:		
Goodwill	1,656,513	1,656,513
Other property and investments	313,557	286,975
Total other property and investments	<u>1,970,070</u>	<u>1,943,488</u>
Current assets:		
Cash and cash equivalents	27,434	45,259
Restricted cash	28,777	20,887
Accounts receivable, net of allowance for doubtful accounts of \$10,899 and \$8,294, respectively	235,712	316,352
Unbilled revenue	116,225	224,657
Materials and supplies, at average cost	131,521	115,684
Fuel and natural gas inventory, at average cost	51,290	52,083
Unrealized gain on derivative instruments	27,419	23,626
Prepaid expense and other	27,675	27,504
Power contract acquisition adjustment gain	10,865	9,067
Total current assets	<u>656,918</u>	<u>835,119</u>
Other long-term and regulatory assets:		
Power cost adjustment mechanism	62,269	41,745
Purchased gas adjustment receivable	86,933	132,766
Regulatory assets related to power contracts	12,678	14,146
Other regulatory assets	683,345	673,021
Unrealized gain on derivative instruments	7,124	7,682
Power contract acquisition adjustment gain	90,978	147,530
Operating lease right-of-use asset	179,658	183,048
Other	87,840	92,980
Total other long-term and regulatory assets	<u>1,210,825</u>	<u>1,292,918</u>
Total assets	<u>\$ 14,548,011</u>	<u>\$ 14,659,863</u>

*The accompanying notes are an integral part of the financial statements.*

**PUGET ENERGY, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in Thousands)  
(Unaudited)

**CAPITALIZATION AND LIABILITIES**

	June 30, 2020	December 31, 2019
<b>Capitalization</b>		
Common shareholder's equity:		
Common stock \$0.01 par value, 1,000 shares authorized, 200 shares outstanding	\$ —	\$ —
Additional paid-in capital	3,308,957	3,308,957
Retained earnings	802,130	775,491
Accumulated other comprehensive income (loss), net of tax	(77,349)	(84,149)
<b>Total common shareholder's equity</b>	<b>4,033,738</b>	<b>4,000,299</b>
Long-term debt:		
First mortgage bonds and senior notes	4,212,000	4,212,000
Pollution control bonds	161,860	161,860
Long-term debt	2,234,000	1,758,100
Debt discount issuance costs and other	(211,330)	(211,635)
<b>Total long-term debt</b>	<b>6,396,530</b>	<b>5,920,325</b>
<b>Total capitalization</b>	<b>10,430,268</b>	<b>9,920,624</b>
Current liabilities:		
Accounts payable	270,947	325,913
Short-term debt	140,000	176,000
Current maturities of long-term debt	2,412	452,412
Accrued expenses:		
Taxes	93,973	99,979
Salaries and wages	41,395	50,091
Interest	74,927	74,855
Unrealized loss on derivative instruments	29,769	13,428
Power contract acquisition adjustment loss	2,197	2,418
Operating lease liabilities	16,609	15,862
Other	83,714	107,809
<b>Total current liabilities</b>	<b>755,943</b>	<b>1,318,767</b>
Other long-term and regulatory liabilities:		
Deferred income taxes	843,384	824,720
Unrealized loss on derivative instruments	34,172	12,693
Regulatory liabilities	719,587	730,879
Regulatory liability for deferred income taxes	931,063	946,179
Regulatory liabilities related to power contracts	101,843	156,597
Power contract acquisition adjustment loss	10,481	11,728
Operating lease liabilities	170,250	174,327
Other deferred credits	551,020	563,349
<b>Total long-term and regulatory liabilities</b>	<b>3,361,800</b>	<b>3,420,472</b>
Commitments and contingencies (Note 8)		
<b>Total capitalization and liabilities</b>	<b>\$ 14,548,011</b>	<b>\$ 14,659,863</b>

*The accompanying notes are an integral part of the financial statements.*

**PUGET ENERGY, INC.**  
**CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDER'S EQUITY**  
(Dollars in Thousands)  
(Unaudited)

	Common Stock		Additional	Accumulated Other		Total Equity
	Shares	Amount	Paid-in capital	Retained Earnings	Comprehensive Income (Loss)	
Balance at December 31, 2018	200	\$ —	\$ 3,308,957	\$ 629,003	\$ (77,202)	\$ 3,860,758
Net income (loss)	—	—	—	132,154	—	132,154
Common stock dividend paid	—	—	—	(35,994)	—	(35,994)
Other comprehensive income (loss)	—	—	—	—	92	92
Balance at March 31, 2019	200	\$ —	\$ 3,308,957	\$ 725,163	\$ (77,110)	\$ 3,957,010
Net income (loss)	—	—	—	(32,952)	—	(32,952)
Common stock dividend paid	—	—	—	(83)	—	(83)
Other comprehensive income (loss)	—	—	—	—	91	91
Balance at June 30, 2019	200	\$ —	\$ 3,308,957	\$ 692,128	\$ (77,019)	\$ 3,924,066
Balance at December 31, 2019	200	\$ —	\$ 3,308,957	\$ 775,491	\$ (84,149)	\$ 4,000,299
Net income (loss)	—	—	—	94,936	—	94,936
Common stock dividend paid	—	—	—	(22,645)	—	(22,645)
Other comprehensive income (loss)	—	—	—	—	5,170	5,170
Balance at March 31, 2020	200	\$ —	\$ 3,308,957	\$ 847,782	\$ (78,979)	\$ 4,077,760
Net income (loss)	—	—	—	(23,233)	—	(23,233)
Common stock dividend paid	—	—	—	(22,419)	—	(22,419)
Other comprehensive income (loss)	—	—	—	—	1,630	1,630
Balance at June 30, 2020	200	\$ —	\$ 3,308,957	\$ 802,130	\$ (77,349)	\$ 4,033,738

*The accompanying notes are an integral part of the consolidated financial statements.*

**PUGET ENERGY, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in Thousands)  
(Unaudited)

	Six Months Ended June 30,	
	2020	2019
<b>Operating activities:</b>		
Net Income (loss)	\$ 71,703	\$ 99,202
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	301,681	345,412
Conservation amortization	47,714	53,315
Deferred income taxes and tax credits, net	1,741	2,248
Net unrealized (gain) loss on derivative instruments	36,379	15,145
(Gain) or loss on extinguishment of debt	13,546	—
AFUDC - equity	(11,668)	(6,591)
Production tax credit utilization	(14,470)	(41,111)
Other non-cash	696	7,427
Regulatory assets and liabilities	(71,268)	(19,061)
Purchased gas adjustment	45,833	(144,917)
Other long term assets and liabilities	(11,114)	(13,238)
Change in certain current assets and liabilities:		
Accounts receivable and unbilled revenue	189,072	203,174
Materials and supplies	(15,837)	(3,769)
Fuel and natural gas inventory	793	(5,338)
Prepayments and other	(171)	(85)
Purchased gas adjustment	—	9,921
Accounts payable	(54,136)	(179,533)
Taxes payable	(6,006)	(20,798)
Other	(28,226)	(10,692)
Net cash provided by (used in) operating activities	<u>496,262</u>	<u>290,711</u>
<b>Investing activities:</b>		
Construction expenditures - excluding equity AFUDC	(438,477)	(470,335)
Other	104	(3,977)
Net cash provided by (used in) investing activities	<u>(438,373)</u>	<u>(474,312)</u>
<b>Financing activities:</b>		
Change in short-term debt, net	(36,000)	160,703
Dividends paid	(45,064)	(36,077)
Proceeds from long-term debt and bonds issued	644,690	20,000
Redemption of bonds and notes	(450,000)	—
Repayment of term loan and revolving credit	(174,100)	—
Other	(7,350)	7,411
Net cash provided by (used in) financing activities	<u>(67,824)</u>	<u>152,037</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	(9,935)	(31,564)
Cash, cash equivalents, and restricted cash at beginning of period	66,146	55,562
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 56,211</u>	<u>\$ 23,998</u>
<b>Supplemental cash flow information:</b>		
Cash payments for interest (net of capitalized interest)	\$ 169,832	\$ 165,863
Cash payments (refunds) for income taxes	—	5,376
<b>Non-cash financing and investing activities:</b>		
Accounts payable for capital expenditures eliminated from cash flows	\$ 57,498	\$ 73,757
Reclassification of Colstrip from utility plant to a regulatory asset(Note 8)	—	(47,516)

*The accompanying notes are an integral part of the financial statements.*

**PUGET SOUND ENERGY, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Dollars in Thousands)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
<b>Operating revenue:</b>				
Electric	\$ 468,366	\$ 510,742	\$ 1,137,456	\$ 1,309,670
Natural gas	177,609	153,457	548,640	458,125
Other	5,704	6,731	11,713	17,974
<b>Total operating revenue</b>	<b>651,679</b>	<b>670,930</b>	<b>1,697,809</b>	<b>1,785,769</b>
<b>Operating expenses:</b>				
<b>Energy costs:</b>				
Purchased electricity	125,487	124,001	291,229	394,703
Electric generation fuel	32,974	37,601	96,598	114,800
Residential exchange	(16,167)	(15,972)	(40,801)	(41,135)
Purchased natural gas	61,257	41,116	216,133	140,503
Unrealized (gain) loss on derivative instruments, net	(12,162)	30,332	36,379	15,145
Utility operations and maintenance	148,120	149,424	303,042	307,379
Non-utility expense and other	15,048	9,978	27,783	23,055
Depreciation & amortization	136,816	164,692	301,587	345,370
Conservation amortization	20,321	20,029	47,714	53,315
Taxes other than income taxes	68,793	69,949	174,297	178,695
<b>Total operating expenses</b>	<b>580,487</b>	<b>631,150</b>	<b>1,453,961</b>	<b>1,531,830</b>
<b>Operating income(loss)</b>	<b>71,192</b>	<b>39,780</b>	<b>243,848</b>	<b>253,939</b>
<b>Other income (expense):</b>				
Other income	12,862	12,412	24,145	22,961
Other expense	(8,468)	(1,825)	(10,750)	(3,601)
<b>Interest charges:</b>				
AFUDC	3,914	3,570	7,557	6,920
Interest expense	(62,464)	(59,935)	(123,178)	(120,085)
<b>Income (loss) before income taxes</b>	<b>17,036</b>	<b>(5,998)</b>	<b>141,622</b>	<b>160,134</b>
<b>Income tax (benefit) expense</b>	<b>1,999</b>	<b>2,327</b>	<b>15,264</b>	<b>21,157</b>
<b>Net income (loss)</b>	<b>\$ 15,037</b>	<b>\$ (8,325)</b>	<b>\$ 126,358</b>	<b>\$ 138,977</b>

*The accompanying notes are an integral part of the financial statements.*

**PUGET SOUND ENERGY, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Dollars in Thousands)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income (loss)	\$ 15,037	\$ (8,325)	\$ 126,358	\$ 138,977
Other comprehensive income(loss):				
Net unrealized gain (loss) from pension and postretirement plans, net of tax of \$1,025, \$667, \$3,072 and \$1,335, respectively	3,860	2,512	11,570	5,022
Amortization of treasury interest rate swaps to earnings, net of tax of \$25, \$26, \$51 and \$51 respectively	96	96	192	192
Other comprehensive income (loss)	3,956	2,608	11,762	5,214
Comprehensive income (loss)	\$ 18,993	\$ (5,717)	\$ 138,120	\$ 144,191

*The accompanying notes are an integral part of the financial statements.*



**PUGET SOUND ENERGY, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in Thousands)  
(Unaudited)

**ASSETS**

	June 30, 2020	December 31, 2019
Utility plant (at original cost, including construction work in progress of \$720,680 and \$591,199 respectively):		
Electric plant	\$ 10,846,456	\$ 10,671,328
Natural Gas plant	4,638,729	4,478,048
Common plant	1,117,680	1,121,568
Less: Accumulated depreciation and amortization	(5,892,667)	(5,682,606)
Net utility plant	<u>10,710,198</u>	<u>10,588,338</u>
Other property and investments:		
Other property and investments	82,129	81,112
Total other property and investments	<u>82,129</u>	<u>81,112</u>
Current assets:		
Cash and cash equivalents	26,930	44,004
Restricted cash	28,777	20,887
Accounts receivable, net of allowance for doubtful accounts of \$10,899 and \$8,294, respectively	256,168	319,229
Unbilled revenue	116,225	224,657
Materials and supplies, at average cost	131,521	115,684
Fuel and natural gas inventory, at average cost	50,089	50,818
Unrealized gain on derivative instruments	27,419	23,626
Prepaid expense and other	27,675	27,504
Total current assets	<u>664,804</u>	<u>826,409</u>
Other long-term and regulatory assets:		
Power cost adjustment mechanism	62,269	41,745
Purchased gas adjustment receivable	86,933	132,766
Other regulatory assets	683,345	673,021
Unrealized gain on derivative instruments	7,124	7,682
Operating lease right-of-use asset	179,658	183,048
Other	86,052	90,924
Total other long-term and regulatory assets	<u>1,105,381</u>	<u>1,129,186</u>
Total assets	<u>\$ 12,562,512</u>	<u>\$ 12,625,045</u>

*The accompanying notes are an integral part of the financial statements.*

**PUGET SOUND ENERGY, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in Thousands)  
(Unaudited)

**CAPITALIZATION AND LIABILITIES**

	June 30, 2020	December 31, 2019
Capitalization:		
Common shareholder's equity:		
Common stock \$0.01 par value – 150,000,000 shares authorized, 85,903,791 shares outstanding	\$ 859	\$ 859
Additional paid-in capital	3,485,105	3,485,105
Retained earnings	777,742	751,193
Accumulated other comprehensive income (loss), net of tax	(176,715)	(188,477)
Total common shareholder's equity	<u>4,086,991</u>	<u>4,048,680</u>
Long-term debt:		
First mortgage bonds and senior notes	4,212,000	4,212,000
Pollution control bonds	161,860	161,860
Debt discount, issuance costs and other	(36,770)	(37,718)
Total long-term debt	<u>4,337,090</u>	<u>4,336,142</u>
Total capitalization	<u>8,424,081</u>	<u>8,384,822</u>
Current liabilities:		
Accounts payable	272,570	325,980
Short-term debt	140,000	176,000
Current maturities of long-term debt	2,412	2,412
Accrued expenses:		
Taxes	97,917	99,977
Salaries and wages	41,395	50,091
Interest	48,087	48,917
Unrealized loss on derivative instruments	29,769	13,428
Operating lease liabilities	16,609	15,862
Other	83,714	107,809
Total current liabilities	<u>732,473</u>	<u>840,476</u>
Other long-term and regulatory liabilities:		
Deferred income taxes	1,005,679	977,163
Unrealized loss on derivative instruments	34,172	12,693
Regulatory liabilities	718,386	729,614
Regulatory liabilities for deferred income tax	931,814	946,936
Operating lease liabilities	170,250	174,327
Other deferred credits	545,657	559,014
Total long-term and regulatory liabilities	<u>3,405,958</u>	<u>3,399,747</u>
Commitments and contingencies (Note 8)		
Total capitalization and liabilities	<u>\$ 12,562,512</u>	<u>\$ 12,625,045</u>

*The accompanying notes are an integral part of the financial statements.*

**PUGET SOUND ENERGY, INC.**  
**CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDER'S EQUITY**  
(Dollars in Thousands)  
(Unaudited)

	Common Stock		Additional	Accumulated Other		Total Equity
	Shares	Amount	Paid-in capital	Retained Earnings	Comprehensive Income (Loss)	
Balance at December 31, 2018	85,903,791	\$ 859	\$ 3,275,105	\$ 622,844	\$ (190,884)	\$ 3,707,924
Net income (loss)	—	—	—	147,302	—	147,302
Common stock dividend paid	—	—	—	(64,604)	—	(64,604)
Other comprehensive income (loss)	—	—	—	—	2,606	2,606
Balance at March 31, 2019	85,903,791	\$ 859	\$ 3,275,105	\$ 705,542	\$ (188,278)	\$ 3,793,228
Net income (loss)	—	—	—	(8,325)	—	(8,325)
Common stock dividend paid	—	—	—	(19,384)	—	(19,384)
Other comprehensive income (loss)	—	—	—	—	2,608	2,608
Balance at June 30, 2019	85,903,791	\$ 859	\$ 3,275,105	\$ 677,833	\$ (185,670)	\$ 3,768,127
Balance at December 31, 2019	85,903,791	\$ 859	\$ 3,485,105	\$ 751,193	\$ (188,477)	\$ 4,048,680
Net income (loss)	—	—	—	111,321	—	111,321
Common stock dividend paid	—	—	—	(53,794)	—	(53,794)
Other comprehensive income (loss)	—	—	—	—	7,806	7,806
Balance at March 31, 2020	85,903,791	\$ 859	\$ 3,485,105	\$ 808,720	\$ (180,671)	\$ 4,114,013
Net income (loss)	—	—	—	15,037	—	15,037
Common stock dividend paid	—	—	—	(46,015)	—	(46,015)
Other comprehensive income (loss)	—	—	—	—	3,956	3,956
Balance at June 30, 2020	\$ 85,903,791	\$ 859	\$ 3,485,105	\$ 777,742	\$ (176,715)	\$ 4,086,991

*The accompanying notes are an integral part of the consolidated financial statements.*

**PUGET SOUND ENERGY, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in Thousands)  
(Unaudited)

	Six Months Ended June 30,	
	2020	2019
<b>Operating activities:</b>		
Net Income (loss)	\$ 126,358	\$ 138,977
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>		
Depreciation and amortization	301,587	345,370
Conservation amortization	47,714	53,315
Deferred income taxes and tax credits, net	10,267	8,967
Net unrealized (gain) loss on derivative instruments	36,379	15,145
AFUDC - equity	(11,668)	(6,591)
Production tax credit utilization	(14,470)	(41,111)
Other non-cash	(4,582)	2,210
Regulatory assets and liabilities	(71,204)	(19,061)
Purchased gas adjustment	45,833	(144,917)
Other long term assets and liabilities	(5,073)	(9,822)
<b>Change in certain current assets and liabilities:</b>		
Accounts receivable and unbilled revenue	186,425	206,228
Materials and supplies	(15,837)	(3,769)
Fuel and natural gas inventory	729	(5,338)
Prepayments and other	(171)	(85)
Purchased gas adjustment	—	9,921
Accounts payable	(52,580)	(179,591)
Taxes payable	(2,060)	(20,679)
Other	(28,724)	(7,893)
<b>Net cash provided by (used in) operating activities</b>	<b>548,923</b>	<b>341,276</b>
<b>Investing activities:</b>		
Construction expenditures - excluding equity AFUDC	(428,775)	(451,215)
Other	104	(3,977)
<b>Net cash provided by (used in) investing activities</b>	<b>(428,671)</b>	<b>(455,192)</b>
<b>Financing activities:</b>		
Change in short-term debt, net	(36,000)	160,703
Dividends paid	(99,809)	(83,988)
Other	6,373	7,410
<b>Net cash provided by (used in) financing activities</b>	<b>(129,436)</b>	<b>84,125</b>
<b>Net increase (decrease) in cash, cash equivalents, and restricted cash</b>	<b>(9,184)</b>	<b>(29,791)</b>
Cash, cash equivalents, and restricted cash at beginning of period	64,891	53,493
<b>Cash, cash equivalents, and restricted cash at end of period</b>	<b>\$ 55,707</b>	<b>\$ 23,702</b>
<b>Supplemental cash flow information:</b>		
Cash payments for interest (net of capitalized interest)	\$ 114,027	\$ 112,058
Cash payments (refunds) for income taxes	—	9,784
<b>Non-cash financing and investing activities:</b>		
Accounts payable for capital expenditures eliminated from cash flows	\$ 57,498	\$ 73,757
Reclassification of Colstrip from utility plant to a regulatory asset(Note 8)	—	(47,516)

*The accompanying notes are an integral part of the financial statements.*

**(1) Summary of Consolidation and Significant Accounting Policy****Basis of Presentation**

Puget Energy is an energy services holding company that owns Puget Sound Energy. PSE is a public utility incorporated in the state of Washington that furnishes electric and natural gas services in a territory covering approximately 6,000 square miles, primarily in the Puget Sound region. Puget Energy also has a wholly-owned non-regulated subsidiary, Puget LNG, LLC, (Puget LNG) which has the sole purpose of owning, developing and financing the non-regulated activity of the Tacoma LNG facility, currently under construction. PSE and Puget LNG are considered related parties with similar ownership by Puget Energy. Therefore, capital and operating costs that are incurred by PSE and allocated to Puget LNG are related party transactions by nature.

In 2009, Puget Holdings, LLC (Puget Holdings), owned by a consortium of long-term infrastructure investors, completed its merger with Puget Energy (the merger). As a result of the merger, all of Puget Energy's common stock is indirectly owned by Puget Holdings. The acquisition of Puget Energy was accounted for in accordance with FASB ASC 805, "Business Combinations", as of the date of the merger. ASC 805 requires the acquirer to recognize and measure identifiable assets acquired and liabilities assumed at fair value as of the merger date.

The consolidated financial statements of Puget Energy reflect the accounts of Puget Energy and its subsidiaries. PSE's consolidated financial statements include the accounts of PSE and its subsidiary. Puget Energy and PSE are collectively referred to herein as "the Company". The consolidated financial statements are presented after elimination of all significant intercompany items and transactions. PSE's consolidated financial statements continue to be accounted for on a historical basis and do not include any ASC 805, "Business Combinations" purchase accounting adjustments. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Allowance for Credit Losses**

On January 1, 2020, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (ASC 326) which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including trade receivables, loan receivables, and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. The only financial assets within the scope of ASU 2016-13 for the Company are trade receivables.

The Company adopted ASU 2016-13 using the modified retrospective method. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company did not record an adjustment to retained earnings as of January 1, 2020, for the cumulative effect of adopting ASU 2016-13, as the impact was immaterial.

Management measures expected credit losses on trade receivables on a collective basis by receivable type, which include electric retail receivables, gas retail receivables, and electric wholesale receivables. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

The following table presents the activity in the allowance for credit losses for accounts receivable for the six months ending June 30, 2020:

**Puget Energy and  
Puget Sound Energy**

(Dollars in Thousands)	June 30, 2020
Allowance for credit losses:	
Beginning balance	\$ 8,294
Provision for credit loss expense	9,762
Receivables charged-off	(7,157)
Total ending allowance balance	\$ 10,899

## **Tacoma LNG Facility**

In August 2015, PSE filed a proposal with the Washington Utilities and Transportation Commission (Washington Commission) to develop an LNG facility at the Port of Tacoma. Currently under construction at the Port of Tacoma, the facility is expected to be operational in 2021. The Tacoma LNG facility is designed to provide peak-shaving services to PSE's natural gas customers. By storing surplus natural gas, PSE is able to meet the requirements of peak consumption. LNG will also provide fuel to transportation customers, particularly in the marine market. On January 24, 2018, Puget Sound Clean Air Agency (PSCAA) determined a Supplemental Environmental Impact Statement (SEIS) was necessary in order to rule on the air quality permit for the facility. As a result of requiring a SEIS, the Company's construction schedule was impacted. PSE received the SEIS which concluded the LNG facility would result in a net decrease in greenhouse gas (GHG) emissions providing, in part, that the natural gas for the facility was sourced from British Columbia or Alberta. On December 10, 2019, the PSCAA approved the Notice of Construction permit, a decision which has been appealed to the Washington Pollution Control Hearings Board by each of the Puyallup Tribe of Indians and nonprofit law firm Earthjustice.

If delayed, the construction schedule and costs may be adversely impacted. Pursuant to an order by the Washington Commission, PSE will be allocated approximately 43.0% of common capital and operating costs, consistent with the regulated portion of the Tacoma LNG facility. The remaining 57.0% of common capital and operating costs of the Tacoma LNG facility will be allocated to Puget LNG. Per this allocation of costs, \$224.5 million and \$199.9 million of construction work in progress related to Puget LNG's portion of the Tacoma LNG facility is reported in the Puget Energy "Other property and investments" line item as of June 30, 2020, and December 31, 2019, respectively. Additionally, \$0.7 million of operating costs are reported in the Puget Energy "Non-utility expense and other" financial statement line item for each of the six months ended June 30, 2020, and June 30, 2019, respectively. Additionally, \$185.1 million and \$162.8 million of construction work in progress related to PSE's portion of the Tacoma LNG facility is reported in the PSE "Utility plant - Natural gas plant" financial statement line item as of June 30, 2020, and December 31, 2019, respectively, as PSE is a regulated entity.

## **(2) New Accounting Pronouncements**

### **Credit Losses**

In June 2016, the FASB issued ASU 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*". The amendments in the update change how entities account for credit losses on receivables and certain other assets. The guidance requires use of a current expected loss model, which may result in earlier recognition of credit losses than under previous accounting standards. ASU 2016-13 is effective for interim and annual periods beginning on or after December 15, 2019. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including trade receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance and net investments in leases recognized by a lessor in accordance with Topic 842.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost. Results for reporting periods beginning after January 1, 2020, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. Upon implementation as of January 1, 2020, the impact was immaterial and the Company did not record a transition adjustment to retained earnings.

### **Fair Value Measurement**

In August 2018, the FASB issued ASU 2018-13, "*Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*". The amendments in this update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company adopted this update as of January 1, 2020, and it impacted Note 5, "Fair Value Measurements". As the amendment contemplates changes in disclosures only, it has no material impact on the Company's results of operations, cash flows, or consolidated balance sheets.

### **Reference Rate Reform**

In March 2020, the FASB issued ASU 2020-04, "*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*" (Issued March 2020): ASU 2020-04 provides temporary optional expedients and exceptions to the current guidance on contract modifications to ease the financial reporting burdens related to the expected market transition from LIBOR and other interbank offered rates to alternative reference rates. The Company has term loans, credit agreements, and promissory notes that reference LIBOR. As of June 30, 2020, the Company has not utilized any of the

expedients discussed within this ASU, however, it continues to assess other agreements to determine if LIBOR is included and if the expedients would be utilized through the allowed period of December 2022.

## Accounting Standards Issued but Not Yet Adopted

### Retirement Benefits

In August 2018, the FASB issued ASU 2018-14, "Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans". This update modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans through added, removed, and clarified requirements of relevant disclosures.

The amendments in this update are effective for fiscal years ending after December 15, 2020, for public business entities and for fiscal years ending after December 15, 2021, for all other entities. Accordingly, the Company will implement this update as of December 31, 2020 on a retrospective basis to all periods presented. The Company is in the process of evaluating potential impacts of these amendments to the required annual retirement benefits disclosures.

### (3) Revenue

The following table presents disaggregated revenue from contracts with customers, and other revenue by major source:

#### Puget Energy and Puget Sound Energy

(Dollars in Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue from contracts with customers:				
Electric retail	\$ 433,112	\$ 463,219	\$ 1,040,805	\$ 1,100,408
Natural gas retail	168,117	145,222	533,753	467,782
Other	34,495	36,546	77,378	172,595
Total revenue from contracts with customers	635,724	644,987	1,651,936	1,740,785
Alternative revenue programs	19,750	4,351	20,900	(20,880)
Other non-customer revenue	(3,795)	21,592	24,973	65,864
Total operating revenue	\$ 651,679	\$ 670,930	\$ 1,697,809	\$ 1,785,769

Revenue at PSE is recognized when performance obligations under the terms of a contract or tariff with our customers are satisfied. Performance obligations are satisfied generally through performance of PSE's obligation over time or with transfer of control of electric power, natural gas, and other revenue from contracts with customers. Revenue is measured as the amount of consideration expected to be received in exchange for transferring goods and services.

### Electric and Natural Gas Retail Revenue

Electric and natural gas retail revenue consists of tariff-based sales of electricity and natural gas to PSE's customers. For tariff contracts, PSE has elected the portfolio approach practical expedient model to apply the revenue from contracts with customers to groups of contracts. The Company determined that the portfolio approach will not differ from considering each contract or performance obligation separately. Electric and natural gas tariff contracts include the performance obligation of standing ready to perform electric and natural gas services. The electricity and natural gas the customer chooses to consume is considered an option and is recognized over time using the output method when the customer simultaneously consumes the electricity or natural gas. PSE has elected the right to invoice practical expedient for unbilled retail revenue. The obligation of standing ready to perform electric service and the consumption of electricity and natural gas at market value implies a right to consideration for performance completed to date. The Company believes that tariff prices approved by the Washington Commission represent stand-alone selling prices for the performance obligations under ASC 606. PSE collects Washington State excise taxes (which are a component of general retail customer rates) and municipal taxes and presents the taxes on a gross basis, as PSE is the taxpayer for those excise and municipal taxes.

## **Other Revenue from Contracts with Customers**

Other revenue from contracts with customers is primarily comprised of electric transmission, natural gas transportation, biogas, and wholesale revenue sold on an intra-month basis.

### **Electric Transmission and Natural Gas Transportation Revenue**

Transmission and transportation tariff contracts include the performance obligation to transmit and transport electricity or natural gas. Transfer of control and recognition of revenue occurs over time as the customer simultaneously receives the transmission and transportation services. Measurement of satisfaction of this performance obligation is determined using the output method. Similar to retail revenue, the Company utilizes the right to invoice practical expedient as PSE's right to consideration is tied directly to the value of power and natural gas transmitted and transported each month. The price is based on the tariff rates that were approved by the Washington Commission or the FERC and, therefore, corresponds directly to the value to the customer for performance completed to date.

### **Biogas**

Biogas is a renewable natural gas fuel that PSE purchases and sells along with the renewable green attributes derived from the renewable natural gas. Biogas contracts include the performance obligations of biogas and renewable credit delivery upon PSE receiving produced biogas from its supplier. Transfer of control and recognition of revenue occurs at a point in time as biogas is considered a storable commodity and may not be consumed as it is delivered.

### **Wholesale**

Wholesale revenue at PSE includes sales of electric power and non-core natural gas to other utilities or marketers. Wholesale revenue contracts include the performance obligation of physical electric power or natural gas. There are typically no added fixed or variable amounts on top of the established rate for power or natural gas and contracts always have a stated, fixed quantity of power or natural gas delivered. Transfer of control and recognition of revenue occurs at a point in time when the customer takes physical possession of electric power or natural gas. Non-core gas consists of natural gas supply in excess of natural gas used for generation, sold to third parties to mitigate the costs of firm transportation and storage capacity for its core natural gas customers. PSE reports non-core gas sold net of costs as PSE does not take control of the natural gas but is merely an agent within the market that connects a seller to a purchaser.

## **Other Revenue**

In accordance with ASC 606, PSE separately presents revenue not collected from contracts with customers that falls under other accounting guidance.

## **(4) Accounting for Derivative Instruments and Hedging Activities**

PSE employs various energy portfolio optimization strategies but is not in the business of assuming risk for the purpose of realizing speculative trading revenue. The nature of serving regulated electric customers with its portfolio of owned and contracted electric generation resources exposes PSE and its customers to some volumetric and commodity price risks within the sharing mechanism of the power cost adjustment (PCA). Therefore, wholesale market transactions and PSE's related hedging strategies are focused on reducing costs and risks where feasible, thus reducing volatility of costs in the portfolio. In order to manage its exposure to the variability in future cash flows for forecasted energy transactions, PSE utilizes a programmatic hedging strategy which extends out three years. PSE's hedging strategy includes a risk-responsive component for the core natural gas portfolio, which utilizes quantitative risk-based measures with defined objectives to balance both portfolio risk and hedge costs.

PSE's energy risk portfolio management function monitors and manages these risks using analytical models and tools. In order to manage risks effectively, PSE enters into forward physical electric and natural gas purchase and sale agreements, fixed-for-floating swap contracts, and commodity call/put options. Currently, the Company does not apply cash flow hedge accounting and therefore records all mark-to-market gains or losses through earnings.

The Company manages its interest rate risk through the issuance of mostly fixed-rate debt with varied maturities. The Company utilizes internal cash from operations, borrowings under its commercial paper program and its credit facilities to meet short-term funding needs. The Company may enter into swap instruments or other financial hedge instruments to manage the interest rate risk associated with these debts.



The following table presents the volumes, fair values and classification of the Company's derivative instruments recorded on the balance sheets:

**Puget Energy and  
Puget Sound Energy**

(Dollars in Thousands)	June 30, 2020			December 31, 2019		
	Volumes	Assets <sup>1</sup>	Liabilities <sup>2</sup>	Volumes	Assets <sup>1</sup>	Liabilities <sup>2</sup>
Electric portfolio derivatives	*	\$ 20,289	\$ 54,238	*	\$ 19,933	\$ 17,504
Natural gas derivatives (MMBtus) <sup>3</sup>	280.7 million	14,254	9,703	315.5 million	11,375	8,617
<b>Total derivative contracts</b>		<b>\$ 34,543</b>	<b>\$ 63,941</b>		<b>\$ 31,308</b>	<b>\$ 26,121</b>
Current		\$ 27,419	\$ 29,769		\$ 23,626	\$ 13,428
Long-term		7,124	34,172		7,682	12,693
<b>Total derivative contracts</b>		<b>\$ 34,543</b>	<b>\$ 63,941</b>		<b>\$ 31,308</b>	<b>\$ 26,121</b>

<sup>1</sup> Balance sheet classification: Current and Long-term Unrealized gain on derivative instruments.

<sup>2</sup> Balance sheet classification: Current and Long-term Unrealized loss on derivative instruments.

<sup>3</sup> All fair value adjustments on derivatives relating to the natural gas business have been deferred in accordance with ASC 980, "Regulated Operations," due to the purchased gas adjustment (PGA) mechanism. The net derivative asset or liability and offsetting regulatory liability or asset are related to contracts used to economically hedge the cost of physical gas purchased to serve natural gas customers.

\* Electric portfolio derivatives consist of electric generation fuel of 234.0 million One Million British Thermal Units (MMBtu) and purchased electricity of 7.1 million Megawatt Hours (MWhs) at June 30, 2020, and 229.3 million MMBtus and 10.4 million MWhs at December 31, 2019.

It is the Company's policy to record all derivative transactions on a gross basis at the contract level without offsetting assets or liabilities. The Company generally enters into transactions using the following master agreements: WSPP, Inc. (WSPP) agreements, which standardize physical power contracts; International Swaps and Derivatives Association (ISDA) agreements, which standardize financial natural gas and electric contracts; and North American Energy Standards Board (NAESB) agreements, which standardize physical natural gas contracts. The Company believes that such agreements reduce credit risk exposure because such agreements provide for the netting and offsetting of monthly payments as well as the right of set-off in the event of counterparty default. The set-off provision can be used as a final settlement of accounts which extinguishes the mutual debts owed between the parties in exchange for a new net amount. For further details regarding the fair value of derivative instruments, see Note 5, "Fair Value Measurements," to the consolidated financial statements included in Item 1 of this report.

The following tables present the potential effect of netting arrangements, including rights of set-off associated with the Company's derivative assets and liabilities:

**Puget Energy and  
Puget Sound Energy**

(Dollars in Thousands)	At June 30, 2020					
	Gross Amount Recognized in the Statement of Financial Position <sup>1</sup>	Gross Amounts Offset in the Statement of Financial Position	Net of Amounts Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Net Amount
				Commodity Contracts	Cash Collateral Received/Posted	
<b>Assets:</b>						
Energy derivative contracts	\$ 34,543	\$ —	\$ 34,543	\$ (24,528)	\$ —	\$ 10,015
<b>Liabilities:</b>						
Energy derivative contracts	\$ 63,941	\$ —	\$ 63,941	\$ (24,528)	\$ —	\$ 39,413

**Puget Energy and  
Puget Sound Energy**

At December 31, 2019

(Dollars in Thousands)	Gross Amount Recognized in the Statement of Financial Position <sup>1</sup>	Gross Amounts Offset in the Statement of Financial Position	Net of Amounts Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		
				Commodity Contracts	Cash Collateral Received/Posted	Net Amount
<b>Assets:</b>						
Energy derivative contracts	\$ 31,308	\$ —	\$ 31,308	\$ (14,922)	\$ —	\$ 16,386
<b>Liabilities:</b>						
Energy derivative contracts	\$ 26,121	\$ —	\$ 26,121	\$ (14,922)	\$ 2,000	\$ 13,199

<sup>1</sup> All derivative contract deals are executed under ISDA, NAESB and WSPP master netting agreements with right of set-off.

The following table presents the effect and classification of the realized and unrealized gains (losses) of the Company's derivatives recorded on the statements of income:

(Dollars in Thousands)		Classification	Three Months Ended June 30,		Six Months Ended June 30,	
			2020	2019	2020	2019
<b>Gas for Power Derivatives:</b>						
Unrealized	Unrealized gain (loss) on derivative instruments, net		\$ 4,764	\$ (17,189)	\$ (4,990)	\$ (2,228)
Realized	Electric generation fuel		(743)	(1,333)	553	11,995
<b>Power Derivatives:</b>						
Unrealized	Unrealized gain (loss) on derivative instruments, net		7,398	(13,143)	(31,388)	(12,917)
Realized	Purchased electricity		(6,228)	4,961	(12,163)	41,253
<b>Total gain (loss) recognized in income on derivatives</b>			<b>\$ 5,191</b>	<b>\$ (26,704)</b>	<b>\$ (47,988)</b>	<b>\$ 38,103</b>

The Company is exposed to credit risk primarily through buying and selling electricity and natural gas to serve its customers. Credit risk is the potential loss resulting from a counterparty's non-performance under an agreement. The Company manages credit risk with policies and procedures for, among other things, counterparty credit analysis, exposure measurement, and exposure monitoring and mitigation.

The Company monitors counterparties for significant swings in credit default swap rates, credit rating changes by external rating agencies, ownership changes or financial distress. Where deemed appropriate, the Company may request collateral or other security from its counterparties to mitigate potential credit default losses. Criteria employed in this decision include, among other things, the perceived creditworthiness of the counterparty and the expected credit exposure.

It is possible that volatility in energy commodity prices could cause the Company to have material credit risk exposure with one or more counterparties. If such counterparties fail to perform their obligations under one or more agreements, the Company could suffer a material financial loss. However, as of June 30, 2020, approximately 98.0% of the Company's energy portfolio exposure, excluding normal purchase normal sale (NPNS) transactions, is with counterparties that are rated investment grade by rating agencies and 2.1% are either rated below investment grade or not rated by rating agencies. The Company assesses credit risk internally for counterparties that are not rated by the major rating agencies.

The Company computes credit reserves at a master agreement level by counterparty. The Company considers external credit ratings and market factors in the determination of reserves, such as credit default swaps and bond spreads. The Company recognizes that external ratings may not always reflect how a market participant perceives a counterparty's risk of default. The Company uses both default factors published by Standard & Poor's and factors derived through analysis of market risk, which reflect the application of an industry standard recovery rate. The Company selects a default factor by counterparty at an aggregate master agreement level based on a weighted average default tenor for that counterparty's deals. The default tenor is determined by weighting the fair value and contract tenors for all deals for each counterparty to derive an average value. The default factor used is dependent upon whether the counterparty is in a net asset or a net liability position after applying the master agreement levels.

The Company applies the counterparty's default factor to compute credit reserves for counterparties that are in a net asset position. The Company calculates a non-performance risk on its derivative liabilities by using its estimated incremental borrowing rate over the risk-free rate. Credit reserves are netted against the unrealized gain (loss) positions. The majority of the Company's derivative contracts are with financial institutions and other utilities operating within the Western Electricity Coordinating Council. PSE also transacts power futures contracts on the Intercontinental Exchange (ICE), and natural gas contracts on the ICE NGX exchange platform. Execution of contracts on ICE requires the daily posting of margin calls as collateral through a futures and clearing agent. As of June 30, 2020, PSE had cash posted as collateral of \$9.0 million related to contracts executed on the ICE platform. Also, as of June 30, 2020, PSE had \$6.3 million in a letter of credit posted as a condition of transacting on the ICE NGX platform. PSE did not trigger any collateral requirements with any of its counterparties nor were any of PSE's counterparties required to post collateral resulting from credit rating downgrades during the six months ended June 30, 2020.

The following table presents the aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position and the amount of additional collateral the Company could be required to post:

**Puget Energy and  
Puget Sound Energy**

(Dollars in Thousands)

	At June 30, 2020			At December 31, 2019		
	Fair Value <sup>1</sup> Liability	Posted Collateral	Contingent Collateral	Fair Value <sup>1</sup> Liability	Posted Collateral	Contingent Collateral
Contingent Feature						
Credit rating <sup>2</sup>	\$ 28,552	\$ —	\$ 28,552	\$ 6,110	\$ —	\$ 6,110
Requested credit for adequate assurance	6,331	—	—	5,253	—	—
Forward value of contract <sup>3</sup>	5,327	—	N/A	—	14,827	N/A
Total	\$ 40,210	\$ —	\$ 28,552	\$ 11,363	\$ 14,827	\$ 6,110

<sup>1</sup> Represents the derivative fair value of contracts with contingent features for counterparties in net derivative liability positions. Excludes NPNS, accounts payable and accounts receivable.

<sup>2</sup> Failure by PSE to maintain an investment grade credit rating from each of the major credit rating agencies provides counterparties a contractual right to demand collateral.

<sup>3</sup> Collateral requirements may vary, based on changes in the forward value of underlying transactions relative to contractually defined collateral thresholds.

**(5) Fair Value Measurements**

ASC 820 established a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy categorizes the inputs into three levels with the highest priority given to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority given to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Level 1 primarily consists of financial instruments such as exchange-traded derivatives and listed equities. Equity securities that are also classified as cash equivalents are considered Level 1 if there are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. Instruments in this category include non-exchange-traded derivatives such as over-the-counter forwards and options.

Level 3 - Pricing inputs include significant inputs that have little or no observability as of the reporting date. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Financial assets and liabilities measured at fair value are classified in their entirety in the appropriate fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy. The Company primarily determines fair value measurements classified as Level 2 or Level 3 using a combination of the income and market valuation approaches. The process of determining the fair values is the responsibility of the derivative accounting department which reports to the Controller and Principal Accounting Officer. Inputs used to estimate the fair value of forwards, swaps and options include market-price curves, contract terms and prices, credit-risk adjustments, and discount factors. Additionally, for options, the Black-Scholes option valuation model and implied market volatility curves are used. Inputs used to estimate fair value in industry-standard models are categorized as Level 2 inputs as substantially all assumptions and inputs are observable in active markets throughout the full term of the instruments. On a daily basis, the Company obtains quoted forward prices for the electric and natural gas markets from an independent external pricing service.

The Company considers its electric and natural gas contracts as Level 2 derivative instruments as such contracts are commonly traded as over-the-counter forwards with indirectly observable price quotes. However, certain energy derivative instruments with maturity dates falling outside the range of observable price quotes are classified as Level 3 in the fair value hierarchy. Management's assessment is based on the trading activity in real-time and forward electric and natural gas markets. Each quarter, the Company confirms the validity of pricing-service quoted prices used to value Level 2 commodity contracts with the actual prices of commodity contracts entered into during the most recent quarter.

#### Assets and Liabilities with Estimated Fair Value

The carrying values of cash and cash equivalents, restricted cash, and short-term debt as reported on the balance sheet are reasonable estimates of their fair value due to the short-term nature of these instruments and are classified as Level 1 in the fair value hierarchy. The carrying value of other investments totaling \$52.5 million at June 30, 2020, and \$51.5 million at December 31, 2019, are included in "Other property and investments" on the balance sheet. These values are also reasonable estimates of their fair value and classified as Level 2 in the fair value hierarchy as they are valued based on market rates for similar transactions.

The fair value of the long-term notes was estimated using the discounted cash flow method with the U.S. Treasury yields and the Company's credit spreads as inputs, interpolating to the maturity date of each issue. The carrying values and estimated fair values were as follows:

		At June 30, 2020		At December 31, 2019	
		Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Puget Energy</b>					
(Dollars in Thousands)	Level				
<b>Liabilities:</b>					
Long-term debt (fixed-rate), net of discount <sup>1</sup>	2	\$ 6,162,530	\$ 7,608,405	\$ 5,512,225	\$ 7,004,316
Long-term debt (variable-rate)	2	234,000	234,000	408,100	408,100
Total liabilities		<u>\$ 6,396,530</u>	<u>\$ 7,842,405</u>	<u>\$ 5,920,325</u>	<u>\$ 7,412,416</u>
<b>Puget Sound Energy</b>					
(Dollars in Thousands)	Level				
<b>Liabilities:</b>					
Long-term debt (fixed-rate), net of discount <sup>2</sup>	2	\$ 4,337,090	\$ 5,992,573	\$ 4,336,142	\$ 5,571,818
Total liabilities		<u>\$ 4,337,090</u>	<u>\$ 5,992,573</u>	<u>\$ 4,336,142</u>	<u>\$ 5,571,818</u>

<sup>1</sup> The carrying value includes debt issuances costs of \$23.1 million and \$24.1 million for June 30, 2020, and December 31, 2019, respectively, which are not included in fair value.

<sup>2</sup> The carrying value includes debt issuances costs of \$23.6 million and \$24.4 million for June 30, 2020, and December 31, 2019, respectively, which are not included in fair value.

### Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the Company's financial assets and liabilities by level, within the fair value hierarchy, that were accounted for at fair value on a recurring basis:

Puget Energy and Puget Sound Energy	Fair Value At June 30, 2020			Fair Value At December 31, 2019		
	Level 2	Level 3	Total	Level 2	Level 3	Total
(Dollars in Thousands)						
Assets:						
Electric derivative instruments	\$ 19,763	\$ 526	\$ 20,289	\$ 19,282	\$ 651	\$ 19,933
Natural gas derivative instruments	13,634	620	14,254	9,852	1,523	11,375
Total assets	\$ 33,397	\$ 1,146	\$ 34,543	\$ 29,134	\$ 2,174	\$ 31,308
Liabilities:						
Electric derivative instruments	\$ 25,103	\$ 29,135	\$ 54,238	\$ 13,474	\$ 4,030	\$ 17,504
Natural gas derivative instruments	9,425	278	9,703	8,376	241	8,617
Total liabilities	\$ 34,528	\$ 29,413	\$ 63,941	\$ 21,850	\$ 4,271	\$ 26,121

The following tables present the Company's reconciliation of the changes in the fair value of Level 3 derivatives in the fair value hierarchy:

Puget Energy and Puget Sound Energy	Three Months Ended June 30,					
	2020			2019		
	Electric	Natural Gas	Total	Electric	Natural Gas	Total
(Dollars in Thousands)						
Level 3 Roll-Forward Net Asset/(Liability)						
Balance at beginning of period	\$ (26,305)	\$ 1,092	\$ (25,213)	\$ 5,012	\$ 2,758	\$ 7,770
Changes during period:						
Realized and unrealized energy derivatives:						
Included in earnings <sup>1</sup>	(2,284)	—	(2,284)	(6,190)	—	(6,190)
Included in regulatory assets / liabilities	—	(39)	(39)	—	382	382
Settlements	(20)	(711)	(731)	574	(1,619)	(1,045)
Transferred into Level 3	—	—	—	—	—	—
Transferred out of Level 3	—	—	—	(1,842)	877	(965)
Balance at end of period	\$ (28,609)	\$ 342	\$ (28,267)	\$ (2,446)	\$ 2,398	\$ (48)

**Puget Energy and  
Puget Sound Energy**

Six Months Ended  
June 30,

(Dollars in Thousands)

	2020			2019		
	Electric	Natural Gas	Total	Electric	Natural Gas	Total
Level 3 Roll-Forward Net Asset/(Liability)						
Balance at beginning of period	\$ (3,378)	\$ 1,282	\$ (2,096)	\$ 1,362	\$ 1,673	\$ 3,035
Changes during period:						
Realized and unrealized energy derivatives:						
Included in earnings <sup>2</sup>	(26,837)	—	(26,837)	6,135	—	6,135
Included in regulatory assets / liabilities	—	284	284	—	2,279	2,279
Settlements	1,606	(1,224)	382	(12,909)	(2,718)	(15,627)
Transferred into Level 3	—	—	—	4,391	(398)	3,993
Transferred out of Level 3	—	—	—	(1,425)	1,562	137
Balance at end of period	<u>\$ (28,609)</u>	<u>\$ 342</u>	<u>\$ (28,267)</u>	<u>\$ (2,446)</u>	<u>\$ 2,398</u>	<u>\$ (48)</u>

<sup>1</sup> *Income Statement locations: Unrealized (gain) loss on derivative instruments, net. Amounts include unrealized gains (losses) on derivatives still held in position as of the reporting date for electric derivatives of \$(23.1) million and \$(4.7) million for three months ended June 30, 2020 and 2019, respectively.*

<sup>2</sup> *Income Statement locations: Unrealized (gain) loss on derivative instruments, net. Amounts include unrealized gains (losses) on derivatives still held in position as of the reporting date for electric derivatives of \$(25.4) million and \$(2.4) million for six months ended June 30, 2020 and 2019, respectively.*

Realized gains and losses on energy derivatives for Level 3 recurring items are included in energy costs in the Company's consolidated statements of income under purchased electricity, electric generation fuel or purchased natural gas when settled. Unrealized gains and losses on energy derivatives for Level 3 recurring items are included in net unrealized (gain) loss on derivative instruments in the Company's consolidated statements of income.

The Company does not use internally developed models to make adjustments to significant unobservable pricing inputs. The only significant unobservable input into the fair value measurement of the Company's Level 3 assets and liabilities is the forward price for electric and natural gas contracts. The weighted average price is calculated as the total market value divided by the total volume of the Company's Level 3 electric and gas commodity contracts, respectively, as of the reporting date.

The following table presents the forward price ranges for the Company's Level 3 commodity contracts as of June 30, 2020:

**Puget Energy and  
Puget Sound Energy**

(Dollars in Thousands)	Fair Value		Valuation Technique	Unobservable Input	Range		Weighted Average
	Assets <sup>1</sup>	Liabilities <sup>1</sup>			Low	High	
Electric	\$ 526	\$ 29,135	Discounted cash flow	Power prices (per MWh)	\$ 22.97	\$ 40.05	\$ 30.14
Natural gas	\$ 620	\$ 278	Discounted cash flow	Natural gas prices (per MMBtu)	\$ 1.10	\$ 3.08	\$ 1.78

<sup>1</sup> *The valuation techniques, unobservable inputs and ranges are the same for asset and liability positions.*

The following table presents the forward price ranges for the Company's Level 3 commodity contracts as of December 31, 2019:

Puget Energy and Puget Sound Energy  (Dollars in Thousands)	Fair Value		Valuation Technique	Unobservable Input	Range		Weighted Average
	Assets <sup>1</sup>	Liabilities <sup>1</sup>			Low	High	
Electric	\$ 651	\$ 4,030	Discounted cash flow	Power prices (per MWh)	\$ 9.00	\$ 43.85	\$ 33.99
Natural gas	\$1,523	\$ 241	Discounted cash flow	Natural gas prices (per MMBtu)	\$ 1.25	\$ 3.18	\$ 2.47

<sup>1</sup> The valuation techniques, unobservable inputs and ranges are the same for asset and liability positions.

The significant unobservable inputs listed above would have a direct impact on the fair values of the above instruments if they were adjusted. Consequently, significant increases or decreases in the forward prices of electricity or natural gas in isolation would result in a significantly higher or lower fair value for Level 3 assets and liabilities. Generally, interrelationships exist between market prices of natural gas and power. As such, an increase in natural gas pricing would potentially have a similar impact on forward power markets. As of June 30, 2020, and December 31, 2019, a hypothetical 10.0% increase or decrease in market prices of natural gas and electricity would change the fair value of the Company's derivative portfolio, classified as Level 3 within the fair value hierarchy by \$5.6 million and \$2.5 million, respectively.

#### Long-Lived Assets Measured at Fair Value on a Nonrecurring Basis

Puget Energy records the fair value of its intangible assets in accordance with ASC 360, "Property, Plant, and Equipment," (ASC 360). The fair value assigned to the power contracts was determined using an income approach comparing the contract rate to the market rate for power over the remaining period of the contracts incorporating non-performance risk. Management also incorporated certain assumptions related to quantities and market presentation that it believes market participants would make in the valuation. The fair value of the power contracts is amortized as the contracts settle.

ASC 360 requires long-lived assets to be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. One such triggering event is a significant decrease in the forward market prices of power.

At March 31, 2020, Puget Energy completed valuation and impairment testing of its power purchase contracts classified as intangible assets. These intangible assets exist as a result of the merger in 2009, at which time the consolidated assets and liabilities were revalued in accordance with ASC 805, "Business Combinations". Differences between the fair market value and the carrying value of assets held at PSE were recorded at PE. The Rocky Reach contract was determined to be impaired due to a decrease in forward prices for this contract of 7.6% from December 31, 2019, causing an impairment of \$52.6 million. While this impairment of the intangible asset held at Puget Energy is the result of a decline in forward prices and the corresponding valuation impact, the underlying power purchase contract is included within rates at PSE.



The following table presents the impairment recorded to the Company's intangible asset contracts, with corresponding reductions to the regulatory liability:

### Puget Energy

(Dollars in Thousands)

Valuation Date	Contract Name	Carrying Value	Fair Value	Write Down
March 31, 2020	Rocky Reach	\$ 147,168	\$ 94,603	\$ 52,565

The valuations were measured using a discounted cash flow, income-based valuation methodology. Significant inputs included forward electricity prices and power contract pricing which provided future net cash flow estimates classified as Level 3 within the fair value hierarchy. The unobservable input averages disclosed below represent the arithmetic average of the inputs and are not weighted by volume. A less significant input is the discount rate reflective of a market participant's cost of capital used in the valuation.

The following table presents the significant unobservable inputs used in estimating the impaired long-term power purchase contracts' fair value:

### Puget Energy

Valuation Date	Unobservable Input	Low	High	Average
March 31, 2020	Power prices (per MWh)	\$ 10.23	\$ 29.05	\$ 21.27
	Power contract costs per quarter (in thousands)	\$ 6,308	\$ 7,085	\$ 6,468
December 31, 2019	Power prices (per MWh)	\$ 11.75	\$ 31.44	\$ 22.53
	Power contract costs per quarter (in thousands)	\$ 6,237	\$ 7,087	\$ 6,421

## (6) Retirement Benefits

PSE has a defined benefit pension plan (Qualified Pension Benefits) covering a substantial majority of PSE employees. Pension benefits earned are a function of age, salary, years of service and, in the case of employees in the cash balance formula plan, the applicable annual interest crediting rates. United Association of Plumbers and Pipefitters (UA) represented employees receive annual pay contributions of 4.0% of eligible pay each year in the cash balance formula plan of the defined benefit pension. Non-represented employees and employees represented by the International Brotherhood of Electrical Workers Union (IBEW), participants receive annual employer contributions of 4.0% of eligible pay each year in the cash balance formula of the defined benefit pension or 401k plan account. Those employees receiving contributions in the cash balance formula plan also receive interest credits, which are at least 1.0% per quarter. When an employee with a vested cash balance formula benefit leaves PSE, they will have annuity and lump sum options for distribution. PSE also has a non-qualified Supplemental Executive Retirement Plan (SERP) for certain key senior management employees that closed to new participants in 2019. PSE has an officer restoration benefit for new officers who join PSE or are promoted beginning in 2019, such that company contributions under PSE's applicable tax-qualified plan, which otherwise would have been earned if not for IRS limitations, are credited to an account with the Deferred Compensation Plan.

In addition to providing pension benefits, PSE provides legacy group health care and life insurance benefits (Other Benefits) for certain retired employees. These benefits are provided principally through an insurance company. The insurance premiums, paid primarily by retirees, are based on the benefits provided during the prior year. On June 11, 2019, the Welfare Benefits Committee approved the termination of the Plan effective December 31, 2019, and the creation of a Retiree Health Reimbursement Account (HRA) Plan effective January 1, 2020. No eligible individual may become a participant or covered dependent in the Plan on or after January 1, 2020, and no benefits will be payable under insurance contracts or the Plan on or after January 1, 2020. Effective January 1, 2020, assets in the 401(h) account will be allocated to the Retiree HRA instead of the Plan to cover the Company's portion of premiums for health benefits for retiree and their beneficiaries.

Puget Energy's retirement plans were remeasured as a result of the merger in 2009, which represents the difference between Puget Energy and PSE's retirement plans.



In 2017, the FASB issued ASU 2017-07, requiring that an employer report the service cost component in the same line items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost (which include interest costs, expected return on plan assets, amortization of prior service cost or credits and actuarial gains and losses) are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. Pursuant to the standard, the Company has retrospectively included in the consolidated statements of income: (i) the components of service cost within utility operations and maintenance for PSE and within non-utility expense and other for Puget Energy, and (ii) all non-service cost components in other income.

The following tables summarize the Company's net periodic benefit cost for the three and six months ended June 30, 2020 and 2019:

<b>Puget Energy</b>	Qualified Pension Benefits		SERP Pension Benefits		Other Benefits	
	Three Months Ended June 30,					
	2020	2019	2020	2019	2020	2019
(Dollars in Thousands)						
Components of net periodic benefit cost:						
Service cost	\$ 6,172	\$ 5,287	\$ 176	\$ 256	\$ 46	\$ 16
Interest cost	6,292	7,216	362	578	93	112
Expected return on plan assets	(12,449)	(12,624)	—	—	(98)	(98)
Amortization of prior service cost	(292)	(495)	87	83	—	—
Amortization of net loss (gain)	2,099	251	512	341	(19)	(63)
Net periodic benefit cost	<u>\$ 1,822</u>	<u>\$ (365)</u>	<u>\$ 1,137</u>	<u>\$ 1,258</u>	<u>\$ 22</u>	<u>\$ (33)</u>

<b>Puget Energy</b>	Qualified Pension Benefits		SERP Pension Benefits		Other Benefits	
	Six Months Ended June 30,					
	2020	2019	2020	2019	2020	2019
(Dollars in Thousands)						
Components of net periodic benefit cost:						
Service cost	\$ 12,169	\$ 10,574	\$ 404	\$ 512	\$ 95	\$ 33
Interest cost	12,590	14,433	740	1,157	184	224
Expected return on plan assets	(24,951)	(25,248)	—	—	(195)	(195)
Amortization of prior service cost	(787)	(990)	174	166	—	—
Amortization of net loss (gain)	4,080	501	1,098	683	(41)	(125)
Net periodic benefit cost	<u>\$ 3,101</u>	<u>\$ (730)</u>	<u>\$ 2,416</u>	<u>\$ 2,518</u>	<u>\$ 43</u>	<u>\$ (63)</u>

<b>Puget Sound Energy</b>	Qualified Pension Benefits		SERP Pension Benefits		Other Benefits	
	Three Months Ended June 30,					
	2020	2019	2020	2019	2020	2019
(Dollars in Thousands)						
Components of net periodic benefit cost:						
Service cost	\$ 6,172	\$ 5,287	\$ 176	\$ 256	\$ 46	\$ 16
Interest cost	6,292	7,216	362	578	93	112
Expected return on plan assets	(12,451)	(12,628)	—	—	(98)	(98)
Amortization of prior service cost	(393)	(393)	87	83	—	—
Amortization of net loss (gain)	4,866	3,165	575	433	(33)	(109)
Net periodic benefit cost	<u>\$ 4,486</u>	<u>\$ 2,647</u>	<u>\$ 1,200</u>	<u>\$ 1,350</u>	<u>\$ 8</u>	<u>\$ (79)</u>

Puget Sound Energy	Qualified Pension Benefits		SERP Pension Benefits		Other Benefits	
	Six Months Ended June 30,					
	2020	2019	2020	2019	2020	2019
(Dollars in Thousands)						
Components of net periodic benefit cost:						
Service cost	\$ 12,169	\$ 10,574	\$ 404	\$ 512	\$ 95	\$ 33
Interest cost	12,590	14,433	740	1,157	184	224
Expected return on plan assets	(24,955)	(25,257)	—	—	(195)	(195)
Amortization of prior service cost	(787)	(787)	174	167	—	—
Amortization of net loss (gain)	9,522	6,330	1,234	866	(69)	(219)
Net periodic benefit cost	<u>\$ 8,539</u>	<u>\$ 5,293</u>	<u>\$ 2,552</u>	<u>\$ 2,702</u>	<u>\$ 15</u>	<u>\$ (157)</u>

The following table summarizes the Company's change in benefit obligation for the periods ended June 30, 2020 and December 31, 2019:

Puget Energy and Puget Sound Energy	Qualified Pension Benefits		SERP Pension Benefits		Other Benefits	
	Six Months Ended	Year Ended	Six Months Ended	Year Ended	Six Months Ended	Year Ended
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
(Dollars in Thousands)						
Change in benefit obligation:						
Benefit obligation at beginning of period	\$ 774,305	\$ 677,643	\$ 63,000	\$ 55,708	\$ 11,627	\$ 10,636
Amendments	—	—	—	—	—	9,049
Service cost	12,169	22,656	404	1,023	95	61
Interest cost	12,590	28,913	740	2,314	184	410
Curtailment Loss / (Gain)	—	—	—	—	—	(7,486)
Actuarial loss (gain)	1,134	84,272	(478)	6,756	34	(287)
Benefits paid	(23,990)	(36,740)	(17,643)	(2,801)	(494)	(982)
Medicare part D subsidy received	—	—	—	—	187	226
Administrative Expense	—	(2,439)	—	—	—	—
Benefit obligation at end of period	<u>\$ 776,208</u>	<u>\$ 774,305</u>	<u>\$ 46,023</u>	<u>\$ 63,000</u>	<u>\$ 11,633</u>	<u>\$ 11,627</u>

The aggregate expected contributions by the Company to fund the qualified pension plan, SERP and the other postretirement plans for the year ending December 31, 2020, are expected to be at least \$18.0 million, \$26.1 million and \$0.3 million, respectively. During the six months ended June 30, 2020, the Company contributed \$17.6 million to fund the SERP. During the six months ended June 30, 2019, the Company contributed \$1.0 million to fund the SERP. The Company contributed an immaterial amount to fund the other postretirement plans.

## **(7) Regulation and Rates**

### **General Rate Case**

PSE filed a general rate case (GRC) with the Washington Commission on June 20, 2019 requesting an overall increase in electric and natural gas rates of 6.9% and 7.9% respectively. PSE requested a return on equity of 9.8% with an overall rate of return of 7.62%. In addition to the traditional areas of focus (revenue requirements, cost allocation, rate design and cost of capital), the Company completed an attrition study and included a portion of the attrition revenue requirement in the overall request in order to address the expected regulatory lag in the rate year. Additionally, as the non-plant related excess deferred taxes that resulted from the Tax Cuts and Jobs Act (TCJA) remained outstanding from PSE's Expedited Rate Filing (ERF) as discussed below, PSE requested in its GRC to pass back the amounts over four years. On September 17, 2019, PSE filed supplemental testimony, which provided certain updates to the original filing, but did not impact the requested overall electric and natural gas rate increases, return on equity or overall rate of return as originally filed. On January 15, 2020, PSE filed rebuttal testimony which included a reduction to the requested return on equity to 9.5%, which decreased the rate of return to 7.48%. The requested rate increase for both electric and natural gas remained at 6.9% and 7.9%, respectively. For both electric and natural gas PSE did not originally request its full attrition adjustment; therefore, the decrease in return on equity led to a reduction in the electric rate increase of only \$1.5 million and did not have an impact on the natural gas rate increase.

On July 8, 2020, the Washington Commission issued its order on PSE's GRC. The ruling provided for a weighted cost of capital of 7.39% or 6.8% after-tax, and a capital structure of 48.5% in common equity with a return on equity of 9.4%. The order also resulted in a combined net increase to electric of \$29.5 million, or 1.6%, and to natural gas of \$36.5 million, or 4.0%. However, the Washington Commission extended the amortization of certain regulatory assets, PSE's electric decoupling deferral, and PSE's PGA deferral to mitigate the impact of the rate increase in response to the economic instability created by the COVID-19 pandemic, which reduced the electric revenue increase to approximately \$0.9 million, or 0.05% and the natural gas increase to \$1.3 million, or 0.15%. The Washington Commission also determined that the Company's proposed attrition adjustment of \$23.9 million for electric and \$16.2 million for natural gas was not in the public interest at this time. The order also effectively ends the deferral of PSE's advanced metering infrastructure (AMI) investment while allowing the deferral on the return on AMI investments through December 31, 2019. Additional AMI investments will be evaluated in future proceedings for deferrals of return until the AMI project is complete. On July 17, 2020, PSE filed a motion for clarification with the Washington Commission seeking clarification on several items. On July 31, 2020, the Washington Commission issued an order granting PSE's motion for clarification. The ruling adjusted certain items from the final order issued on July 8, 2020, which led to a combined net increase to electric of \$59.6 million, or 2.9%, an increase of \$30.1 million above the \$29.5 million granted in the final order. The order also led to a combined net increase to natural gas of \$42.9 million, or 5.6%, an increase of \$6.4 million above the \$36.5 million granted in the final order. The Washington Commission maintained adjustments which mitigated the impacts of the rate increases in response to the economic instability created by the COVID-19 pandemic, which reduced the electric revenue increase to approximately \$31.0 million, or 1.5% and the natural gas increase to \$7.7 million, or 1.0%. PSE continues to review the original Commission order including the ramifications of certain tax issues and the order for clarification and expects to file a Compliance Filing to amend electric and natural gas tariffs and, upon approval of this filing, rates will go into effect.

### **Expedited Rate Filing**

On November 7, 2018, PSE filed an ERF with the Washington Commission. The filing requested to change rates associated with PSE's delivery and fixed production costs. It did not include variable power costs, purchased gas costs or natural gas pipeline replacement program costs, which are recovered in separate mechanisms. The filing was based on historical test year costs and rate base, and followed the reporting requirements of a Commission Basis Report, as defined by the Washington Administrative Code, but used end of period rate base and certain annualizing adjustments. It did not include any forward-looking or pro-forma adjustments. Included in the filing was a reduction to the overall authorized rate of return from 7.6% to 7.49% to recognize a reduction in debt costs associated with recent debt activity. PSE requested an overall increase in electric rates of \$18.9 million annually, which is a 0.9% increase, and an overall increase in natural gas rates of \$21.7 million annually, which is a 2.7% increase.

On January 22, 2019, all parties in the proceeding reached an agreement on settlement terms that resolved all issues in the filing. The settlement agreement was filed on January 30, 2019. The parties agreed to a \$21.5 million rate increase for natural gas and no rate increase for electric which became effective March 1, 2019. As is discussed below, these rates include the offsetting effect of passing back to customers plant related excess deferred income taxes that resulted from the TCJA, using the average rate assumption method (ARAM) amounts to arrive at the settlement rate changes.

The settlement agreement provides for the pass back of plant related excess deferred income taxes that resulted from the TCJA using the ARAM methodology based on 2018 amounts beginning March 1, 2019, in the amount of \$6.1 million for

natural gas customers and \$25.9 million for electric customers. The settlement agreement left the determination for the regulatory treatment of the remaining items related to the TCJA, listed below, to PSE's GRC that was filed June 20, 2019:

- 1) excess deferred taxes for non-plant-related book/tax differences for periods prior to March 1, 2019,
- 2) the deferred balance associated with the over-collection of income tax expense for the period January 1 through April 30, 2018, (the time period that encompasses the effective date of the TCJA to May 1, 2018, the effective date of the TCJA rate change); and
- 3) the turnaround of plant related excess deferred income taxes using the ARAM method for the period from January 2018 through February 2019, the rate effective date for the ERF.

The settlement agreement provides that PSE may defer the depreciation expense associated with PSE's ongoing investment in its AMI investment and may defer the return on the AMI investment that was included in the test year of the filing. As noted above, the 2019 GRC effectively ends all deferrals of AMI depreciation expense and deferrals of return on additional AMI investments will be evaluated in future proceedings. The rate of return adopted in the settlement for reporting and deferral purposes is 7.49%. On February 21, 2019, the Washington Commission approved the settlement with one condition: PSE passed back the deferred balance associated with the tax over-collection of \$34.6 million for the period from January 1, 2018, through April 30, 2018, over a one-year period which ended May 1, 2020.

### **Washington Commission Tax Deferral Filing**

The TCJA was signed into law in December 2017. As a result of this change, PSE re-measured its deferred tax balances under the new corporate tax rate. PSE filed an accounting petition on December 29, 2017, requesting deferred accounting treatment for the impacts of tax reform. The requested deferral accounting treatment resulted in the tax rate change being captured in the deferred income tax balance with an offset to the regulatory liability for deferred income taxes for GAAP purposes. Additionally, on March 30, 2018, PSE filed for a rate change for electric and natural gas customers associated with TCJA to reflect the decrease in the federal corporate income tax rate from 35.0% to 21.0%. The overall impact of the rate change, based on the annual period from May 2018 through April 2019, is a revenue decrease of \$72.9 million, or 3.4% for electric and \$23.6 million, or 2.7% for natural gas and became effective May 1, 2018, by operation of law.

The March 30, 2018, rate change filing did not address excess deferred taxes or the deferred balance associated with the over-collection of income tax expense of \$34.6 million for the period January 1 through April 30, 2018, (the time period that encompasses the effective date of the TCJA through May 1, 2018, the effective date of the rate change). The \$34.6 million tax over-collection decreased PSE's revenue and increased the regulatory liability for a refund to customers.

As a result of the Washington Commission's final order in the ERF, the excess deferred taxes associated with non-plant-related book/tax differences and the treatment of the excess deferred taxes associated with plant related book/tax differences from January 1, 2018, through February 28, 2019, was addressed in PSE's GRC, which was filed on June 20, 2019. The Washington Commission also required in the ERF order that PSE pass back the deferred balance associated with the tax over-collection for the period from January 1, 2018, through April 30, 2018, as discussed above, over a one-year period which began May 1, 2019. Per PSE's Schedule 141Y tariff, following the May 2019 through April 2020 refund period, if the residual balance of credit owed to customers will be greater than \$0.1 million, PSE will submit a filing no later than July 31, 2020 with a proposal of passing back the residual balance effective September 1, 2020 through August 31, 2021. Finally, the GRC final order determined that PSE is required to pass back 2019 and 2020 protected excess deferred tax reversals totaling \$70.8 million over the period July 2020 through July 2021. As noted above, PSE filed a motion for clarification with the Washington Commission seeking clarification on several items including administration of the required pass back of excess deferred tax reversals. On July 31, 2020, PSE received an order granting PSE's motion for clarification which adjusted certain items within the final order, including treatment of protected excess deferred taxes. PSE is currently reviewing the order granting the motion for clarification.

### **Decoupling Filings**

While fluctuations in weather conditions will continue to affect PSE's billed revenue and energy supply expenses from month to month, PSE's decoupling mechanisms assist in mitigating the impact of weather on operating revenue and net income. Since 2013, the Washington Commission has allowed PSE to record a monthly adjustment to its electric and natural gas operating revenues related to electric transmission and distribution, natural gas operations and general administrative costs from most residential, commercial and industrial customers to mitigate the effects of abnormal weather, conservation impacts and changes in usage patterns per customer. As a result, these electric and natural gas revenues are recovered on a per customer basis regardless of actual consumption levels. PSE's energy supply costs, which are part of the PCA and PGA mechanisms, are not included in the decoupling mechanism. The revenue recorded under the decoupling mechanisms will be affected by customer growth and not actual consumption. Following each calendar year, PSE will recover from, or refund to, customers the

difference between allowed decoupling revenue and the corresponding actual revenue during the following May to April time period.

On December 5, 2017, the Washington Commission approved PSE’s request within the 2017 GRC to extend the decoupling mechanism with several changes to the methodology that took effect on December 19, 2017. Electric and natural gas delivery revenues continue to be recovered on a per customer basis and electric fixed production energy costs are now decoupled and recovered on the basis of a fixed monthly amount. The allowed decoupling revenue for electric and natural gas customers will no longer increase annually each January 1 as occurred prior to December 19, 2017. Approved revenue per customer costs can only be changed in a GRC or ERF. Approved electric fixed production energy costs can also be changed in a power cost only rate case (PCORC). Other changes to the decoupling methodology approved by the Washington Commission include regrouping of electric and natural gas non-residential customers and the exclusion of certain electric schedules from the decoupling mechanism going forward. The rate test, which limits the amount of revenues PSE can collect in its annual filings, increased from 3.0% to 5.0% for natural gas customers but will remain at 3.0% for electric customers. The decoupling mechanism will be reviewed again in PSE’s first rate case filed in or after 2021, or in a separate proceeding, if appropriate. PSE’s decoupling mechanism over- and under- collections will still be collectible or refundable after this effective date even if the decoupling mechanism is not extended.

On February 21, 2019, the Washington Commission approved the multi-party settlement agreement which was filed within PSE’s ERF filing. As part of this settlement agreement, electric and natural gas allowed delivery revenue per customer was updated to reflect changes in the approved revenue requirement. For electric, there were no changes to the annual allowed fixed power cost revenue. The changes took effect on March 1, 2019.

On June 30, 2020, PSE performed an analysis to determine if electric and natural gas decoupling revenue deferrals would be collected from customers within 24 months of the annual period, per ASC 980. If not, for GAAP purposes only, PSE would need to record a reserve against the decoupling revenue and a corresponding regulatory asset balance. Once the reserve is probable of collection within 24 months from the end of the annual period, the reserve can be recognized as decoupling revenue. The analysis indicated that \$2.1 million of electric deferred revenue will not be collected within 24 months of the annual period; therefore an adjustment was booked to 2020 electric decoupling revenue. Natural gas deferred revenue will be collected within 24 months of the annual period; therefore, no adjustment was booked to 2020 natural gas decoupling revenue.

### Power Cost Adjustment Mechanism

PSE currently has a PCA mechanism that provides for the deferral of power costs that vary from the “power cost baseline” level of power costs. The “power cost baseline” levels are set, in part, based on normalized assumptions about weather and hydroelectric conditions. Excess power costs or savings are apportioned between PSE and its customers pursuant to the graduated scale set forth in the PCA mechanism and will trigger a surcharge or refund when the cumulative deferral trigger is reached.

Effective January 1, 2017, the following graduated scale is used in the PCA mechanism:

Annual Power Cost Variability	Company’s Share		Customers' Share	
	Over	Under	Over	Under
Over or Under Collected by up to \$17 million	100 %	100 %	— %	— %
Over or Under Collected by between \$17 million - \$40 million	35	50	65	50
Over or Under Collected beyond \$40 + million	10	10	90	90

For the six months ended June 30, 2020, in its PCA mechanism, PSE under recovered its allowable costs by \$48.8 million of which \$19.5 million was apportioned to customers and \$1.1 million of interest was accrued on the deferred customer balance. This compares to an under recovery of allowable costs of \$46.4 million for the six months ended June 30, 2019, of which \$17.3 million was apportioned to customers and accrued \$0.2 million interest on the total deferred customer balance. The under recovery in 2020 led to an increase in the PCA deferral, and was a higher under recovery compared to the same period in 2019. The under recovery was due to power costs that were higher than what was collected in the allowed baseline for the six months ended June 30, 2020. Power costs have increased due to a number of factors such as the addition of new resources, increased rates on purchase power agreements and higher transmission costs. Also contributing to the under recovery in 2020 was a reduced load, used to calculate the baseline amount, which was due to warmer than normal weather in the first half of 2020 and to the effects of COVID-19 on energy usage and the economy. Contributing to the under recovery in 2019 were high power prices in the first quarter of 2019 due to cold weather in February and early March of 2019, which drove regional loads and demand for power up resulting in higher prices, and Westcoast pipeline capacity limitations, which contributed to higher natural gas and power prices.

## Purchased Gas Adjustment Mechanism

On April 25, 2019, the Washington Commission approved PSE's request for an out-of-cycle change to PGA rates with the rate change taking effect May 1, 2019. The out-of-cycle PGA filing was needed to begin amortizing a large PGA commodity deferral balance that had grown due to higher than projected commodity costs during the 2018/19 winter. These higher than projected commodity costs were primarily due to an October 9, 2018, rupture and subsequent explosion on Westcoast Pipeline which is one of the major pipelines feeding PSE's distribution system. The pipeline was repaired in October 2018, however supply capacity on the pipeline was limited over the 2018/19 winter leading to higher prices. February weather was also much colder than normal which also increased the demand for natural gas. The out-of-cycle PGA rates were effective from May 1, 2019 through April 30, 2020 and on May 1, 2020 the rates were set to zero. At the end of the recovery period, an unamortized balance of \$4.9 million remains which PSE will request to be amortized in its upcoming annual PGA filing for rates effective November 1, 2020.

On October 24, 2019, the Washington Commission approved PSE's request for November 2019 PGA rates, with the rate change taking effect on November 1, 2019. As part of that filing, PSE requested PGA rates increase annual revenue by \$17.8 million, while the new tracker rates increased by annual revenue of \$100.6 million; this was in addition to continuing the collection on the remaining balance of \$54.0 million from the out-of-cycle PGA. The tracker rates include deferral balances for the three separate amounts: (i) \$114.4 million of under collected commodity balances deferred in February and March; (ii) a \$10.8 million balance of over-collected commodity costs for the 2018 PGA, and (iii) a \$4.1 million remaining balance from the \$54.7 million credit to customers, caused by the 2017 over-collection, established in the 2018 tracker. The high commodity deferral balances for winter months through March 2019 were the result of three noteworthy events last winter experienced by PSE: the Enbridge pipeline rupture, unusually low temperatures in February and March, and a compressor failure in February at the Jackson Prairie storage facility. Additionally, to reduce customer impact, as part of the approved PGA filing, PSE was approved to collect \$114.4 million commodity deferrals and related interest over a two year period, instead of the historic one year period, from November 2019 through October 2021. Finally, as part of the GRC final order, collection of the \$114.4 million commodity deferrals and related interest was further lengthened to be collected over three years instead of two.

The following table presents the PGA mechanism balances and activity for six months ended June 30, 2020 and 2019:

### Puget Energy and Puget Sound Energy

(Dollars in Thousands)	At June 30,	At December 31
	2020	2019
PGA receivable balance and activity		
PGA receivable beginning balance	\$ 132,766	\$ 9,922
Actual natural gas costs	169,697	406,162
Allowed PGA recovery	(217,916)	(289,876)
Interest	2,385	6,558
PGA receivable ending balance	\$ 86,932	\$ 132,766

### Get to Zero Depreciation Deferral

On April 10, 2019, PSE filed an accounting petition with the Washington Commission, requesting authorization to defer depreciation expense associated with Get To Zero (GTZ) projects that were placed in service after June 30, 2018. The GTZ project consists of a number of short-lived technology upgrades. The depreciation expense associated with the GTZ projects with lives of 10 years or less that were placed in service after June 30, 2018, were deferred beginning May 1 per the petition request. As of June 30, 2020, and December 31, 2019, PSE had deferred GTZ depreciation expense balances of \$41.1 million and \$21.7 million, respectively. In addition to the depreciation expense deferral, PSE requested to defer carrying charges on the GTZ deferral, to be calculated utilizing the Company's currently authorized after tax rate of return, or 6.89% per the 2018 ERF. As of June 30, 2020, and December 31, 2019, PSE has a deferred carrying charge balance of \$2.0 million and \$0.5 million, respectively. The GTZ accounting petition was consolidated with PSE's 2019 GRC and on July 8, 2020, the Washington Commission issued its order in PSE's 2019 GRC. The ruling authorized PSE to amortize deferred GTZ expenses as proposed in the original general rate case filing. The ruling also allows continued deferral of the depreciation expense associated with GTZ investments not already approved for recovery with a book life of 10 years or less, through its next GRC. Finally, the final order changed the rate at which PSE could defer and recovery carrying charges from PSE's authorized rate of return to the quarterly interest rate established by the FERC.

### **Crisis Affected Customer Assistance Program**

On April 6, 2020, PSE filed with the Washington Commission revisions to its currently effective Tariff WN U-60. The purpose of this filing is to incorporate into PSE's low-income tariff a new temporary bill assistance program, Crisis Affected Customer Assistance Program (CACAP), to mitigate the economic impact of the COVID-19 pandemic on PSE's customers. CACAP would allow PSE customers facing financial hardship due to COVID-19 to receive up to \$1,000 in bill assistance. The program puts to immediate use \$11.0 million in unspent low income funds from prior years, and supplements other forms of financial assistance. The program does not require an increase to rates and is fully compatible with other low income programs. PSE made an additional filing on July 21, 2020 to increase the amount of electric funds available for distribution by \$4.5 million under the CACAP program. The program will automatically end when all of the funds are disbursed or September 30, 2020 whichever is soonest. Based on the COVID-19 pandemic and resulting state of emergency, the Washington Commission allowed the tariff revisions to become effective on April 13, 2020.

### **Storm Damage Deferral Accounting**

The Washington Commission issued a GRC order that defined deferrable storm events and provided that costs in excess of the annual cost threshold may be deferred for qualifying storm damage costs that meet the modified Institute of Electrical and Electronics Engineers outage criteria for system average interruption duration index. For the six months ended June 30, 2020, PSE incurred \$9.9 million in storm-related electric transmission and distribution system restoration costs, of which no amount was deferred as a regulatory asset. This compares to \$39.2 million incurred in storm-related electric transmission and distribution system restoration costs for the six months ended June 30, 2019, of which the Company deferred \$0.4 million and \$28.3 million as regulatory assets related to storms that occurred in 2018 and 2019, respectively. Under the December 5, 2017, Washington Commission order regarding PSE's GRC, the following changes to PSE's storm deferral mechanism were approved: (i) the cumulative annual cost threshold for deferral of storms under the mechanism increased from \$8.0 million to \$10.0 million effective January 1, 2018; and (ii) qualifying events where the total qualifying cost is less than \$0.5 million will not qualify for deferral and these costs will also not count toward the \$10.0 million annual cost threshold.

## **(8) Commitments and Contingencies**

### **Colstrip**

PSE has a 50% ownership interest in Colstrip Units 1 and 2 and a 25% interest in each of Colstrip Units 3 and 4. In March 2013, the Sierra Club and the Montana Environmental Information Center filed a Clean Air Act citizen suit against all Colstrip owners in the U.S. District Court, District of Montana. In July 2016, PSE reached a settlement with the Sierra Club to dismiss all of the Clean Air Act allegations against the Colstrip Generating Station, which was approved by the court in September 2016. As part of the settlement that was signed by all Colstrip owners, Colstrip 1 and 2 owners, PSE and Talen Energy Corporation (Talen), agreed to retire the two oldest units (Units 1 and 2) at Colstrip in eastern Montana no later than July 1, 2022. Depreciation rates were updated in the GRC effective December 19, 2017, where PSE's depreciation increased for Colstrip Units 1 and 2 to recover plant costs to the expected shutdown date. Additionally, PSE has accelerated the depreciation of Colstrip Units 3 and 4, per the terms of the GRC settlement, to December 31, 2027. The GRC also repurposed PTCs and hydro-related treasury grants to recover unrecovered plant costs and to fund and recover decommissioning and remediation costs for Colstrip Units 1 through 4. The final order in the 2019 GRC further shortened the depreciable life for Colstrip 3 and 4 to December 31, 2025 to align with the requirements of the Clean Energy Transformation Act.

Consistent with a June 2019 announcement, Talen permanently shut down Units 1 and 2 at the end of the year due to operational losses associated with the Units. Colstrip Units 1 and 2 were retired effective December 31, 2019. The Washington Clean Energy Transition Act requires the Washington Commission to provide recovery of the investment, decommissioning, and remediation costs associated with the facilities that are not recovered through the repurposed PTC's and hydro-related treasury grants. The full scope of decommissioning activities and costs may vary from the estimates that are available at this time.



On December 10, 2019, PSE announced its intention to sell its interest in Colstrip Unit 4 to NorthWestern Energy for \$1. Under the agreement with NorthWestern Energy, PSE would retain its obligation to fund 25% of the environmental remediation and decommissioning costs associated with Unit 4 during PSE's operation. The agreement is subject to approval by the Washington Commission and the Montana Public Service Commission. Additionally, PSE has agreed to enter into a power purchase agreement with NorthWestern Energy for 90 MW through 2025 to facilitate the transition, and sell a portion of its dedicated Colstrip transmission system, conditioned upon regulatory approval. Other Colstrip owners and other external parties have intervened in the pending regulatory review of this transaction, and one Colstrip owner has exercised its contractual right to purchase its pro rata share of the interest to be sold by PSE. Both the Washington Commission and the Montana Public Service Commission have placed the respective procedural calendars on hold until the terms of the deal can be updated for the additional Colstrip owner's contractual purchase right and supplemental testimony can be filed. The original purchase agreement is written such that the purchase must close by December 31, 2020. For accounting purposes, management has evaluated the applicable held for sale criteria as of December 31, 2019, and June 30, 2020, and determined that these criteria were not met. As such, Colstrip Unit 4 is classified as Electric Utility Plant on the balance sheet, see Note 6, "Utility Plant," to the consolidated financial statements in the Company's most recent Annual Report on Form 10-K for the year ended December 31, 2019.

### **Other Commitments and Contingencies**

In addition to the contractual obligations and consolidated commercial commitments disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, during the six months ended June 30, 2020, the Company entered into new Electric Portfolio and Electric Wholesale Market Transaction contracts with estimated payment obligations totaling \$935.3 million through 2042.

For further information, see Note 16, "Commitments and Contingencies" to the consolidated financial statements included in Item 8 of the Company's Form 10-K for the period ended December 31, 2019.

### **COVID-19**

The outbreak of the novel coronavirus (COVID-19) has become a global pandemic. The Company is monitoring the impact of the pandemic and taking steps to mitigate known risks. The full impact on the Company's business from the pandemic, including governmental and regulatory response actions, is unknown at this time and difficult to predict. The Company provides a critical and essential service to its customers and the health and safety of its employees and customers is its first priority. The Company is continuously monitoring its supply chain and is working closely with essential vendors to understand the impact of COVID-19 to its business and does not currently expect service disruptions.

Government mandated stay at home orders and private work from home mandates due to COVID-19 have affected electric and gas loads for residential, commercial, and industrial customers. During the quarter ended June 30, 2020, the Company delivered lower electric and natural gas loads, 7.0% and 11.0%, respectively, when comparing weather-adjusted actual to forecast. Decreases in commercial and industrial loads were partially offset by increases in residential loads. Electric retail revenue reductions were partially offset by reduced electric supply costs and the effects of decoupling. The impact on natural gas revenue due to load was offset by gas supply cost and decoupling. The Company anticipates that electric and gas loads will continue to be impacted for the remainder of 2020, due to continued work place lock downs, work at home mandates, other government mandated quarantines, economic recession, and resurgence of the COVID-19 virus.

At the date of this report, the Company is effectively managing operations during the pandemic in order to continue to provide critical service to its customers. The Company has flexibility with capital investments and other measures to maintain sufficient liquidity over the next twelve months. The situation remains fluid and future impacts to the Company that are presently unknown or unanticipated may occur. Furthermore, the severity of impact to the Company could increase the longer the global pandemic persists.

### **(9) Leases**

PSE has operating leases for buildings for corporate offices and operations, real estate for operating facilities and the Tacoma LNG facility, land for our wind farms, and vehicles for PSE's fleet. The finance leases are for office printers. The leases have remaining lease terms of less than a year to 50 years. PSE's ROU assets and lease liabilities include options to extend leases when it is reasonably certain that PSE will exercise that option.



During the fourth quarter of 2019, PSE became reasonably certain to exercise an option to extend its lease at the Port of Tacoma for an additional 25 years as a result of the approval of the Notice of Construction permit for the Tacoma LNG facility. This remeasurement resulted in an increase of the Operating lease right-of-use asset and Operating lease liabilities of \$14.7 million.

The components of lease cost were as follows:

<b>Puget Energy and Puget Sound Energy</b> (Dollars in Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Finance lease cost:				
Amortization of right-of-use asset	\$ 152	\$ 124	\$ 304	\$ 282
Interest on lease liabilities	9	10	19	19
Total finance lease cost	\$ 161	\$ 134	\$ 323	\$ 301
Operating lease cost <sup>1</sup>	\$ 5,669	\$ 5,223	\$ 11,149	\$ 10,007

<sup>1</sup> Includes \$0.2 million allocated to PLNG at Puget Energy related to the Port of Tacoma lease for each of the three months ended June 30, 2020 and 2019, respectively and \$0.5 million for each of the six months ended June 30, 2020 and 2019, respectively.

Supplemental cash flow information related to leases was as follows:

<b>Puget Energy and Puget Sound Energy</b> (Dollars in Thousands)	Six Months Ended June 30,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow for operating leases	\$ 7,726	\$ 9,131
Investing cash flow for operating leases <sup>1</sup>	3,423	876
Operating cash flow for finance leases	19	19
Financing cash flow for finance leases	304	282
Non-cash disclosure upon commencement of new lease		
Right-of-use assets obtained in exchange for new operating lease liabilities	4,996	1,840

<sup>1</sup> Includes \$0.5 million allocated to PLNG at Puget Energy related to the Port of Tacoma lease for each of the six months ended June 30, 2020 and 2019, respectively.

Supplemental balance sheet information related to leases was as follows:

**Puget Sound Energy**

(Dollars in Thousands)

	June 30, 2020	December 31, 2019
<b>Operating Leases</b>		
Operating lease right-of-use asset	\$ 179,658	\$ 183,048
Operating leases liabilities current	16,609	15,862
Operating lease liabilities long-term	170,250	174,327
Total Operating lease liabilities:	\$ 186,859	\$ 190,189
<b>Finance Leases</b>		
Common Plant	\$ 1,185	\$ 1,488
Other current liabilities	616	669
Other deferred credits	519	811
Total finance lease liabilities	\$ 1,135	\$ 1,480
<b>Weighted Average Remaining Lease Term</b>		
Operating leases	18.93 Years	19.24 Years
Finance leases	2.29 Years	2.76 Years
<b>Weighted Average Discount Rate</b>		
Operating leases	3.59 %	3.59 %
Finance leases	2.98 %	2.98 %

The following tables summarize the Company's estimated future minimum lease payments as of June 30, 2020, and December 31, 2019, respectively

**Maturities of lease liabilities**

(Dollars in Thousands)

	Future Minimum Lease Payments	
	Operating Leases	Finance Leases
At June 30,		
2020 (remaining six months)	\$ 11,653	\$ 320
2021	23,222	508
2022	22,578	279
2023	22,140	98
2024	21,415	—
Thereafter	162,810	—
Total lease payments	\$ 263,818	\$ 1,205
Less imputed interest	(76,959)	(70)
Total	\$ 186,859	\$ 1,135

**Maturities of lease liabilities**

(Dollars in Thousands)

At December 31,	Future Minimum Lease Payments	
	Operating Leases	Finance Leases
2020	\$ 22,500	\$ 643
2021	22,527	508
2022	21,856	279
2023	21,415	98
2024	20,690	—
Thereafter	160,410	—
Total lease payments	\$ 269,398	\$ 1,528
Less imputed interest	(79,209)	(48)
Total net present value	\$ 190,189	\$ 1,480

**(10) Other****Long-Term Debt**

On May 19, 2020, Puget Energy issued \$650.0 million of senior secured notes (Notes) at an interest rate of 4.1%. The Notes pay interest semi-annually and are due to mature on June 15, 2030. The proceeds from the issuance of the Notes were used to pay \$150.0 million under our term loan credit facility, pay \$31.6 million of our revolving credit facility, and to redeem \$450.0 million in principal amount of the 6.5% senior secured notes due December 15, 2020 and to pay related fees and expenses.

On June 18, 2020, Puget Energy redeemed the \$450.0 million senior secured notes due December 15, 2020 and paid related fees and expenses for a total redemption price of \$463.2 million. Excluding the repayment of the \$450.0 million principal amount and \$0.3 million of unamortized debt discount and issuance cost, the extinguishment incurred a \$13.5 million loss, which includes \$0.4 million of accrued interest expense and is reported in the Puget Energy "Interest Expense" line item as of June 30, 2020.

For further information, see Note 7, "Long-Term Debt" and Note 8, "Liquidity Facilities and Other Financing Arrangements" in the Company's most recent Annual Report on Form 10K for the year ended December 31, 2019.

**Short-Term Debt**

During the six months ended June 30, 2020, commercial paper markets were significantly impacted for a period of time due to COVID-19, during which time the Company drew short term funding from its credit facility. Commercial paper markets improved as of June 30, 2020, at which time no amount was drawn under PSE's credit facility and \$140.0 million was outstanding under the commercial paper program at PSE. For further information, see Note 8, "Liquidity Facilities and Other Financing Arrangements" in the Company's most recent Annual Report on Form 10K for the year ended December 31, 2019.

## Item 2. **Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis should be read in conjunction with the financial statements and related notes thereto included elsewhere in this report on Form 10-Q. The discussion contains forward-looking statements that involve risks and uncertainties, such as Puget Energy, Inc. (Puget Energy) and Puget Sound Energy, Inc. (PSE) objectives, expectations and intentions. Words or phrases such as "anticipates," "believes," "continues," "could," "estimates," "expects," "future," "intends," "may," "might," "plans," "potential," "predicts," "projects," "should," "will likely result," "will continue" and similar expressions are intended to identify certain of these forward-looking statements. However, these words are not the exclusive means of identifying such statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. Puget Energy's and PSE's actual results could differ materially from results that may be anticipated by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section entitled "Forward-Looking Statements" included elsewhere in this report and in the section entitled "Risk Factors" included in Part I, Item 1A in Puget Energy's and Puget Sound Energy's Form 10-K for the period ended December 31, 2019. Except as required by law, neither Puget Energy nor PSE undertakes any obligation to revise any forward-looking statements in order to reflect events or circumstances that may subsequently arise. Readers are urged to carefully review and consider the various disclosures made in this report and in Puget Energy's and PSE's other reports filed with the U.S. Securities and Exchange Commission (SEC) that attempt to advise interested parties of the risks and factors that may affect Puget Energy's and PSE's business, prospects and results of operations, including the COVID-19 pandemic.*

### **Overview**

Puget Energy is an energy services holding company and substantially all of its operations are conducted through its subsidiary PSE, a regulated electric and natural gas utility company. PSE is the largest electric and natural gas utility in the state of Washington, primarily engaged in the business of electric transmission, distribution and generation and natural gas distribution. Puget Energy's business strategy is to generate stable cash flows by offering reliable electric and natural gas service in a cost-effective manner through PSE. Puget Energy also has a wholly-owned non-regulated subsidiary, Puget LNG, LLC (Puget LNG), which has the sole purpose of owning, developing and financing the non-regulated activity of the Tacoma liquefied natural gas (LNG) facility, currently under construction. All of Puget Energy's common stock is indirectly owned by Puget Holdings, LLC (Puget Holdings). Puget Holdings is owned by a consortium of long-term infrastructure investors including the Canada Pension Plan Investment Board, the British Columbia Investment Management Corporation (BCIMC), the Alberta Investment Management Corporation (AIMCo), Ontario Municipal Employee Retirement System (OMERS) and PGGM Vermogensbeheer B.V. The sale of previous owners', Macquarie Infrastructure Partners and Macquarie Capital Group Limited, shares to OMERS, PGGM Vermogensbeheer B.V., AIMCo and BCIMC was approved by various federal and state agencies, including that of the Washington Utilities and Transportation Commission (Washington Commission), and closed on April 17th, 2019. Puget Energy and PSE are collectively referred to herein as "the Company."

PSE generates revenue and cash flow primarily from the sale of electric and natural gas services to residential and commercial customers within a service territory covering approximately 6,000 square miles, principally in the Puget Sound region of the state of Washington. PSE continually balances its load requirements, generation resources, purchase power agreements, and market purchases to meet customer demand. The Company's external financing requirements principally reflect the cash needs of its construction program, its schedule of maturing debt and certain operational needs. PSE requires access to bank and capital markets to meet its financing needs.

## COVID-19 Update

A novel strain of coronavirus (COVID-19) was first identified in December 2019, and subsequently declared a pandemic by the World Health Organization. To date, COVID-19 has surfaced in nearly all regions around the world and resulted in travel restrictions and business slowdowns or shutdowns in affected areas. On January 21, 2020, authorities confirmed the first COVID-19 case in Washington State, followed by the first confirmed virus-related death in Washington State on February 29, 2020, in each case, in the Company's service territory.

In response to the outbreak and business disruption, first and foremost, we have prioritized the health and safety of our customers, employees, and the communities in our service territory implementing a number of changes including not disconnecting customers for non-payment, receiving Washington Commission approval to waive late fees, and filing a motion with the Washington Commission to waive the statutory deadline for the Company's General Rate Case for up to 60 days, from May 20, 2020, until July 20, 2020, establishing a Crisis-Affected Customer Assistance Program (CACAP), implementing social distancing measures for our employees and using remote workforce where possible. PSE continues to serve our customers and has implemented business continuity and emergency response plans to continue to provide electricity and natural gas services to customers and otherwise support the Company's operations.

We are continuing to monitor developments involving our workforce, customers, electricity and natural gas demand, commodity costs and suppliers but cannot predict the impact of COVID-19 on our results of operations, financial condition and ongoing operations. An extended slowdown of the United States' economic growth, demand for commodities and/or material changes in governmental policy could result in lower economic growth and lower demand for electricity and natural gas in our service territory. Moreover, such extended slowdown will affect the ability of various customers, contractors, suppliers and other business partners to fulfill their obligations, which could have a material adverse effect on our results of operations, financial condition and ongoing operations.

Due to continued stay at home orders, work from home mandates, and business disruptions caused by COVID-19, electric and gas loads decreased 7.0% and 11.0%, respectively, when comparing weather-adjusted actual to forecast during the fiscal quarter ended June 30, 2020. Residential loads during the quarter ended June 30, 2020, increased 2.6% and 3.1% when comparing weather-adjusted actual to forecast for electric and gas loads, respectively. In contrast, the Company delivered weather-adjusted commercial electric and gas loads of 12.6% and 11.7% lower than forecasted, respectively, during the fiscal quarter ended June 30, 2020. Revenue reductions are partially offset by the effects of decoupling and reduced electric and natural gas supply costs. Decoupling revenue recognized during the quarter was \$23.2 million and \$3.4 million for electric and natural gas, respectively as compared to \$5.9 million and \$4.8 million in the same period of 2019 for electric and natural gas, respectively. The Company anticipates that electric and gas loads will continue to be impacted the remainder of 2020 with a partial recovery in the fourth quarter, due to continued work place lock downs, work at home mandates, other government mandated quarantines, economic recession, and resurgence of the COVID-19 virus. Risks to these assumptions include the duration, severity, and potential resurgence of the virus, government proclamations related to managing public health, and fiscal stimulus policies to support economic recovery. Industrial customers, who represent only 4.3% of the Company's total retail revenue and are generally transmission and transportation services which are not volumetric in nature, are not expected to be materially impacted. Due to business disruptions caused by the COVID-19 pandemic, the Company has incurred increased costs and partially offsetting cost savings that have been immaterial through the period ended June 30, 2020. To the extent that the Company incurs material, unexpected expenses associated with the pandemic, such as increased uncollectible accounts receivable, the Company would explore regulatory accounting policies and rate recovery mechanisms to address any negative impacts to financial results.

On March 27, 2020, the U.S. Government enacted the CARES Act, which provides approximately \$2 trillion of economic relief and stimulus to support the national economy during the COVID-19 epidemic. This package included support for individuals, large corporations, small business, and health care entities, among other affected groups. Among other provisions, the CARES Act includes modifications to corporate income tax provisions, including temporary suspension of certain payment requirements for the employer portion of social security taxes. As a result of these modifications, the Company deferred payroll taxes totaling \$4.7 million as of June 30, 2020.

Further detail regarding the factors and trends affecting performance of the Company during the quarter ended June 30, 2020, is set forth below in this "Overview" section as well as in other sections of Management's Discussion and Analysis.

## **Factors and Trends Affecting PSE's Performance**

PSE's ongoing regulatory requirements and operational needs necessitated the investment of substantial capital in 2019 and will continue to do so in future years. Because PSE intends to seek recovery of such investments through the regulatory process, its financial results depend heavily upon favorable outcomes from that process. The principal business, economic and other factors that affect PSE's operations and financial performance include:

- The rates PSE is allowed to charge for its services;
- PSE's ability to recover power costs that are included in rates which are based on volume;
- Weather conditions, including the impact of temperature on customer load; the impact of extreme weather events on budgeted maintenance costs; meteorological conditions such as snow-pack, stream-flow and wind-speed which affect power generation, supply and price;
- The effects of climate change, including changes in the environment that may affect energy costs or consumption, increase the Company's costs, or adversely affect its operations;
- Regulatory decisions allowing PSE to recover purchased power and fuel costs, on a timely basis;
- PSE's ability to supply electricity and natural gas, either through company-owned generation, purchase power contracts or by procuring natural gas or electricity in wholesale markets;
- Equal sharing between PSE and its customers of earnings which exceed PSE's authorized rate of return (ROR);
- Availability and access to capital and the cost of capital;
- Regulatory compliance costs, including those related to new and developing federal regulations of electric system reliability, state regulations of natural gas pipelines and federal, state and local environmental laws and regulations;
- Wholesale commodity prices of electricity and natural gas;
- Increasing capital expenditures with additional depreciation and amortization;
- Failure to complete capital projects on schedule and within budget or the abandonment of capital projects, either of which could result in the Company's inability to recover project costs;
- Tax reform, the effect of lower tax rates, and regulatory treatment of excess deferred tax balances on rate base and customer rates;
- General economic conditions in PSE's service territory and its effects on customer growth and use-per-customer;
- Federal, state, and local taxes;
- Employee workforce factors, including potential strikes, work stoppages, transitions in senior management, and loss or retirement of key personnel and availability of qualified personnel;
- The effectiveness of PSE's risk management policies and procedures;
- Cyber security attacks, data security breaches, or other malicious acts that cause damage to the Company's generation and transmission facilities or information technology systems, or result in the release of confidential customer, employee, or Company information;
- Acts of war, terrorism, or the impact of civil unrest to infrastructure; and
- Risks due to pandemics, including supply shortages, rising costs, disruption to vendor or customer relationships, the potential for reputational harm, the impact of government, business and company closure of facilities, customer or contract defaults; concerns of safety to employees and customers, potential costs due to quarantining of employees and work-from-home policies.

## **Regulation of PSE Rates and Recovery of PSE Costs**

PSE's regulatory requirements and operational needs require the investment of substantial capital in 2020 and future years. As PSE intends to seek recovery of these investments through the regulatory process, its financial results depend heavily upon outcomes from that process. The rates that PSE is allowed to charge for its services influence its financial condition, results of operations and liquidity. PSE is highly regulated and the rates that it charges its retail customers are approved by the Washington Commission. The Washington Commission has traditionally required these rates be determined based, to a large extent, on historic test year costs plus weather normalized assumptions about hydroelectric conditions and power costs in the relevant rate year. Incremental customer growth and sales typically have not provided sufficient revenue to cover general cost increases over time due to the combined effects of regulatory lag and attrition. In addition, the Washington Commission determines whether the Company's expenses and capital investments are reasonable and prudent for the provision of cost-effective, reliable and safe electric and natural gas service. If the Washington Commission determines that a capital investment is not reasonable or prudent, the costs (including return on any resulting rate base) related to such capital investment may be disallowed, partially or entirely, and not recovered in rates.

Washington state law also requires PSE to pursue electric conservation that is cost-effective, reliable and feasible. PSE's

mandate to pursue electric conservation initiatives may have a negative impact on the electric business financial performance due to lost margins from lower sales volumes as variable power costs are not part of the decoupling mechanism. The Washington Commission also sets natural gas conservation achievement standards for PSE. The effects of achieving these standards will, however, have only a slight negative impact on natural gas business financial performance due to the natural gas business being almost fully decoupled.

### **General Rate Case Filing**

PSE filed a general rate case (GRC) with the Washington Commission on June 20, 2019, requesting an overall increase in electric and natural gas rates of 6.9% and 7.9% respectively. PSE requested a return on equity of 9.8% with an overall rate of return of 7.62%. In addition to the traditional areas of focus (revenue requirements, cost allocation, rate design and cost of capital), the Company completed an attrition study and included a portion of the attrition revenue requirement in the overall request in order to address the expected regulatory lag in the rate year. Additionally, as the non-plant related excess deferred taxes that resulted from the Tax Cuts and Jobs Act (TCJA) remained outstanding from PSE's Expedited Rate Filing (ERF) as discussed below, PSE requested in its GRC to pass back the amounts over four years. On September 17, 2019, PSE filed supplemental testimony, which provided certain updates to the original filing, but did not impact the requested overall electric and natural gas rate increases, return on equity or overall rate of return as originally filed. On January 15, 2020, PSE filed rebuttal testimony which included a reduction to the requested return on equity to 9.5%, which decreased the rate of return to 7.48%. The requested rate increase for both electric and natural gas remained at 6.9% and 7.9%, respectively. For both electric and natural gas PSE did not originally request its full attrition adjustment; therefore, the decrease in return on equity led to a reduction in the electric rate increase of only \$1.5 million and did not have an impact on the natural gas rate increase.

On July 8, 2020, the Washington Commission issued its order on PSE's GRC. The ruling provided for a weighted cost of capital of 7.39% or 6.80% after-tax, and a capital structure of 48.5% in common equity with a return on equity of 9.4%. The order also resulted in a combined net increase to electric of \$29.5 million, or 1.6%, and to natural gas of \$36.5 million, or 4.0%. However, the Washington Commission extended the amortization of certain regulatory assets, PSE's electric decoupling deferral, and PSE's PGA deferral to mitigate the impact of the rate increase in response to the economic instability created by the COVID-19 pandemic, which reduced the electric revenue increase to approximately \$0.9 million, or 0.05% and the natural gas increase to \$1.3 million, or 0.15%. The Washington Commission also determined that the Company's proposed attrition adjustment of \$23.9 million for electric and \$16.2 million for natural gas was not in the public interest at this time. The order also effectively ends the deferral of PSE's advanced metering infrastructure (AMI) investment while allowing the deferral on the return on AMI investments through December 31, 2019. Additional AMI investments will be evaluated in future proceedings for deferrals of return until the AMI project is complete. As a result of the 2019 GRC outcome, Puget Energy and PSE credit rating metrics will likely be adversely impacted absent other regulatory relief or Corporate mitigation measures otherwise Puget Energy and PSE are at risk of a downgrade to their credit rating. On July 17, 2020, PSE filed a motion for clarification with the Washington Commission seeking clarification on several items. On July 31, 2020, the Washington Commission issued an order granting PSE's motion for clarification. The ruling adjusted certain items from the final order issued on July 8, 2020, which led to a combined net increase to electric of \$59.6 million, or 2.9%, an increase of \$30.1 million above the \$29.5 million granted in the final order. The order also led to a combined net increase to natural gas of \$42.9 million, or 5.6%, an increase of \$6.4 million above the \$36.5 million granted in the final order. The Washington Commission maintained adjustments which mitigated the impacts of the rate increases in response to the economic instability created by the COVID-19 pandemic, which reduced the electric revenue increase to approximately \$31 million, or 1.5% and the natural gas increase to \$7.7 million, or 1.0%. PSE continues to review the original Commission order including the ramifications of certain tax issues and the order for clarification and expects to file a Compliance Filing to amend electric and natural gas tariffs and, upon approval of this filing, rates will go into effect.

For further details regarding the 2019 GRC filing and credit ratings, see Note 7, "Regulations and Rates" to the consolidated financial statements included in part 1 of this report and "Financing Program: in item 2 of this report, respectively.

### **Expedited Rate Filing**

On November 7, 2018, PSE filed an ERF with the Washington Commission. On January 22, 2019, all parties in the proceeding reached an agreement on settlement terms. The settlement agreement was filed on January 30, 2019. On February 21, 2019, the Washington Commission approved the settlement with one condition. The settlement requires that PSE pass back the deferred balance associated with the tax over-collection of \$34.6 million from January 1, 2018, through April 30, 2018, over a one-year period which began May 1, 2019.

For further details regarding the 2018 ERF, see Note 7, "Regulations and Rates" to the consolidated financial statements included in part 1 of this report.

## Washington Commission Tax Deferral Filing

The TCJA was signed into law in December 2017. As a result of this change, PSE re-measured its deferred tax balances under the new corporate tax rate. PSE filed an accounting petition on December 29, 2017, requesting deferred accounting treatment for the impacts of tax reform. The deferred accounting treatment results in the tax rate change being captured in the deferred income tax balance with an offset to the regulatory liability for deferred income taxes. Additionally, on March 30, 2018, PSE filed for a rate change for electric and natural gas customers associated with TCJA to reflect the decrease in the federal corporate income tax rate from 35% to 21%. Other outcomes associated with PSE's tax deferral filing are discussed in the ERF and GRC disclosures. On July 8, 2020, the Washington Commission issued its order in PSE's GRC, which was consolidated with PSE's accounting petition filed on December 29, 2017. On July 17, 2020, PSE filed a motion for clarification of several issues in the Washington Commission's order including issues relating to its accounting petition. On July 31, 2020, PSE received an order granting PSE's motion for clarification which adjusted certain items within the final order, including treatment of protected excess deferred taxes. PSE is currently reviewing the order granting the motion for clarification.

The Washington Commission approved the following PSE requests to change rates to reflect the new corporate tax rates:

Effective Date	Average Percentage Increase (Decrease) in Rates	Increase (Decrease) in Revenue (Dollars in Millions)
<b>Electric:</b>		
May 1, 2018	(3.4)%	\$(72.9)
<b>Natural Gas:</b>		
May 1, 2018	(2.7)%	\$(23.6)

For further details regarding the Washington Commission Tax Deferral Filing, see Note 7, "Regulations and Rates" to the consolidated financial statements included in part 1 of this report.

## Decoupling Filings

On December 5, 2017, the Washington Commission approved PSE's request within the 2017 GRC to extend the decoupling mechanism with some changes to the methodology that took effect on December 19, 2017. Electric and natural gas delivery revenues will continue to be recovered on a per customer basis and electric fixed production energy costs will now be decoupled and recovered on the basis of a fixed monthly amount. Approved revenue per customer costs can only be changed in a GRC or ERF. Approved electric fixed production energy costs can also be changed in a power cost only rate case (PCORC). Other changes to the decoupling methodology approved by the Washington Commission include regrouping of electric and natural gas non-residential customers and the exclusion of certain electric schedules from the decoupling mechanism going forward. The rate cap, which limits the amount of previously deferred revenues PSE can collect in its annual filings, increased from 3.0% to 5.0% for natural gas customers but will remain at 3.0% for electric customers. The decoupling mechanism is to be reviewed again in PSE's first GRC filed in or after 2021, or in a separate proceeding, if appropriate. PSE's decoupling mechanism over- and under- collections will still be collectible or refundable after this effective date even if the decoupling mechanism is not extended.

On February 21, 2019, the Washington Commission approved the multi-party settlement agreement which was filed within PSE's ERF filing. As part of this settlement agreement, electric and natural gas allowed delivery revenue per customer was updated to reflect changes in the approved revenue requirement. For electric, there were no changes to the annual allowed fixed power cost revenue. The changes took effect on March 1, 2019.

On June 30, 2020, PSE performed an analysis to determine if electric and natural gas decoupling revenue deferrals would be collected from customers within 24 months of the annual period, per ASC 980. If not, for GAAP purposes only, PSE would need to record a reserve against the decoupling revenue and a corresponding regulatory asset balance. Once the reserve is probable of collection within 24 months from the end of the annual period, the reserve can be recognized as decoupling revenue. The analysis indicated that \$2.1 million of electric deferred revenue will not be collected within 24 months of the annual period; therefore an adjustment was booked to 2020 electric decoupling revenue. Natural gas deferred revenue will be collected within 24 months of the annual period; therefore, no adjustment was booked to 2020 natural gas decoupling revenue.



The Washington Commission approved the following PSE requests to change rates for prior deferrals under its electric and natural gas decoupling mechanisms:

Effective Date	Average Percentage Increase (Decrease) in Rates	Increase (Decrease) in Revenue (Dollars in Millions) <sup>1</sup>
<b>Electric:</b>		
May 1, 2020 <sup>2</sup>	0.2%	\$2.0
May 1, 2019	0.9	20.6
May 1, 2018	(1.1)	(25.2)
<b>Natural Gas:</b>		
May 1, 2020	(0.5)%	\$(4.8)
May 1, 2019	(5.3)	(45.9)
May 1, 2018	1.7	15.9

<sup>1</sup> For electric and natural gas rates effective May, 1, 2020 there were no excess earnings that impacted the approved revenue change. For electric and natural gas rates effective May, 1, 2019, there were no excess earnings that impacted the approved revenue change. For electric and natural gas rates effective May 1, 2018, the approved revenue change is net of reductions from excess earnings of \$10.0 million for electric and \$4.9 million for natural gas.

<sup>2</sup> The 2019 GRC final order lengthened the recovery period to April 2022, however, the rates issued in the final order are not currently in effect.

## Electric Rates

### Power Cost Adjustment Mechanism

PSE currently has a power cost adjustment (PCA) mechanism that provides for the deferral of power costs that vary from the “power cost baseline” level of power costs. The “power cost baseline” levels are set, in part, based on normalized assumptions about weather and hydroelectric conditions. Excess power costs or savings are apportioned between PSE and its customers pursuant to the graduated scale set forth in the PCA mechanism and will trigger a surcharge or refund when the cumulative deferral trigger is reached.

Effective January 1, 2017, the following graduated scale is used in the PCA mechanism:

Annual Power Cost Variability	Company's Share		Customers' Share	
	Over	Under	Over	Under
Over or Under Collected by up to \$17 million	100%	100%	—%	—%
Over or Under Collected by between \$17 million - \$40 million	35	50	65	50
Over or Under Collected beyond \$40 + million	10	10	90	90

In 2016, PSE filed an accounting petition with the Washington Commission which requested deferral of the variances, either positive or negative, between the fixed costs previously recovered in the PCA and the revenue received to cover the allowed fixed costs. The Washington Commission issued Order No. 01 approving PSE’s accounting petition. With the final determination in PSE’s GRC, this deferral ceased with the rate effective date of December 19, 2017.

For the six months ended June 30, 2020, in its PCA mechanism, PSE under recovered its allowable costs by \$48.8 million of which \$19.5 million was apportioned to customers and \$1.1 million of interest was accrued on the deferred customer balance. This compares to an under recovery of allowable costs of \$46.4 million for the six months ended June 30, 2019, of which \$17.3 million was apportioned to customers and accrued \$0.2 million interest on the total deferred customer balance. The under recovery in 2020 led to an increase in the PCA deferral, and was a higher under recovery compared to the same period in 2019. The under recovery was due to power costs that were higher than what was collected in the allowed baseline for the six months ended June 30, 2020. Power costs have increased due to a number of factors such as the addition of new resources, increased rates on purchase power agreements and higher transmission costs. Also contributing to the under recovery in 2020 was a reduced load, used to calculate the baseline amount, which was due to warmer than normal weather in the first half of 2020 and to the effects of COVID-19 on energy usage and the economy. Contributing to the under recovery in 2019 were high power prices in the first quarter of 2019 due to cold weather in February and early March of 2019, which drove regional loads and demand for power up resulting in higher prices, and Westcoast pipeline capacity limitations, which contributed to higher natural gas and power prices.

### Power Cost Adjustment Clause Filing

On July 1, 2019, PSE updated its Schedule 95 rates in the Power Cost Adjustment Clause tariff to reflect the transition fee as required by Section 12 of the Microsoft Special Contract. Additionally, Schedule 95 rates also include portions of fixed power cost adjustments per the allowed decoupling rate re-allocation effective April 1, 2019, resulting from Microsoft becoming a transportation customer as well as small variable power cost adjustments.

The following table sets forth power cost adjustment clause filing approved by the Washington Commission and the corresponding expected annual impact on PSE’s revenue based on the effective dates:

Effective Date	Average Percentage Increase (Decrease) in Rates	Increase (Decrease) in Revenue (Dollars in Millions)
July 3, 2020	1.2%	\$23.9
July 1, 2019 <sup>1</sup>	(1.2)	(24.9)
May 1, 2019	0.1	3.3

1. The rates for Microsoft Special Contracts portion was zeroed out effective July 3, 2020 following the July 2019 through June 2020 period. The actual residual amount (if over \$100 thousand) resulting at July 31, 2020 will be included in the electric Schedule 129 Low Income Program rates that become effective October 1, 2020.

### Electric Conservation Rider

The electric conservation rider collects revenue to cover the costs incurred in providing services and programs for conservation. Rates change annually on May 1 to collect the annual budget that started the prior January and to true-up for actual compared to forecast conservation expenditures from the prior year, as well as actual compared to the forecasted load set in rates.

The following table sets forth conservation rider rate adjustments approved by the Washington Commission and the corresponding expected annual impact on PSE's revenue based on the effective dates:

Effective Date	Average Percentage Increase (Decrease) in Rates	Increase (Decrease) in Revenue (Dollars in Millions)
May 1, 2020	0.9%	\$17.8
May 1, 2019	(0.9)	(17.5)
May 1, 2018	(0.8)	(18.0)

### Electric Property Tax Tracker Mechanism

The purpose of the property tax tracker mechanism is to pass through the cost of all property taxes incurred by the Company. The mechanism was implemented in 2013 and removed property taxes from general rates and included those costs for recovery in an adjusting tariff rate. After the implementation, the mechanism acts as a tracker rate schedule and collects the total amount of property taxes assessed. The tracker is adjusted each year in May based on that year's assessed property taxes and true-up from the prior year.

The following table sets forth property tax tracker mechanism rate adjustments approved by the Washington Commission and the corresponding expected annual impact on PSE's revenue based on the effective dates:

Effective Date	Average Percentage Increase (Decrease) in Rates	Increase (Decrease) in Revenue (Dollars in Millions)
May 1, 2020	0.07%	\$1.4
May 1, 2019	(0.2)	(5.1)
May 1, 2018	(0.1)	(1.3)

### Federal Incentive Tracker Tariff

The Federal Incentive Tracker Tariff passes through to customers the benefits associated with the wind-related treasury grants. The filing results in a credit back to customers for pass-back of treasury grant amortization and pass-through of interest and any related true-ups. The filing is adjusted annually for new federal benefits, actual versus forecast interest and to true-up for actual load being different than the forecasted load set in rates. Rates change annually on January 1. Additionally, this tracker is impacted by the TCJA previously discussed. Accordingly, PSE filed for a one-time rate change to be effective May 1, 2018, to recognize the decrease in the federal corporate income tax rate from 35% to 21%.

The following table sets forth the federal incentive tracker tariff revenue requirement approved by the Washington Commission and the corresponding expected annual impact on PSE's revenue based on the effective dates:

Effective Date	Average Percentage Increase (Decrease) in Rates from prior year	Total credit to be passed back to eligible customers (Dollars in Millions)
January 1, 2020	(0.04)%	\$(37.8)
January 1, 2019	0.1	(38.7)

## Residential Exchange Benefit

The residential exchange program passes through the residential exchange program benefits that PSE receives from the Bonneville Power Administration (BPA). Rates change biennially on October 1.

The following table sets forth residential exchange benefit adjustments approved by the Washington Commission and the corresponding expected annual impact on PSE's revenue based on the effective dates:

Effective Date	Average Percentage Increase (Decrease) in Rates	Total credit to be passed back to eligible customers (Dollars in Millions)
October 12, 2019	0.01%	\$(81.8)
October 1, 2017	(0.6)	(80.8)

## Natural Gas Rates

### Natural Gas Conservation Rider

The natural gas conservation rider collects revenue to cover the costs incurred in providing services and programs for conservation. Rates change annually on May 1 to collect the annual budget that started the prior January and to true-up for actual compared to forecast conservation expenditures from the prior year, as well as actual compared to the forecasted load set in rates.

The following table sets forth conservation rider rate adjustments approved by the Washington Commission and the corresponding expected annual impact on PSE's revenue based on the effective dates:

Effective Date	Average Percentage Increase (Decrease) in Rates	Increase (Decrease) in Revenue (Dollars in Millions)
May 1, 2020	0.4%	\$3.5
May 1, 2019	0.1	1.1

### Natural Gas Property Tax Tracker Mechanism

The purpose of the property tax tracker mechanism is to pass through the cost of all property taxes incurred by the Company. The mechanism was implemented in 2013 and removed property taxes from general rates and included those costs for recovery in an adjusting tariff rate. After the implementation, the mechanism acts as a tracker rate schedule and collects the total amount of property taxes assessed. The tracker is adjusted each year in May based on that year's assessed property taxes and true-up from the prior year.

The following table sets forth property tax tracker mechanism rate adjustments approved by the Washington Commission and the corresponding expected annual impact on PSE's revenue based on the effective dates:

Effective Date	Average Percentage Increase (Decrease) in Rates	Increase (Decrease) in Revenue (Dollars in Millions)
May 1, 2020	(0.3)%	\$(2.8)
May 1, 2019	(0.2)	(1.6)
May 1, 2018	(0.2)	(2.2)

### Natural Gas Cost Recovery Mechanism

The purpose of the cost recovery mechanism (CRM) is to recover capital costs related to projects included in PSE's pipeline replacement program plan on file with the Washington Commission with the intended effect of enhancing the safety of the natural gas distribution system. Rates change annually on November 1.

The following table sets forth CRM rate adjustments approved by the Washington Commission and the corresponding expected annual impact on PSE's revenue based on the effective dates:

Effective Date	Average Percentage Increase (Decrease) in Rates	Increase (Decrease) in Revenue (Dollars in Millions)
November 1, 2019	0.8%	\$7.0
November 1, 2018	0.5	5.0

### Purchased Gas Adjustment Mechanism

PSE has a PGA mechanism that allows PSE to recover expected natural gas supply and transportation costs and defer, as a receivable or liability, any natural gas supply and transportation costs that exceed or fall short of this expected natural gas cost amount in PGA mechanism rates, including accrued interest. PSE is authorized by the Washington Commission to accrue carrying costs on PGA receivable and payable balances. A receivable or payable balance in the PGA mechanism reflects an under recovery or over recovery, respectively, of natural gas cost through the PGA mechanism. Rates typically change annually on November 1, although out-of-cycle rate changes are allowed at other times of the year if needed.

On April 25, 2019, the Washington Commission approved PSE's request for an out-of-cycle change to PGA rates with the rate change taking effect May 1, 2019. The out-of-cycle PGA filing was needed to begin amortizing a large PGA commodity deferral balance that had grown due to higher than projected commodity costs during the 2018/19 winter. These higher than projected commodity costs were primarily due to an October 9, 2018, rupture and subsequent explosion on Westcoast Pipeline which is one of the major pipelines feeding PSE's distribution system. The pipeline was repaired in October 2018, however supply capacity on the pipeline was limited over the 2018/19 winter leading to higher prices. February weather was also much colder than normal which also increased the demand for natural gas. The out-of-cycle PGA rates were effective from May 1, 2019 through April 30, 2020 and on May 1, 2020 the rates were set to zero. At the end of the recovery period, an unamortized balance of \$4.9 million remains which PSE will request to be amortized in its upcoming annual PGA filing for rates effective November 1, 2020.

On October 24, 2019, the Washington Commission approved PSE's request for November 2019 PGA rates, with the rate change taking effect on November 1, 2019. As part of that filing, PSE requested PGA rates increase annual revenue by \$17.8 million, while the new tracker rates increased by annual revenue of \$100.6 million; this was in addition to continuing the collection on the remaining balance of \$54.0 million from the out-of-cycle PGA. The tracker rates include deferral balances for the three separate amounts: (i) \$114.4 million of under collected commodity balances deferred in February and March; (ii) a \$10.8 million balance of over-collected commodity costs for the 2018 PGA, and (iii) a \$4.1 million remaining balance from the \$54.7 million credit to customers, caused by the 2017 over-collection, established in the 2018 tracker. The high commodity deferral balances for winter months through March 2019 were the result of three noteworthy events last winter experienced by PSE: the Enbridge pipeline rupture, unusually low temperatures in February and March, and a compressor failure in February at the Jackson Prairie storage facility. Additionally, to reduce customer impact, as part of the approved PGA filing, PSE will be collecting \$114.4 million commodity deferrals and related interest over a two year period, instead of the historic one year period, from November 2019 through October 2021. Finally, as part of the GRC final order, collection of the \$114.4 million commodity deferrals was further lengthened to be collected over three years instead of two.

The following table presents the PGA mechanism balances and activity for six months ended June 30, 2020 and 2019:

### Puget Energy and Puget Sound Energy

(Dollars in Thousands)	At June 30,	At December 31,
	2020	2019
PGA receivable balance and activity		
PGA receivable beginning balance	\$ 132,766	\$ 9,922
Actual natural gas costs	169,697	406,162
Allowed PGA recovery	(217,916)	(289,876)
Interest	2,385	6,558
PGA receivable ending balance	\$ 86,932	\$ 132,766

The following table sets forth the PGA rate adjustments approved by the Washington Commission and the corresponding expected annual impact on PSE's revenue based on the effective date:

Effective Date	Average Percentage Increase (Decrease) in Rates	Increase (Decrease) in Revenue (Dollars in Millions)
November 1, 2019 <sup>2</sup>	13.4%	\$118.3
May 1, 2019 <sup>1</sup>	6.3	54.0
November 1, 2018	(10.9)	(98.4)

- The rate for out of the cycle May 2019 PGA (Supplemental A) filing was set to zero effective May 1, 2020, The actual residual amount resulting will be included in annual PGA filing effective November 1, 2020.*
- The 2019 GRC final order lengthened the recovery period from two to three years.*

## Other Proceedings

### Microsoft Special Contract

Following discussions between PSE, the Microsoft Corporation, and others, and after completing a negotiated regulatory process, the Washington Commission issued an order in July 2017 approving a special contract between PSE and Microsoft relating to retail access for Microsoft loads currently being served under PSE's electric Schedule 40. The special contract includes the following conditions: (i) Microsoft must exceed Washington State's current renewable portfolio standards, (ii) the remainder of power sold to Microsoft must be carbon free, (iii) there will be no reduction in Microsoft's funding of PSE's conservation programs, (iv) Microsoft paid a transition fee that was a straight pass-through to customers and (v) Microsoft will fund enhanced low-income support. Microsoft began taking service under the special contract on April 1, 2019, after meeting the eligibility requirements under the special contract.

### Voluntary Long-Term Renewable Energy

Effective September 2016, the Washington Commission approved PSE's tariff revision to create an additional voluntary renewable energy product. This provides customers with electric generation resource options to help them meet their sustainability goals. Incremental costs of the program will be allocated to the voluntary participants of the program as is the case with PSE's existing Green Power programs. PSE offered this service, Green Direct, to larger customers (aggregated annual loads greater than 10,000 MWh) and government customers. The initial resource option offered under this rate schedule is a new wind generation facility with the capacity of approximately 136.8 MW currently under construction in the region by a developer under contract to PSE. The project is fully subscribed and is expected to begin generating power in 2020. Twenty-one customers will receive the anticipated output of the project.

In July 2018, the Washington Commission approved a second phase of the Green Direct product. The phase 2 offering will be a blend of the phase 1 wind and a solar project to be built in Washington. Phase 1 customers will receive wind through 2020 and then are expected to receive the blended energy in March 2021. An additional twenty customers will start receiving energy through phase 2 of the program by March 2021.

### Crisis Affected Customer Assistance Program

On April 6, 2020, PSE filed with the Washington Commission revisions to its currently effective Tariff WN U-60. The purpose of this filing is to incorporate into PSE's low-income tariff a new temporary bill assistance program, Crisis Affected Customer Assistance Program (CACAP), to mitigate the economic impact of the COVID-19 pandemic on PSE's customers. CACAP would allow PSE customers facing financial hardship due to COVID-19 to receive up to \$1,000 in bill assistance. The program puts to immediate use \$11.0 million in unspent low income funds from prior years, and supplements other forms of financial assistance. The program does not require an increase to rates and is fully compatible with other low income programs. PSE made an additional filing on July 21, 2020 to increase the amount of electric funds available for distribution by \$4.5 million under the CACAP program. The program will automatically end when all of the funds are disbursed or September 30, 2020 whichever is soonest. Based on the COVID-19 pandemic and resulting state of emergency, the Washington Commission allowed the tariff revisions to become effective on April 13, 2020.

For additional information, see Note 7, "Regulation and Rates" to the consolidated financial statements included in Item 1 of this report.

## **Access to Debt Capital**

PSE relies on access to bank borrowings and short-term money markets as sources of liquidity and longer-term capital markets to fund its utility construction program, to meet maturing debt obligations and other capital expenditure requirements not satisfied by cash flow from its operations or equity investment from its parent, Puget Energy. Neither Puget Energy nor PSE have any debt outstanding whose maturity would accelerate upon a credit rating downgrade. However, a ratings downgrade could adversely affect the Company's ability to refinance existing or issue new long-term debt, obtain access to new or renew existing credit facilities and could increase the cost of issuing long-term debt and maintaining credit facilities. For example, under Puget Energy's and PSE's credit facilities, the borrowing costs increase as their respective credit ratings decline due to increases in credit spreads and commitment fees. If PSE is unable to access debt capital on reasonable terms, its ability to pursue improvements or generating capacity acquisitions, which may be relied on for future growth and to otherwise implement its strategy, could be adversely affected. PSE monitors the credit environment and expects to continue to be able to access the capital markets to meet its short-term and long-term borrowing needs.

## **Regulatory Compliance Costs and Expenditures**

PSE's operations are subject to extensive federal, state and local laws and regulations. These regulations cover electric system reliability, natural gas pipeline system safety and energy market transparency, among other areas. Environmental laws and regulations related to air and water quality, including climate change and endangered species protection, waste handling and disposal (including generation by-products such as coal ash), remediation of contamination and siting new facilities also impact the Company's operations. PSE must spend a significant amount of resources to fulfill requirements set by regulatory agencies, many of which have greatly expanded mandates on measures including resource planning, remediation, monitoring, pollution control equipment and emissions-related abatement and fees.

Compliance with these or other future regulations, such as those pertaining to climate change, could require significant capital expenditures by PSE and may adversely affect PSE's financial position, results of operations, cash flows and liquidity.

## **Other Challenges and Strategies**

### **Competition**

PSE's electric and natural gas utility retail customers generally do not have the ability to choose their electric or natural gas supplier; and therefore, PSE's business has historically been recognized as a natural monopoly. However, PSE faces competition from public utility districts and municipalities that want to establish their own municipal-owned utility, as a result of which PSE may lose a number of customers. PSE also faces increasing competition for sales to its retail customers through alternative methods of electric energy generation, including solar and other self-generation methods. In addition, PSE's natural gas customers may elect to use heating oil, propane or other fuels instead of using and purchasing natural gas from PSE.

## **Results of Operations**

### **Puget Sound Energy**

The following discussion should be read in conjunction with the audited consolidated financial statements and the related notes included elsewhere in this document. The following discussion provides the significant items that impacted PSE's results of operations for the three and six months ended June 30, 2019, and 2020.

### **Non-GAAP Financial Measures - Electric and Natural Gas Margins**

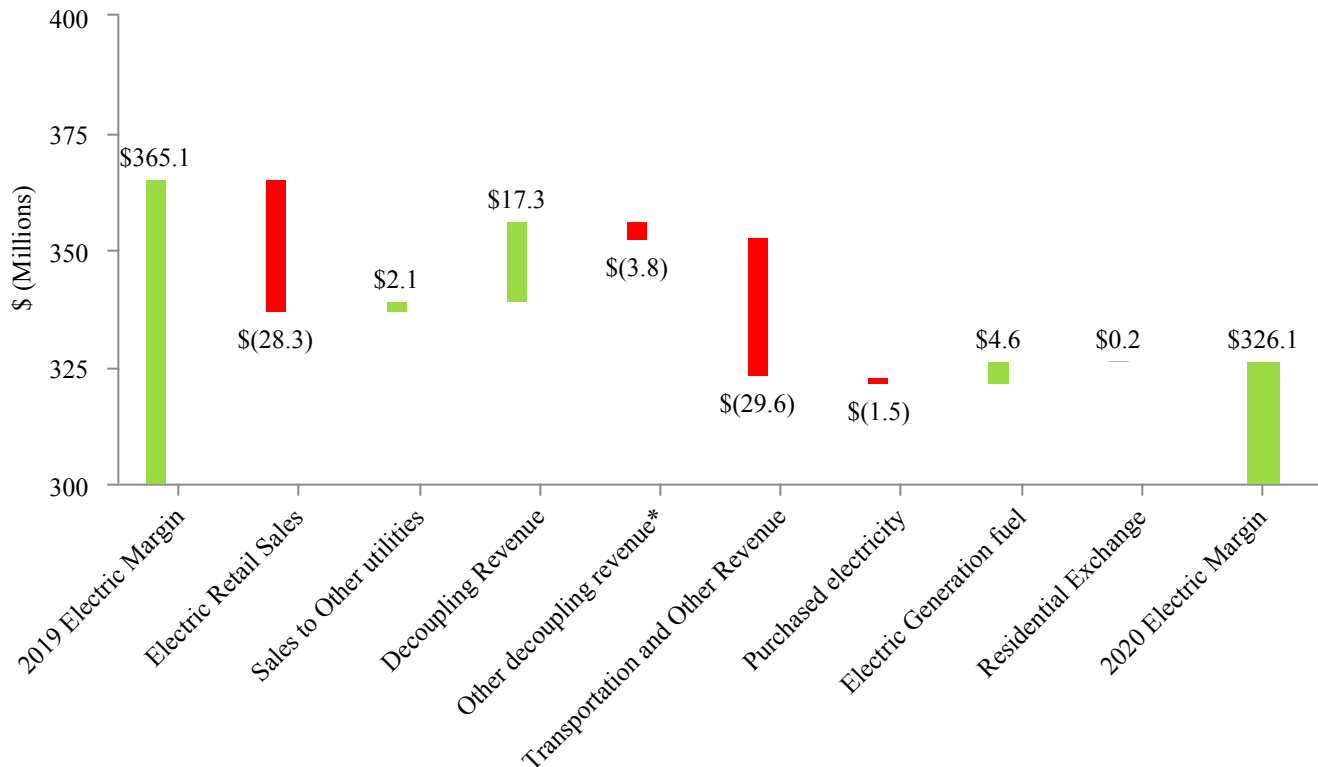
The following discussion includes financial information prepared in accordance with GAAP, as well as two other financial measures, electric margin and natural gas margin, that are considered "non-GAAP financial measures". Generally, a non-GAAP financial measure is a numerical measure of a company's financial performance, financial position or cash flows that includes adjustments that result in a departure from GAAP presentation. The presentation of electric margin and natural gas margin is intended to supplement an understanding of PSE's operating performance. Electric margin and natural gas margin are used by PSE to determine whether PSE is collecting the appropriate amount of revenue from its customers in order to provide adequate recovery of operating costs, including interest and equity returns. PSE's electric margin and natural gas margin measures may not be comparable to other companies' electric margin and natural gas margin measures. Furthermore, these measures are not intended to replace operating income as determined in accordance with GAAP as an indicator of operating performance.

## Electric Margin

Electric margin represents electric sales to retail and transportation customers less the cost of generating and purchasing electric energy sold to customers, including transmission costs, to bring electric energy to PSE's service territory.

The following chart displays the details of PSE's electric margin changes for the three months ended June 30, 2019 and 2020:

### Electric Margin Three Months Ended 2019 to 2020 comparison



\* Includes decoupling cash collections, ROR excess earnings, and decoupling 24-month revenue reserve.

## Three Months Ended June 30, 2019 compared to 2020

### Electric Operating Revenue

**Electric operating revenues** decreased \$42.4 million from the prior year primarily due to a decrease in transportation and other revenue of \$29.6 million, a decrease in electric retail sales of \$28.3 million, and a decrease in other decoupling revenue of \$3.8 million; partially offset by an increase in decoupling revenue of \$17.3 million and an increase in sales to other utilities of \$2.1 million. These items are discussed in detail below.

- **Electric retail sales** decreased \$28.3 million due to a decrease of \$31.9 million from reduced retail electricity usage, or 7.5%, and a decrease in rates of \$3.6 million compared to the prior year. The reduction was due to a decrease of commercial and industrial customer usage of 17.5% and 9.2%, respectively, largely driven by business shut downs resulting from COVID-19. This decrease in volumes was partially offset by a 2.4% increase in residential customer usage. Residential usage patterns were affected by customers working from home during Washington's stay-at-home order, an increase in heating degree days of 15.9%, and an increase in retail customers of 1.3% compared to 2019. See Management's Discussion and Analysis, "Regulation and Rates" and "Overview" included in Item 2 of this report for electric rate changes and COVID-19 updates.
- **Sales to other utilities** increased \$2.1 million due to a 75.3% increase in sales volume from an additional 10.9% of combustion turbine (CT) generation as a result of favorable heat rates and increased hydro generation of 60.2%; partially offset by a 27.9% decrease in price.



- **Decoupling revenue** increased \$17.3 million, primarily due to a combination of a \$8.9 million increase in delivery deferral revenues and an \$8.3 million increase in PCA fixed cost deferral revenues, driven by a higher allowed rate per customer and decreased actual usage as noted above in the retail revenue section. This resulted in allowed delivery revenues being greater than actual delivery revenues in the current year than in the prior year.
- **Other decoupling revenue** decreased \$3.8 million, primarily due to \$2.1 million deferred decoupling revenue that will not be collected within 24 months of the end of 2020. There was no 24 month GAAP reserve in 2019.
- **Transportation and other revenue** decreased \$29.6 million primarily due to a decrease in production tax credit (PTC) deferral revenue of \$23.1 million for the re-purpose of the PTCs driven by lower pre-tax book income, a decrease in net wholesale non-core gas sales of \$3.2 million, and a decrease in tax reform deferrals in 2020 for revenue subject to refunds of \$1.8 million.

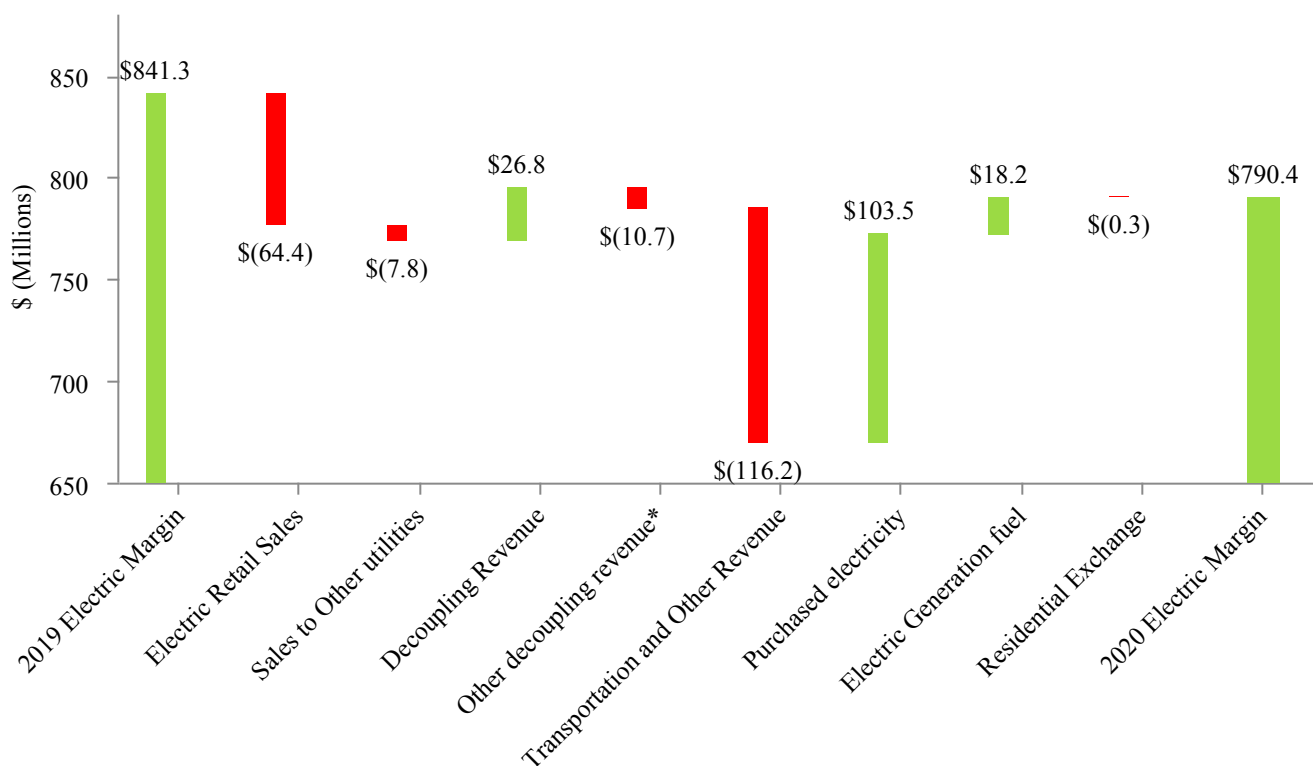
### **Electric Power Costs**

**Electric power costs** decreased \$3.4 million primarily due to a \$4.6 million decrease of electric generation fuel expenses partially offset by an increase of \$1.5 million of purchased electricity costs. These items are discussed in detail below.

- **Purchased electricity** expense increased \$1.5 million primarily due to a 7.8% increase in wholesale electricity purchases; partially offset by a 6.2% decrease in wholesale prices. The increase in purchases was primarily driven by a decrease in contracted resources and non-firm energy of 20.0% and 2.7%, respectively, driving an 10.9% increase in combustion turbine generation.
- **Electric generation fuel** expense decreased \$4.6 million primarily due to a \$7.5 million decrease in Colstrip related to the retirement of Units 1 and 2; partially offset by \$1.7 million increase in Colstrip 3 & 4 fuel costs and a \$1.2 million increase in combustion turbine generation costs primarily driven by a 10.9% increase in production.

The following chart displays the details of PSE's electric margin changes for the six months ended June 30, 2019 and 2020:

### Electric Margin Six Months Ended 2019 to 2020 comparison



\* Includes decoupling cash collections, ROR excess earnings, and decoupling 24-month revenue reserve.

#### Six Months Ended June 30, 2019 compared to 2020

##### Electric Operating Revenue

**Electric operating revenues** decreased \$172.2 million from the prior year primarily due to a decrease in transportation and other revenues of \$116.2 million, a decrease in electric retail sales of \$64.4 million, a decrease in sales to other utilities of \$7.8 million, and a decrease in other decoupling revenue of \$10.7 million; partially offset by decoupling revenue of \$26.8 million. These items are discussed in detail below.

- **Electric retail sales** decreased \$64.4 million due to a decrease of \$59.4 million from reduced retail electricity usage, or 5.7%, and a decrease in rates of \$5.0 million compared to the prior year. The reduction was due to a decrease of commercial, industrial and residential customer usage of 12.4%, 7.6% and 0.1%, respectively, primarily driven by business shut downs resulting from COVID-19; partially offset by an increase in heating degree days of 1.1% and an increase in retail customers of 1.4% compared to 2019. See Management's Discussion and Analysis, "Regulation and Rates" and "Overview" included in Item 2 of this report for electric rate changes and COVID-19 updates.
- **Sales to other utilities** decreased \$7.8 million due to a 46.8% decrease in price; partially offset by a 46.1% increase in sales volume. During the first quarter of 2019, wholesale prices increased 115.7% due to spot power prices at Mid-Columbia that increased to an 18-year high largely driven by record-breaking natural gas prices. In addition, an increase in volumes from an additional 111.8% of combustion turbine generation as a result of favorable heat rates and increased demand for wholesale market power contributed to the strong revenue in the 2019 period.
- **Decoupling revenue** increased \$26.8 million, primarily due to the combination of a \$14.8 million increase in PCA fixed cost deferral revenues and a \$12.0 million increase in delivery deferral revenues, driven by a higher allowed rate per customer and decreased actual usage as noted above in the retail revenue section. This resulted in allowed delivery revenues being greater than actual delivery revenues in the current year than in the prior year.

- **Other decoupling revenue** decreased \$10.7 million, primarily due the following: (i) a \$4.3 million decrease year-over-year related to an increase in current year amortization of previous years' decoupling deferrals resulting from higher amortization rates; partially offset by decreased usage; (ii) a \$3.5 million decrease related to earnings in excess of allowed ROR. In 2019, earnings in excess of the allowed ROR of \$3.5 million was passed back to customers. There were no such collections in 2020; (iii) in 2018 there was \$0.8 million of deferred decoupling revenue that could not be collected within 24 months. This was recognized in the first quarter of 2019 as it met the alternative revenue program revenue recognition guidelines. In 2020, \$2.1 million deferred decoupling revenue will not be collected within 24 months of the end of 2020 therefore, reserving against the decoupling deferral revenue recognized as discussed above.
- **Transportation and other revenue** decreased \$116.2 million primarily due to a decrease in net wholesale non-core gas sales of \$94.7 million and a decrease in PTC deferral revenue of \$26.6 million for the re-purpose of the PTCs driven by lower pre-tax book income; partially offset by an increase if tax reform deferrals in 2020 for revenue subject to refunds of \$4.8 million. The decrease in net wholesale non-core gas sales was due to a 75% decrease in the average price of the non-core gas sold as well as a 14% decrease in sales volume. The decrease was partially offset by a \$37.3 million decrease in the total cost of the non-core gas sold due to a 44% decrease in the average price of non-core gas purchases and the aforementioned decrease in non-core gas sales volume. Prices decreased to a combination of supply changes from high gas production, mild weather, and surplus storage, as well as decreased demand due to business disruptions caused by the COVID-19 pandemic. In contrast, gas prices were high in early 2019 due to the continuing effects of the late 2018 Enbridge pipeline rupture that decreased pipeline capacity in the region, compressor issues at a gas storage facility that limited gas deliverability, and higher than expected loads due to cold weather.

### Electric Power Costs

**Electric power costs** decreased \$121.3 million primarily due to a decrease of \$103.5 million of purchased electricity costs and \$18.2 million of electric generation fuel expenses. These items are discussed in detail below.

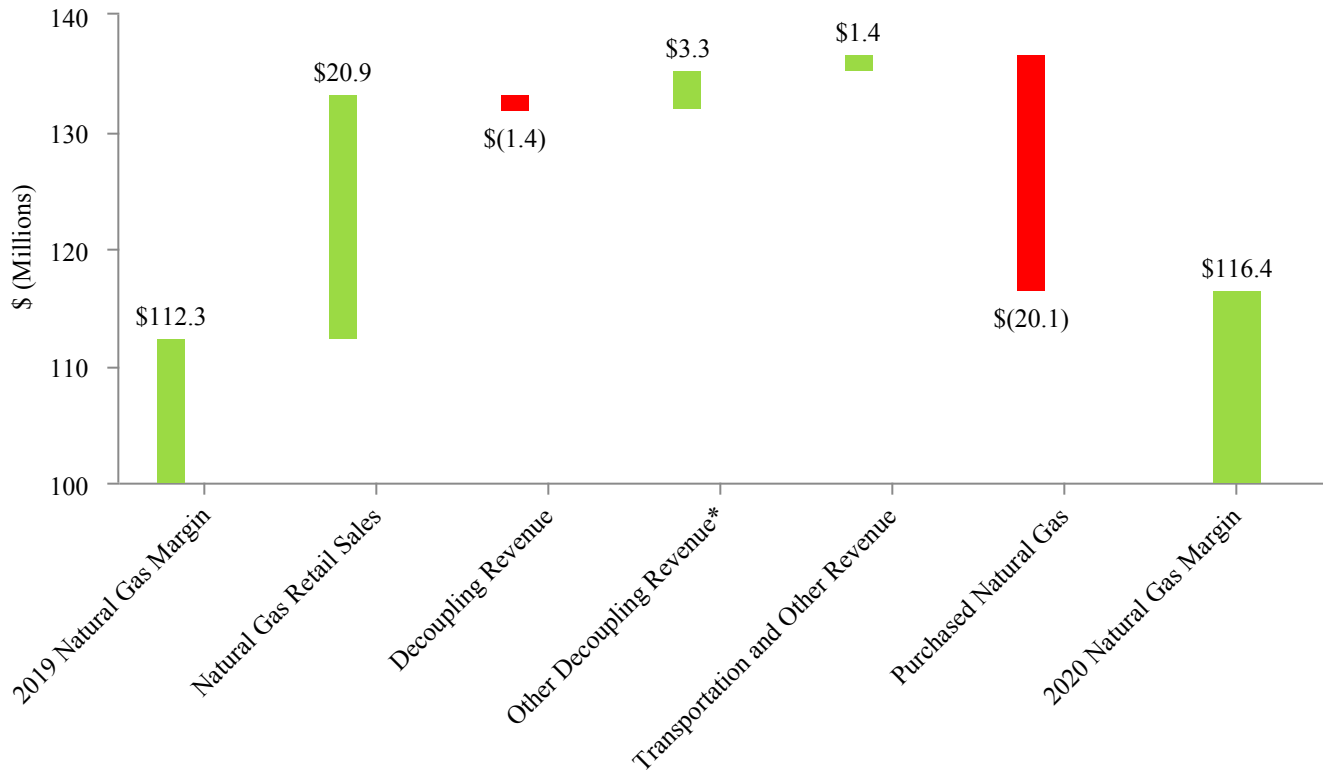
- **Purchased electricity** expense decreased \$103.5 million primarily due to a 7.7% decrease in wholesale electricity purchases and a 20.0% decrease in wholesale prices. The decrease in purchases was primarily driven by a decrease in load and a decrease in contracted resources and non-firm energy of 25.5% and 15.5%, respectively, driving an 45.1% increase in combustion turbine generation.
- **Electric generation fuel** expense decreased \$18.2 million primarily due to a \$13.7 million decrease in Colstrip related to the retirement of Units 1 and 2 and a \$4.3 million decrease in combustion turbine generation costs primarily driven by the cost of natural gas. Natural gas prices trended down in 2020 due to a combination of increased supply from high gas production, and decreased demand from mild winter weather and load pattern changes due to COVID-19 business disruptions from stay at home orders. In contrast, 2019 natural gas prices were high due to the effect of the Enbridge pipeline rupture in late 2018 which led to a decrease in pipeline capacity in the region at the same time that there was compressor issues at a gas storage facility limiting gas deliverability, and higher than expected load due to the cold weather in 2019.

### Natural Gas Margin

Natural gas margin is natural gas sales to retail and transportation customers less the cost of natural gas purchased, including transportation costs to bring natural gas to PSE's service territory. The PGA mechanism passes through increases or decreases in the natural gas supply portion of the natural gas service rates to customers based upon changes in the price of natural gas purchased from producers and wholesale marketers or changes in natural gas pipeline transportation costs. PSE's margin or net income is not affected by changes under the PGA mechanism because over- and under- recoveries of natural gas costs included in baseline PGA rates are deferred and either refunded to or collected from customers in future periods.

The following chart displays the details of PSE's natural gas margin changes for the three months ended June 30, 2019 and 2020:

### Natural Gas Margin Three Months Ended 2019 to 2020 comparison



\* Includes decoupling cash collections, ROR excess earnings, and decoupling 24-month revenue reserve.

### **Three Months Ended June 30, 2019 compared to 2020**

#### **Natural Gas Operating Revenue**

**Natural gas operating revenue** increased \$24.2 million primarily due to an increase of \$20.9 million in total retail sales, an increase of \$3.3 million in other decoupling revenue and an increase of \$1.4 million in transportation and other revenue; partially offset by \$1.4 million in decoupling revenue. These items are discussed in detail below.

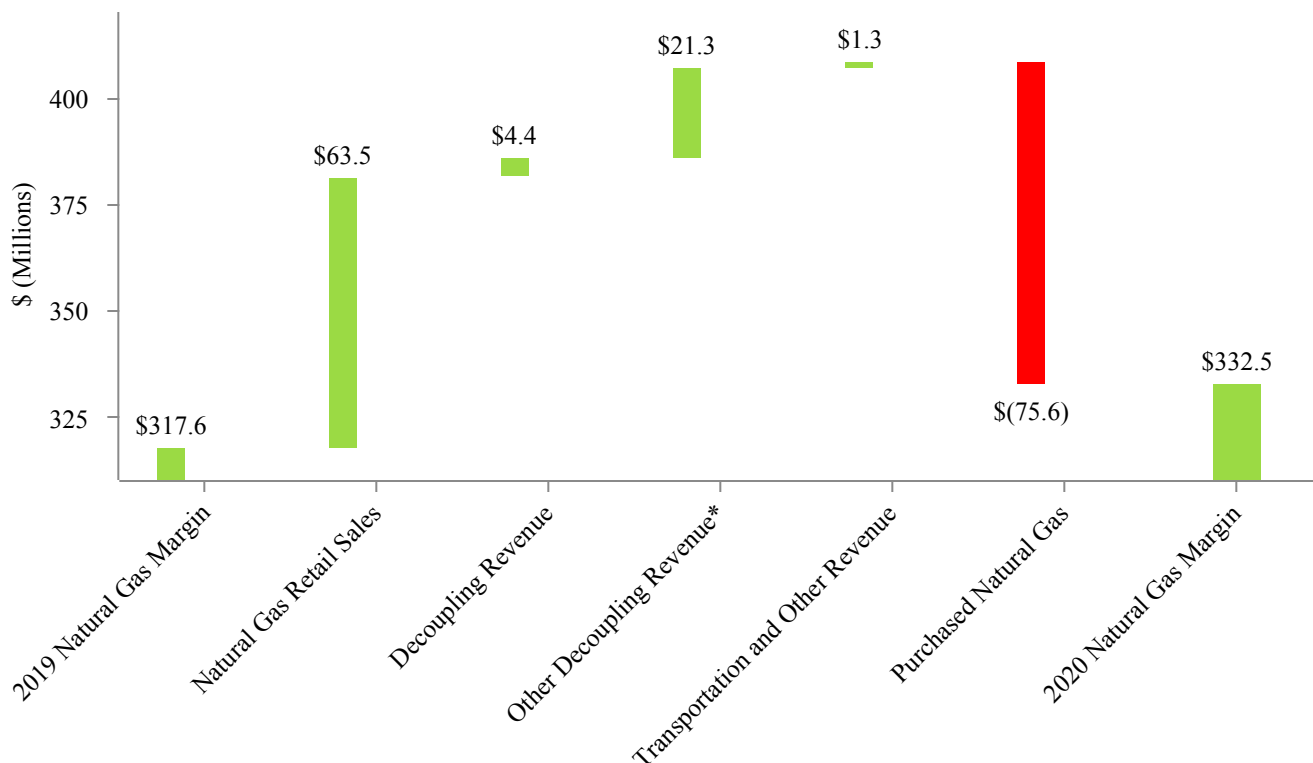
- **Natural gas retail sales revenue** increased \$20.9 million due to an increase in rates of \$16.7 million and an increase in natural gas load of 1.2%, or \$4.2 million of natural gas sales. Natural gas load increased primarily due to an 11.4% increase in average therms used by residential customers. Residential usage patterns were affected by customers working from home during Washington's stay-at-home order and a 15.9% increase in heating degree days compared to 2019. The increase in residential usage was partially offset by a 17.8% decrease by commercial firm customers, largely driven by business shut downs resulting from COVID-19. See Management's Discussion and Analysis, "Regulation and Rates" and "Overview" included in Item 2 of this report for natural gas rate changes and COVID-19 updates.
- **Decoupling revenue** decreased \$1.4 million, driven by higher actual revenues in the second quarter of 2020 as compared to the same period year over year, while allowed revenues remained constant. The increase in actual revenues is attributable to a higher allowed rate per customer partially offset by decreased natural gas usage, as noted above in the retail revenue section.
- **Other decoupling revenue** increased \$3.3 million, primarily due to higher amortization rates in the three months ended June 30, 2019, compared to the same period in 2020.

#### **Natural Gas Energy Costs**

**Purchased natural gas** expense increased \$20.1 million due to an increase in the PGA rates in November 2019 and the addition of two supplemental gas commodity costs amortization rates in 2019 which were added in order to recover the large amount of gas costs that PSE incurred in late 2018 and early 2019 due to the Enbridge pipeline explosion and an increase in natural gas usage of 1.2%.

The following chart displays the details of PSE's natural gas margin changes for the six months ended June 30, 2019 and 2020:

### Natural Gas Margin Six Months Ended 2019 to 2020 comparison



\* Includes decoupling cash collections, ROR excess earnings, and decoupling 24-month revenue reserve.

#### Six Months Ended June 30, 2019 compared to 2020

##### Natural Gas Operating Revenue

**Natural gas operating revenue** increased \$90.5 million primarily due to an increase of \$63.5 million in total retail sales, an increase of \$4.4 million in decoupling revenue, an increase of \$21.3 million in other decoupling revenue and an increase of \$1.3 million of transportation and other revenue. These items are discussed in detail below.

- **Natural gas retail sales revenue** increased \$63.5 million due to an increase in rates of \$76.1 million partially offset by a decrease in natural gas load of 2.9%, or \$12.6 million of natural gas sales. Natural gas load decreased primarily due to a 1.2% decrease in average therms used by residential customers and a 8.0% decrease by commercial firm customers primarily driven by business shut downs resulting from COVID-19, partially offset by a 1.1% increase in heating degree days. See Management's Discussion and Analysis, "Regulation and Rates" and "Overview" included in Item 2 of this report for natural gas rate changes and COVID-19 updates.
- **Decoupling revenue** increased \$4.4 million, primarily attributable to an increase in allowed natural gas revenue in 2020 compared to the same period in the previous year, whereas actual revenue remained constant, with increased natural gas rates offset by decreased volumes in 2020.
- **Other decoupling revenue** increased \$21.3 million, primarily due to a \$23.5 million decrease in current year amortization of prior year undercollection, which was driven by decreased usage. This is partially offset by a \$2.2 million decrease related to earnings in excess of allowed ROR. In 2019, earnings in excess of allowed ROR of \$2.2 million was returned to customers and there were no such collections in 2020.

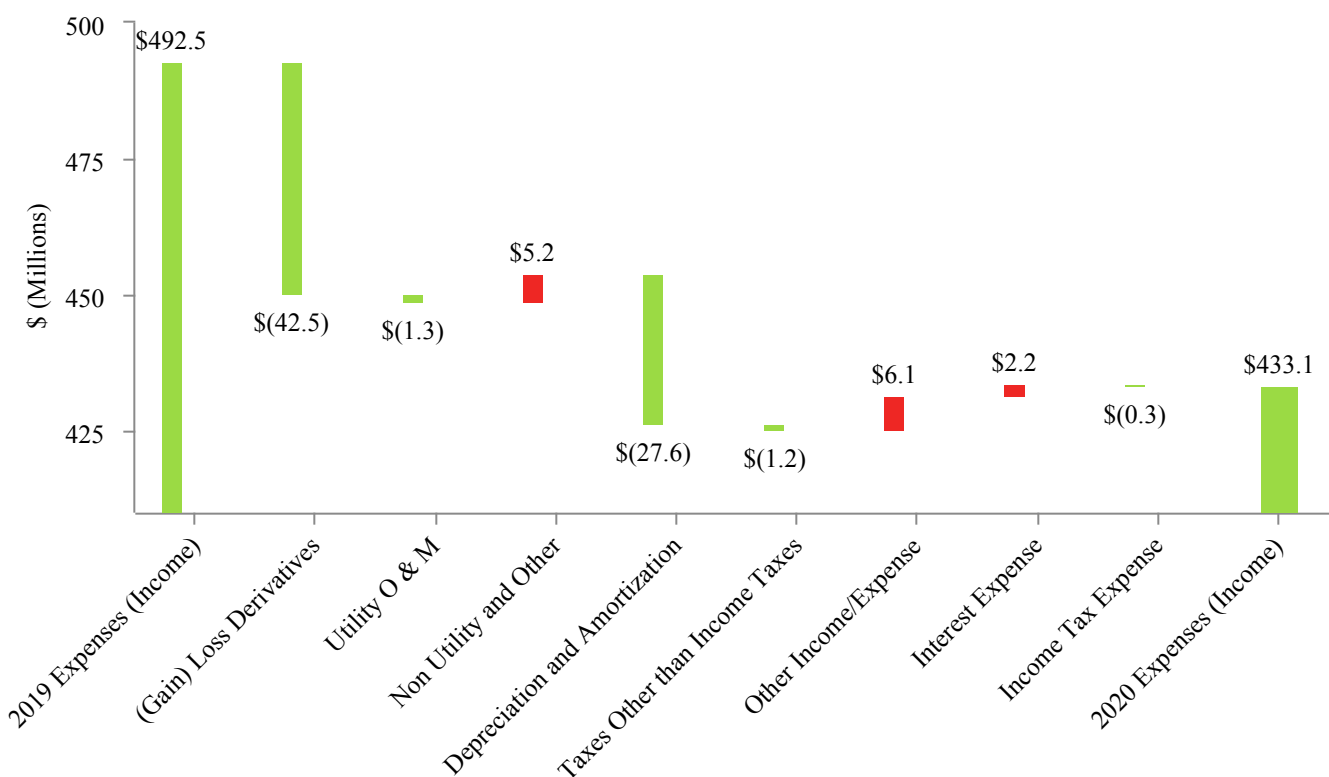
## Natural Gas Energy Costs

**Purchased natural gas** expense increased \$75.6 million due to an increase in the PGA rates in November 2019 and the addition of two supplemental gas commodity costs amortization rates in 2019 which were added in order to recover the large amount of gas costs that PSE incurred in late 2018 and early 2019 due to the Enbridge pipeline explosion; partially offset by a decrease in natural gas usage of 2.9%.

## Other Operating Expenses and Other Income (Deductions)

The following chart displays the details of PSE's operating expenses and other income (deductions) for the three months ended June 30, 2019 and 2020:

### Other Operating Expenses and Other Income (Deductions) Three Months Ended 2019 to 2020 comparison



### Three Months Ended June 30, 2019 compared to 2020

#### Other Operating Expenses

- **Net unrealized (gain) loss on derivative instruments** increased \$42.5 million to a net gain of \$12.2 million for the quarter ended June 30, 2020. One of the drivers for the change related to the net settlements of electric and natural gas trades previously recorded as \$11.2 million in losses and \$0.6 million in gains, respectively. The other driver related to the change is the weighted average forward prices for electric and natural gas. Specifically, forward electric prices increased 3.1% resulting in a \$9.4 million gain for electricity. Forward gas prices increased 17.8% resulting in a \$22.5 million gain for natural gas.
- **Utility operations and maintenance** expense decreased \$1.3 million primarily due to a decrease in electric steam generation maintenance of \$2.8 million primarily related to the retirement of Colstrip 1 & 2, other power generation maintenance of \$1.6 million due to reduced wind turbine maintenance at Wild Horse wind facility, and \$1.4 million of gas distribution operating expenses due to reduced leak survey expenses in 2020 and delayed spending in operational programs due to business disruptions from COVID-19. This was partially offset by \$4.9 million of non-health related employee absence expense driven by COVID-19 stay-at-home mandates.
- **Non-utility and other** expense increased \$5.2 million primarily due to a \$7.0 million biogas payment.

- **Depreciation and amortization** expense decreased \$27.6 million primarily driven by: (i) electric amortization decreased by \$30.6 million, primarily driven by a \$23.1 million change in PTC amortization due to lower pre-tax book income and \$4.6 million in amortization for the regulatory liability associated with revised power cost Schedule 95A effective July 1, 2019; (ii) common amortization decreased by \$1.4 million or 6.9% from 2019. The decrease is primarily driven by the \$9.8 in deferral treatment of software amortization effective May 1, 2019 as submitted to the Washington Commission offset by net additions of computer software of \$50.6 million. Additionally, the decreases were partially offset by (iii) electric distribution depreciation increased a net of \$2.2 million or 6.4% from 2019. The increase is primarily due to \$130.0 million in net additions of electrical distribution assets; and (iv) natural gas distribution depreciation increased by \$2.2 million or 7.8% from 2019. The increase is primarily due to \$245.3 million in net additions in natural gas distribution assets.
- **Taxes other than income taxes** decreased \$1.2 million primarily due to a decrease of \$1.3 million related to the property tax tracker due to load.

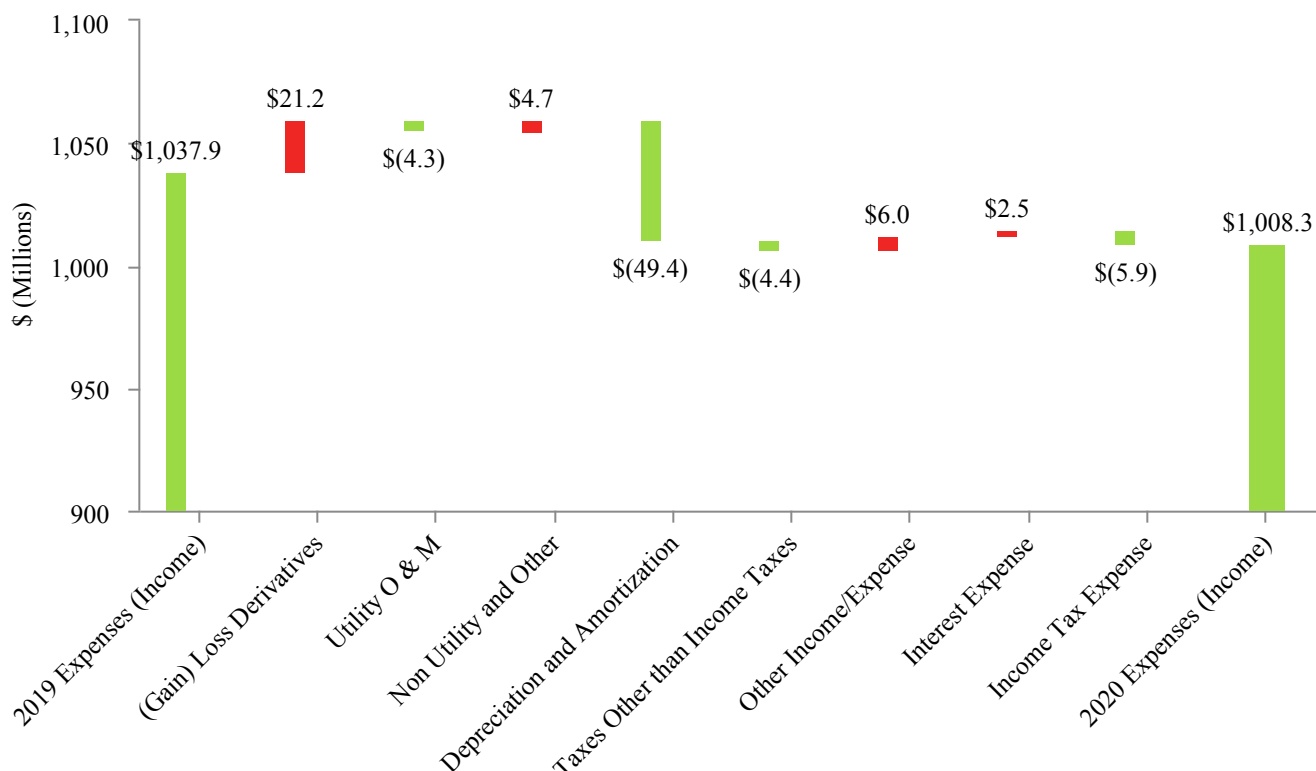
#### **Other Income, Interest Expense and Income Tax Expense**

- **Other income/expense** increased \$6.1 million primarily due to \$6.3 million of SmartBurn plant investment at Colstrip 3& 4 which recovery was disallowed per Washington Commission Order UE-190529.
- **Interest expense** increased \$2.2 million due to \$3.7 million of interest expense on the \$450.0 million senior note issued in 2019, PTC interest expense of \$1.4 million in 2020, partially offset by a decrease of \$2.5 million of other interest expense attributed to lower commercial paper borrowing in 2020.



The following chart displays the details of PSE's operating expenses and other income (deductions) for the six months ended June 30, 2019 and 2020:

### Other Operating Expenses and Other Income (Deductions) Six Months Ended 2019 to 2020 comparison



#### Six Months Ended June 30, 2019 compared to 2020

##### Other Operating Expenses

- **Net unrealized (gain) loss on derivative instruments** decreased \$21.2 million to a net loss of \$36.4 million for the six months ended June 30, 2020. One of the drivers for the change related to the net settlements of electric and natural gas trades previously recorded as \$55.5 million and \$16.6 million in losses, respectively. The other driver related to the change is the weighted average forward prices for electric and natural gas. Specifically, forward electric prices decreased 23.9% resulting in a \$74.0 million loss for electricity. Forward gas prices decreased 6.9% resulting in a \$19.3 million loss for natural gas.
- **Utility operations and maintenance** expense decreased \$4.3 million primarily due to steam generation maintenance of \$4.2 million primarily related to the retirement of Colstrip 1 & 2, other power generation maintenance of \$1.2 million due to reduced wind turbine maintenance at Wild Horse wind facility, \$1.9 million of gas distribution operating expenses due to reduced leak survey expenses in 2020 and delayed spending in operational programs due to COVID-19. Additionally, the following expenses have decreased due to a change in operations from stay at home mandates and other business disruptions from COVID-19: \$2.3 million of injuries and damages expense, \$1.9 million of maintenance to general plant, \$1.0 million in rent expense and \$1.0 million of outside services expense. These expenses were partially offset by an increase in other power generation expenses of \$1.8 million due to increased CT operations, \$5.4 million of non-health related employee absence expense driven by COVID-19 stay-at-home mandates, and \$1.6 million of customer assistance expenses.
- **Non-utility and other** expense increased \$4.7 million primarily due to a \$7.0 million biogas payment, an increase in pension plan costs of \$4.2 million; partially offset by a decrease in biogas purchase expense of \$3.3 million and a decrease in long term incentive plan costs of \$4.2 million.

- **Depreciation and amortization** expense decreased \$49.4 million primarily driven by: (i) electric amortization decreased by \$45.3 million from 2019. This decrease is primarily driven by the \$26.6 million change in PTC amortization and the \$11.0 million in amortization for the regulatory liability associated with revised power cost Schedule 95A effective July 1, 2019; (ii) conservation amortization decreased by \$5.6 million; (iii) common amortization decreased by \$6.1 million or 14.0% from 2019. The decrease is primarily driven by the \$19.4 million in deferral treatment of software amortization effective May 1, 2019 as submitted to the Washington Commission offset by net additions of computer software of \$50.6 million. Additionally, the decreases were partially offset by (iv) electric distribution depreciation increased a net of \$4.5 million or 6.6% from 2019. The increase is primarily due to \$130.0 million in net additions of electric distribution assets; and (v) natural gas distribution depreciation increased by \$4.2 million or 7.6% from 2019. The increase is primarily due to \$245.3 million in net additions in natural gas distribution assets.
- **Taxes other than income taxes** decreased \$4.4 million primarily due to a decrease of \$3.8 million related to the property tax tracker due to load.

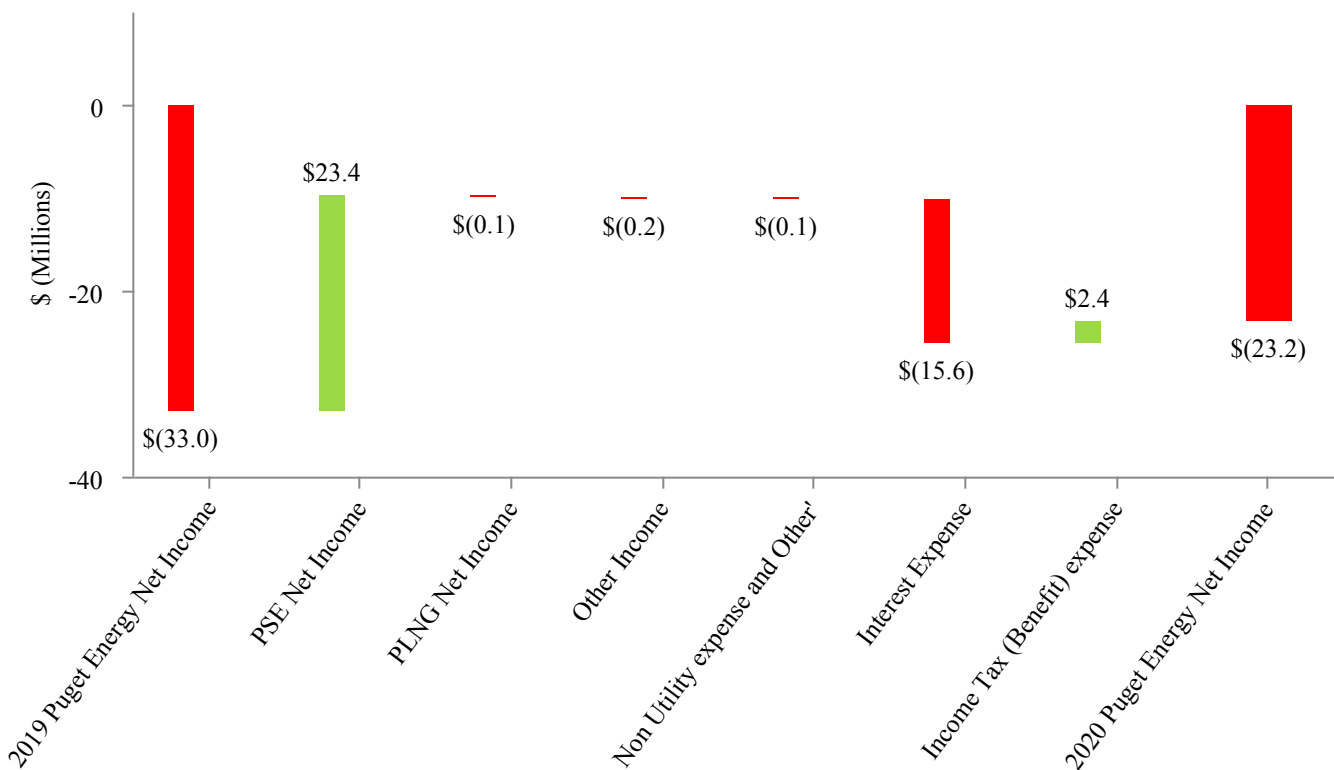
#### **Interest and Income Tax Expense**

- **Other income/expense** increased \$6.0 million primarily due to \$6.3 million of SmartBurn plant investment at Colstrip 3& 4 which recovery was disallowed per Washington Commission Order UE-190529.
- **Interest expense** increased \$2.5 million due to \$7.3 million of interest expense on the \$450.0 million senior note issued in 2019, PTC interest expense of \$2.8 million in 2020, partially offset by a decrease of \$5.0 million of other interest expense attributed to lower commercial paper borrowing in 2020.
- **Income tax expense** decreased \$5.9 million primarily driven by a decrease in pre-tax income.

**Puget Energy**

Primarily, all operations of Puget Energy are conducted through PSE. Puget Energy's net income (loss) for the three months ended June 30, 2019 and 2020, is as follows:

**PE Summary Results of Operation  
Three Months Ended  
2019 to 2020 comparison**



**Three Months Ended June 30, 2019 compared to 2020**

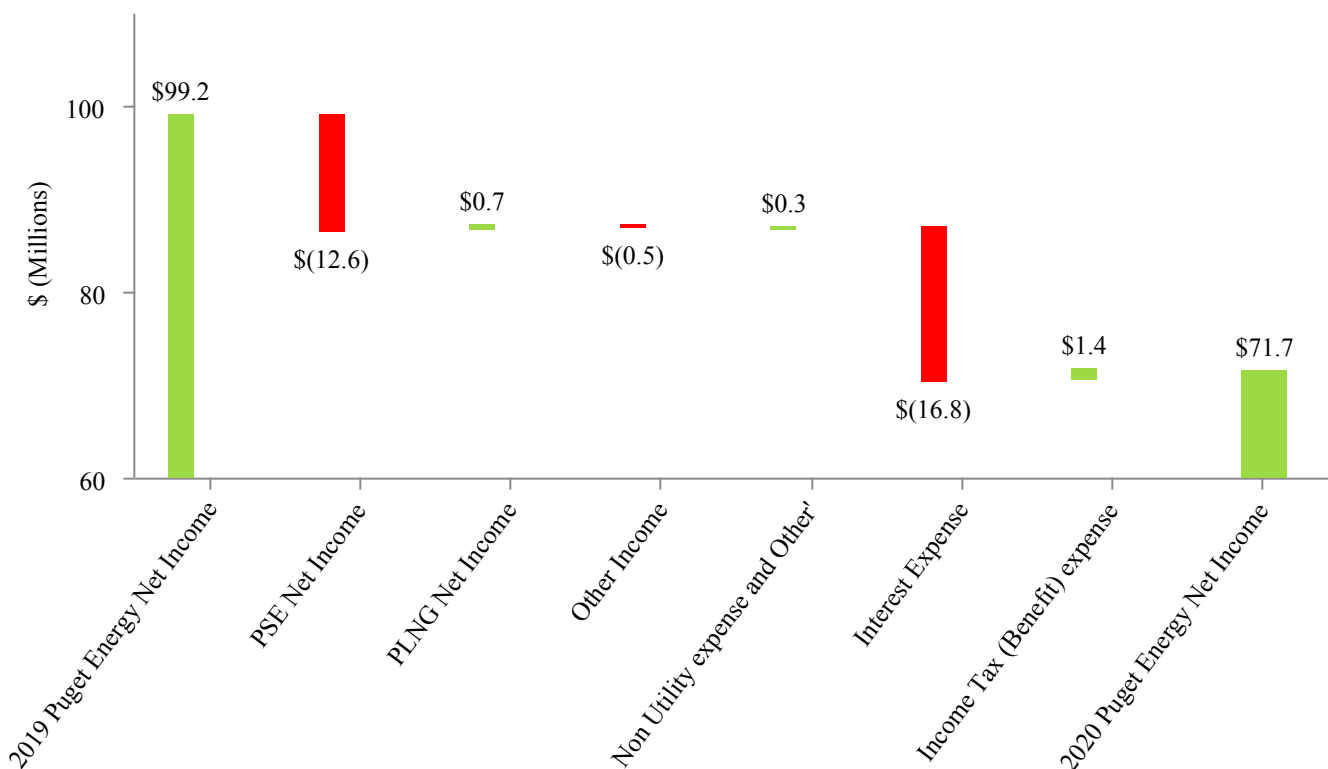
**Summary Results of Operation**

Puget Energy’s net income increased for the three months ended June 30, 2020, by \$9.7 million primarily due to an increase in PSE's net income of \$23.4 million; partially offset by an increase in interest expense of \$15.6 million compared to the same period in the prior year.

## Puget Energy

Puget Energy's net income (loss) for the six months ended June 30, 2019 and 2020, is as follows:

### PE Summary Results of Operation Six Months Ended 2019 to 2020 comparison



#### Six Months Ended June 30, 2019 compared to 2020

##### Summary Results of Operation

Puget Energy's net income decreased for the six months ended June 30, 2020, by \$27.5 million primarily due to a decrease in PSE's net income of \$12.6 million and an increase in interest expense of \$16.8 million compared to the same period in the prior year.

##### Capital Requirements

##### Contractual Obligations and Commercial Commitments

In addition to the contractual obligations and consolidated commercial commitments disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, during the six months ended June 30, 2020, the Company entered into new Electric Portfolio and Electric Wholesale Market Transaction contracts with estimated payment obligations totaling \$935.3 million through 2042.

For further information, see Note 16, "Commitments and Contingencies" to the consolidated financial statements included in Item 8 of the Company's Form 10-K for the period ended December 31, 2019.

The following are the Company's aggregate availability under commercial commitments as of June 30, 2020:

Puget Energy and Puget Sound Energy (Dollars in Thousands)	Amount of Available Commitments Expiration Per Period				
	Total	2020	2021-2022	2023-2024	Thereafter
Commercial commitments:					
PSE revolving credit facility	\$ 800,000	\$ —	\$ —	\$ 800,000	\$ —
Inter-company short-term debt	30,000	—	—	—	30,000
Total PSE commercial commitments	830,000	—	—	800,000	30,000
Puget Energy revolving credit facility	800,000	—	—	800,000	—
Less: Inter-company short-term debt elimination	(30,000)	—	—	—	(30,000)
Total Puget Energy commercial commitments	<u>\$ 1,600,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,600,000</u>	<u>\$ —</u>

For further discussion, see Management's Discussion and Analysis, "Financing Program" in Item 2.

### Off-Balance Sheet Arrangements

As of June 30, 2020, the Company had no off-balance sheet arrangements that have or are reasonably likely to have a material effect on the Company's financial condition.

### Utility Construction Program

PSE's construction programs for generating facilities, the electric transmission system, the natural gas and electric distribution systems and the Tacoma LNG facility are designed to meet regulatory requirements, support customer growth and to improve energy system reliability. Due to business disruptions caused by the COVID-19 pandemic, the Company closely monitored and adjusted capital expenditures, resulting in a decrease of \$46.6 million compared to forecasted amounts for the six months ended June 30, 2020. Construction expenditures, excluding equity allowance for funds used during construction (AFUDC), totaled \$428.8 million for the six months ended June 30, 2020. Presently planned utility construction expenditures, excluding equity AFUDC, are as follows:

### Capital Expenditure Projections

(Dollars in Millions)	2020	2021	2022
Total energy delivery, technology and facilities expenditures	<u>\$877.1</u>	<u>\$1,031.1</u>	<u>\$1,023.7</u>

The program is subject to change based upon general business, economic and regulatory conditions. Utility construction expenditures and any new generation resource expenditures may be funded from a combination of sources which may include cash from operations, short-term debt, long-term debt and/or equity. PSE's planned capital expenditures may result in a level of spending that will exceed its cash flow from operations. As a result, execution of PSE's strategy is dependent in part on continued access to capital markets.

## Capital Resources

### Cash from Operations

Puget Sound Energy (Dollars in Thousands)	Six Months Ended June 30,		
	2020	2019	Change
Net income	\$ 126,358	\$ 138,977	\$ (12,619)
Non-cash items <sup>1</sup>	365,227	377,305	(12,078)
Changes in cash flow resulting from working capital <sup>2</sup>	87,782	(1,206)	88,988
Regulatory assets and liabilities	(71,204)	(19,061)	(52,143)
Purchased gas adjustment	45,833	(144,917)	190,750
Other non-current assets and liabilities <sup>3</sup>	(5,073)	(9,822)	4,749
Net cash provided by operating activities	<u>\$ 548,923</u>	<u>\$ 341,276</u>	<u>\$ 207,647</u>

<sup>1</sup> Non-cash items include depreciation, amortization, deferred income taxes, net unrealized (gain) loss on derivative instruments, AFUDC-equity, PTCs and other miscellaneous non-cash items.

<sup>2</sup> Changes in working capital include receivables, unbilled revenue, materials/supplies, fuel/gas inventory, income taxes, prepayment, PGA, accounts payable and accrued expenses.

<sup>3</sup> Other non-current assets and liabilities include funding of pension liability.

### Six Months Ended June 30, 2020 compared to 2019

**Cash generated from operations** for the six months ended June 30, 2020 increased by \$207.6 million including a net income decrease of \$12.6 million. The following are significant factors that impacted PSE's cash flows from operations:

- **Cash flow adjustments resulting from non-cash items** decreased \$12.1 million primarily due to decreases in depreciation and amortization of \$43.8 million, amortization of TCJA Over Collection of \$13.1 million, conservation amortization of \$5.6 million and equity allowance for funds used during construction (AFUDC-Equity) of \$5.1 million, offset by a \$26.6 million change in production tax credit utilization, a \$21.2 million change from a net unrealized loss on derivative instruments of \$15.1 million to a net unrealized loss on derivative instruments of \$36.4 million, a loss of \$6.3 million due to writing off Smart Burn project at Colstrip, deferred income taxes of \$1.3 million. For further details, see Management's Discussion and Analysis, "Other Operating Expenses" in Item 2.
- **Cash flows resulting from changes in working capital** increased \$89.0 million primarily due to decreased cash outflow in Accounts payable of \$127.0 million, which was mainly due to 2019 includes payments of significant power and natural gas costs accrued at December 31, 2018 that were paid in 2019. The decrease of cash outflow in account payable was partially offset by \$19.8 million decrease of cash inflow in account receivable and \$12.1 million increase of cash outflow paid for materials and supplies.
- **Cash flow resulting from purchased gas adjustment (long-term)** increased \$190.8 million. Affected by three events experienced by PSE in 2019 winter: the Enbridge pipeline rupture, unusually low temperatures in February and March, and a compressor failure in February at the Jackson Prairie storage facility, actual natural gas cost went above natural gas baseline rates in the PGA mechanism, caused total purchased gas adjustment receivable increased from \$9.9 million to \$144.9 million during the first six months of 2019, led to \$135.0 million cash outflow. In contrast, both price of natural gas and actual gas consumption decreased in the first six months of 2020. Combined with higher PGA rates taking effect on May 1, 2019, total purchase gas adjustment receivable decreased from \$132.8 million to \$86.9 million in the first six months of 2020, resulting in a \$45.8 million cash inflow. A change from \$135.0 million cash outflow to \$45.8 million cash inflow led to an increase of cash flow of \$180.8 million, which includes an increase in PGA long-term of \$190.8 million and a decrease in PGA short-term of \$10.0 million.
- **Cash flow resulting from changes in regulatory assets and liabilities** decreased \$52.1 million in the same period year over year primarily due to a \$31.2 million increase in decoupling deferrals and a \$10.6 million decrease in cash collections of previously deferred amounts.
- **Cash flow resulting from changes in non-current assets and liabilities** increased \$4.7 million primarily due to the Company deferred payroll taxes totaling \$4.7 million as of June 30, 2020. The deferral is a result of the tax modifications included in the CARES Act, which was enacted on March 27, 2020.

Puget Energy (Dollars in Thousands)	Six Months Ended June 30,		
	2020	2019	Change
Net income	\$ (54,655)	\$ (39,775)	\$ (14,880)
Non-cash items <sup>1</sup>	10,392	(1,460)	11,852
Changes in cash flow resulting from working capital <sup>2</sup>	(2,293)	(5,914)	3,621
Regulatory assets and liabilities	(64)	—	(64)
Other non-current assets and liabilities <sup>3</sup>	(6,041)	(3,416)	(2,625)
Net cash provided by operating activities	\$ (52,661)	\$ (50,565)	\$ (2,096)

<sup>1</sup> Non-cash items include depreciation, amortization, deferred income taxes, net unrealized (gain) loss on derivative instruments, (Gain) or loss on extinguishment of debt, AFUDC-equity, PTCs and other miscellaneous non-cash items.

<sup>2</sup> Changes in working capital include receivables, unbilled revenue, materials/supplies, fuel/gas inventory, income taxes, prepayments, PGA, accounts payable and accrued expenses.

<sup>3</sup> Other noncurrent assets and liabilities include funding of pension liability.

### **Six Months Ended June 30, 2020 compared to 2019**

**Cash generated from operations** for the six months ended June 30, 2020, in addition to the changes discussed at PSE above, decreased by \$2.1 million compared to the same period in 2019, which includes a net income decrease of \$14.9 million. The remaining change was primarily impacted by the factors explained below:

- **Non-cash items** increased \$11.9 million primarily caused by the cash outflow of \$13.5 million due to extinguishment of debt reflected in Financing activities, which partially offset by increased cash outflow of \$1.8 million due to changes in deferred taxes.
- **Cash flow resulting from working capital** increased \$3.6 million primarily due to changes in eliminations of PSE's intercompany account receivable and account payable balances with Puget LNG and PE.
- **Cash flow resulting from Other non-current assets and liabilities** decreased \$2.6 million primarily due to change of the valuation of pension liability compared to the prior year.

### **Financing Program**

The Company's external financing requirements principally reflect the cash needs of its construction program, its schedule of maturing debt and certain operational needs. The Company anticipates refinancing the redemption of bonds or other long-term borrowings with its credit facilities and/or the issuance of new long-term debt. Access to funds depends upon factors such as Puget Energy's and PSE's credit ratings, prevailing interest rates and investor receptivity to investing in the utility industry, Puget Energy and PSE. The Company believes it has sufficient liquidity through its credit facilities and access to capital markets to fund its needs over the next twelve months.

Proceeds from PSE's short-term borrowings and sales of commercial paper are used to provide working capital and the interim funding of utility construction programs. Puget Energy and PSE continue to have reasonable access to the capital and credit markets.

As a result of the COVID-19 pandemic and its impact on the economy and capital markets, the Company continues to carefully monitor cash receipts from customers and any impacts on the Company's liquidity which may affect its ability to fund safe, reliable, and dependable service for our customers. Our initiative to suspend disconnections of customers for non-payment, the receipt of the Washington Commission approval to waive late fees, the 2019 GRC order issued by the Washington Commission on July 8, 2020, will impact future cash receipts.

As a result of the 2019 GRC outcome, Puget Energy and PSE's credit rating metrics will likely be adversely impacted absent other regulatory relief or Corporate mitigation measures. In response to the order, Moody's released an issuer comment stating the GRC outcome was credit negative but took no formal action away from credit stable. S&P placed Puget Energy and PSE on CreditWatch with negative implications due the rate case outcome and Fitch affirmed Puget Energy and PSE as a negative outlook. A credit downgrade would lower Puget Energy from investment grade to non-investment grade and PSE would remain at investment grade. Additionally, a credit downgrade would increase the cost of borrowing for Puget Energy and PSE in future long-term financings and impact the terms under their existing credit facility. The increase in cost of borrowing could impact Puget Energy and PSE's liquidity and capital resources which could have a material adverse effect on their results of operations and financial condition. A downgrade to Puget Energy and PSE's credit ratings would not impact debt covenants under our existing credit facilities nor would it impact other contracts, as neither include credit rating triggering event

clauses. A credit rating decrease for PSE could result in increased cash collateral required for commodity contracts, which would adversely affect PSE's liquidity.

Commercial paper markets were significantly impacted for a period of time due to COVID-19, which limited commercial paper borrowings and alternatively the Company drew short term funding from its credit facility. The Company created a minimum cash reserve of \$100 million on April 1, 2020, which was intended to be utilized to cover cash disbursements in the event of illiquid markets. As a result of significantly improved commercial paper markets and steady cash collection over the second quarter of 2020, the Company removed its cash reserve requirement. Evolving factors that we cannot accurately predict, including the duration and scope of the pandemic, and any relevant governmental, business and customers' actions that have been and continue to be taken in response to the pandemic, could negatively impact the Company's liquidity.

## **Puget Sound Energy**

### **Credit Facility**

As of June 30, 2020, PSE had an \$800.0 million credit facility to meet short-term liquidity needs. The credit facility includes a swingline feature allowing same day availability on borrowings up to \$75.0 million. The credit facility has an expansion feature which, upon the banks' approval, would increase the total size of the facility to \$1.4 billion. The unsecured revolving credit facility matures in October 2023.

The credit agreement is syndicated among numerous lenders and contains usual and customary affirmative and negative covenants that, among other things, place limitations on PSE's ability to transact with affiliates, make asset dispositions and investments or permit liens to exist. The credit agreement also contains a financial covenant of total debt to total capitalization of 65.0% or less. PSE certifies its compliance with such covenants to participating banks each quarter. As of June 30, 2020, PSE was in compliance with all applicable covenant ratios.

The credit agreement provides PSE with the ability to borrow at different interest rate options. The credit agreement allows PSE to borrow at the bank's prime rate or to make floating rate advances at the London Interbank Offered Rate (LIBOR) plus a spread that is based upon PSE's credit rating. PSE must pay a commitment fee on the unused portion of the credit facility. The spreads and the commitment fee depend on PSE's credit ratings. As of the date of this report, the spread to the LIBOR is 1.25% and the commitment fee is 0.175%.

As of June 30, 2020, \$0.0 million was drawn under PSE's credit facility and \$140.0 million was outstanding under the commercial paper program. Outside of the credit agreement, PSE had a \$2.8 million letter of credit in support of a long-term transmission contract and a \$1.0 million letter of credit in support of natural gas purchases in Canada.

### **Demand Promissory Note**

In 2006, PSE entered into a revolving credit facility with Puget Energy, in the form of a credit agreement and a demand promissory note (Note) pursuant to which PSE may borrow up to \$30.0 million from Puget Energy subject to approval by Puget Energy. Under the terms of the Note, PSE pays interest on the outstanding borrowings based on the lower of the weighted-average interest rates of PSE's outstanding commercial paper interest rate or PSE's senior unsecured revolving credit facility. Absent such borrowings, interest is charged at one-month LIBOR plus 0.25%. As of June 30, 2020, PSE had no outstanding balance under the Note.

### **Debt Restrictive Covenants**

The type and amount of future long-term financings for PSE may be limited by provisions in PSE's electric and natural gas mortgage indentures.

PSE's ability to issue additional secured debt may also be limited by certain restrictions contained in its electric and natural gas mortgage indentures. Under the most restrictive tests at June 30, 2020, PSE could issue:

- Approximately \$2.0 billion of additional first mortgage bonds under PSE's electric mortgage indenture based on approximately \$3.3 billion of electric bondable property available for issuance, subject to an interest coverage ratio limitation of 2.0 times net earnings available for interest (as defined in the electric utility mortgage), which PSE exceeded at June 30, 2020; and
- Approximately \$714.0 million of additional first mortgage bonds under PSE's natural gas mortgage indenture based on approximately \$1.2 billion of natural gas bondable property available for issuance, subject to a combined natural gas and electric interest coverage test of 1.75 times net earnings available for interest and a natural gas interest coverage test of 2.0 times net earnings available for interest (as defined in the natural gas utility mortgage), both of which PSE exceeded at June 30, 2020.

At June 30, 2020, PSE had approximately \$7.7 billion in electric and natural gas rate base to support the interest coverage ratio limitation test for net earnings available for interest.



## **Shelf Registrations**

On August 2, 2019, PSE filed a new shelf registration statement under which it may issue, up to \$1.0 billion aggregate principal amount of senior notes secured by first mortgage bonds. As of the date of this report, \$550.0 million was available to be issued. The shelf registration will expire in August 2022.

## **Dividend Payment Restrictions**

The payment of dividends by PSE to Puget Energy is restricted by provisions of certain covenants applicable to long-term debt contained in PSE's electric and natural gas mortgage indentures. At June 30, 2020, approximately \$969.5 million of unrestricted retained earnings was available for the payment of dividends under the most restrictive mortgage indenture covenant.

Pursuant to the terms of the Washington Commission merger order, PSE may not declare or pay dividends if PSE's common equity ratio, calculated on a regulatory basis, is 44.0% or below except to the extent a lower equity ratio is ordered by the Washington Commission. Also, pursuant to the merger order, PSE may not declare or make any distribution unless on the date of distribution PSE's corporate credit/issuer rating is investment grade, or, if its credit ratings are below investment grade, PSE's ratio of earnings before interest, tax, depreciation and amortization (EBITDA) to interest expense for the most recently ended four fiscal quarter periods prior to such date is equal to or greater than 3.0 to 1.0. The common equity ratio, calculated on a regulatory basis, was 48.9% at June 30, 2020, and the EBITDA to interest expense was 5.1 to 1.0 for the twelve months ended June 30, 2020.

PSE's ability to pay dividends is also limited by the terms of its credit facilities, pursuant to which PSE is not permitted to pay dividends during any Event of Default (as defined in the facilities), or if the payment of dividends would result in an Event of Default, such as failure to comply with certain financial covenants. At June 30, 2020, the Company was in compliance with all applicable covenants, including those pertaining to the payment of dividends.

## **Long Term Debt**

PSE had no new long-term debt activities in the six months ended June 30, 2020. For further information, see Note 7, "Long-Term Debt" and Note 8, "Liquidity Facilities and Other Financing Arrangements" in the Company's most recent Annual Report on Form 10K for the year ended December 31, 2019.

## **Puget Energy**

### **Credit Facility**

At June 30, 2020, Puget Energy maintained an \$800.0 million credit facility. The Puget Energy revolving senior secured credit facility also has an accordion feature which, upon the banks' approval, would increase the size of the facility to \$1.3 billion. The unsecured revolving credit facility matures in October 2023.

The revolving senior secured credit facility provides Puget Energy the ability to borrow at different interest rate options and includes variable fee levels. Interest rates may be based on the bank's prime rate or LIBOR, plus a spread based on Puget Energy's credit ratings. Puget Energy must pay a commitment fee on the unused portion of the facility. As of June 30, 2020, there was no amount drawn and outstanding under the facility. As of the date of this report, the spread over LIBOR was 1.75% and the commitment fee was 0.275%.

The revolving senior secured credit facility contains usual and customary affirmative and negative covenants. The agreement also contains a maximum leverage ratio financial covenant as defined in the agreement governing the senior secured credit facility. As of June 30, 2020, Puget Energy was in compliance with all applicable covenants.

### **Long-Term Debt**

On May 19, 2020, Puget Energy issued \$650.0 million of senior secured notes (Notes) at an interest rate of 4.1%. The Notes pay interest semi-annually and are due to mature on June 15, 2030. The proceeds from the issuance of the Notes were used to pay \$150.0 million under our term loan credit facility, pay \$31.6 million of our revolving credit facility, and to redeem \$450.0 million in principal amount of our 6.5% senior secured notes due December 15, 2020 and to pay related fees and expenses.

On June 18, 2020, Puget Energy redeemed the \$450.0 million senior secured notes due December 15, 2020 and paid related fees and expenses for a total redemption price of \$463.2 million. Excluding the repayment of the \$450.0 million principal amount and \$0.3 million of unamortized debt discount and issuance cost, the extinguishment incurred a \$13.5 million loss, which includes \$0.4 million of accrued interest expense and is reported in the Puget Energy "Interest Expense" line item as of June 30, 2020.

For further information, see Note 7, "Long-Term Debt" and Note 8, "Liquidity Facilities and Other Financing Arrangements" in the Company's most recent Annual Report on Form 10K for the year ended December 31, 2019.

### **Dividend Payment Restrictions**

Puget Energy's ability to pay dividends is also limited by the merger order issued by the Washington Commission. Pursuant to the merger order, Puget Energy may not declare or make a distribution unless on such date Puget Energy's ratio of consolidated EBITDA to consolidated interest expense for the four most recently ended fiscal quarters prior to such date is equal to or greater than 2.0 to 1.0. Puget Energy's EBITDA to interest expense was 3.3 to 1.0 for the twelve months ended June 30, 2020.

At June 30, 2020, the Company was in compliance with all applicable covenants, including those pertaining to the payment of dividends.

### **Other**

#### **New Accounting Pronouncements**

For the discussion of new accounting pronouncements, see Note 2, "New Accounting Pronouncements" to the consolidated financial statements in Item I of this report.

#### **Washington Clean Energy Transformation Act**

In May 2019, Washington State passed the 100 Percent Clean Electric Bill that supports Washington's clean energy economy and transitioning to a clean, affordable, and reliable energy future. The Clean Energy Transformation Act requires all electric utilities to eliminate coal-fired generation from their allocation of electricity by December 31, 2025; to be carbon-neutral by January 1, 2030, through a combination of non-emitting electric generation, renewable generation, and/or alternative compliance options; and makes it the state policy that, by 2045, 100% of electric generation and retail electricity sales will come from renewable or non-emitting resources. Clean Energy Implementation plans are required every four years from each investor-owned utility (IOU), and each IOU must propose interim targets for meeting the 2045 standard between 2030 and 2045, and lay out an actionable plan that they intend to pursue to meet the standard. The Washington Commission may approve, reject, or recommend alterations to an IOU's plan.

In order to meet these requirements, the Act clarifies the Washington Commission's authority to consider and implement performance and incentive-based regulation, multi-year rate plans, and other flexible regulatory mechanisms where appropriate. The Act mandates that the Washington Commission accelerate depreciation schedules for coal-fired resources, including transmission lines, to December 31, 2025, or to allow IOUs to recover costs in rates for earlier closure of those facilities. IOUs will be allowed to earn a rate of return on certain Power Purchase Agreements (PPAs) and 36 months deferred accounting treatment for clean energy projects (including PPAs) identified in the utility's clean energy implementation plan.

IOUs are considered to be in compliance when the cost of meeting the standard or an interim target within the four-year period between plans equals a 2% increase in the weather adjusted sales revenue to customers from the previous year. If relying on the 2% threshold for alternative compliance, IOUs must demonstrate that they have maximized investments in renewable resources and non-emitting generation prior to using alternative compliance measures.

The law requires additional rulemaking by several Washington agencies for its measures to be enacted and PSE is unable to predict outcomes at this time. The Company intends to seek recovery of any costs associated with the clean energy legislation through the regulatory process.

### **Colstrip**

PSE has a 50% ownership interest in Colstrip Units 1 and 2 and a 25% interest in each of Colstrip Units 3 and 4. In March 2013, the Sierra Club and the Montana Environmental Information Center filed a Clean Air Act citizen suit against all Colstrip owners in the U.S. District Court, District of Montana. In July 2016, PSE reached a settlement with the Sierra Club to dismiss all of the Clean Air Act allegations against the Colstrip Generating Station, which was approved by the court in September 2016. As part of the settlement that was signed by all Colstrip owners, Colstrip 1 and 2 owners, PSE and Talen Energy Corporation (Talen), agreed to retire the two oldest units (Units 1 and 2) at Colstrip in eastern Montana no later than July 1, 2022. Depreciation rates were updated in the GRC effective December 19, 2017, where PSE's depreciation increased for Colstrip Units 1 and 2 to recover plant costs to the expected shutdown date. Additionally, PSE has accelerated the depreciation of Colstrip Units 3 and 4, per the terms of the 2017 GRC settlement, to December 31, 2027. The GRC also repurposed PTCs and hydro-related treasury grants to recover unrecovered plant costs and to fund and recover decommissioning and remediation costs for Colstrip Units 1 through 4. On July 8, 2020, the Washington Commission issued its final order in the 2019 GRC which further shortened the depreciable life for Colstrip 3 and 4 to December 31, 2025 to align with the requirements of the Clean Energy Transformation Act.

Consistent with a June 2019 announcement, Talen permanently shut down Units 1 and 2 at the end of the year due to operational losses associated with the Units. Colstrip Units 1 and 2 were retired effective December 31, 2019. The Washington Clean Energy Transformation Act requires the Washington Commission to provide recovery of the undepreciated investment and to allow in electric rates all prudently incurred decommissioning, and remediation costs associated with the facilities. The full scope of decommissioning activities and costs may vary from the estimates that are available at this time.

On December 10, 2019, PSE announced its intention to sell its interest in Colstrip Unit 4 to NorthWestern Energy for \$1. Under this agreement, PSE would retain its obligation to fund 25% of the environmental remediation and decommissioning costs associated with Unit 4 during PSE's operation. PSE filed an application seeking approval of the sale from the Washington Commission on February 20, 2020. The agreement is subject to approval by the Washington Commission and the Montana Public Service Commission. Additionally, PSE has agreed to enter into a power purchase agreement with NorthWestern Energy for 90 MW through 2025 to facilitate the transition, and sell a portion of its dedicated Colstrip transmission system, conditioned upon regulatory approval. Other Colstrip owners and other external parties have intervened in the pending regulatory review of this transaction, and one Colstrip owner has exercised its contractual right to purchase its pro rata share of the interest to be sold by PSE. Both the Washington Commission and the Montana Public Service Commission have placed the respective procedural calendars on hold until the terms of the deal can be updated for the additional Colstrip owner's contractual purchase right and supplemental testimony can be filed. The original purchase agreement is written such that the purchase must close by December 31, 2020. For accounting purposes, management has evaluated the applicable held for sale criteria as of December 31, 2019, and June 30, 2020, and determined that these criteria were not met. As such, Colstrip Unit 4 is classified as Electric Utility Plant on the balance sheet.

### **Regional Haze Rule**

In January 2017, the U.S. Environmental Protection Agency (EPA) published revisions to the Regional Haze Rule. Among other things, these revisions delayed new Regional Haze review from 2018 to 2021, however the end date will remain 2028. In January 2018, EPA announced that it was reconsidering certain aspects of these revisions and PSE is unable to predict the outcome. Challenges to the 2017 Regional Haze Revision Rule are pending in abeyance in the U.S. Court of Appeals for the D.C. Circuit, pending resolution of EPA's reconsideration of the rule.

### **Clean Air Act 111(d)/EPA Clean Power Plan**

In June 2014, the EPA issued a proposed Clean Power Plan (CPP) rule under Section 111(d) of the Clean Air Act designed to regulate GHG emissions from existing power plants. The proposed rule includes state-specific goals and guidelines for states to develop plans for meeting these goals. The EPA published a final rule in October 2015. In March 2017, then EPA Administrator, Scott Pruitt, signed a notice of withdrawal of the proposed CPP federal plan and model trading rules and, in October 2017, the EPA proposed to repeal the CPP rule.

In August 2018, the EPA proposed the Affordable Clean Energy (ACE) rule, pursuant to Section 111(d) of the Clean Air Act. The ACE rule was finalized in June 2019, and establishes emission guidelines for states to develop plans to address greenhouse gas emissions from existing coal-fired plants. Compliance plans under ACE are due July 2022, and compliance generally required by July 2024. PSE is evaluating the final ACE rule to determine its impact on operations pending the outcome of the proposed Colstrip Unit 4 sale to NorthWestern Energy.

## **Washington Clean Air Rule**

The CAR was adopted in September 2016, in Washington State and attempts to reduce greenhouse gas emissions from “covered entities” located within Washington State. Included under the new rule are large manufacturers, petroleum producers and natural gas utilities, including PSE. The CAR sets a cap on emissions associated with covered entities, which decreases over time approximately 5.0% every three years. Entities must reduce their carbon emissions, or purchase emission reduction units (ERUs), as defined under the rule, from others.

In September 2016, PSE, along with Avista Corporation, Cascade Natural Gas Corporation and NW Natural, filed a lawsuit in the U.S. District Court for the Eastern District of Washington challenging the CAR. In September 2016, the four companies filed a similar challenge to the CAR in Thurston County Superior Court. In March 2018, the Thurston County Superior Court invalidated the CAR. The Department of Ecology appealed the Superior Court decision in May 2018. As a result of the appeal, direct review to the Washington State Supreme Court was granted and oral argument was held on March 16, 2019. In January 2020, the Washington Supreme Court affirmed that CAR is not valid for “indirect emitters” meaning it does not apply to the sale of natural gas for use by customers. The court ruled, however, that the rule can be severed and is valid for direct emitters including electric utilities with permitted air emission sources, but remanded the case back to the Thurston County to determine which parts of the rule survive. Ecology and the four parties asked Thurston County to stay this case until the 2020 Washington State legislative session concluded and now Ecology plans to ask the court to extend the stay until the COVID-19 pandemic is over. Meanwhile, the four companies moved to voluntarily dismiss the federal court litigation without prejudice in March 2020.

## **Related Party Transactions**

In August 2015, PSE filed a proposal with the Washington Commission to develop an LNG facility at the Port of Tacoma. The Tacoma LNG facility will provide peak-shaving services to PSE’s natural gas customers, and will provide LNG as fuel to transportation customers, particularly in the marine market. Following a mediation process and the filing of a settlement stipulation by PSE and all parties, the Washington Commission issued an order on October 31, 2016, that allowed PSE’s parent company, Puget Energy, to create a wholly-owned subsidiary, named Puget LNG, which was formed on November 29, 2016, for the sole purpose of owning, developing and financing the non-regulated activity of the Tacoma LNG facility. Puget LNG has entered into one fuel supply agreement with a maritime customer and is marketing the facility’s expected output to other potential customers.

The Tacoma LNG facility is currently under construction. Pursuant to the Washington Commission’s order, Puget LNG will be allocated approximately 57.0% of the capital and operating costs of the Tacoma LNG facility and PSE will be allocated the remaining 43.0% of the capital and operating costs. PSE and Puget LNG are considered related parties with similar ownership by Puget Energy. Therefore, capital and operating costs that occur under PSE and are allocated to Puget LNG are related party transactions by nature. Per this allocation of costs, \$224.5 million of construction work in progress and \$0.7 million of operating costs related to Puget LNG’s portion of the Tacoma LNG facility are reported in the Puget Energy "Other property and investments" and "Non-utility expense and other" financial statement line items, respectively, as of June 30, 2020. The portion of the Tacoma LNG facility allocated to PSE will be subject to regulation by the Washington Commission.

## **IBEW Union Contract**

The International Brotherhood of Electrical Workers (IBEW) Local 77 union and PSE reached an agreement on a new contract, which was ratified on March 26, 2020, upon the IBEW vote approving the provisions and took effect on April 1, 2020. The contract is for six years and will expire March 31, 2026.

## **Item 3. Quantitative and Qualitative Disclosure about Market Risk**

The Company is exposed to various forms of market risk, consisting primarily of fluctuations in commodity prices, counterparty credit risk, as well as interest rate risk. PSE maintains risk policies and procedures to help manage the various risks. There have been no material changes to market risks affecting the Company from those set forth in Part II, Item 7A - "Quantitative and Qualitative Disclosures about Market Risk" of the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

### **Commodity Price Risk**

The nature of serving regulated electric and natural gas customers with its portfolio of owned and contracted electric generation resources exposes PSE and its customers to some volumetric and commodity price risks. PSE’s Energy

Management Committee establishes energy risk management policies and procedures to manage commodity and volatility risks and the related effects on credit, tax, accounting, financing and liquidity.

PSE's objective is to minimize commodity price exposure and risks associated with volumetric variability in the natural gas and electric portfolios. It is not engaged in the business of assuming risk for the purpose of speculative trading. PSE hedges open natural gas and electric positions to reduce both the portfolio risk and the volatility risk in prices.

### **Counterparty Credit Risk**

PSE is exposed to credit risk primarily through buying and selling electricity and natural gas to serve customers. Credit risk is the potential loss resulting from a counterparty's non-performance under an agreement. PSE manages credit risk with policies and procedures for counterparty analysis and measurement, monitoring and mitigation of exposure. Additionally, PSE has entered into commodity master arrangements (i.e., WSPP, Inc. (WSPP), International Swaps and Derivatives Association (ISDA) or North American Energy Standards Board (NAESB)) with its counterparties to mitigate credit exposure.

### **Interest Rate Risk**

The Company believes its interest rate risk primarily relates to the use of short-term debt instruments, variable-rate leases and anticipated long-term debt financing needed to fund capital requirements. The Company manages its interest rate risk through the issuance of mostly fixed-rate debt with varied maturities. The Company utilizes internal cash from operations, borrowings under its commercial paper program, and its credit facilities to meet short-term funding needs. During periods of financial market or interest rate volatility, the Company may utilize its credit facilities for short term funding needs instead of the commercial paper program. Credit facility borrowings are based on a more stable base rate and the credit spread is fixed. Short-term obligations are commonly refinanced with fixed-rate bonds or notes when needed and when interest rates are considered favorable. The Company may also enter into swaps or other financial hedge instruments to manage the interest rate risk associated with the debt.

## **Item 4. Controls and Procedures**

### **Puget Energy**

#### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of Puget Energy's management, including the President and Chief Executive Officer and Senior Vice President and Chief Financial Officer, Puget Energy has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of June 30, 2020, the end of the period covered by this report. Based upon that evaluation, the President and Chief Executive Officer and Senior Vice President and Chief Financial Officer of Puget Energy concluded that these disclosure controls and procedures are effective.

#### **Changes in Internal Control over Financial Reporting**

During 2018, Puget Energy implemented internal controls covering the evaluation and assessment of leasing contracts related to the adoption of the new leasing standard as of January 1, 2019.

There have been no changes in Puget Energy's internal control over financial reporting during the quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, Puget Energy's internal control over financial reporting.

### **Puget Sound Energy**

#### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of PSE's management, including the President and Chief Executive Officer and Senior Vice President and Chief Financial Officer, PSE has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of June 30, 2020, the end of the period covered by this report. Based upon that evaluation, the President and Chief Executive Officer and Senior Vice President and Chief Financial Officer of PSE concluded that these disclosure controls and procedures are effective.

## **Changes in Internal Control over Financial Reporting**

During 2018, PSE implemented internal controls covering the evaluation and assessment of leasing contracts related to the adoption of the new leasing standard as of January 1, 2019.

There have been no changes in PSE's internal control over financial reporting during the quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, PSE's internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings**

Contingencies arising out of the Company's normal course of business existed as of June 30, 2020. Litigation is subject to numerous uncertainties and the Company is unable to predict the ultimate outcome of these matters. For details on legal proceedings, see Note 8, "Commitments and Contingencies" in the Combined Notes to Consolidated Financial Statements in Item I.

### **Item 1A. Risk Factors**

The following represents a material change in our risk factors from those disclosed in Part 1, Item 1A of our Form 10-K for the year ended December 31, 2019.

**PSE faces risks related to the COVID-19 pandemic and other outbreaks that could have a material adverse impact on our business and results of operations.** Business disruptions arising from stay at home mandates due to the COVID-19 pandemic has adversely affected economic activity within Washington State and the United States of America. We cannot predict the degree that the continued spread of COVID-19 and efforts to contain the virus (including, but not limited to, voluntary and mandatory quarantines, restrictions on travel, limiting gatherings of people, and reduced operations and extended closures of many businesses and institutions) could materially impact our results of operations, financial condition and ongoing operations. The impacts include but are not limited to:

- impacting customer demand for electricity and natural gas by our customers, particularly from commercial and industrial customers;
- reducing the availability and productivity of our employees;
- causing us to experience an increase in costs as a result of our emergency measures, delayed payments from our customers and uncollectible accounts;
- causing delays and disruptions in the availability of and timely delivery of materials and components used in our operations;
- causing a deterioration in our financial metrics or the business environment that impacts our credit ratings;
- causing significant disruption in the financial markets which could have a negative impact on our ability to access capital in the future and cost of capital;
- resulting in our inability to meet the requirements of the covenants in our existing credit facilities, including covenants regarding the ratio of total debt to total capitalization; and
- disrupting our ability to meet customer requirements and potentially significantly increase response costs.

### **Item 6. Exhibits**

Included in the Exhibit Index are a list of exhibits filed as part of this Quarterly Report on Form 10-Q.

## **EXHIBIT INDEX**

- [3\(i\).1 Amended Articles of Incorporation of Puget Energy \(incorporated herein by reference to Exhibit 3.1 to Puget Energy's Current Report on Form 8-K, dated February 6, 2009, Commission File No. 1-16305\).](#)
- [3\(i\).2 Amended and Restated Articles of Incorporation of Puget Sound Energy, Inc. \(incorporated herein by reference to Exhibit 3.2 to Puget Sound Energy's Current Report on Form 8-K, dated February 6, 2009, Commission File No. 1-4393\).](#)
- [3\(ii\).1 Amended and Restated Bylaws of Puget Energy dated February 6, 2009 \(incorporated herein by reference to Exhibit 3.3 to Puget Energy's Current Report on Form 8-K, Commission File No. 1-16305\).](#)
- [3\(ii\).2 Amended and Restated Bylaws of Puget Sound Energy, Inc. dated February 6, 2009 \(incorporated herein by reference to Exhibit 3.4 to Puget Sound Energy's Current Report on Form 8-K, Commission File No. 1-4393\).](#)
- [4.1 Fifth Supplemental Indenture dated May 19, 2020 relating to Puget Energy's 4.100% Senior Secured Notes due 2030 \(incorporated herein by reference to Exhibit 4.1 to Puget Energy's Current Report on Form 8-K Filed May 19, 2020, Commission File No. 1-16305\).](#)
- [4.2 Registration Rights Agreement, dated as of May 19, 2020, among Puget Energy, Inc., Barclays Capital Inc., J.P. Morgan Securities LLC and Mizuho Securities USA LLC, as representatives of the several initial purchasers party thereto \(incorporated herein by reference to Exhibit 4.6 to Puget Energy's Current Report on Form 8-K Filed May 19, 2020, Commission File No. 1-16305\).](#)
- [31.1\\* Chief Executive Officer certification of Puget Energy pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- [31.2\\* Principal Financial Officer certification of Puget Energy pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- [31.3\\* Chief Executive Officer certification of Puget Sound Energy pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- [31.4\\* Principal Financial Officer certification of Puget Sound Energy pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- [32.1\\* Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- [32.2\\* Principal Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101 Financial statements from the Quarterly Report on Form 10-Q of Puget Energy, Inc. and Puget Sound Energy, Inc. for the quarter ended June 30, 2020 filed on August 05, 2020 formatted in XBRL: (i) the Consolidated Statement of Income (Unaudited), (ii) the Consolidated Statements of Comprehensive Income (Unaudited), (iii) the Consolidated Balance Sheets (Unaudited), (iv) the Consolidated Statements of Cash Flows (Unaudited), and (v) the Notes to Consolidated Financial Statements (submitted electronically herewith).

---

\* *Filed herewith.*

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

**PUGET ENERGY, INC.**  
**PUGET SOUND ENERGY, INC.**

/s/ Stephen King

Stephen King  
Controller & Principal Accounting Officer

Date: August 5, 2020



## **ATTACHMENT B**

**COLSTRIP UNIT 4 PURCHASE AND SALE AGREEMENT**

**by and between**

**NORTHWESTERN CORPORATION**

**and**

**PUGET SOUND ENERGY, INC.**

**Dated December 9, 2019**

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE 1 DEFINITIONS.....	1
Section 1.1    Certain Defined Terms.....	1
Section 1.2    Interpretation.....	9
ARTICLE 2 PURCHASE AND SALE OF THE COLSTRIP 4 INTERESTS .....	10
Section 2.1    Purchase and Sale of Colstrip 4 Interests.....	10
Section 2.2    Purchase Price.....	12
Section 2.3    Assumption of Liabilities.....	12
Section 2.4    Ad Valorem Real and Personal Property Taxes. ....	12
ARTICLE 3 CLOSING; CONDITIONS PRECEDENT.....	13
Section 3.1    Closing.....	13
Section 3.2    Closing Deliveries by Buyer.....	13
Section 3.3    Closing Deliveries by Seller .....	13
Section 3.4    Conditions Precedent to the Closing Obligations of Buyer .....	14
Section 3.5    Conditions Precedent to the Closing Obligations of Seller .....	15
Section 3.6    Failure to Close.....	16
ARTICLE 4 REPRESENTATIONS AND WARRANTIES OF SELLER.....	16
Section 4.1    Organization and Good Standing.....	16
Section 4.2    Authority .....	17
Section 4.3    Enforceability.....	17
Section 4.4    Title to Colstrip 4 Interests .....	17
Section 4.5    No Violation or Breach.....	17
Section 4.6    Consents.....	17
Section 4.7    Material Contracts.....	18
Section 4.8    No Disputes; Litigation.....	18
Section 4.9    Brokerage Fees and Commissions .....	18
Section 4.10   Bankruptcy.....	18
Section 4.11   Records .....	18
ARTICLE 5 REPRESENTATIONS AND WARRANTIES OF BUYER.....	18
Section 5.1    Organization and Qualification.....	18
Section 5.2    Authority .....	18
Section 5.3    Enforceability.....	19
Section 5.4    No Violation or Breach.....	19
Section 5.5    Consents.....	19
Section 5.6    No Disputes; Litigation.....	19
Section 5.7    Brokerage Fees and Commissions .....	19
Section 5.8    Bankruptcy.....	19
Section 5.9    Regulatory Matters.....	19
ARTICLE 6 ACCESS AND CONFIDENTIALITY.....	20

Section 6.1	General Access.....	20
Section 6.2	Confidential Information .....	20
ARTICLE 7 COVENANTS OF SELLER AND BUYER .....		21
Section 7.1	Conduct of Business Pending Closing.....	21
Section 7.2	Public Announcements .....	22
Section 7.3	Actions by Parties .....	22
Section 7.4	Further Assurances.....	22
Section 7.5	Records .....	23
Section 7.6	Regulatory and Other Authorizations and Consents Filings.....	23
Section 7.7	Fees and Expenses .....	25
Section 7.8	Tax Matters. ....	25
Section 7.9	Right of First Refusal.....	25
Section 7.10	Updates to Disclosure Schedules.....	26
Section 7.11	Transfers of Interests.....	26
ARTICLE 8 LIABILITY AND INDEMNIFICATION .....		26
Section 8.1	Survival.....	26
Section 8.2	AOC and CCR Rules .....	26
Section 8.3	Decommissioning .....	27
Section 8.4	Pension Costs .....	27
Section 8.5	Other Losses Allocated Based on Pre-Closing Date Project Shares.....	28
Section 8.6	Losses Allocated Based on Post-Closing Date Project Shares .....	28
Section 8.7	Disagreements Regarding Causes of Losses.....	28
Section 8.8	Resolution if Executive Negotiations Do Not Succeed. ....	29
Section 8.9	Indemnification By Seller.....	30
Section 8.10	Indemnification By Buyer.....	30
Section 8.11	Third Party Claims.....	31
Section 8.12	Direct Claims .....	32
Section 8.13	Acknowledgement .....	33
ARTICLE 9 TERMINATION AND REMEDIES .....		33
Section 9.1	Methods of Termination .....	33
Section 9.2	Effect of Termination.....	34
Section 9.3	No Liability.....	35
ARTICLE 10 DISPUTE RESOLUTION .....		35
Section 10.1	Mutual Discussions.....	35
Section 10.2	Arbitration.....	35
ARTICLE 11 OTHER PROVISIONS.....		36
Section 11.1	Counterparts.....	36
Section 11.2	Governing Law .....	36
Section 11.3	Entire Agreement.....	37
Section 11.4	Notices .....	37
Section 11.5	Successors and Assigns.....	38
Section 11.6	Amendments .....	38

Section 11.7	Agreement for the Parties' Benefit Only .....	38
Section 11.8	Severability .....	38
Section 11.9	Bulk Sales or Transfer Laws.....	38
Section 11.10	No Waiver.....	38
Section 11.11	Cumulative Remedies .....	39
Section 11.12	Further Assurances.....	39
Section 11.13	Counterparts; Effectiveness .....	39
Section 11.14	Specific Performance .....	39

## EXHIBITS AND SCHEDULES

### Exhibits:

Exhibit A	Assignment and Assumption Agreement
Exhibit B	Excluded Assets
Exhibit C	Power Purchase Agreement
Exhibit E	Water Rights Transfer Certificate
Exhibit F	Vote Sharing Agreement
Exhibit G	Buyer's Officer's Certificate
Exhibit H	Seller's Officer's Certificate
Exhibit I	Form of Deed Conveying Seller's Interest and
Exhibit J	Form of Waiver of Right of First Refusal

### Schedules:

Schedule 1.1	Water Rights
Schedule 2.1(a)	Real Property
Schedule 2.1(b)	Common Facilities Interest and Associated Assets
Schedule 2.1(c)	Material Contracts
Schedule 4.4	Title to Colstrip 4 Interests
Schedule 4.5	No Violation or Breach
Schedule 4.6	Seller's Consents
Schedule 4.7	Material Contracts
Schedule 5.5	Buyer's Consents
Schedule 7.1	Conduct of Business Pending Closing
Schedule 8.5	Other Losses Allocated Based on Pre-Closing Project Shares
Schedule 8.6	Losses Allocated Based on Post-Closing Project Shares

## **COLSTRIP UNIT 4 PURCHASE AND SALE AGREEMENT**

THIS COLSTRIP UNIT 4 PURCHASE AND SALE AGREEMENT (this “*Agreement*”), dated as of December 9, 2019, is by and between NORTHWESTERN CORPORATION, a Delaware corporation (“*Buyer*”), and PUGET SOUND ENERGY, INC., a Washington public utility corporation (“*Seller*”). Buyer and Seller are sometimes referred to herein individually as a “*Party*” and, collectively, as the “*Parties*.”

### **RECITALS**

WHEREAS, Seller is the Owner with respect to a twenty-five percent (25%) undivided interest in the 740MW Colstrip Unit 4, a coal-fired, base-load electric generation facility located in Colstrip, Montana (“*Colstrip Unit 4*”) and in all associated real property, equipment, common real property and common equipment and facilities and all rights incidental thereto, as more specifically defined in Section 2.1 (the “*Colstrip 4 Interests*”).

WHEREAS, Seller desires to sell and convey to Buyer, and Buyer desires to purchase and acquire from Seller, all of Seller’s interest the Colstrip 4 Interests, on the terms and subject to the conditions hereinafter set forth.

WHEREAS, Seller and Buyer are entering into this Agreement to evidence their respective duties, obligations, and responsibilities in respect of the purchase and sale of the Colstrip 4 Interests as contemplated herein.

WHEREAS, certain capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in ARTICLE 1 hereof.

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements contained in this Agreement, and intending to be legally bound, the Parties agree as follows:

### **ARTICLE 1 DEFINITIONS**

**Section 1.1 Certain Defined Terms.** As used in this Agreement, the following terms have the respective meanings set forth below or set forth in the Sections referred to below:

“AAA” is defined in Section 10.2(a).

“*Action*” means any action, suit, investigation of which Seller has Knowledge, proceeding, condemnation, or audit by or before any court or other Governmental Authority or any arbitration proceeding.

“*Ad Valorem Property*” is defined in Section 2.4(a).

“*Affiliate*” means, as to the Person specified, any Person controlling, controlled by or under common control with such specified Person. The concept of control, controlling or controlled by as used in the aforesaid context means the possession, directly or indirectly, of the

power to direct or cause the direction of the management and policies of another, whether through the ownership of voting securities, by contract or otherwise. No Person shall be deemed an Affiliate of any Person solely by reason of the exercise or existence of rights, interests, or remedies under this Agreement.

“*Agreement*” is defined in the preamble.

“*Allocation Dispute Notice*” is defined in Section 8.7.

“*Allocation Dispute Notice Response*” is defined in Section 8.7.

“*AOC*” means the means the Administrative Order on Consent Regarding Impacts Related to Wastewater Facilities Compromising the Closed-Loop System at Colstrip Steam Electric Station, Colstrip Montana entered into between PPL Montana, LLC (n/k/a Talen Montana, LLC) and the Montana Department of Environmental Quality in July and August of 2012, as amended by the March 1, 2017 Agreement to Amend Administrative Order on Consent.

“*Assignment and Assumption Agreement*” means an Assignment of the Material Contracts from Seller to Buyer to be dated as of the Closing Date and substantially in the form set forth on Exhibit A.

“*Assumed Liabilities*” is defined in Section 2.3.

“*Business Day*” means any day which is not a Saturday, Sunday, or legal holiday in the state of Montana.

“*Buyer*” is defined in the preamble.

“*Buyer’s Consents*” means the consents, filings and notices required to be obtained by Buyer and delivered at the Closing as listed on Section 5.5.

“*Buyer Fundamental Representations*” means the representations and warranties of Buyer set forth in Section 5.1 (Organization and Qualification), Section 5.2 (Authority), Section 5.3 (Enforceability), and Section 5.7 (Brokerage Fees and Commissions).

“*CCR Rules*” means those Environmental Laws relating to the release, discharge, disposal, storage, remediation, or removal of coal combustion residuals, including those rules issued by the United States Environmental Protection Agency pursuant to subtitle D of the Resource Conservation and Recovery Act.

“*Closing*” means the consummation of the transaction contemplated by this Agreement as further defined in Section 3.1.

“*Closing Date*” is defined in Section 3.1.

“*Closing Documents*” means the documents to be delivered by Buyer and Seller at the Closing in accordance with Section 3.2 and Section 3.3, respectively.



“Code” means the Internal Revenue Code of 1986, as amended.

“Colstrip 4 Interests” is defined in the Recitals and further defined in Section 2.1.

“Colstrip Unit 3” means the coal-fired thermal generating plant commonly referred to as Colstrip Unit 3, located near Colstrip, Montana.

“Colstrip Unit 4” is defined in the Recitals.

“Colstrip Units 1 & 2” means the coal-fired thermal generating plant, consisting of two units commonly referred to as “Colstrip Units 1 & 2,” located near Colstrip, Montana.

“Commercially Reasonable Efforts” means efforts which are reasonably necessary to cause, or assist in, the consummation of the transactions contemplated by this Agreement and which do not require the performing Party to (i) expend funds, incur expenses or assume liabilities other than those which are reasonable in nature and amount within the context of the transactions contemplated by this Agreement or (ii) amend, waive or terminate the material terms of any Material Contract or arrangement to which the performing Party is a party; *provided* that the Parties will cooperate to amend the Ownership and Operation Agreement and the Common Facilities Agreement to the degree required to give effect to the transactions contemplated by this Agreement.

“Committee” has the meaning assigned to it under the Ownership and Operation Agreement.

“Common Facilities” has the meaning assigned to it under the Ownership and Operation Agreement.

“Common Facilities Interest” is defined in Section 2.1(b).

“Confidentiality Agreement” is defined in Section 6.2.

“Damages” is defined in Section 8.9.

“Debt” of any Person means at any date, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business and payable not more than 12 months from the date of incurrence, (iv) all obligations of such Person as lessee under any lease of any property (whether real, personal or mixed) by that Person as lessee that, in conformity with GAAP, has been or would be required to be accounted for as a capital lease on the consolidated balance sheet of that Person, (v) the undrawn face amount of any outstanding letters of credit issued in favor of such Person, and all obligations of such Person to reimburse or prepay any bank or other Person in respect of amounts paid under a letter of credit, banker’s acceptance or similar instrument, (vi) all Debt or other monetary obligations (of such Person or of others) secured by any mortgage, lien, pledge, charge, security interest or encumbrance of any kind on any asset of such Person, whether or not such Debt or other monetary obligation is assumed by such Person, (vii) all obligations of such Person

to pay a specified purchase price for assets, goods, securities or services whether or not delivered or accepted (including take-or-pay arrangements and similar obligations), (viii) all obligations of such Person under conditional sale or other title retention agreements (even if the remedies of the sellers or lenders under such agreements in the event of a default thereunder are limited to the repossession or sale of the property or assets covered thereby), and (ix) all Debt or other monetary obligations of others in respect of which such Person has any contingent liability, including without limitation any guarantee.

“*Disclosure Schedule*” is defined in the preamble of ARTICLE 4.

“*Dispute*” is defined in Section 10.1.

“*Dispute Notice*” is defined in Section 10.1.

“*Dispute Notice Response*” is defined in Section 10.1.

“*Employee Benefit Plans*” means any retirement plan, welfare plan, stock option plan, equity or equity based plan, bonus plan, change-in-control, retention, incentive award plan, severance pay plan or policy, deferred compensation plan or policy, executive compensation or supplemental income plan or policy, vacation, sick leave, disability, death benefit, group insurance, hospitalization, medical, dental, life or any other employee benefit plan or program, including, without limitation, each “employee benefit plan” within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), “multiemployer plan” within the meaning of Section 4001(a)(3) of ERISA and other employee benefit plan, program, policy, practice, agreement or arrangement, whether or not subject to ERISA.

“*Environmental Laws*” means any Law relating to pollution control or the protection of the environment, including: (a) (i) the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601 et seq., (ii) the Solid Waste Disposal Act, §§ 6901 et seq., (iii) the Federal Water Pollution Control Act, 33 U.S.C. §§ 1251 et seq., (iv) the Clean Air Act, 42 U.S.C. §§ 7401 et seq., (v) the Hazardous Materials Transportation Act, 49 U.S.C. §§ 1471 et seq., (vi) the Toxic Substances Control Act, 15 U.S.C. §§ 2601 et seq., and (vii) the Safe Drinking Water Act, 42 U.S.C. §§ 300f-300j; and (b) such Laws imposing requirements pertaining to (i) any Hazardous Substance, (ii) the manufacture, possession, presence, use, generation, transportation, treatment, storage, disposal, Release or threatened Release of any Hazardous Substance, (iii) reporting, licensing, permitting, or investigation in connection with such activities or (iv) any abatement, removal, remedial, corrective or other corrective action in connection with any Hazardous Substance; and (c) such Laws imposing requirements pertaining to the protection of health or safety of employees or the public.

“*Environmental Liabilities*” means all liabilities involving or arising out of the operation or ownership of the Colstrip 4 Interests and arising out of or resulting from or relating to any Environmental Law or any Hazardous Substance.

“*ERISA Affiliate Liability*” means any liabilities, obligations or responsibilities (whether contingent or otherwise) imposed by law on Seller relating to any Employee Benefit Plan maintained by any trade or business (whether or not incorporated) which are or have been within

the last six years under common control with Seller within the meaning of Section 414(b), (c), (m) or (o) of the Code (an “*ERISA Affiliate*”), including (i) liability to any multiemployer plan contributed to, or obligated to contribute to, by the Seller or any of their ERISA Affiliates, including without limitation any liability to the Pension Benefit Guaranty Corporation under Title IV of ERISA and (ii) liability with respect to non-compliance with the notice and benefit continuation requirements of COBRA.

“*Excluded Assets*” means those assets listed on Exhibit B.

“*FERC*” means the Federal Energy Regulatory Commission, or any successor to its functions.

“*FERC 203 Approval*” means the authorization from FERC to transfer certain of the Colstrip 4 Interests to Buyer pursuant to Section 203 of the Federal Power Act.

“*Final Order*” is defined in Section 8.12(h).

“*GAAP*” means generally accepted accounting principles consistently applied as in effect on the date of this Agreement in the United States.

“*Governmental Authority*” means (i) the federal government of the United States of America, (ii) any state, county, municipality, or other governmental subdivision within the United States of America, and (iii) any executive, legislative or judicial court, department, commission, board, bureau, agency, or other instrumentality of the federal government of the United States of America or of any state, county, municipality, or other governmental subdivision within the United States of America.

“*Hazardous Substance*” means any substance or material listed, defined or classified as a pollutant, contaminant, hazardous substance, toxic substance, hazardous waste or words of similar import under any Environmental Law, including petroleum, polychlorinated biphenyls, and asbestos in any form, or any coal combustion materials or by-products.

“*Indemnification Dispute Notice*” is defined in Section 8.12(b).

“*Indemnified Party*” is defined in Section 8.11(a).

“*Indemnifying Party*” is defined in Section 8.11(a).

“*Indemnity Claim Amount*” is defined in Section 8.12(b).

“*Knowledge*” means, with respect to Seller, the actual knowledge of any fact, circumstance, or condition, assuming reasonable inquiry of their direct reports, by Ron Roberts, and with respect to Buyer, the actual knowledge of any fact, circumstance, or condition, assuming reasonable inquiry of their direct reports, by John Hines.

“*Labor Laws*” means any and all Laws relating in any manner to employment, employees and/or individuals performing work as consultants or contractors, including employment standards, employment of minors, employment discrimination, health and safety, labor relations,

unions, withholding, wages and hours and overtime of any kind, work authorization verification, workplace safety and insurance and pay equity.

“*Law*” means any law, statute, rule, regulation, ordinance, standard, code, order, judgment, decision, writ, injunction, decree, certificate of need, award, or other governmental restriction, including any published and publicly available policy or procedure enforceable by any Governmental Authority.

“*Lien*” means any lien, security interest, charge, claim, mortgage, deed of trust, option, warrant, purchase right, lease, pledge, easement, right-of-way, encroachment, building or use restrictions, conditional sales agreement or other encumbrance.

“*Losses*” means any and all claims, liabilities, losses, causes of action, damages, judgments, obligations, deficiencies, demands, fines, penalties, litigation, lawsuits, administrative proceedings, administrative investigations, costs, and expenses, Environmental Liabilities, and ERISA Affiliate Liability, including reasonable attorneys’ fees, court costs, investigator expenses, and other costs of suit.

“*Material Adverse Effect*” means a material and adverse effect on (i) the ability of Seller or Buyer to consummate the transactions contemplated by this Agreement or otherwise to comply with its obligations hereunder or (ii) the business, assets, financial condition, or results of operations comprising the Colstrip 4 Interests, in each case taken as a whole, including without limitation (a) any change in any applicable Law if such change has an effect on the Colstrip 4 Interests that is disproportionate to the effect on other coal generation facilities, (b) the Colstrip 4 Interests are substantially damaged or destroyed by any casualty event or a substantial portion of the Colstrip 4 Interests are taken, in part or on whole by any Governmental Authority, (c) changes or developments in national, regional, state, or local wholesale or retail markets for electric power, fuel, or related products, including seasonal changes, (including changes in commodity prices or the effects of actions by competitors), if such matters have an effect on the Colstrip 4 Interests that is disproportionate to the effect on other coal generation facilities; and (d) changes or developments in national, regional, state, or local electric transmission or distribution systems, if such matters have an effect on the Colstrip 4 Interests that is disproportionate to the effect on other coal generation facilities; *provided, however*, that such determination shall exclude (A) general economic or political conditions; (B) conditions generally affecting the industries in which the Colstrip 4 Interests operate; (C) any changes in financial, banking or securities markets in general, including any disruption and any decline in the price of any security or any market index or change in prevailing interest rates; (D) any adverse change or effect principally attributable to the announcement, pendency, or consummation of the transactions contemplated by this Agreement (including any action required or permitted by this Agreement with the written consent of or at the written request of Buyer, decrease in customer demand, any reduction in revenues, any disruption in supplier, partner or similar relationships, or any loss of employees attributable thereto but excluding any failure to obtain Required Regulatory Approvals); (E) any outbreak or escalation of hostilities or the declaration by the United States of a national emergency or war; (F) any failure by the Colstrip 4 Interests meet any internal or published projections, forecasts or supply predictions; (G) any matter of which Buyer is aware of on the date hereof; or (H) any acts of terrorism, any other international or domestic calamity or crisis or geopolitical event, except to the extent such

matters in subsections (A), (B), (C), (E) or (F) have an effect on the Colstrip 4 Interests that is disproportionate to the effect on other coal generation facilities.

“*Material Contracts*” is defined in Section 2.1(c).

“*MPSC*” means the Montana Public Service Commission.

“*Notice of Claim*” is defined in Section 8.12(a).

4. “*Operator*” means Talen Montana, LLC, the operator of Colstrip Unit 3 and Colstrip Unit

“*Owner*” has the meaning assigned to it under the Ownership and Operation Agreement.

“*Ownership and Operation Agreement*” means the Ownership and Operation Agreement, dated May 6, 1981, as amended by Amendment No. 1 dated October 11, 1991, Amendment No. 2 dated July 13, 1998, Amendment No. 3 entered into in 2004, and Amendment No. 4 entered into in 2008, between Buyer, Seller, Portland General Electric Company, the Washington Water Power Company (now Avista) and Pacific Power & Light Company (now PacifiCorp).

“*Party*” is defined in the preamble.

“*Permits*” means written permits, licenses, franchises, registrations, variances and approvals obtained from any Governmental Authority.

“*Permitted Liens*” means (i) Liens for Taxes not yet due and payable, pledges or deposits made in the ordinary course of business under workers’ compensation legislation, unemployment insurance Laws or similar Laws, good faith deposits made in the ordinary course of business in connection with bids, tenders or contracts, including rent security deposits, (ii) in the case of the Real Property, encumbrances and other restrictions and irregularities to title which exist on the date hereof or on the Closing Date and which were not created by, through or under the Seller, (iii) rights reserved to or vested but not yet asserted respecting any Colstrip 4 Interests by any Governmental Authority by the terms of any franchise, grant, license, Permit or provision of applicable Law, to purchase, condemn, appropriate or recapture, or designate a buyer of the real property, (iv) rights reserved to or vested in any municipality or public authority to control or regulate the use of the real property or to use the real property in any manner, including zoning and land use regulations, and (v) mechanic and other similar liens for amounts not yet due or payable.

“*Person*” means any Governmental Authority or any individual, firm, partnership, corporation, limited liability company, joint venture, trust, unincorporated organization or other entity or organization.

“*post-Closing Date Project Share*” means the Project Share attributable to each of Buyer and Seller after giving effect to the transactions contemplated by this Agreement.

“*PPA*” means the Power Purchase Agreement between Buyer and Seller in the form set forth on Exhibit C.

“*pre-Closing Date Project Share*” means the Project Share attributable to each of Buyer and Seller as specified in the Ownership and Operation Agreement.

“*Pre-Closing Period*” is defined in Section 2.4(a).

“*Project*” has the meaning assigned to it under the Ownership and Operation Agreement.

“*Project Share*” has the meaning set forth in the Ownership and Operation Agreement.

“*Project Users*” has the meaning assigned to it under the Ownership and Operation Agreement.

“*Prudent Utility Practices*” means the practices, methods and acts generally engaged in or approved by the electric utility industry in the United States for similarly situated facilities in the United States during a particular time period, in a manner consistent with Laws, reliability, safety and environmental protection, and taking into consideration the requirements of this Agreement, the Material Contracts and the other contracts affecting the operation of the Colstrip 4 Interests. Prudent Utility Practices are not necessarily intended to require the optimum or best practices, methods or acts to the exclusion of all others, but rather to include a spectrum of possible practices, methods or acts consistent with the immediately preceding sentence.

“*Purchase Price*” is defined in Section 2.2.

“*Real Property*” means the real property interests which are included as part of the Colstrip 4 Interest as set forth on Schedule 2.1(a).

“*Records*” means any and all of the books, records, contracts, agreements and files of the Seller existing on the Closing Date and pertaining to the Colstrip 4 Interests, excluding any information if disclosure to Buyer would, in Seller’s sole discretion, jeopardize any attorney-client, work-product or other privilege or other information reasonably deemed confidential by Seller.

“*Release*” means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing into the environment.

“*Representatives*” means officers, directors, employees and other agents of a particular Person.

“*Required Regulatory Approvals*” means the FERC 203 Approval, and such approvals as may be necessary from the MPSC and the Washington Utilities and Transportation Commission; *provided* that an approval will not be deemed to have been obtained until the date after which all appeals have been fully adjudicated and an appeal may no longer be filed, regardless of whether an appeal is filed.

“*Retained Liabilities*” is defined in Section 2.1.

“*Rules*” is defined in Section 10.2.



“*Seller*” is defined in the preamble.

“*Seller’s Consents*” means the consents, filings and notices required to be obtained by Seller (other than the Required Regulatory Approvals) and delivered at the Closing as listed on Schedule 4.6.

“*Seller Fundamental Representations*” means the representations and warranties of Buyer set forth in Section 4.1 (Organization and Good Standing), Section 4.2 ( Authority), Section 4.3 (Enforceability), Section 4.4 (Title to Colstrip 4 Interests), and Section 4.9 (Brokerage Fees and Commissions).

“*Straddle Period*” is defined in Section 2.4(c).

“*Tax*” or “*Taxes*” means all federal, state, local, foreign and other net income, gross income, estimated, gross receipts, sales, use, ad valorem, transfer, franchise, profits, license, lease, service, service use, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property taxes and levied and pending assessments, windfall profits, value added, commercial rent, customs duties, capital gain, social security, royalty, documentary, environmental or other taxes, or fees, assessments, duties or charges in the nature or taxes, of any kind whatever, together with any interest and any penalties, additions to tax or additional amounts with respect thereto.

“*Tax Return*” means all returns and reports (including elections, declarations, disclosures, attachments, schedules, estimates, information returns, and amended returns and reports) required to be filed with respect to Taxes.

“*Third Party Claim*” is defined in Section 8.11(a).

“*Transfer Taxes*” means all sales, use, excise, stock, stamp, documentary, filing, recording, permit, license, authorization and other similar Taxes, filing fees and similar charges incurred by either Party in connection with the transactions contemplated hereby.

“*Transmission Acquisition Agreement*” means the Purchase and Sale Agreement between Buyer and Seller in connection with Buyer’s purchase of Seller’s undivided interest in the 500 kilovolt Colstrip Project Transmission System.

“*Update*” is defined in Section 7.10.

“*Vote Sharing Agreement*” means the Vote Sharing Agreement between Buyer and Seller in the form set forth on Exhibit F.

“*Water Rights Transfer Certificate*” means a water rights transfer certificate in the form set forth on Exhibit E pursuant to which Seller shall convey to Buyer the water rights listed on Schedule 1.1.

**Section 1.2 Interpretation.** This Agreement shall not be construed against either Party, and no consideration shall be given or presumption made, on the basis of who drafted this

Agreement or any particular provision hereof or who supplied the form of this Agreement. In construing this Agreement:

(a) all references in this Agreement to an “Article,” “Section”, “subsection”, “Exhibit”, or “Schedule” shall be to an Article, Section, subsection, Exhibit, or Schedule of this Agreement, unless the context requires otherwise;

(b) unless the context otherwise requires, the words “this Agreement,” “hereof,” “hereunder,” “herein,” “hereby” or words of similar import shall refer to this Agreement as a whole and not to a particular Article, Section, subsection, clause or other subdivision hereof;

(c) whenever the context requires, the words used herein shall include the masculine, feminine and neuter gender, and the singular and the plural;

(d) examples shall not be construed to limit, expressly or by implication, the matter they illustrate;

(e) the word “includes” and its derivatives means “includes, but is not limited to” and corresponding derivative expressions;

(f) a defined term has its defined meaning throughout this Agreement and in each Exhibit and Schedule hereto, regardless of whether it appears before or after the place where it is defined;

(g) each Exhibit and Schedule to this Agreement is a part of this Agreement, and should be construed in light of each other;

(h) the headings and titles herein are for convenience only and shall have no significance in the interpretation hereof; and

(i) references to a Law, rule, regulation, contract, agreement, or other document mean that Law, rule, regulation, contract, agreement, or document as amended, modified, or supplemented, if applicable.

## ARTICLE 2 PURCHASE AND SALE OF THE COLSTRIP 4 INTERESTS

**Section 2.1 Purchase and Sale of Colstrip 4 Interests.** On the terms and subject to the conditions hereof, Seller covenants and agrees to sell, assign and transfer to Buyer all of Seller’s right, title and interest in, and Buyer covenants and agrees to purchase from Seller, effective as of the Closing, all of Seller’s right, title and interest in, all of the Colstrip 4 Interests, free and clear of any and all Liens, other than Permitted Liens and excluding the Excluded Assets (as hereinafter defined). The assets, properties and rights to be purchased or otherwise transferred to Buyer under this Agreement, all of which solely relate to the Colstrip 4 Interests and, except for Excluded Assets, constitute, or will constitute as of Closing, all of Seller’s interests in or to the Colstrip 4 Interests, are as follows:

(a) all of Seller’s ownership rights to the Real Property;



(b) the portion of Seller's interest in the Common Facilities and associated assets as described on Schedule 2.1(b) which are associated with the Colstrip 4 Interests (the "*Common Facilities Interest*");

(c) the portion of Seller's rights under the contracts, leases and agreements related to the Colstrip 4 Interests and which are associated with the Colstrip 4 Interests, including the contracts, leases and agreement that are set forth on Schedule 2.1(c) (the "*Material Contracts*");

(d) notwithstanding the provisions of Section 2.1(a)-(c) above, the Colstrip 4 Interests shall not include (and the Seller shall retain and the Buyer shall not assume):

(i) all of Seller's rights and interests related to its interest in Colstrip Units 1 & 2 and Colstrip Unit 3 including interests in Common Facilities and associated assets, rights under contracts, leases and agreements, and ownership rights to real property, to the extent such rights are associated with Seller's continued ownership of Colstrip Units 1 & 2 and a portion of Colstrip Unit 3;

(ii) claims arising out of liabilities occurring prior to Closing, including Environmental Liabilities and pension liabilities to the extent and as provided for in Sections 8.2, 8.4 and 8.5;

(iii) claims arising out of those items listed on Schedule 8.5 and as provided for in Section 8.5;

(iv) future decommissioning and demolition costs in connection with the Colstrip 4 Interests to the extent and as provided for in Section 8.3;

(v) any obligation or liability related to or arising out of any of the Excluded Assets;

(vi) any obligation or liability related to or arising out of Actions pending as of the Closing Date against the Seller or any of its Affiliates;

(vii) any obligation or liability (including any future Actions) related to or arising out of the Seller's conduct of the business or ownership of the Colstrip 4 Interests prior to the Closing;

(viii) any ERISA Affiliate Liability or any obligation or liability related to or arising out of any collective bargaining agreement of the Seller, whether prior to, on or after the Closing;

(ix) any ERISA Affiliate Liability or any obligation, liability or expense relating to or arising out of (A) the employment or termination of employment or consultancy of any employee or consultant, or former employee or consultant of the Operator, on or prior to the Closing (B) any collective bargaining agreement of the Operator on or prior to the Closing (C) compliance with or violations of any Labor Laws by the Operator on or prior to the Closing;

(x) any obligation or liability of any kind or nature relating to (A) Taxes of the Seller; and (B) Taxes related to the Seller's conduct of the business or ownership of the Colstrip 4 Interests prior to the Closing (in the case of real property Taxes, as determined in accordance with Section 2.4(a)); and

(xi) any obligation or liability of Seller for any Debt.

The foregoing liabilities listed in this Section 2.1(d) are collectively referred to as the "*Retained Liabilities*" and shall remain and be the obligations and liabilities solely of the Seller.

**Section 2.2 Purchase Price.** The aggregate purchase price and additional consideration for the sale and conveyance of the Colstrip 4 Interests shall be: One Dollar (\$1) (the "*Purchase Price*").

**Section 2.3 Assumption of Liabilities.** Except as otherwise provided in ARTICLE 8, Buyer shall assume and agree to pay, perform and discharge the liabilities and obligations of Seller related to the Colstrip 4 Interests, including without limitation those liabilities and obligations contained in the Material Contracts, but solely with respect to liabilities or obligations arising solely during periods following the Closing Date (the "*Assumed Liabilities*").

**Section 2.4 Ad Valorem Real and Personal Property Taxes.**

(a) Seller shall be responsible for its pre-Closing Date Project Share of all ad valorem Taxes imposed on or with respect to the Real Property and any personal property (the "*Ad Valorem Property*") for all Tax periods (or portion of any Tax period beginning on or before and ending after the Closing Date (a "*Straddle Period*")) ending on or prior to the Closing Date (the "*Pre-Closing Periods*"). The portion of such Taxes for which Seller shall be liable for a Straddle Period shall be determined by multiplying its pre-Closing Date Project Share of the amount of Taxes for the entire Straddle Period by a fraction, the numerator of which is the number of days in such Straddle Period prior to and including the Closing Date and the denominator of which is the total number of days in such Straddle Period.

(b) Any real or personal property tax reductions or refunds with respect to the Ad Valorem Property for or relating to a Pre-Closing Period (as determined in accordance with Section 2.4(a)) shall be for the account of Seller. If Buyer receives a real property Tax refund or credit with respect to the Ad Valorem Property for or relating to a Pre-Closing Period, Buyer shall promptly remit to Seller its pre-Closing Date Project Share of such refund or credit relating to the Pre-Closing Period.

(c) Prior to the Closing Date, Seller shall control and conduct all negotiations, proceedings and communications with the Montana Department of Revenue regarding real property Taxes with respect to the Ad Valorem Property, shall keep Buyer informed regarding such negotiations, proceedings and communications and shall not agree to any settlement with the Montana Department of Revenue that affects any Tax period or portion of a Straddle Period beginning after the Closing Date without Buyer's consent, which consent shall not be unreasonably withheld, conditioned or delayed. From and after the Closing Date, Buyer shall control and conduct all negotiations, proceedings and communications with the Montana Department of Revenue regarding real property Taxes with respect to the Ad Valorem Property,

shall keep Seller informed regarding such negotiations, proceedings and communications, and shall not agree to any settlement with the Montana Department of Revenue that affects any Tax period or portion of a Straddle Period ending on or prior to the Closing Date without Seller's consent, which consent shall not be unreasonably withheld, conditioned or delayed. Seller shall reasonably cooperate with all such negotiations, proceeds and communications.

### **ARTICLE 3 CLOSING; CONDITIONS PRECEDENT**

**Section 3.1 Closing.** The closing of the transactions contemplated by this Agreement (the "*Closing*") shall occur at the offices Dorsey & Whitney LLP, 50 South Sixth Street, Suite 1500, Minneapolis, Minnesota, commencing at 9:00 A.M. or at such other location as may be agreed upon by the Parties on either (i) the second (2nd) Business Day after the satisfaction of all the conditions precedent to the Closing in accordance with Sections 3.4 and 3.5 hereof, or (ii) at such other time or place as may be mutually agreed upon by the Parties in writing. The date on which the Closing occurs is referred to herein as the "*Closing Date*".

**Section 3.2 Closing Deliveries by Buyer.** At the Closing, Buyer shall deliver, or cause to be delivered, to Seller the following:

- (a) The Purchase Price in cash in accordance with Section 2.2 hereof;
- (b) A certificate of an authorized officer of Buyer, dated as of the Closing Date, in the form set forth in Exhibit G, certifying that (i) the representations and warranties of Buyer set forth in ARTICLE 5 are true, correct and complete as of the Closing Date, except in such circumstances as shall not, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect, (ii) the conditions set forth in Section 3.4 have been fulfilled or waived and (iii) the covenants of Buyer set forth in ARTICLE 7 to be performed on or before the Closing Date have been fulfilled or waived in writing by Seller.
- (c) A duly executed copy of the Assignment and Assumption Agreement;
- (d) A copy of the PPA, duly executed by Buyer;
- (e) Duly executed copies of each of the Buyer's Consents;
- (f) A copy of the Vote Sharing Agreement, duly executed by Buyer; and
- (g) Such other documents and certificates as Seller may reasonably request and which are customarily and ordinarily delivered in transactions similar to the transactions to be consummated at the Closing.

**Section 3.3 Closing Deliveries by Seller.** At the Closing, Seller shall execute and deliver, or cause to be executed and delivered, to Buyer the following:

- (a) A duly executed copy of the Assignment and Assumption Agreement;

(b) A certificate of an authorized officer of Seller, dated as of the Closing Date, in the form set forth in Exhibit H, certifying that (i) the representations and warranties of Seller set forth in ARTICLE 4 are true, correct and complete as of the Closing Date, except in such circumstances as shall not, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect, (ii) the conditions set forth in Section 3.5 have been fulfilled or waived and (iii) the covenants of Seller set forth in ARTICLE 7 to be performed on or before the Closing Date have been fulfilled or waived in writing by Buyer;

(c) A copy of the PPA, duly executed by Seller;

(d) Duly executed copies of each of the Seller's Consents;

(e) A copy of the Vote Sharing Agreement, duly executed by Seller;

(f) A certificate that Seller is not a "foreign" person within the meaning of Section 1445 of the Code, which certificate shall set forth all information required by, and otherwise be executed in accordance with, Treasury Regulations Section 1.445-2(b)(2);

(g) A deed in the form attached hereto as Exhibit I conveying Seller's interest in the Real Property subject only to Permitted Liens (i.e., a deed (i) in which Seller warrants that the Real Property is free from all encumbrances made by the Seller other than Permitted Liens and that Seller will defend the same to the Buyer against the lawful claims and demands of all persons claiming by, through or under Seller, but against no other persons; and (ii) that conveys any after-acquired title to the Real Property that Seller may subsequently obtain, but reserving for Seller, for so long as the Colstrip Project Transmission Agreement, dated May 6, 1981, as amended, is in effect, such easements as may be reasonably necessary for the purpose of owning, operating, maintaining, repairing, replacing, or removing any transmission facility and associated equipment in their current locations on the Real Property), all in a form reasonably acceptable to Buyer (which shall include language providing that such easements shall not, other than to a de minimis extent, adversely effect operations on the Real Property as currently conducted);

(h) The Water Rights Transfer Certificate; and

(i) Such other documents and certificates as Buyer may reasonably request and which are customarily and ordinarily delivered in transactions similar to the transactions to be consummated at the Closing.

**Section 3.4 Conditions Precedent to the Closing Obligations of Buyer.** The obligation of Buyer to proceed with the Closing contemplated hereby is subject to the fulfillment or waiver (by the Buyer, in its absolute discretion, by written notice to the Seller) on or prior to the Closing Date, or on or prior to such earlier date if specified below, of all of the following conditions:

(a) Seller shall have delivered to Buyer each of the documents described in Section 3.3.

(b) The representations and warranties of Seller in ARTICLE 4 of this Agreement shall be true and correct without regard to any qualification respecting materiality or Material

Adverse Effect on and as of the Closing Date except in such circumstances as shall not, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect, and the covenants and agreements of Seller to be performed on or before the Closing Date shall have been performed in all material respects in accordance with this Agreement.

(c) Seller shall have obtained and provided copies to Buyer of all the Seller's Consents required for the Closing listed in Schedule 4.6.

(d) Seller shall have obtained and provided a copy to Buyer of the Required Regulatory Approvals.

(e) Seller shall have completed the Initial Closing of the transactions contemplated by Transmission Acquisition Agreement (as such term is defined therein).

(f) No order or decree by any federal or state court or Governmental Authority which prevents the consummation of the sale of the Colstrip 4 Interests contemplated herein shall have been issued and remain in effect (each Party agreeing to use its Commercially Reasonable Efforts to have any such order or decree lifted) and no statute, rule or regulation shall have been enacted by any state or federal government or Governmental Authority which prohibits the consummation of the sale of the Colstrip 4 Interests.

(g) Seller shall have delivered to Buyer evidence of the filing for termination of all Liens that are not Permitted Liens in form and substance reasonably satisfactory to Buyer; *provided* that Seller shall indemnify Buyer for any Losses incurred by Buyer in connection with Seller's failure to terminate any Lien that is not a Permitted Lien.

(h) No event causing or constituting a Material Adverse Effect shall have occurred or be occurring.

**Section 3.5 Conditions Precedent to the Closing Obligations of Seller.** The obligation of Seller to proceed with the Closing contemplated hereby is subject to the fulfillment or waiver (by the Seller, in its absolute discretion, by written notice to the Buyer) on or prior to the Closing Date of all of the following conditions:

(a) Buyer shall have delivered to Seller each of the documents described in Section 3.2.

(b) The representations and warranties of Buyer contained in ARTICLE 5 of this Agreement shall be true and correct without regard to any qualification respecting materiality or Material Adverse Effect on and as of the Closing Date except in such circumstances as shall not, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect, and the covenants and agreements of Buyer to be performed on or before the Closing Date shall have been performed in all material respects in accordance with this Agreement.

(c) Buyer shall have obtained and provided copies to Seller of all of Buyer's Consents required for the Closing listed on Schedule 5.5.

(d) Buyer shall have obtained and provided a copy to Seller of the Required Regulatory Approvals.

(e) Buyer shall have completed the Initial Closing of the transactions contemplated by Transmission Acquisition Agreement (as such term is defined therein).

(f) Buyer shall have delivered the Purchase Price as provided in ARTICLE 2 hereof.

(g) All Owners and Project Users shall have either declined to exercise or executed a waiver substantially in the form attached hereto as Exhibit J with respect to their rights of first refusal contained in Section 24 of the Ownership and Operation Agreement.

(h) No order or, decree by any federal or state court or Governmental Authority which prevents the consummation of the sale of the Colstrip 4 Interests contemplated herein shall have been issued and remain in effect (each Party agreeing to use its Commercially Reasonable Efforts to have any such order or decree lifted) and no statute, rule or regulation shall have been enacted by any state or federal government or Governmental Authority which prohibits the consummation of the sale of the Colstrip 4 Interests.

**Section 3.6 Failure to Close.** In the event of any failure to satisfy or waive the conditions precedent set forth in Section 3.4 or Section 3.5, the termination and other provisions of ARTICLE 9 shall govern to the extent applicable.

#### **ARTICLE 4 REPRESENTATIONS AND WARRANTIES OF SELLER**

As of the date of this Agreement, Seller hereby represents and warrants to Buyer that the statements contained in this ARTICLE 4 (as modified and supplemented by the disclosure schedule delivered to Buyer by Seller contemporaneously herewith setting forth, among other things, items the disclosure of which is necessary or appropriate either in response to an express informational requirement contained in or requested by a provision of this ARTICLE 4, or as an exception to one or more representations or warranties contained in this ARTICLE 4 (the “*Disclosure Schedule*” or “*Schedule*”)) are true and correct, *provided* that the mere inclusion of an item in a Disclosure Schedule as an exception to a representation or warranty or covenant shall not be deemed an admission by a Party that such item (or any undisclosed item or information of comparable or greater significance) represents a material exception or fact, event or circumstance with respect to the Seller. The Disclosure Schedule shall be arranged in sections and paragraphs corresponding to the numbered and lettered sections and paragraphs contained in this ARTICLE 4; *provided*, however, the disclosures in any section or paragraph of the Disclosure Schedule shall qualify as disclosures pursuant to any other sections or paragraphs under the Agreement where such disclosure is reasonably apparent on the face of such disclosures, whether or not repeated under any section number where such disclosure might be deemed appropriate.

**Section 4.1 Organization and Good Standing.** Seller is a public utility corporation duly organized and validly existing under the laws of the State of Washington and each other jurisdiction where such qualification is required, except where the failure to be so qualified has



not had, and is not reasonably likely to have, individually or in the aggregate, a Material Adverse Effect.

**Section 4.2 Authority.** Seller has all requisite power and authority to own, and to carry on its businesses related to, the Colstrip 4 Interests as now being conducted. Seller has all requisite power and authority and as of the Closing will have obtained all other applicable governmental, statutory, regulatory or other consents, licenses, waivers or exemptions necessary to execute and deliver this Agreement and the Closing Documents, and to perform its obligations hereunder and thereunder. The execution, delivery, and performance of this Agreement and the Closing Documents, when executed and delivered in accordance herewith, and the transactions contemplated hereby and thereby have been duly and validly authorized by all requisite action on the part of Seller.

**Section 4.3 Enforceability.** This Agreement has been, and the Closing Documents, when executed and delivered in accordance herewith, will be, duly and validly executed and delivered by Seller and, assuming due and valid authorization, execution and delivery hereof by Buyer, is a valid and binding agreement of Seller, enforceable against it in accordance with their respective terms, subject to (a) applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar Laws of general application from time to time in effect that affect creditors' rights generally, (b) general principles of equity, and (c) the power of a court to deny enforcement of remedies generally based upon public policy.

**Section 4.4 Title to Colstrip 4 Interests.** Seller owns the Colstrip 4 Interests free and clear of all Liens, other than Permitted Liens and those liens set forth on Schedule 4.4 (which will be terminated or released as of the Closing).

**Section 4.5 No Violation or Breach.** Except as set forth in Schedule 4.5, and assuming that all of the Required Regulatory Approvals and Seller's Consents have been obtained, neither the execution and delivery of this Agreement nor the Closing Documents, nor the consummation of the transactions contemplated hereby or thereby and performance of the terms and conditions hereof or thereof by Seller will result in a violation or breach of, or default under, (a) any provision of the organizational documents of Seller and any indenture or (b) any Material Contract under which Seller or the assets comprising Colstrip 4 Interests is bound, except with regard solely to clause (b), any violation, breach or default that would not have a Material Adverse Effect.

**Section 4.6 Consents.** No consent, approval, authorization or permit of, or filing with or notification to, any Person is required for or in connection with the execution and delivery of this Agreement or the Closing Documents by Seller or for, or in connection with, the consummation of the transactions and performance of the terms and conditions contemplated hereby and thereby by Seller except for (a) the Required Regulatory Approvals; (b) the third-party consents, filings, and notices set forth on Schedule 4.6, and (c) immaterial consents, approvals, authorizations, permits, filings or notices. Neither the execution and delivery of this Agreement or the Closing Documents nor the consummation of the transactions and performance of the terms and conditions hereof or thereof by Seller requires the consent, approval, authorization or permit of the MPSC or the Montana Consumer Counsel.

**Section 4.7 Material Contracts.** Except as set forth on Schedule 4.7, Seller is not party to any contract reasonably necessary for Buyer's use of the Colstrip 4 Interests after Closing to which Buyer is not also a party.

**Section 4.8 No Disputes; Litigation.** There is no Action pending, or to Seller's Knowledge, threatened in writing against Seller, except for Actions that would not have a Material Adverse Effect on Seller's ability to perform its obligations under the Closing Documents.

**Section 4.9 Brokerage Fees and Commissions.** Neither Seller nor any Affiliate of Seller has incurred any obligation or entered into any agreement for any investment banking, brokerage, or finder's fee or commission in respect of the transactions contemplated by this Agreement or the Closing Documents for which Buyer or any of Buyer's Affiliates shall incur any liability.

**Section 4.10 Bankruptcy.** There are no bankruptcy, reorganization, or arrangement proceedings pending against, being contemplated by, or to the Knowledge of Seller threatened against, Seller.

**Section 4.11 Records.** Seller has provided to Buyer copies of any final reports, memoranda, audits, studies, or investigations prepared by Seller's internal environmental professionals or outside environmental consultants retained by or on behalf of Seller which analyze, quantify, audit, or report on actual or potential environmental issues, conditions, or Environmental Liabilities connected with the Colstrip 4 Interests, other than any documents protected by the attorney-client privilege or work-product prepared for litigation or in anticipation of litigation at the direction of counsel.

## **ARTICLE 5 REPRESENTATIONS AND WARRANTIES OF BUYER**

As of the date of this Agreement and as of the Closing Date, Buyer represents and warrants to Seller as follows and, except as expressly set forth to the contrary herein, acknowledges that the Seller has entered into this Agreement in reliance upon such representations and warranties:

**Section 5.1 Organization and Qualification.** Buyer is a corporation, duly incorporate, validly existing, and in good standing under the laws of the State of Delaware, and has all requisite corporate power and authority and all necessary permits to carry on its business as now being conducted.

**Section 5.2 Authority.** Buyer has all requisite corporate power and authority to execute and deliver this Agreement and the Closing Documents and to perform its obligations hereunder and thereunder. The execution, delivery, and performance of this Agreement and the Closing Documents, when executed and delivered in accordance herewith, and the transactions contemplated hereby and thereby have been duly and validly authorized by all requisite corporate action on the part of Buyer.



**Section 5.3 Enforceability.** This Agreement has been and, when executed and delivered in accordance herewith, the Closing Documents will be, duly and validly executed and delivered by Buyer and constitute valid and binding obligations of Buyer enforceable against it in accordance with their respective terms, subject to (a) applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, and other similar Laws of general application from time to time in effect that affect creditors' rights generally, (b) general principles of equity, and (c) the power of a court to deny enforcement of remedies generally based upon public policy.

**Section 5.4 No Violation or Breach.** Neither the execution and delivery of this Agreement or the Closing Documents nor the consummation of the transactions and performance of the terms and conditions hereof or thereof by Buyer will (a) result in a violation or breach of any provision of the certificate of incorporation, bylaws or other similar governing documents of Buyer or any material agreement, indenture or other instrument under which Buyer is bound or (b) violate any applicable Law other than such violations as would not, individually or in the aggregate, have a Material Adverse Effect.

**Section 5.5 Consents.** No consent, approval, authorization or permit of, or filing with or notification to, any Person is required for or in connection with the execution and delivery of this Agreement or the Closing Documents by Buyer or for, or in connection with, the consummation of the transactions and performance of the terms and conditions contemplated hereby and thereby by Buyer, except for (a) the Required Regulatory Approvals; (b) the third-party consents, filings, and notices set forth on Schedule 5.5, and (c) consents, approvals, authorizations, permits, filings, or notices that, if not obtained or made, would not, individually or in the aggregate, have a Material Adverse Effect.

**Section 5.6 No Disputes; Litigation.** There is no Action pending, or to Buyer's Knowledge, threatened in writing against Buyer, except for Actions that would not have a Material Adverse Effect on Buyer's ability to perform its obligations under the Closing Documents.

**Section 5.7 Brokerage Fees and Commissions.** Neither Buyer nor any Affiliate of Buyer has incurred any obligation or entered into any agreement for any investment banking, brokerage, or finder's fee or commission in respect of the transactions contemplated by this Agreement or the Closing Documents for which Seller or any of the Seller's Affiliates shall incur any liability.

**Section 5.8 Bankruptcy.** There are no bankruptcy, reorganization, or arrangement proceedings pending against, being contemplated by, or to the Knowledge of Buyer threatened against, Buyer.

**Section 5.9 Regulatory Matters.**

(a) Buyer represents that its acquisition of the Colstrip 4 Interests would not reasonably be expected to result in (i) a denial of any Required Regulatory Approvals primarily based upon Buyer's ability to exercise horizontal or vertical market power or (ii) a denial of any Required Regulatory Approvals primarily based upon any increase in Buyer's horizontal or

vertical market power in the NorthWestern balancing authority area using the standards adopted by FERC in Order No. 697.

(b) Buyer represents that it does not need approval from any Governmental Authority, other than the Required Regulatory Approvals, to acquire the Colstrip 4 Interests.

## ARTICLE 6 ACCESS AND CONFIDENTIALITY

**Section 6.1 General Access.** Seller shall, until the Closing Date (or the earlier termination of this Agreement), (i) cooperate in facilitating reasonable access by Buyer to all of Seller's books, records, contracts, agreements, files, personnel, offices and other facilities and properties, in each case, of Seller, related to the Colstrip 4 Interests and to, (ii) permit Buyer to make such copies and inspections thereof as Buyer may reasonably request, and (iii) furnish Buyer with such financial and operating data and other information with respect to the Colstrip 4 Interests as Buyer may from time to time reasonably request; *provided*, that any such access shall be conducted at Buyer's expense, at a reasonable time and on reasonable notice, under the reasonable supervision of Seller's or Operator's personnel, as appropriate, and in such a manner as to maintain the confidentiality of such information, this Agreement, and the transactions contemplated hereby and not to interfere with the normal operation of the business of Seller or the Colstrip 4 Interests; and *provided, further*, that Buyer and its representatives shall comply with all applicable safety rules, regulations and procedures implemented by Seller or Operator, as the case may be. Seller further agrees to cooperate in facilitating the provision of information by the Operator and its employees of such financial, operating, environmental, and other information with respect to the Colstrip 4 Interests as Buyer may reasonably request.

(b) In addition to Section 6.1(a) above, Seller specifically agrees to facilitate Buyer's environmental due diligence by promptly providing Buyer copies of any documents prepared by Seller's internal environmental professionals or outside environmental consultants retained by or on behalf of Seller which analyze, quantify, audit, or report on actual or potential environmental issues, conditions, or Environmental Liabilities connected with the Colstrip 4 Interests.

(c) Nothing in this ARTICLE 6 shall be construed to permit Buyer or its representatives to have access prior to the Closing to (i) any files, records, contracts, or documents of Seller not relating to the Colstrip 4 Interests, (ii) any bids or offers received by Seller for the sale of any of the Colstrip 4 Interests, it being agreed that all such bids or offers shall be the sole property of Seller, (iii) any jeopardize any attorney-client or other privilege as determined by Seller's sole discretion.

**Section 6.2 Confidential Information.** Buyer and Seller agree to maintain in confidence all information made available to it under this Agreement and to cause their respective officers, directors, agents, employees, representatives, consultants, and advisors to maintain in confidence all information made available to them under this Agreement, all as provided in that certain Mutual Non-Disclosure Agreement between Buyer and Seller dated July 19, 2019 (the "*Confidentiality Agreement*"), and the terms of which are incorporated herein by reference and made a part of this Agreement; *provided* that the Confidentiality Agreement shall terminate upon Closing or two years following the date hereof. In the event that terms of the

Confidentiality Agreement and this Agreement conflict, the terms of the Confidentiality Agreement shall control.

**ARTICLE 7  
COVENANTS OF SELLER AND BUYER**

**Section 7.1 Conduct of Business Pending Closing.** Seller covenants and agrees that:

(a) *Exclusivity.* Upon execution of this Agreement and except as noted below, Seller grants Buyer the exclusive right to acquire the Colstrip 4 Interests until the earlier of the Closing or termination of this Agreement. During such exclusivity period, Seller agrees to: (i) deal with Buyer, or its representatives, exclusively with regard to all aspects of the acquisition of the Colstrip 4 Interests, and (ii) refrain, directly or indirectly, from soliciting, initiating, encouraging, or engaging in any discussions or negotiations with any Person or entering into any agreement, commitment, understanding or transaction with any Person concerning any proposal regarding the acquisition of the Colstrip 4 Interests, or providing any business, financial or other information relating to any such transaction to any person or entity. Notwithstanding the foregoing, Buyer and Seller acknowledge and agree that nothing in this Section 7.1 or elsewhere in this Agreement shall restrict or impair Seller's right or obligation to provide a right of first refusal to the Project Users under the Ownership and Operation Agreement pursuant and subject to Section 7.9. Notwithstanding this Section 7.1(a), nothing in this Section 7.1 shall be construed as limiting the termination rights of the Buyer or Seller under ARTICLE 9 or Buyer's or Seller's rights if any party shall exercise such right of first refusal.

(b) *Conduct of Business.* Pending the Closing, and taking into consideration the fact that the Seller is not the Operator and except as provided for in Section 7.1(a) or as reasonably necessary under emergency circumstances (or if required or prohibited pursuant to applicable Law or the Ownership and Operation Agreement), and always subject to and consistent with the extent of Seller's rights and limitations under the Ownership and Operation Agreement, Seller shall comply with the following:

(i) Seller shall conduct its business related to the Colstrip 4 Interests, and utilize its Commercially Reasonable Efforts to cause the Colstrip 4 Interests to conduct its business in a manner which assumes the long-term operation of Colstrip Unit 4, in the ordinary course in accordance with past practice, and not make any material change with respect thereto;

(ii) Seller shall comply in all material respects with the Ownership and Operation Agreement;

(iii) Seller shall take all Commercially Reasonable Efforts to preserve and protect the Colstrip 4 Interests subject to the terms of the Ownership and Operation Agreement and applicable Laws;

(iv) With respect to any approvals of the Committee: (A) Buyer, following its good faith consideration of Seller's input regarding any matters concerning the Colstrip 4 Interests to be voted upon under the Ownership and Operation Agreement, shall direct all of Seller's votes in connection with the

Colstrip 4 Interests, (B) Seller shall continue to vote on its own behalf in connection with its votes arising from its ownership interest in Colstrip Units 1 & 2 and Colstrip Unit 3 and (C) Buyer and Seller shall consult with each other in good faith regarding any issues regarding both Colstrip Unit 3 and Colstrip Unit 4 and/or Common Facilities prior to voting.

(v) except as set forth on Schedule 7.1, Seller shall not assign, terminate, amend, give any consent with respect to or waive any rights under, in any material respect, any Material Contract;

(vi) Seller shall not take any action or enter into any commitment with respect to or in contemplation of any liquidation, dissolution, recapitalization, reorganization, or other winding up of its business or operations related to the Colstrip 4 Interests, except as required by applicable Laws;

(vii) Seller shall not grant any express further Lien on any of the Colstrip 4 Interests, except for Permitted Liens, those Liens that will be terminated, without cost to Buyer, at Closing;

(viii) Seller shall provide prompt written disclosure to the Buyer of all relevant information which comes to the attention of the Seller in relation to any fact or matter (whether existing on or before the date of this Agreement or arising afterwards) which may constitute a breach of any of the Seller's representations and warranties set forth in ARTICLE 4; and

**Section 7.2 Public Announcements.** Without the prior written approval of the other Party, no Party shall issue, or permit any agent or Affiliate of such Party to issue, any press releases or otherwise make, or cause any agent or Affiliate of such Party to make, any public statements with respect to this Agreement or the Closing Documents or the transactions contemplated hereby or thereby, except when and to the extent that such release or statement is deemed in good faith by the releasing Party to be required to obtain the Required Regulatory Approvals or by applicable Law or under the applicable rules and regulations of a stock exchange or market on which the securities of the releasing Party or any of its Affiliates are listed. In each case to which such exception applies, the releasing Party will use its reasonable efforts to provide a copy of such release or statement to the other Party and incorporate any reasonable changes which are suggested by the non-releasing Party prior to releasing or making the statement.

**Section 7.3 Actions by Parties.** Each Party agrees to use Commercially Reasonable Efforts to satisfy the conditions to the Closing set forth in Sections 3.4 and 3.5; *provided, however*, that neither Buyer nor Seller shall be deemed to have breached its obligations under Section 6.2, Section 7.2 or this Section 7.3 by pursuing the discussions with the MPSC or the Washington Utilities and Transportation Commission or by making any required filings in connection with obtaining the Required Regulatory Approvals.

**Section 7.4 Further Assurances.** Seller and Buyer each agree that from time to time after the Closing, it will execute and deliver or cause its respective Affiliates to execute and

deliver such further agreements, certificates, documents or opinions and take (or cause its respective Affiliates to take) such other action, as may be reasonably necessary to carry out the purposes and intents of this Agreement. If at any time any Party shall reasonably request any further action by any other Party to carry out the purposes of this Agreement and the Closing Documents or to further effectuate the transactions contemplated hereby, such other Party, shall promptly take such action (including the prompt execution and delivery of further instruments and documents).

**Section 7.5     Records.**

(a)     Maintenance. Buyer agrees to maintain the Records in accordance with its records retention policy as maintained in compliance with applicable Laws and Buyer's past practices, or if any of the Records pertain to any claim or dispute pending on the date upon which such records would be destroyed pursuant to Buyer's records retention policy, Buyer shall maintain any of the Records designated by Seller until such claim or dispute is finally resolved and the time for all appeals has been exhausted. Buyer shall give Seller reasonable notice and an opportunity to retain any Records relating to Taxes in the event that Buyer determines to destroy or dispose of them during such period. After the Closing Date, except as might result in a waiver of any attorney/client, work product or like privilege or violate applicable Laws, Buyer shall provide Seller and its representatives during normal business hours, and upon reasonable notice, reasonable access to, and the right to copy, the Records existing as of the Closing Date, at Seller's cost and expense, for the purposes of

(i)     complying with any applicable Law affecting Seller's ownership of the Colstrip 4 Interests prior to the Closing Date;

(ii)    preparing any audit of the books and records of any third party relating to Colstrip Unit 4 prior to the Closing Date, or responding to any audit prepared by such third parties;

(iii)   preparing Tax Returns;

(iv)    responding to or disputing any audit, examination, claim or other proceeding in respect of Taxes; or

(v)     asserting, defending, or otherwise dealing with any inquiry, investigation, claim or dispute under this Agreement or with respect to the Colstrip 4 Interests.

(b)     Privilege. Buyer shall not after the Closing Date intentionally waive the attorney/client, work product, or like privilege of Seller or its Affiliates with respect to any of the Records existing as of the Closing Date, without Seller's prior written consent.

**Section 7.6     Regulatory and Other Authorizations and Consents Filings.**

(a)     General. Each Party shall use Commercially Reasonable Efforts to obtain all authorizations, consents, orders, and approvals of, and to give all notices to and make all filings with, all Governmental Authorities and third parties that may be or become necessary for its

execution and delivery of, and the performance of its obligations under, this Agreement and will cooperate fully with the other Party in promptly seeking to obtain all such authorizations, consents, orders, and approvals, giving such notices, and making such filings.

(b) *Required Regulatory Approvals.* Without limiting the generality of the undertakings pursuant to Section 7.6(a) above, each Party shall (i) use its Commercially Reasonable Efforts to: gather and obtain all necessary information to complete its respective filings in connection with the Required Regulatory Approvals (including all reports, studies, and exhibits related thereto); consult with the other Party regarding any such filings, consider and incorporate all reasonable comments (if any) submitted by the other Party or its representatives; and the Parties shall make such filings as soon as practicable following the execution and delivery of this Agreement, if not already completed; (ii) prior to and during the pendency of any notice and approval period with respect to such filings, (A) consult with the other Party prior to providing any supplemental information to the applicable regulatory authority and provide prompt written notice to the other Party of all discussions and correspondence with the applicable regulatory authorities that reasonably relates to or bears upon such filings, and (B) use all Commercially Reasonable Efforts and act in good faith to expedite and obtain the Required Regulatory Approvals. In furtherance and not in limitation of the foregoing, each of the Parties agrees to use its Commercially Reasonable Efforts to applications with any applicable Governmental Authority whose approval is required in connection with the consummation of the purchase by Buyer of the Colstrip 4 Interests as promptly as practicable following the date of this Agreement, the date of which shall be mutually agreed upon by Buyer and Seller.

(c) *Transfer.* If the transfer of any instrument, contract, license, lease, permit, or Material Contract to Buyer hereunder shall require the consent of any party thereto other than Seller, then such item shall not be assigned to or assumed by Buyer, if an actual or attempted assignment thereof would constitute a breach thereof or default thereunder. In such case, Seller and Buyer shall cooperate and each shall use Commercially Reasonable Efforts to obtain such consents to the extent required by such other parties and, if and when any such consents are obtained, to transfer the applicable instrument, contract, license, lease, permit, or Material Contract. If any such consent cannot be obtained, Seller shall, at Buyer's expense, cooperate in any commercially reasonable arrangement designed to obtain for Buyer all benefits, obligations and privileges of the applicable instrument, contract, license, lease, permit, or document. Buyer shall indemnify and hold harmless the Seller from any and all Losses arising from or related to Seller's actions taken pursuant to the Buyer's request and/or direction (or such non-action as requested and/or directed by the Buyer, as the case may be) pursuant to this Section 7.6(c). Notwithstanding the foregoing, the indemnification provisions of this Section 7.6(c) shall not apply to any actions taken by Seller with regard to the Ownership and Operation Agreement.

(d) *Third Party Consents.* Seller shall use its Commercially Reasonable Efforts, and Buyer shall use its Commercially Reasonable Efforts to assist Seller, in obtaining any and all consents of third parties and Governmental Authorities necessary or advisable in connection with the transactions contemplated by this Agreement and the Closing Documents, including the provision by Buyer to such third parties and Governmental Authorities of such publicly available financial statements and other publicly available financial information with respect to Buyer and its parent company or companies as such third parties or Governmental Authorities may reasonably request.



**Section 7.7 Fees and Expenses.** Except as otherwise expressly provided in this Agreement, all fees and expenses, including fees and expenses of counsel, financial advisors, and accountants, incurred in connection with this Agreement and the Closing Documents and the transactions contemplated hereby, shall be paid by the Party incurring such fee or expense, whether or not the Closing shall have occurred.

**Section 7.8 Tax Matters.**

(a) After the Closing Date, Buyer and Seller shall provide each other with such cooperation and information related to Colstrip Unit 4 and the Colstrip 4 Interests as the Parties reasonably may request in (i) filing any Tax Return, amending any Tax Return or claiming any Tax refund, (ii) determining any liability for Taxes or any right to Tax refunds or (iii) conducting or defending any audit, examination, claim or other proceeding in respect of Taxes. Seller and Buyer shall retain all Tax Returns, schedules and work papers, and all material records and other documents related thereto until the expiration of the statute of limitations for the taxable years to which such Tax Returns and other documents relate.

(b) Buyer and Seller each shall be responsible under applicable Law for payment of fifty percent (50%) of all Transfer Taxes. The Party responsible for preparing any Tax Returns or other documentation relating to such Transfer Taxes shall prepare and file such Tax Returns or other documentation; *provided, however*, that to the extent required by applicable Law, the other Party shall join in the execution of any such Tax Returns and other documentation relating to such Transfer Taxes. The Party responsible for preparing and filing any such Tax Return or other documentation shall provide to the other Party copies of each such Tax Return or other documentation at least fifteen (15) days prior to the date on which such Tax Return is required to be filed.

(c) In the event of any conflict between the provisions of ARTICLE 8 of this Agreement and this Section 7.8 or Section 2.4, the provisions of this Section 7.8 and Section 2.4 shall control.

**Section 7.9 Right of First Refusal.** Without limiting the generality of the undertakings pursuant to Section 7.3 above, Seller shall use its Commercially Reasonable Efforts to: (a) within five (5) Business Days of the date hereof, notify the Owners and Project Users concerning their execution of a waiver substantially in the form attached hereto as Exhibit J with respect to their rights of first refusal contained in Section 24 of the Ownership and Operation Agreement, (b) use its Commercially Reasonable Efforts to satisfy the condition to the Closing set forth in Section 3.5(g), and (c) keep Buyer reasonably informed in respect of the status and substance of such discussions, including by providing copies of all relevant correspondence to Buyer. Seller shall immediately notify Buyer if at any time any Project User or Owner shall exercise or indicate their intent to exercise any such right of first refusal. Seller shall (x) as soon as practicable, but in any event no later than [date], notify Buyer in writing that the condition set forth in Section 3.5(g) has been satisfied (the “*ROFR Resolution Notice*”), or (y) no later than one hundred twenty (120) days after the date hereof, notify Buyer in writing that the condition set forth in Section 3.5(g) has not yet been satisfied.

**Section 7.10 Updates to Disclosure Schedules.** From time to time prior to and up to three (3) days prior to the Closing Date, Seller shall provide written notice to Buyer of any fact, matter, condition, event or circumstance that occurs following the date of this Agreement and that, individually or in the aggregate, renders Seller unable, without amending the Disclosure Schedules, to satisfy the condition precedent under Section 3.4(b) (each, an “Update”). For the avoidance of doubt, the uploading of documents to the electronic data site of Seller related to the Colstrip 4 Interests or other delivery of documents to Buyer or Seller, as applicable, shall not constitute written notice of an Update. In the event that Buyer does not terminate this Agreement pursuant to Section 9.1(d)(i) following delivery of such Update, then Seller shall be permitted to update the applicable Schedule(s) to properly reflect the fact, matter, condition, event or circumstance disclosed to Buyer in such Update, and the applicable representations and warranties of Seller set forth in this Agreement made following the Update shall be subject to the Schedules attached hereto, as modified or amended by such Update, for purposes of satisfying the conditions to Closing set forth in Section 3.4; *provided*, that, if the Closing occurs, such Update shall not be deemed to have modified the Schedules for purposes of determining whether there has been a breach of the applicable representations and warranties related to Seller’s indemnification obligations in ARTICLE 8.

**Section 7.11 Transfers of Interests.** If, at any time between the date of this Agreement and one year following the Closing Date, Buyer enters into any contract, agreement, arrangement or other understanding with respect to the purchase of any interests of Colstrip Units 1 & 2, Colstrip Unit 3 or Colstrip Unit 4 on terms (individually or in the aggregate) more favorable to the seller of such interests than the terms as agreed upon in this Agreement (as determined by Seller in its sole discretion), Buyer hereby agrees to amend this Agreement to reflect such more favorable terms in this Agreement.

## **ARTICLE 8 LIABILITY AND INDEMNIFICATION**

**Section 8.1 Survival.** The representations and warranties of Buyer and Seller shall survive until the date that is eighteen (18) months after the Closing Date, except that the Seller Fundamental Representations, the Buyer Fundamental Representations shall each survive Closing indefinitely. Claims for breach of any of the covenants and agreements of the Parties set forth herein must be brought no later than sixty (60) days following the expiration of the applicable statute of limitations applicable to such claims.

**Section 8.2 AOC and CCR Rules.** The Parties shall be responsible for Losses arising from the ownership or operation of the Colstrip 4 Interests, the Project, or the Common Facilities, in each case that are caused by or arise from the AOC and/or CCR Rules based on their respective pre-Closing Date Project Shares; *provided*, however, to the extent any such Losses increase due to violations of Environmental Laws by the Operator or Owners or Releases of Hazardous Substances that (a) wholly arise or wholly take place after the Closing or (b) commenced prior to Closing but that a reasonable environmental professional would determine substantially all of such violations or Releases of Hazardous Substances occurred after the Closing, liability with respect to those incremental Losses shall be as set forth in Section 8.6. The Parties specifically recognize that the Project will continue to burn coal and generate coal combustion residuals after Closing, and agree, notwithstanding anything to the contrary in the



proviso contained in the prior sentence, that Losses arising from the continued burning of coal and the generation, storage, deposit, and Release of coal combustion residuals, including the deposit of coal combustion residuals into ponds, the dry storage or staging of coal combustion residuals, and any Release of coal combustion residuals or Hazardous Substances resulting from coal combustion residuals from existing ponds, shall not be considered incremental Losses of the sort described in the preceding sentence and shall not decrease Seller's liability or responsibility for such Losses based on the Parties' respective pre-Closing Date Project Shares, such that all Losses caused by or arising from the AOC and/or CCR Rules that arise from or are caused by the deposit, storage, generation, staging, or Release of coal combustion residuals shall be based on pre-Closing Date Project Shares without regard to whether such deposit, storage, generation, staging, or Release occurs before or after Closing. Continued operation of the Colstrip 4 Interests consistent with Prudent Utility Practice shall not have any bearing on the allocation of Losses provided for in this Section. Changes in Law, including changes that alter the nature, scope, or expense of obligations and Losses caused by or arising from the AOC and/or the CCR Rules shall not alter or otherwise have any bearing on the allocation of Losses provided for in this Section; provided, that if any changes in Law after the Closing impact the operation of Colstrip Unit 4, Seller's liability for Losses arising from such impacts on the operation of Colstrip Unit 4 shall be as set forth in Section 8.6.

**Section 8.3 Decommissioning.** The Parties shall be responsible for Losses arising from the decommissioning, mothballing, closure, retirement, deactivation, shut down, deconstruction, removal, or demolition of all or a portion of Colstrip Unit 4, the Project, or the Common Facilities based on their respective pre-Closing Date Project Shares; provided, however, that Seller shall not be responsible for Losses caused by or arising from the decommissioning, mothballing, closure, retirement, deactivation, shut down, deconstruction, removal, or demolition of any buildings constructed after Closing intended to predominantly benefit Colstrip Unit 4. Continued operation of the Colstrip 4 Interests consistent with Prudent Utility Practice shall not have any bearing on the allocation of Losses provided for in this Section. Changes in Law, including changes that alter the nature, scope, or expense of obligations and Losses caused by or arising from the decommissioning, mothballing, closure, retirement, deactivation, shut down, deconstruction, removal, or demolition of all or a portion of the Colstrip 4 Interests, the Project, or the Common Facilities shall not alter or otherwise have any bearing on the allocation of Losses provided for in this Section; *provided* that if any changes in Law after the Closing impact the operation of Colstrip Unit 4, Seller's liability for Losses arising from such impacts on Colstrip Unit 4 shall be as set forth in Section 8.6.

**Section 8.4 Pension Costs.** The Parties shall be responsible for Losses arising from pension liabilities that arose prior to Closing or are wholly or partially caused by events, incidents, liabilities, work performed, or conditions from prior to Closing, including claims by the Operator that it has made excess pension contributions, based on their respective pre-Closing Date Project Shares. If some or all of the pensions for those employed at the Project are converted after Closing to annuities, the Parties' responsibility for any costs to the Owners of such conversions shall be based on the pre-Closing Date Project Shares for that portion of the costs attributable to employment before Closing and based on post-Closing Date Project Shares for that portion of the costs attributable to employment after Closing. Changes in Law shall not have any bearing on the allocation of Losses provided for in this Section.

**Section 8.5 Other Losses Allocated Based on Pre-Closing Date Project Shares.**

The Parties specifically agree that they shall be responsible for all Losses arising from or caused by the items listed on Schedule 8.5 based on their respective pre-Closing Date Project Shares. The Parties shall be responsible for Losses arising from the ownership or operation of the Colstrip 4 Interests, the Project, or the Common Facilities, in each case that are not described in Sections 8.2, 8.3, 8.4, or 8.6, and that do not arise from or are not caused by items listed on Schedule 8.5 or Schedule 8.6, but that are caused by or which arise from events, occurrences or conditions which a reasonable environmental professional would determine substantially all of such events, occurrences or conditions took place or existed before Closing based on their respective pre-Closing Date Project Shares; provided, however, to the extent any such Losses increase due to (a) actions taken after Closing by the Operator or Owners, (b) violations of Environmental Laws by the Operator or Owners that wholly arise or wholly take place after Closing or which a reasonable environmental professional would determine substantially all of such violations took place after the Closing or (c) Releases of Hazardous Substances arising from events, occurrences or conditions that wholly arise or take place or which a reasonable environmental professional would determine substantially all of such events, occurrences or conditions took place after the Closing, Seller's liability with respect to those incremental Losses shall be as set forth in Section 8.6, except that continued operation of the Colstrip 4 Interests consistent with Prudent Utility Practice shall not be deemed an action which gives rise to an increase in Losses. Continued operation of the Colstrip 4 Interests consistent with Prudent Utility Practices shall not have any bearing on the allocation of Losses provided for in this Section. The Parties specifically recognize that the Project will continue to burn coal and generate coal combustion residuals after Closing, and agree, notwithstanding anything to the contrary in the proviso contained in the prior sentence, that Losses arising from the continued burning of coal and the generation, storage, deposit, and Release of coal combustion residuals, including the deposit of coal combustion residuals into ponds, the dry storage or staging of coal combustion residuals, and any Release of coal combustion residuals or Hazardous Substances resulting from coal combustion residuals from existing ponds, shall not reduce Seller's liability or be deemed an increase in Losses of the sort described in the proviso to the first sentence in this Section. Changes in Law shall not have any bearing on the allocation of Losses provided for in this Section; *provided* that if changes in Law after the Closing impact the operation of Colstrip Unit 4, Seller's liability for Losses arising from such impacts on the operations of Colstrip Unit 4 shall be as set forth in Section 8.6.

**Section 8.6 Losses Allocated Based on Post-Closing Date Project Shares.** The Parties specifically agree that they shall be responsible for all Losses arising from or caused by the items listed on Schedule 8.6 based on their respective post-Closing Date Project Shares. The Parties shall be responsible for Losses arising from the ownership or operation of the Colstrip 4 Interests, the Project, or the Common Facilities, in each case that are not governed by Sections 8.2, 8.3, 8.4, or 8.5, and that do not arise from or are not caused by items listed on Schedule 8.5 or Schedule 8.6, but that are wholly caused by or arise wholly from events or occurrences which take place, or which a reasonable environmental professional would determine substantially all of such events or occurrences took place, after Closing based on their respective post-Closing Date Project Shares.

**Section 8.7 Disagreements Regarding Causes of Losses.** If the Parties are unable to agree as to how Sections 8.2 through 8.6 apply to the allocation of liability for particular Losses,

the Parties agree in the first instance to attempt to settle such disagreement by mutual discussion between executives from both Parties. Within seven (7) Business Days of the receipt by either Party of a notice from the other Party of the existence of a disagreement referring to this ARTICLE 8 (the “Allocation Dispute Notice”), the receiving Party shall reply with a written response (an “Allocation Dispute Notice Response”). Both the Allocation Dispute Notice and the Allocation Dispute Notice Response shall include (a) a statement of the relevant Party’s position with regard to the Dispute and a summary of arguments supporting such position; and (b) the name and title of the executive who will represent that Party in attempting to resolve the Dispute pursuant to this Section 8.7. Within seven (7) Business Days of delivery of the Allocation Dispute Notice Response, the designated executives shall meet and attempt to resolve the disagreement. All negotiations pursuant to this clause shall be confidential and shall be treated as compromise and settlement negotiations, and no oral or documentary representations or offers made by the Parties during such negotiations shall be admissible for any purpose in any subsequent proceedings.

**Section 8.8 Resolution if Executive Negotiations Do Not Succeed.**

(a) If any disagreement is not resolved within thirty (30) Days of receipt of an Allocation Dispute Notice pursuant to Section 8.7, then, upon either Party’s request, the Parties shall jointly retain an independent third-party consultant (with expertise in the subject matter giving rise to the liability) to promptly determine whether the events or occurrences that caused or gave rise to the Losses in question fit within the scope of Section 8.2, Section 8.3, Section 8.4, Section 8.5 (including Schedule 8.5), or Section 8.6 (including Schedule 8.6), and how such Losses are to be allocated based on the application of those sections. To the extent permitted by law, the Parties shall provide for the confidentiality of the independent third-party consultant’s determination, and each Party shall pay half of the consultant’s fees and costs. The determination of the third-party consultant shall be final and binding on the Parties and is not subject to review in other arbitration or in court. Apportionment of liability disputes described in this Section shall be resolved using this procedures and requirements set forth in this Section (and the subsections below) and not using the procedures provided for in ARTICLE 10 of this Agreement.

(b) The independent third-party consultant shall agree to act as an impartial and neutral arbitrator in carrying out the duties set forth herein. The independent third-party consultant shall carry out his or her duties based on the standard procedures used by consultants researching or investigating matters in the industry in question, and not by using processes that are quasi-judicial in nature. In particular, the independent third-party consultant shall not be required to hold a hearing. The Parties shall jointly submit written background information to the independent third-party consultant, and shall then cooperate in responding to follow-up questions and requests for documents from the independent third-party consultant. If the independent third-party consultant asks to conduct a site visit and/or interview Colstrip personnel, the Parties shall cooperate in facilitating such a site visit and/or interviews, including by jointly making requests to the Operator. The independent third-party consultant shall not communicate to either Party without also including or copying the other Party in such conversation or exchange. The independent third-party consultant shall provide his or her determination in a written report that is to be transmitted to both Parties.

(c) If the Parties are unable to agree on an independent third-party consultant, each Party shall appoint one third-party consultant, each of whom shall agree to serve impartially and independently, and then the two consultants so appointed shall themselves find and appoint a third consultant who agrees to serve as the independent third-party consultant contemplated by this Section under the procedures and requirements set forth in this Section.

**Section 8.9 Indemnification By Seller.** Seller shall indemnify, save and hold harmless, Buyer, its Affiliates, and their respective Representatives from and against any and all Losses, costs, losses, liabilities (including liabilities arising under principles of strict or joint and several liability), damages, lawsuits, deficiencies, claims and expenses (whether or not arising out of Third Party Claims), including interest, penalties, additions, travel expenses, wages allocable to loss of employee time, reasonable attorneys' fees and all amounts paid in investigation, defense or settlement of any of the foregoing (collectively, the "*Damages*"), incurred in connection with or arising out of or resulting from:

(a) any breach or inaccuracy in any of the representations or warranties of Seller contained in this Agreement, any Closing Document to which Seller is a party or any certificate delivered by or on behalf of Seller pursuant to this Agreement (any such breach or inaccuracy to be determined without regard to any qualification for "materiality," "in all material respects" or similar qualification);

(b) any breach or violation of any covenant, agreement or other obligation of Seller set forth in this Agreement or any Closing Document to which Seller is a party;

(c) if the Closing has occurred, any failure by Seller to pay, perform or discharge any Retained Liabilities as and when due;

(d) if the Closing has occurred, any failure by Seller to pay, perform or discharge any Retained Liability as and when due;

(e) if the Closing has occurred, any liability, obligation or commitment of Seller of any nature (absolute, accrued, contingent or otherwise) relating to the Colstrip 4 Interests and not assumed;

(f) Seller's portion of any Transfer Taxes in accordance with Section 7.8(b);

(g) any fraud, willful misconduct or gross negligence in connection with this Agreement by Seller or its Affiliates; or

(h) any claim by a third-party or liability to a third-party, including a current or former Project User, to the extent it seeks to hold Buyer responsible for more than the share of any Losses provided for in Sections 8.2 through 8.6 above.

**Section 8.10 Indemnification By Buyer.** Buyer shall indemnify, save and hold harmless, Seller, its Affiliates, and their respective Representatives from and against any and all Damages incurred in connection with or arising out of or resulting from:

(a) any breach or inaccuracy of any representation or warranty made by Buyer in this Agreement or any Closing Document to which Buyer is a party;

(b) any breach or violation of any covenant, agreement or obligation of Buyer set forth in this Agreement or any Closing Document to which Buyer is a party;

(c) if the Closing has occurred, any failure of Buyer to pay, discharge or perform any of the Assumed Liabilities as and when due;

(d) Buyer's portion of any Transfer Taxes in accordance with Section 7.8(b);

(e) any fraud, willful misconduct or gross negligence in connection with this Agreement by Buyer; or

(f) any claim by a third-party or liability to a third-party, including a current or former Project User, to the extent it seeks to hold Seller responsible for more than the share of any Losses provided for in Sections 8.2 through 8.6 above.

#### **Section 8.11 Third Party Claims.**

(a) Promptly after receipt by a Party of notice of the commencement of any Action by a third party (a "*Third Party Claim*") with respect to any matter for which indemnification is or may be owing pursuant to Section 8.9 or Section 8.10 hereof (such Party making a claim under this ARTICLE 8, an "*Indemnified Party*"), the Indemnified Party will give notice thereof to Buyer or Seller, as applicable (the "*Indemnifying Party*"); *provided, however*, that the failure of the Indemnified Party to notify the Indemnifying Party will not relieve the Indemnifying Party of any of its obligations hereunder, except to the extent that the Indemnifying Party demonstrates that the defense of such Third Party Claim has been actually prejudiced by the Indemnified Party's failure to give such notice.

(b) If any Action referred to in this Section is brought against an Indemnified Party and the Indemnified Party gives notice to the Indemnifying Party of the commencement of such Action, the Indemnifying Party will be entitled to participate in such Action, and (unless (x) the Indemnifying Party is also a party to such Action and the Indemnified Party determines in good faith that joint representation would be inappropriate upon the advice of outside counsel that a conflict of interest exists between the Indemnified Party and the Indemnifying Party with respect to such Action, or (y) the Indemnifying Party fails to provide reasonable assurance to the Indemnified Party of its financial capacity to defend such Action and provide indemnification with respect to such Action) may assume the defense of such Action with counsel reasonably satisfactory to the Indemnified Party and, after notice from the Indemnifying Party to the Indemnified Party of its election to assume the defense of such Action, the Indemnifying Party will not, as long as it diligently conducts such defense, be liable to the Indemnified Party under this Section for any fees of other counsel with respect to the defense of such Action, in each case subsequently incurred by the Indemnified Party in connection with the defense of such Action.

(c) If the Indemnifying Party is entitled to and assumes the defense of an Action, no compromise or settlement of such claims or Action may be effected by the Indemnifying Party without the Indemnified Party's written consent unless (i) there is no effect on or grounds for the

basis of any other claims that may be made against the Indemnified Party, (ii) the sole relief provided is monetary damages that are paid in full by the Indemnifying Party, and (iii) the Indemnified Party will have no liability with respect to any compromise or settlement of such claims or Action. Notwithstanding the assumption by the Indemnifying Party of the defense of any claim or Action, the Indemnified Party will be permitted to join in such defense and to employ counsel at its own expense.

(d) Notwithstanding the foregoing, if the Indemnified Party determines in good faith that there is a reasonable probability that an Action may result in the Indemnified Party or its Affiliates having to pay monetary Damages for which it would not be entitled to indemnification under this Agreement or having to perform specific performance, the Indemnified Party may, by notice to the Indemnifying Party, assume the exclusive right to defend, compromise or settle such Action, but the Indemnifying Party will not be bound by any compromise or settlement thereof effected without its written consent (which consent shall not be unreasonably withheld, delayed or conditioned).

(e) The Indemnifying Party and the Indemnified Party agree to provide each other with reasonable access during regular business hours to the properties, books and records and representatives of the other, as reasonably necessary in connection with the preparation for an existing or anticipated Action involving a Third Party Claim and its obligations with respect thereto pursuant to this Article.

#### **Section 8.12 Direct Claims.**

(a) The following procedures will apply to any claim for indemnification by an Indemnified Party that does not involve a Third Party Claim.

(b) An Indemnified Party will deliver a notice to the Indemnifying Party (a “*Notice of Claim*”) as soon as practicable, but in no event later than sixty (60) days, after the Indemnified Party determines that it is or may be entitled to indemnification pursuant to this Agreement; *provided, however*, that failure to provide notice will not prejudice the Indemnified Party’s right to indemnity, except to the extent the Indemnifying Party prejudiced by the Indemnified Party’s failure to give such notice.

(c) If the Indemnifying Party disputes (x) its obligation to indemnify the Indemnified Party in respect of any indemnification claim set forth in a Notice of Claim, or (y) the amount of such indemnification claim set forth in a Notice of Claim (the “*Indemnity Claim Amount*”), a dispute notice (“*Indemnification Dispute Notice*”) will be given as soon as practicable, but in no event later than thirty (30) days, after the Notice of Claim. If no Indemnification Dispute Notice is given within such thirty (30) day period, the validity of the claim for indemnification and the amount of such claim, each as set forth in the Notice of Claim, will be deemed to be agreed, effective on the first (1st) day following such thirty (30) day period, and the amount of such claim as set forth in the Notice of Claim will immediately be payable by the Indemnifying Party. If an Indemnification Dispute Notice is given within such thirty (30) day period, then:

(d) The portion, if any, of the amount of such claim which is not disputed in the Indemnification Dispute Notice will immediately be payable by the Indemnifying Party.



(e) Buyer and Seller will negotiate in good faith to settle the dispute, and the portion, if any, of the claim amount which Buyer and Seller agree in writing is payable will be immediately payable by the Indemnifying Party.

(f) If Buyer and Seller are unable to resolve any portion of the Indemnity Claim Amount within two (2) months following the date the Indemnification Dispute Notice is given, either Buyer or Seller may initiate proceedings in accordance with Section 8.7 to obtain resolution of the dispute.

(g) If neither Buyer nor Seller initiates legal or arbitration proceedings in respect of the dispute within twelve (12) months following the date the Indemnification Dispute Notice is given, the portion of the claim amount which is disputed will not be payable, and the Indemnified Party will have no further right, under this Agreement, to seek to recover such amount from the Indemnifying Party.

(h) If Buyer or Seller initiates legal proceedings within the twelve (12) month period specified in Section 8.12(g), the amount, if any, determined in a written final order of a court of competent jurisdiction or final non-appealable decision of an arbitrator (“*Final Order*”) as payable by the Indemnifying Party will be payable by the Indemnified Party as of the date of such Final Order.

**Section 8.13 Acknowledgement.** Seller and Buyer each acknowledge that (a) only representations, warranties, covenants or agreements expressly made in this Agreement or the Closing Documents will be deemed to be representations, warranties, covenants or agreements for purposes of this Agreement, and (b) neither Party has relied on any representation, warranty, covenant or agreement not expressly made in this Agreement or the Closing Documents in consummating the transactions herein.

## ARTICLE 9 TERMINATION AND REMEDIES

**Section 9.1 Methods of Termination.** This Agreement and the transactions contemplated hereby may be terminated prior to the Closing Date as follows:

- (a) at any time by mutual written agreement of Seller and Buyer; or
- (b) by either Seller or Buyer upon the material breach of this Agreement by the other, to be effective, if curable, upon the breaching Party’s failure to cure within five (5) Business Days of notice given, and if incurable, upon notice given, *provided* that the Party seeking to terminate has complied with and fulfilled its obligations and undertakings under this Agreement in all material respects; or
- (c) by Seller, in the following events:
  - (i) at any time after any final, non-appealable decision is made by the applicable Governmental Authority denying any Required Regulatory Approval requested by the Seller or failing to reasonably meet the request of the Seller in all material respects; or

(ii) at any time after December 31, 2020 if the Closing has not yet occurred;

*provided further*, that the event triggering Seller's termination right did not result from the failure by Seller to fulfill any undertaking or commitment provided for herein on the part of Seller that is required to be fulfilled on or prior to the Closing Date or any such applicable date.

(d) by Buyer, in the following events:

(i) if a fact, matter, condition, event or circumstance first disclosed in an Update from Seller has had or would reasonably be expected to have a Material Adverse Effect; *provided*, that (A) Buyer has given Seller at least fifteen (15) Business Days' prior notice of the intent to terminate and (B) Seller has not cured such Material Adverse Effect during such fifteen (15) Business Day period;

(ii) at any time after any final, non-appealable decision is made by the applicable Governmental Authority denying any Required Regulatory Approval requested by the Buyer or failing to reasonably meet the request of the Buyer in all material respects;

(iii) at any time after December 31, 2020 if the Closing has not yet occurred;

(iv) at any time after December 31, 2020, if any order or decree by any federal or state court or Governmental Authority exists which would delay or otherwise impair the consummation of the sale of the Colstrip 4 Interests;

(v) at any time if any Project User exercises a right of first refusal offered to it by the Seller (pursuant to the terms of the Ownership and Operation Agreement); or

(vi) if Seller has failed to deliver to the Buyer the ROFR Resolution Notice by within the time specified in Section 7.9;

*provided*, that the event triggering Buyer's termination right did not result from the failure by Buyer to fulfill any undertaking or commitment provided for herein on the part of Buyer that is required to be fulfilled on or prior to the Closing Date or any such applicable date.

**Section 9.2 Effect of Termination**. In the event either Party desires to terminate this Agreement pursuant to Section 9.1, written notice thereof shall promptly be given by the terminating Party to the other Party, and this Agreement shall terminate effective as of the later of the date such notice is received (or such later effective date as may be set forth therein) or the expiration of any cure period. If this Agreement is terminated as provided in Section 9.1, all filings, applications and other submissions made to any Governmental Authority with respect to the transactions contemplated by this Agreement and the Closing Documents (other than any filings, applications and other submissions made by Seller that do not involve Buyer) shall, to the



extent practicable, be withdrawn from the Governmental Authority to which they were made; and except for those obligations set forth in ARTICLE 6, pursuant to which the Parties shall continue to be bound, no Party shall have any further obligation hereunder; *provided*, that such termination shall not be construed to limit or waive any right with respect to any breach of this Agreement occurring prior to such termination.

**Section 9.3 No Liability.** There shall be no liability of any shareholder, partner, member, director, officer, employee, advisor or representative of Buyer or Seller or any Affiliate thereof, whether to Buyer or Seller, as the case may be, or any other Person (including any shareholder, partner, member, director, officer, employee, advisor or representative thereof) in connection with any liability or other obligation of Buyer or Seller or any Affiliate thereof, whether hereunder or otherwise in connection with the transactions contemplated hereby.

## **ARTICLE 10 DISPUTE RESOLUTION**

**Section 10.1 Mutual Discussions.** If any dispute or difference of any kind whatsoever shall arise between the Parties in connection with, or arising out of, this Agreement or the Closing Documents, or the interpretation, performance, breach, termination or validity hereof or thereof, including without limitation any claim based on contract, text or statute (the “*Dispute*”), the Parties shall attempt to settle such Dispute in the first instance by mutual discussions in accordance with this Section 10.1. Within seven (7) Business Days of the receipt by either Party of a notice from the other Party of the existence of a Dispute referring to this ARTICLE 10 (the “*Dispute Notice*”), the receiving Party shall reply with a written response (a “*Dispute Notice Response*”). Both the Dispute Notice and the Dispute Notice Response shall include (a) a statement of the relevant Party’s position with regard to the Dispute and a summary of arguments supporting such position; and (b) the name and title of the executive who will represent that Party in attempting to resolve the Dispute pursuant to this Section 10.1. Within seven (7) Business Days of delivery of the Dispute Notice Response, the designated executives shall meet and attempt to resolve the Dispute. All negotiations pursuant to this clause shall be confidential and shall be treated as compromise and settlement negotiations, and no oral or documentary representations or offers made by the Parties during such negotiations shall be admissible for any purpose in any subsequent proceedings.

**Section 10.2 Arbitration.** If any Dispute is not resolved within thirty (30) Days of receipt of a Dispute Notice pursuant to Section 10.1, then, upon either Party’s request, the Dispute shall be finally and exclusively resolved by arbitration as follows:

(a) The arbitration shall be held accordance with the Commercial Arbitration Rules (the “*Rules*”) of the American Arbitration Association (the “*AAA*”), then in effect, except as modified herein. The arbitration shall be held, and the award shall be issued in Chicago, Illinois.

(b) The Parties shall appoint an arbitrator satisfactory to both Parties. If the arbitrator is not appointed within the time limit provided herein, such arbitrator shall be appointed by the AAA by using a listing, striking and ranking procedure in accordance with the Rules. Any arbitrator appointed by the AAA shall be a retired judge, preferably from a Federal District Court or Federal Court of Appeals, or a practicing attorney with no less than twenty (20) years of

experience and an experienced arbitrator and if possible shall have experience with disputes relating to electric power infrastructure.

(c) The hearing shall be held, if possible, within four (4) months after the appointment of the arbitrator, or as soon thereafter as is reasonably practicable.

(d) By agreeing to arbitration, the entities signing this Agreement do not intend to deprive any court of its jurisdiction to issue a pre-arbitral injunction, pre-arbitral attachment, or other order in aid of arbitration proceedings and the enforcement of any award. Without prejudice to such provisional remedies as may be available under the jurisdiction of a court, the arbitrator shall have full authority to grant provisional remedies and to direct the entities signing this Agreement to request that any court modify or vacate any temporary or preliminary relief issued by such court, and to award damages for the failure of any entity signing this Agreement to respect the arbitrator's orders to that effect.

(e) Any arbitration proceedings, decision or award rendered hereunder and the validity, effect and interpretation of this arbitration agreement shall be governed by the Federal Arbitration Act, 9 U.S.C. §1 et seq. In arriving at their decision, the arbitrator shall be bound by the terms and conditions of this Agreement and the Closing Documents and shall apply the governing law of this Agreement as designated in Section 11.2 hereof.

(f) Any controversy concerning whether a Dispute is an arbitrable Dispute or as to the interpretation or enforceability of this paragraph shall be determined by the arbitrator.

(g) The arbitrator is not empowered to award damages in excess of compensatory damages, and each Party hereby irrevocably waives any right to recover consequential, punitive, exemplary or similar damages with respect to any Dispute. The award, which shall be in writing and shall state the findings of fact and conclusions of Law upon which it is based, shall be final and binding on the Parties and shall be the sole and exclusive remedy among the Parties regarding any claims, counterclaims, issues or accounting presented to the arbitrator. Judgment upon any award may be entered in any court of competent jurisdiction. In appropriate circumstances, the arbitrator shall have the authority to order a termination of this Agreement.

(h) The arbitrator's award shall allocate, in their discretion, among the Parties to the arbitration all costs of the arbitration, including the fees and expenses of the arbitrator and reasonable attorneys' fees, costs and expert witness expenses of the Parties. The award shall be final and binding on the Parties and may be enforced in any court having jurisdiction.

## **ARTICLE 11 OTHER PROVISIONS**

**Section 11.1 Counterparts.** This Agreement may be executed in one or more counterparts, all of which, taken together, shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the Parties and delivered to the other Party.

**Section 11.2 Governing Law.** THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER AND THE TRANSACTIONS

CONTEMPLATED HEREBY SHALL BE GOVERNED BY, ENFORCED, AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS.

**Section 11.3 Entire Agreement.** This Agreement and the Confidentiality Agreement and the Schedules and Exhibits hereto and thereto contain the entire agreement between the Parties with respect to the subject matter hereof and supersedes any prior agreements, understandings, representations, or warranties between the Parties.

**Section 11.4 Notices.** Any notice, request, instruction or other document to be given hereunder by a Party hereto shall be in writing and shall be deemed to have been given (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient; or (d) on the third (3rd) Business Day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid.

Notices to Seller shall be addressed as follows:

NorthWestern Corporation  
208 North Montana Ave. Suite 205  
Helena, MT 59601  
Attention: Legal Department  
Email: [Heather.Grahame@northwestern.com](mailto:Heather.Grahame@northwestern.com) and [John.Tabaracci@northwestern.com](mailto:John.Tabaracci@northwestern.com)

with copies to:

Dorsey & Whitney LLP  
50 South Sixth Street, Suite 1500  
Minneapolis, MN 55042  
Attention: B. Andrew Brown and David Swanson  
Email: [Brown.Andrew@dorsey.com](mailto:Brown.Andrew@dorsey.com) and [Swanson.Dave@dorsey.com](mailto:Swanson.Dave@dorsey.com)

or at such other address and to the attention of such other Person as Seller may designate by written notice to Buyer.

Notices to Seller shall be addressed to:

Puget Sound Energy, Inc.  
355 110th Avenue NE  
Bellevue, WA 98004  
Attention: Legal Department  
Email: [Steve.Secretist@pse.com](mailto:Steve.Secretist@pse.com) and [Samuel.Osborne@pse.com](mailto:Samuel.Osborne@pse.com)

with copies to:

Perkins Coie LLP  
1201 Third Avenue, Suite 4900  
Seattle, WA 98101  
Attention: Andrew Bor and Stephanie Hirano  
Email: [ABor@perkinscoie.com](mailto:ABor@perkinscoie.com) and [SHirano@perkinscoie.com](mailto:SHirano@perkinscoie.com)

or at such other address and to the attention of such other Person as Buyer may designate by written notice to Seller.

**Section 11.5 Successors and Assigns.** The rights and obligations of the Parties shall not be assigned or delegated by either Party, other than with the written consent of the other Party, which may be withheld in such Party's sole discretion; *provided, however*, that notwithstanding the foregoing, Buyer may freely transfer its obligations hereunder to any subsidiary or financing source of Buyer, without Seller's prior consent, *provided* that Buyer shall remain liable for all obligations of Buyer hereunder that may be assumed by such subsidiary or financing source. Subject to the preceding sentence, this Agreement shall be-binding upon and inure to the benefit of the Parties and their successors and assigns.

**Section 11.6 Amendments.** This Agreement may not be modified or amended except by an instrument or instruments in writing signed by both Parties.

**Section 11.7 Agreement for the Parties' Benefit Only.** This Agreement is not intended to confer upon any Person not a Party hereto any rights or remedies hereunder, and no Person, other than the Parties and the Indemnified Parties is entitled to rely on any representation, warranty, covenant, or agreement contained herein.

**Section 11.8 Severability.** If any term or other provision of this Agreement is invalid, illegal, or incapable of being enforced by any applicable Law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect. Upon such determination that any term or other provision is invalid, illegal, or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to give effect to the original intent of the Parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

**Section 11.9 Bulk Sales or Transfer Laws.** Buyer hereby waives compliance by Seller with the provisions of the bulk sales or transfer laws of all applicable jurisdictions. Seller agrees to pay all claims of creditors which could be asserted against Buyer because of such noncompliance. Seller indemnifies Buyer against any liability or expense, including attorneys' fees, incurred by Buyer by reason of the failure of Seller to pay such claims.

**Section 11.10 No Waiver.** No failure or delay by a Party to this Agreement in exercising any right or remedy provided by Law or under or pursuant to this Agreement shall impair such right or remedy or operate or be construed as a waiver or variation of it or preclude its exercise at any subsequent time and no single or partial exercise of any such right or remedy shall preclude any other or further exercise of it or the exercise of any other right or remedy.

**Section 11.11 Cumulative Remedies.** The rights and remedies of the Parties under or pursuant to this Agreement are cumulative, may be exercised as often as such Party considers appropriate and are in addition to its rights and remedies under general law.

**Section 11.12 Further Assurances.** The Parties agree to use Commercially Reasonable Efforts to perform (or procure the performance of) all further acts and things, and execute and deliver (or procure the execution and delivery of) such further documents, and may be required by applicable Law or as either of the Parties may reasonably require, whether on or after the Closing, to implement and/or give effect to this Agreement and the Closing Documents and the transactions contemplated herein and therein and for the purpose of vesting in the Buyer the full benefit of the Colstrip 4 Interests, rights and benefits to be transferred to the Buyer under this Agreement and the Closing Documents.

**Section 11.13 Counterparts; Effectiveness.** This Agreement may be executed in counterparts (including by PDF), each of which shall be deemed an original, but all of which together shall constitute one and the same original instrument. This Agreement shall become effective when each Party hereto shall have received a counterpart hereof signed by the other Party hereto.

**Section 11.14 Specific Performance.** Seller hereby acknowledges and agrees that money damages would not be a sufficient remedy for any breach of this Agreement by Seller, that Buyer would suffer irreparable harm as a result of any such breach, and that, in addition to all other remedies available under this Agreement or at Law or in equity, Buyer shall be entitled to specific performance and injunctive or other equitable relief as a remedy for any such breach or threatened breach, without posting any bond, security or other undertaking. In the event of any action by Buyer to enforce this Agreement, Seller hereby waives the defense that there is an adequate remedy at Law.

IN WITNESS WHEREOF, this Agreement has been signed by or on behalf of each of the Parties as of the day first above written.

Buyer:

**NORTHWESTERN CORPORATION**

By   
Name: Robert C. Sue  
Title: CEO

Seller:

**PUGET SOUND ENERGY, INC.**

By: \_\_\_\_\_  
Name:  
Title:

IN WITNESS WHEREOF, this Agreement has been signed by or on behalf of each of the Parties as of the day first above written.

**NORTHWESTERN CORPORATION**

By: \_\_\_\_\_  
Name:  
Title:

**PUGET SOUND ENERGY, INC.**

By:  \_\_\_\_\_  
Name: Mary Kipp  
Title: President

**EXHIBIT A**  
**ASSIGNMENT AND ASSUMPTION AGREEMENT**

ASSIGNMENT AND ASSUMPTION AGREEMENT (this “*Agreement*”), dated as of [•], 2020 (the “*Effective Date*”), between PUGET SOUND ENERGY, INC., a Washington public utility corporation (“*Assignor*”), and NORTHWESTERN CORPORATION, a Delaware corporation (“*Assignee*”).

**RECITALS:**

WHEREAS, Assignor and Assignee are parties to that certain Colstrip Unit 4 Purchase and Sale Agreement, dated December 9, 2019 (the “*Purchase Agreement*”);

WHEREAS, Assignor is a party to, or has obligations with respect to the Material Contracts set forth on Schedule 2.1(c) to the Purchase Agreement, each of which Assignor has agreed to assign and, except as otherwise provided herein or in the Purchase Agreement, Assignee has agreed to assume (collectively, the “*Assumed Contracts*”); and

WHEREAS, pursuant to the Purchase Agreement, Assignor agrees to assign the Assumed Contracts to Assignee and, except as otherwise provided herein or in the Purchase Agreement, Assignee agrees to assume the obligations of Assignor under the Assumed Contracts.

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the parties agree as follows:

**SECTION 1. Sale and Assignment.** Except as otherwise provided herein or in the Purchase Agreement, Assignor, for good and valuable consideration to it, receipt of which is hereby acknowledged, does hereby assign, transfer, sell and convey unto Assignee all of Assignor’s right, title and interest in and to the Assumed Contracts.

**SECTION 2. Assumption.**

(a) Assignee hereby (i) assumes the obligations and liabilities of Assignor under the Assumed Contracts to the extent that such obligation or liability. relates to or arises out of the time period after the Effective Date, (ii) shall, subject to clause (i), hereafter be deemed a party to the Assumed Contracts in the same role formerly held by Assignor, (iii) confirms that it has the requisite corporate power and authority to enter into and carry out the transactions contemplated by the Assumed Contracts, and (iv) agrees that after the Effective Date it shall be bound by all the terms of, and undertake all the obligations of Assignor contained in, the Assumed Contracts, with the same force and effect as if Assignee had executed on the Effective Date each of the Assumed Contracts originally as the contracting party named therein. Each of the foregoing is for the benefit of Assignor and the other parties to the Assumed Contracts.

(b) Assignee and Assignor hereby covenant and agree to execute and to deliver to the other parties to the Assumed Contracts from time to time such other documents, instruments and agreements as they reasonably may request in order to further evidence the assignment,



assumption and substitution effected hereby or otherwise to carry out the purposes and intent of this Agreement.

(c) Upon the Effective Date, Assignor shall be released and discharged from each obligation, liability or duty pursuant to the Assumed Contracts arising or accruing on or after the Effective Date and Assignee shall be substituted in lieu of Assignor as a party to each of the Assumed Contracts to which Assignor is a party.

**SECTION 3. Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of and shall be enforceable by the parties hereto and their respective successors and assigns and shall inure to the benefit of the other parties to the Assumed Contracts and their respective successors and assigns.

**SECTION 4. Governing Law.** This Agreement, including all matters of construction, validity and performance, shall in all respects be governed by, and construed in accordance with, the law of the State of Delaware applicable to contracts made in such state and to be performed entirely within such state, without giving effect to principles relating to conflicts of law.

**SECTION 5. Counterparts.** This Agreement may be executed by the parties hereto in separate counterparts (or upon separate signature pages bound together into one or more counterparts), each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

*[Signature page follows]*

**IN WITNESS WHEREOF**, the parties hereto have each caused this Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the Effective Date.

**Assignor:**

**PUGET SOUND ENERGY, INC.**

By: \_\_\_\_\_  
Name:  
Title:

**Assignee:**

**NORTHWESTERN CORPORATION**

By: \_\_\_\_\_  
Name:  
Title:

**EXHIBIT B**  
**EXCLUDED ASSETS**

The "Kluver Property," described as:

Township 1 North, Range 42 East, M.P.M.

Section 9:      All

To the extent Seller has any interest in any assets that are or relate to the the property commonly referred to as the "Ankney Property" that had been the subject of litigation, no such interests or rights will be transferred as part of the transactions contemplated by this Agreement and as such are Excluded Assets.

**EXHIBIT C  
POWER PURCHASE AGREEMENT**

**EXHIBIT A TO TERM SHEET  
WITH RESPECT TO THE  
COLSTRIP UNIT 4 TRANSACTION**

**CONFIRMATION FOR UNIT COMMITMENT SERVICE – COLSTRIP UNIT 4**

This Confirmation (this “Confirmation”) shall confirm the terms agreed to between NorthWestern Corporation, d/b/a NorthWestern Energy (“Seller”) and Puget Sound Energy, Inc. (“Buyer”) regarding the purchase of Unit Commitment Service subject to the terms and conditions of the Western Systems Power Pool Agreement, dated effective as of [July 22, 2010], as amended from time to time prior to the date hereof (the “WSPP Agreement”). The undersigned Parties agree to sell and purchase electric energy pursuant to the WSPP Agreement as it is supplemented and modified below:

<b>Seller</b>	NorthWestern Corporation, d/b/a NorthWestern Energy
<b>Purchaser</b>	Puget Sound Energy, Inc.
<b>Period of Delivery</b>	[Commencing on hour ending (“HE”) 0100 June 1, 2020 through HE 2400 May 15, 2025] <sup>1</sup>
<b>Schedule (Days and Hours)</b>	7 x 24 (including NERC holidays)
<b>Delivery Rate</b>	N/A
<b>Delivery Point</b>	The high side of the 500 kV bus for Unit 4 in the Colstrip Switchyard, or, at Seller’s option and with prior notice to Purchaser, at Mid-C.
<b>Type of Service</b>	Unit Commitment Service from Colstrip Unit 4, Service Schedule B
<b>Contract Quantity</b>	90 MW at any time that Colstrip Unit 4 is operating at or greater than minimum load; 0 MW when Colstrip Unit 4 is off-line.
<b>Contract Price</b>	For each hour of the term of the contract, regardless of the Delivery Point, the higher of (i) the Mid C Day-Ahead Index Price for on-peak and off-peak periods, as applicable, minus O&M Costs (Base) Equilivant and (ii) the Floor Price applicable to such hour. In addition Purchaser shall pay a monthly payment of 1/12 <sup>th</sup> of the annual O&M Costs (Base).

As used herein:

---

<sup>1</sup> Note to Draft: Delivery term to be confirmed.

“Floor Price” means, for any hour during the Period of Delivery, a per MWh price calculated in accordance with Exhibit A to this Confirmation.

“O&M Costs (Base)” means, the 90 MW share of the O&M Cost (Base) fixed costs as identified and approved annually for Costrip Units 3 and 4 Budget. .

“O&M Costs (Base) Equilivant” means, O&M Cost (Base) divided by the annual net generation, as identified and approved annually for Colstrip Units 3 and 4 Budget.

“Mid C Day-Ahead Index Price” means, as applicable, the “ELECTRICITY-MID C PEAK-ICE” price or the “ELECTRICITY-MID C OFF-PEAK-ICE” price, as published by the Intercontinental Exchange for the applicable day of delivery, or if at any time such index is no longer available, such other index as the parties agree provides an economically comparable price.<sup>2</sup>

**Transmission Path for the Transaction**

N/A

**Date of Agreement**

[            ], 2019

**Special Terms and Exceptions**

Notwithstanding anything to the contrary in the WSPP Agreement, the Parties hereby agree to the following modifications thereto:

1. Section 22 of the WSPP Agreement is hereby revised as follows:
  - a. The reference to two (2) Business Days in Section 22.1(a) is amended to be a reference to ten (10) Business Days;
  - b. Section 22.1(c) is hereby revised to add the following to the end there of:

“*provided*, that, in the case of the institution of any such proceeding by another person or entity, such proceeding is consented or acquiesced to by the Defaulting Party or is not withdrawn or dismissed within sixty (60) days;”

---

<sup>2</sup> Note to Draft: Parties to confirm index.

- c. The first and second sentences of Section 22.2(a) are deleted in their entirety and the following is substituted therefor:

“If an Event of Default shall have occurred and be continuing, the Non-Defaulting Party, upon written notice to the Defaulting Party, shall have the right to suspend, reinstate and resuspend performance of transactions under this Agreement. Suspension periods shall not affect in any way the thirty (30) day period for exercising a right of termination under Section 22.2(b).”

- d. The last sentence of Section 22.2(a) is deleted in its entirety and the following is substituted therefor:

“The Non-Defaulting Party shall provide at least twenty-four (24) hours written notice to the Defaulting Party before any suspension may be terminated.”

- e. The last sentence of Section 22.3(c) is hereby deleted in its entirety and the following is substituted therefor: “If the Non-Defaulting Party's aggregate Gains exceed its aggregate Losses and Costs, the Termination Payment shall be deemed to equal \$0 and in no event shall the Defaulting Party be entitled to be paid a Termination Payment”; and

- f. Section 22.3(e) shall be deleted in its entirety.

- 2. Sections B-3.8 and B-5 of Service Schedule B are hereby deleted in their entirety.
- 3. Revision of B-3.9(b) in Schedule B to read, “By the Seller when all of the output of the unit is unavailable” and deleting the remainder of that subsection.
- 4. THE PARTIES HERETO HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS CONFIRMATION OR ANY OTHER DOCUMENT DELIVERED IN CONNECTION HERewith, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS

(WHETHER ORAL OR WRITTEN) OR ACTIONS OF THE PARTIES HERETO.

5. This Agreement is made under and shall be governed by and construed in accordance with the substantive laws of the State of New York, without giving effect to any choice of law rule (except Section 5-1401 of the New York General Obligations Law) that would cause the application of the laws of any jurisdiction other than the internal laws of the State of New York<sup>3</sup>.

**Miscellaneous**

This Confirmation may be executed in multiple counterparts, each of which when so executed and delivered shall constitute a duplicate original and all counterparts together shall constitute one and the same instrument. The Parties acknowledge and agree that any document or signature delivered by facsimile, PDF or other electronic transmission shall be deemed to be an original executed document for the purposes hereof and such execution and delivery shall be considered valid, binding and effective for all purposes.

IN WITNESS WHEREOF the Parties have executed this Confirmation in the manner appropriate to each on the date set forth above.

NORTHWESTERN CORPORATION, d/b/a NORTHWESTERN ENERGY

By: \_\_\_\_\_  
Name:  
Title:

PUGET SOUND ENERGY, INC.

By: \_\_\_\_\_  
Name:  
Title:

---

<sup>3</sup> NTD: New York law is acceptable, but NorthWestern would prefer to stick with WSPP mediation and arbitration.

### Methodology for calculating the minimum electric cost

#### Combination of Two parts

- Fuel related variable cost in \$/MW
- Non-Fuel variable cost in \$/MW

#### Fuel related Variable costs

- Base price is the equivalent cost of fuel expressed in \$/MW at minimum load heat rate
  - Heat rate is approximately 13,500Btu/KWhr
  - Coal consumption at that rate is 0.8 tons /MW
- Base price on the contract starts at \$27/ton
  - \$27/ton is equivalent to \$21.60/MW (\$27.00/ton times 0.8tons/MW)
- Base price under the fuel contract adjusts quarterly under the fuel contract – the base price of this contract would be adjusted accordingly (the quarterly base price would be multiplied by 0.8)

#### Non Fuel variable costs

- The plant produces an incremental cost worksheet every year which includes a place for non-fuel variable cost
- For 2019, it is \$3.81/MW at minimum load
- A new sheet will be developed for the 2020 budget – a new number would be used annually under the contract for non-fuel variable O&M
- If the operator no longer produces an incremental cost worksheet, then mutually agreeable alternative will be calculated or used

Minimum charge for electricity under the PPA then is the combination of Fuel and non-Fuel variable costs as described and adjusted above.

- Minimum charge = Fuel related variable cost + non-Fuel variable cost
  - the example above would produce a minimum charge of  $\$21.60 + 3.81 = \$25.41/\text{MW}$



**EXHIBIT E**  
**WATER RIGHTS TRANSFER CERTIFICATE**

(See attached.)



# DNRC OWNERSHIP UPDATE DIVIDED INTEREST

Complete one form for each water right that will be divided. Your water right will be divided into separate water rights based on the information provided.

**Submit all three pages of this form with the filing fee; a deed, contract for deed, or other recorded document; a water right abstract; and a map.**

Contact your local DNRC Water Resources Regional Office if you have any questions.

**Filing Fee \$50.00**

### FOR DEPARTMENT USE ONLY

Rec'd Date \_\_\_\_\_  
Rec'd By \_\_\_\_\_  
Fee Rec'd \$ \_\_\_\_\_ Check No. \_\_\_\_\_  
Payor \_\_\_\_\_  
Refund \$ \_\_\_\_\_ Date \_\_\_\_\_  
Deposit Receipt # \_\_\_\_\_  
OUID # \_\_\_\_\_

*If all interested parties wish to split the water right, each **must** fill out and sign either part B or part C of this form. A water right can be split into several portions on one form for one \$50 filing fee. All interested parties must sign off on the split of water rights even if their portions are not split into individual rights.*

### PART A – GENERAL INFORMATION

1. DATE OF LAND TRANSFER (SALE) \_\_\_\_\_

2. WATER RIGHT BEING DIVIDED \_\_\_\_\_

3. SELLER (Grantor) \_\_\_\_\_

MAILING ADDRESS \_\_\_\_\_

CITY \_\_\_\_\_ STATE \_\_\_\_\_ ZIP \_\_\_\_\_

PHONE \_\_\_\_\_ EMAIL \_\_\_\_\_

4. BUYER (Grantee) \_\_\_\_\_

MAILING ADDRESS \_\_\_\_\_

CITY \_\_\_\_\_ STATE \_\_\_\_\_ ZIP \_\_\_\_\_

PHONE \_\_\_\_\_ EMAIL \_\_\_\_\_

5. HOW IS THIS WATER RIGHT BEING DIVIDED? Please check only one.

The water right is being divided as specifically identified in a deed, contract for deed, or other recorded document. (Attach a copy and underline the divided interest information.)

The water right is being divided proportionately between the buyer and seller based on the place of use described in the water right. (Attach a copy of the deed, contract for deed, or other recorded document.)

6. WATER RIGHT ABSTRACT

A current DNRC general abstract of the water right being divided must be submitted. To receive DNRC generated water right abstracts, query the water right at the following web address: <http://www.nris.mt.gov/dnrc/waterrights/default.aspx> or contact the regional office serving your area.

7. MAP

A map must be provided. An aerial photo is preferred. You may also use a scaled map, county plat or quad map showing township and range, section corners, and a north arrow. **The following elements must be identified on the map:**

a. The place of use the seller is retaining;

b. The place of use the buyer is receiving;

c. Point(s) of diversion; and

d. The location of any irrigated acres.

### IMPORTANT NOTES

- If you want to change or add a point of diversion, place of use, place of storage, or purpose of use of a water right you must first file a change application with the DNRC.
- The combined portions of a divided water right cannot exceed the total flow rate, volume, or period of diversion of the original right.
- The DNRC has no jurisdiction concerning easement, right-of-way, and zoning matters. The buyer and seller must make these provisions where necessary.
- There may be ongoing court action regarding this water right and terms and conditions applicable to the exercise of the divided right. The buyer should be familiar with all aspects of the right received.

**PART B – SELLER’S PORTION**

(Attach additional sheets if necessary)

1. **SELLER’S NAME** \_\_\_\_\_

**2. PORTION OF WATER RIGHT RETAINED**

If specifically identified in the attached recorded document, what flow rate will be retained by the Seller? \_\_\_\_\_  gpm  cfs

Unless specifically divided in the attached recorded document, both the Seller’s and Buyer’s water right will retain the full flow rate and the use of the flow rate must be shared and/or alternated. Attach an additional sheet explaining how this will be done such that, in combination, the flow rate of the original water right will not be exceeded.

Purpose of Use \_\_\_\_\_ Volume (acre-feet) \_\_\_\_\_

Purpose of Use \_\_\_\_\_ Volume (acre-feet) \_\_\_\_\_

**3. POINT OF DIVERSION** (describe the location to the nearest 10 acres, three quarter sections)

\_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

Lot/Tract \_\_\_\_\_ Block \_\_\_\_\_ Subdivision Name \_\_\_\_\_

COS \_\_\_\_\_ Gov’t Lot \_\_\_\_\_ County \_\_\_\_\_

\_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

Lot/Tract \_\_\_\_\_ Block \_\_\_\_\_ Subdivision Name \_\_\_\_\_

COS \_\_\_\_\_ Gov’t Lot \_\_\_\_\_ County \_\_\_\_\_

**4. PLACE OF USE**

Purpose of Use \_\_\_\_\_ County \_\_\_\_\_

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ **Total Acres**

Lot/Tract \_\_\_\_\_ Block \_\_\_\_\_ Subdivision Name \_\_\_\_\_

COS \_\_\_\_\_ Gov’t Lot \_\_\_\_\_

Geocodes(s) \_\_\_\_\_

Purpose of Use \_\_\_\_\_ County \_\_\_\_\_

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ **Total Acres**

Lot/Tract \_\_\_\_\_ Block \_\_\_\_\_ Subdivision Name \_\_\_\_\_

COS \_\_\_\_\_ Gov’t Lot \_\_\_\_\_

Geocodes(s) \_\_\_\_\_

**5. SIGNATURE**

I DECLARE UNDER PENALTY OF PERJURY AND UNDER THE LAWS OF THE STATE OF MONTANA THAT THE FOREGOING IS TRUE AND CORRECT.

Seller Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Seller Signature: \_\_\_\_\_ Date: \_\_\_\_\_

**PART C - BUYER'S PORTION**

(Attach additional sheets if necessary. If more than one buyer, add sheets showing each buyer's portion.)

1. **BUYER'S NAME** \_\_\_\_\_

**2. PORTION OF WATER RIGHT ACQUIRED**

Flow Rate (gpm/cfs) \_\_\_\_\_ (Only if specifically identified in the attached recorded document—see Part B, Number 2)

Purpose of Use \_\_\_\_\_ Volume (acre-feet) \_\_\_\_\_

Purpose of Use \_\_\_\_\_ Volume (acre-feet) \_\_\_\_\_

**3. POINT OF DIVERSION** (describe the location to the nearest 10 acres, three quarter sections)

\_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

Lot/Tract \_\_\_\_\_ Block \_\_\_\_\_ Subdivision Name \_\_\_\_\_

COS \_\_\_\_\_ Gov't Lot \_\_\_\_\_ County \_\_\_\_\_

\_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

Lot/Tract \_\_\_\_\_ Block \_\_\_\_\_ Subdivision Name \_\_\_\_\_

COS \_\_\_\_\_ Gov't Lot \_\_\_\_\_ County \_\_\_\_\_

**4. PLACE OF USE**

Purpose of Use \_\_\_\_\_ County \_\_\_\_\_

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_\_ **Total Acres**

Lot/Tract \_\_\_\_\_ Block \_\_\_\_\_ Subdivision Name \_\_\_\_\_

COS \_\_\_\_\_ Gov't Lot \_\_\_\_\_

Geocodes(s) \_\_\_\_\_

Purpose of Use \_\_\_\_\_ County \_\_\_\_\_

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_\_ **Total Acres**

Lot/Tract \_\_\_\_\_ Block \_\_\_\_\_ Subdivision Name \_\_\_\_\_

COS \_\_\_\_\_ Gov't Lot \_\_\_\_\_

Geocodes(s) \_\_\_\_\_

**5. SIGNATURE**

I DECLARE UNDER PENALTY OF PERJURY AND UNDER THE LAWS OF THE STATE OF MONTANA THAT THE FOREGOING IS TRUE AND CORRECT.

Buyer Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Buyer Signature: \_\_\_\_\_

Date: \_\_\_\_\_

## WATER RESOURCES OFFICES

- BILLINGS:** AIRPORT INDUSTRIAL PARK, 1371 RIMTOP DR., BILLINGS MT 59105-1978  
PHONE: 406-247-4415 FAX: 406-247-4416  
SERVING: Big Horn, Carbon, Carter, Custer, Fallon, Powder River, Prairie, Rosebud, Stillwater, Sweet Grass, Treasure, and Yellowstone Counties
- BOZEMAN:** 2273 BOOT HILL COURT, SUITE 110, BOZEMAN MT 59715  
PHONE: 406-586-3136 FAX: 406-587-9726  
SERVING: Gallatin, Madison, and Park Counties
- GLASGOW:** 222 6TH STREET SOUTH, PO BOX 1269, GLASGOW MT 59230-1269  
PHONE: 406-228-2561 FAX: 406-228-8706  
SERVING: Daniels, Dawson, Garfield, McCone, Phillips, Richland, Roosevelt, Sheridan, Valley, and Wibaux Counties
- HAVRE:** 210 6TH AVENUE, PO BOX 1828, HAVRE MT 59501-1828  
PHONE: 406-265-5516 FAX: 406-265-2225  
SERVING: Blaine, Chouteau, Glacier, Hill, Liberty, Pondera, Teton, and Toole Counties
- HELENA:** 1424 9TH AVE., PO BOX 201601, HELENA MT 59620-1601  
PHONE: 406-444-6999 FAX: 406-444-9317  
SERVING: Beaverhead, Broadwater, Deer Lodge, Jefferson, Lewis and Clark, Powell, and Silver Bow Counties
- KALISPELL:** 655 TIMBERWOLF PARKWAY, SUITE 4, KALISPELL MT 59901-1215  
PHONE: 406-752-2288 FAX: 406-752-2843  
SERVING: Flathead, Lake, Lincoln, and Sanders Counties
- LEWISTOWN:** 613 NORTHEAST MAIN ST., SUITE E, LEWISTOWN MT 59457-2020  
PHONE: 406-538-7459 FAX: 406-538-7089  
SERVING: Cascade, Fergus, Golden Valley, Judith Basin, Meagher, Musselshell, Petroleum, and Wheatland Counties
- MISSOULA:** 2705 SPURGIN RD. BLDG.C, PO BOX 5004, MISSOULA MT 59806-5004  
PHONE: 406-721-4284 FAX: 406-542-5899  
SERVING: Granite, Mineral, Missoula, and Ravalli Counties

---

**MONTANA DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION**  
**Water Resources Division - Water Rights Bureau**  
**WEBSITE: <http://dnrc.mt.gov/wrd/>**

---



**EXHIBIT F**  
**VOTE SHARING AGREEMENT**  
**VOTE SHARING AGREEMENT**

THIS VOTE SHARING AGREEMENT (this “*Agreement*”) is entered into as of [•], 2019 (the “*Effective Date*”) by and between NORTHWESTERN CORPORATION, a Delaware corporation (“*NorthWestern*”), and PUGET SOUND ENERGY, INC., a Washington public utility corporation (“*Puget*”). NorthWestern and Puget are sometimes referred to herein individually as a “*Party*” and, collectively, as the “*Parties*.” Capitalized terms used herein without definition shall have the respective meanings assigned to such terms in the Ownership and Operation Agreement.

**RECITALS**

WHEREAS, the ownership, operation and maintenance of the Project is governed by that certain Ownership and Operation Agreement, dated as of May 6, 1981, by and between The Montana Power Company, a Montana corporation (“*MPC*”), Puget Sound Energy, Inc. (formerly named “*Puget Sound Power & Light Company*”), a Washington corporation, Avista Corporation (formerly named “*Washington Water Power Company*”), a Washington corporation, Portland General Electric Company, an Oregon corporation, and PacifiCorp (successor by merger to the Maine corporation named “*Pacific Power & Light Company*”), an Oregon corporation, as amended on or about October 11, 1991, July 13, 1998, September 14, 2004 and August 18, 2008 (and as may be subsequently amended, modified and supplemented from time to time, the “*Ownership and Operation Agreement*”);

WHEREAS, NorthWestern and Puget are parties to that certain Colstrip Unit 4 Purchase and Sale Agreement dated as of December 9, 2019 whereby NorthWestern acquired Puget’s undivided interest in Colstrip Unit 4 (the “*Colstrip Unit 4 Acquisition Agreement*”); and

WHEREAS, the Parties desire to enter into this Agreement to govern their respective voting obligations under the Ownership and Operation Agreement with respect to Puget’s retained undivided interest in Colstrip Unit 3 and NorthWestern’s undivided interest in Colstrip Unit 4 acquired from Puget, but not NorthWestern’s preexisting interest in Colstrip Unit 4 (the “*Shared Vote*”).

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements contained in this Agreement, and intending to be legally bound, the Parties agree as follows:

**ARTICLE 1**  
**DEFINITIONS & INTERPRETATION**

**Section 1.1 Definitions.** In this Agreement, the following capitalized terms have the meanings assigned below.

“AAA” has the meaning assigned to it in Section 4.2(a).

“*Appointee*” means any of a NorthWestern Appointee or a Puget Appointee.

“*Authorized Officer*” means, with respect to a Party, any officer of such Party.

“*Business Day*” means any day which is not a Saturday, Sunday or legal holiday in the state of Montana.

“*Classification Objection*” means an Objection on the grounds that the other Party has incorrectly classified the subject matter of the Proposal as a Colstrip 3 Proposal, Colstrip 4 Proposal, Mixed Proposal, Unit 3 Decommissioning Proposal, Unit 4 Decommissioning Proposal, Unit 3 Budget Proposal, Unit 4 Budget Proposal, or Remediation Proposal, as applicable.

“*Colstrip Unit 3*” means such portion of the Project commonly known as “Colstrip Unit 3” and the corresponding interest in the Common Facilities and related facilities, real property and property rights.

“*Colstrip 3 Proposal*” means a Proposal, other than a Unit 3 Decommissioning Proposal or Remediation Proposal that relates primarily to Colstrip Unit 3, but not to Proposals concerning the Common Facilities.

“*Colstrip Unit 4*” means such portion of the Project commonly known as “Colstrip Unit 4” and the corresponding interest in the Common Facilities and related facilities, real property and property rights.

“*Colstrip 4 Proposal*” means a Proposal, other than a Unit 3 Decommissioning Proposal or Remediation Proposal that relates primarily to Colstrip Unit 4, but not to Proposals concerning the Common Facilities.

“*Colstrip Unit 4 Acquisition Agreement*” has the meaning assigned to it in the Recitals.

“*Common Facilities*” has the meaning assigned to it under the Ownership and Operation Agreement.

“*Dispute*” has the meaning assigned to it in Section 4.1.

“*Dispute Notice*” has the meaning assigned to it in Section 4.1.

“*Dispute Notice Response*” has the meaning assigned to it in Section 4.1.

“*Disapproval Statement*” means the written statement submitted to the other members of the Project Committee pursuant to Section 17(h) of the Ownership and Operation Agreement.

“*Governmental Authority*” means (i) the federal government of the United States of America, (ii) any state, county, municipality, or other governmental subdivision within the United States of America, and (iii) any executive, legislative or judicial court, department, commission, board, bureau, agency, or other instrumentality of the federal government of the United States of America or of any state, county, municipality, or other governmental subdivision within the United States of America.

“*Law*” means any applicable law, statute, rule, regulation, ordinance, standard, code, order, judgment, decision, writ, injunction, decree, certificate of need, award, or other governmental

restrictions, including any published and publicly available policy or procedure enforceable by any Governmental Authority.

*“Mixed Proposal”* means a Proposal that is not a Colstrip 3 Proposal, Colstrip 4 Proposal, Unit 4 Decommissioning Proposal, Unit 3 Decommissioning Proposal, Unit 3 Budget Proposal, Unit 4 Budget Proposal, or a Remediation Proposal. Mixed Proposal includes, but is not limited to, budget proposals for years for which there are no planned maintenance outages and budget proposals for years for which there are planned maintenance outages for both Unit 3 and Unit 4 which are of the exact same scheduled duration.

*“NorthWestern Appointee”* has the meaning assigned in Section 2.1(c).

*“NorthWestern’s Colstrip 4 Project Share”* means the 25% undivided interest in Colstrip Unit 4 acquired by NorthWestern from Puget, pursuant to the Colstrip Unit 4 Acquisition Agreement. For avoidance of doubt NorthWestern’s Colstrip 4 Project Shares shall not include NorthWestern 30% undivided interest in Colstrip Unit 4, acquired by NorthWestern from MPC, which at the time of this Agreement is subject to a separate vote sharing agreement.

*“Objection”* means an objection by a Party (or such Party’s Appointee) to the manner in which the other Party’s Appointee intends to use the Shared Vote. Only the following Objections may be asserted under this Agreement: Classification Objections or Prudency Objections.

*“Ownership and Operation Agreement”* has the meaning assigned to it in the Recitals.

*“Party Appointee”* means either a NorthWestern Appointee or a Puget Appointee.

*“Person”* means any Governmental Authority or any individual, firm, partnership, corporation, limited liability company, joint venture, trust, unincorporated organization or other entity or organization.

*“Poll”* has the meaning assigned in Section 3.2(b).

*“Project”* has the meaning assigned to it under the Ownership and Operation Agreement.

*“Project Committee”* has the meaning assigned to it under the Ownership and Operation Agreement.

*“Puget Appointee”* has the meaning assigned in Section 2.1(b).

*“Proposal”* means any proposal being considered for action by the Project Committee.

*“Prudency Objection”* means an objection by a Party resulting from a good faith determination by an Authorized Officer of such Party that the all or a portion of a Proposal would be inconsistent with Prudent Utility Practices (such determination to be made on the assumption that such Party is a long-term owner (and not merely a lessee) of Puget’s Colstrip 3 Project Share or NorthWestern’s Colstrip 4 Project Share, as appropriate).



“*Prudent Utility Practices*” means the practices, methods and acts generally engaged in or approved by the electric utility industry in the United States for similarly situated facilities in the United States during a particular time period, in a manner consistent with Laws, reliability, safety and environmental protection, and taking into consideration the requirements of this Agreement, the contracts set forth on Schedule 2.1(c) to the Colstrip Unit 4 Acquisition Agreement and the other contracts affecting the operation of the Project. Prudent Utility Practices are not necessarily intended to require the optimum or best practices, methods or acts to the exclusion of all others, but rather to include a spectrum of possible practices, methods or acts consistent with the immediately preceding sentence.

“*Puget’s Colstrip 3 Project Share*” means the 25% undivided interest in Colstrip Unit 3 owned by Puget.

“*Remediation Proposal*” means a Proposal primarily concerning the remediation of ground water or soil contamination located at Colstrip Unit 3 or Colstrip Unit 4 as required under applicable Laws.

“*Rules*” has the meaning assigned to it in Section 4.2(a).

“*Shared Vote*” has the meaning assigned to it in the Recitals.

“*Unit 3 Budget Proposal*” means a Proposal regarding the Project’s budget for a year during which Unit 3 is the only unit at the Project for which there is a planned maintenance outage, or, if both Unit 3 and Unit 4 have planned maintenance outages during a given year, a Proposal regarding the Project’s budget for that year if the scheduled duration of the planned maintenance outage for Unit 3 is longer than the scheduled duration of the planned maintenance outage for Unit 4.

“*Unit 4 Budget Proposal*” means a Proposal regarding the Project’s budget for a year during which Unit 4 is the only unit at the Project for which there is a planned maintenance outage, or, if both Unit 3 and Unit 4 have planned maintenance outages during a given year, a Proposal regarding the Project’s budget for that year if the scheduled duration of the planned maintenance outage for Unit 4 is longer than the scheduled duration of the planned maintenance outage for Unit 3.

“*Unit 3 Decommissioning Proposal*” means a Proposal regarding the decommissioning, mothballing, closure, retirement, deactivation, shut down, deconstruction, removal, or demolition of all or a portion of Colstrip Unit 3.

“*Unit 4 Decommissioning Proposal*” means a Proposal regarding the decommissioning, mothballing, closure, retirement, deactivation, shut down, deconstruction, removal, or demolition of all or a portion of Colstrip Unit 4.

**Section 1.2 Other Capitalization.** Unless otherwise defined in this Agreement (including the Recitals), all other capitalized terms used in this Agreement have the meanings assigned to such terms in the Ownership and Operation Agreement.

**Section 1.3 Interpretation.** Unless the context of this Agreement otherwise requires, (a) words of any gender include each other gender; (b) words using the singular or plural number also include the plural or singular number, respectively; (c) the terms “hereof,” “herein,” “hereby” and derivative or similar words refer to this entire Agreement; (d) the terms “Article” or “Section” refer to the specified Article or Section of this Agreement; and (e) any reference to the entirety or any part of any agreement or document shall refer to any amendment, supplement or replacement of the same. Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified.

## **ARTICLE 2 APPOINTEES; GENERAL COVENANTS OF THE PARTIES**

### **Section 2.1 Appointment Processes.**

(a) Unless otherwise agreed in writing by the Parties, each Appointee appointed pursuant to this Agreement shall (i) have sufficient financial and/or operational experience with electric energy plants similar to the Project, (ii) be an individual who is an employee of one of the Parties to this Agreement or one of their respective affiliates, and (iii) serve in accordance with the applicable terms and provisions of this Agreement and the Ownership and Operation Agreement.

(b) Puget shall appoint the individual and alternates who shall be entitled to use the Shared Vote on Puget’s behalf under this Agreement (the “*Puget Appointee*”) and Northwestern shall appoint the individual and alternates who shall be entitled to use the Shared Vote on NorthWestern’s behalf under this Agreement (the “*NorthWestern Appointee*”).

(c) Notice of any appointment made pursuant to this Section 2.1 shall be delivered in writing to the other Party not later than one Business Day prior to the effective date of such appointment. Nothing in this Section 2.1 is intended to limit the Parties’ ability to agree in writing to alter the selection process for any Appointee. The Notice of appointment shall contain contact information for the Appointee, including a physical mailing address, electronic mail address, and telephone number.

**Section 2.2 Appointee Obligations.** During his or her term each Appointee shall act in accordance with this Agreement. If an Appointee breaches any of its material obligations under this Agreement, such Appointee shall be removed by the appointing Party promptly after (a) receipt of written notice from the non-appointing Party, which notice shall describe the breach in reasonable detail, and (b) such appointing Party’s or its Appointee’s failure to cure such breach within five business days from the date such written notice is received. A replacement Appointee shall be selected in the manner of selecting the Appointee set forth in Section 2.1.

**Section 2.3 General Acknowledgments and Agreements.** The Parties hereby make the following acknowledgements and agreements:

(a) Wherever either Party’s approval, consent or agreement is required under this Agreement, it is understood that such approval, consent or agreement shall not be unreasonably

withheld, delayed or conditioned unless this Agreement specifically provides that a different standard should apply.

(b) The Parties shall maintain in confidence the communications, discussions and deliberations with the Appointees and between the Parties regarding the advice to, consultation with, and the establishment of strategy and casting of votes with respect to the Shared Vote; provided that (i) the obligation set forth herein shall not be construed to prohibit disclosure (A) to a Party's employees, shareholders, directors, officers, advisors, agents, representatives or lenders, (B) of information that is or becomes generally available to the public other than as a result of any improper disclosure of such information by the disclosing Party, or (C) of information required to be disclosed under applicable Laws and (ii) the Parties may mutually agree to disclose some or all of the communications, discussions or deliberations addressed hereby. Nothing in this Section 2.3(b) shall constitute a waiver of, or agreement not to assert, any attorney-client, work product, or other privilege unless otherwise available with respect to a Party, its Appointees and their separate deliberations and consultations.

(c) Nothing contained herein shall prohibit an Appointee from advancing any argument or taking any position at a Project Committee meeting inconsistent with the official vote being cast by the Shared Vote, and the Parties shall not interfere with an Appointee's efforts to communicate with the Project Committee on any matter before the Project Committee.

(d) This Agreement does not apply to rights, votes, approvals, consents, waivers or the like that are to be made or exercised directly by Owners or Project Users (including by an individual appointed as a Party Appointee but only to the extent acting on behalf of such Owners or Project Users and not as a Party Appointee) under the Ownership and Operation Agreement (as opposed to rights, votes, approvals, consents, waivers or the like designed to be made or exercised by the members of Project Committee or the Project Committee as a whole). The Party Appointees shall not have the power to bind the Parties beyond their ability to cast the Shared Vote hereunder; it being understood that Appointees may waive Objections but do not, in capacities as such, have the power to waive any other rights under this Agreement.

**Section 2.4 Exclusive Remedies.** Furthermore, each Party agrees that its exclusive remedy for a breach of this Agreement shall be an action against the other Party, and not its Appointee, in the manner permitted by this Agreement.

### ARTICLE 3 THE VOTING PROCESS

#### **Section 3.1 Voting Rights and Objections Generally.**

(a) With respect to any Colstrip 3 Proposal, Colstrip 4 Proposal, Mixed Proposal, Colstrip 3 Decommissioning Proposal, Colstrip 4 Decommissioning Proposal or Remediation Proposal, the Shared Vote shall be cast strictly in accordance with this Agreement by one of the Party Appointees as described in the table contained below in this Section 3.1(a). Objections shall be communicated as soon as possible but in any event prior to the casting of an official vote by the Project Committee as follows: (i) the Objection shall be communicated verbally by telephone or in person to the other Party Appointee for any Proposal received on the day of the

Project Committee meeting in which such Proposal is to be considered and (ii) the Objection shall be communicated in writing delivered via email or verbally by telephone or in person to the other Party Appointee for any Proposal received prior to the day of the Project Committee meeting in which such Proposal is to be considered. The types of Objections which may be raised and the manner in which the Shared Vote may be cast are set forth on the table below. Subject to Section 3.1(b), if a Party Appointee is absent from a Project Committee meeting and appropriate alternate arrangements consistent with the Ownership and Operation Agreement have not been made (except for such absences due to an emergency or similar circumstances beyond such Appointee’s control), the other Party may cast the Shared Vote.

<b>Subject Matter</b>	<b>Voting Rights if no Objection is Raised</b>	<b>Permitted Objections</b>	<b>Default Resolution After Objection is Raised</b>
<b>Colstrip 3 Proposal</b>	Puget Appointee casts Shared Vote	Classification Objection	The Proposal shall be reclassified pursuant to NorthWestern’s instructions and the Shared Vote shall be cast by the Party entitled pursuant to this Section 3.1(a), unless Puget contests the Classification Objection in accordance with <u>ARTICLE 4</u> .
<b>Colstrip 4 Proposal</b>	NorthWestern Appointee casts Shared Vote	Classification Objection	The Proposal shall be reclassified pursuant to Puget’s instructions and the Shared Vote shall be cast by the Party entitled pursuant to this Section 3.1(a), unless NorthWestern contests the Classification Objection in accordance with <u>ARTICLE 4</u> .
<b>Mixed Proposal</b>	NorthWestern Appointee casts Shared Vote	Classification Objection; Prudency Objection	<i>Classification Objection:</i> The Proposal shall be reclassified pursuant to Puget’s instructions and the Shared Vote shall be cast by the Party entitled pursuant to this Section 3.1(a), unless NorthWestern contests the Classification Objection in accordance with <u>ARTICLE 4</u> .  <i>Prudency Objection:</i> NorthWestern Appointee casts the Shared Vote consistent with the results of a valid Poll conducted in accordance with <u>Section 3.2</u> . So long as a Poll may be conducted, <u>ARTICLE 4</u> does not apply to Prudency Objections.

<b>Unit 3 Budget Proposal</b>	Puget Appointee casts the Shared Vote	Classification Objection	The Proposal shall be reclassified pursuant to NorthWestern’s instructions and the Shared Vote shall be cast by the Party entitled pursuant to this Section 3.1(a), unless Puget contests the Classification Objection in accordance with <u>ARTICLE 4</u> .
<b>Unit 4 Budget Proposal</b>	NorthWestern Appointee casts the Shared Vote	Classification Objection	<i>Classification Objection:</i> The Proposal shall be reclassified pursuant to Puget’s instructions and the Shared Vote shall be cast by the Party entitled pursuant to this Section 3.1(a), unless NorthWestern contests the Classification Objection in accordance with <u>ARTICLE 4</u> .
<b>Unit 4 Decommissioning Proposal</b>	NorthWestern Appointee casts the Shared Vote	Classification Objection; Prudency Objection	<i>Classification Objection:</i> The Proposal shall be reclassified pursuant to Puget’s instructions and the Shared Vote shall be cast by the Party entitled pursuant to this Section 3.1(a), unless NorthWestern contests the Classification Objection in accordance with <u>ARTICLE 4</u> .  <i>Prudency Objection:</i> NorthWestern Appointee casts the Shared Vote consistent with the results of a valid Poll conducted in accordance with <u>Section 3.2</u> . So long as a Poll may be conducted, <u>ARTICLE 4</u> does not apply to Prudency Objections.
<b>Unit 3 Decommissioning Proposal</b>	Puget Appointee casts the Shared Vote	Classification Objection	The Proposal shall be reclassified pursuant to NorthWestern’s instructions and the Shared Vote shall be cast by the Party entitled pursuant to this Section 3.1(a), unless Puget contests the Classification Objection in accordance with <u>ARTICLE 4</u> .

<b>Remediation Proposal</b>	Puget Appointee casts the Shared Vote	Classification Objection	The Proposal shall be reclassified pursuant to NorthWestern’s instructions and the Shared Vote shall be cast pursuant to this Section 3.1(a), unless Puget contests the Classification Objection in accordance with <u>ARTICLE 4</u> .
-----------------------------	---------------------------------------	--------------------------	--

(b) If, despite the good faith efforts of both Parties the Project Committee vote occurs prior to resolution of the validity of an Objection pursuant to ARTICLE 4, the Shared Vote shall not be cast.

(c) In connection with any Mixed Proposal, Unit 3 Decommissioning Proposal, Unit 4 Decommissioning Proposal, Unit 3 Budget Proposal, Unit 4 Budget Proposal, or Remediation Proposal, the Party entitled to cast the Shared Vote for such Proposal agrees to reasonably cooperate and consult with the other Party regarding the classification of Proposals and the establishment of strategy and casting of the Shared Vote in accordance with and subject to the terms of this Agreement. This covenant to cooperate includes, without limitation, the obligation to provide the other Party with notice of any conflict or disagreement as soon as reasonably practicable.

**Section 3.2 The Conduct and Results of a Prudency Objection Poll.**

(a) If a Party asserts a Prudency Objection, the non-objecting Party shall request that the Project Committee conduct a Poll regarding such Proposal as follows: (i) if the Prudency Objection is asserted on the day of or during the Project Committee meeting in which the Proposal is to be considered, the non-objecting Party shall request during the Project Committee meeting that a Poll be conducted during such meeting and (ii) if the Prudency Objection is asserted prior to the day of the Project Committee meeting in which the Proposal is to be considered, the non-objecting Party shall give notice both telephonically and by email to the objecting Party that it will request that a Poll be taken at the Project Committee meeting.

(b) A valid “Poll” is one in which the Project Committee members (including each of the Appointees selected pursuant to this Agreement) present their respective good faith indications of how they intend to vote on the Proposal being considered. For purposes of conducting the Poll, the Project Shares of NorthWestern and Puget shall be separately tallied for purposes of the Poll and not counted as indicative of the single combined Shared Vote to be cast. Therefore, the results of a valid Poll shall present a pure tally of the Project Users’ positions with respect to a Proposal based on each Project User’s actual Project Share.

(c) The official Shared Vote on the Proposal being considered in the Poll shall be cast consistent with the results of the Poll in light of the voting and approval requirements under the Ownership and Operation Agreement (i.e., either approved or not approved). The fact that a Project Committee member casts an official vote on the Proposal that differs from its Poll vote shall have no bearing on the official Shared Vote cast in accordance with this Section 3.2(c). The Shared Vote cast may be changed only upon the concurrence of both Party Appointees and in accordance with the terms and provisions of the Ownership and Operation Agreement.



(d) Where, through the successful exercise of an Objection, a Party, through its Appointee, has cast the Shared Vote to reject (or not approve) a Proposal, such Party shall have the sole right and, as between the two Parties, the responsibility to submit a Disapproval Statement, and the other Party shall have no right to submit a Disapproval Statement representing the Shared Vote relating to such rejected (or unapproved) Proposal. If in accordance with Section 3.1(b) the Shared Vote was not cast, the Parties shall attempt to submit a joint Disapproval Statement that contains both Parties' positions on, and alternatives with respect to, the Proposal. In all other situations, the Parties shall reasonably cooperate to prepare and submit Disapproval Statements on behalf of the Shared Vote that present positions and alternative proposals that are agreeable to both Parties; it being the express preference of this Agreement that a Disapproval Statement actually be submitted within the time periods required under the Ownership and Operation Agreement.

#### **ARTICLE 4 DISPUTE RESOLUTION**

**Section 4.1 Mutual Discussions.** If any dispute or difference of any kind whatsoever shall arise between the Parties in connection with, or arising out of, this Agreement or the interpretation, performance, breach, termination or validity hereof, including without limitation any claim based on contract, text or statute (the "*Dispute*"), the Parties shall attempt to settle such Dispute in the first instance by mutual discussions in accordance with this Section 4.1. Within seven (7) Business Days of the receipt by either Party of a notice from the other Party of the existence of a Dispute referring to this ARTICLE 4 (the "*Dispute Notice*"), the receiving Party shall reply with a written response (a "*Dispute Notice Response*"). Both the Dispute Notice and the Dispute Notice Response shall include (i) a statement of the relevant Party's position with regard to the Dispute and a summary of arguments supporting such position; and (ii) the name and title of the executive who will represent that Party in attempting to resolve the Dispute pursuant to this Section 4.1. Within seven (7) Business Days of delivery of the Dispute Notice Response, the designated executives shall meet and attempt to resolve the Dispute. All negotiations pursuant to this clause shall be confidential and shall be treated as compromise and settlement negotiations, and no oral or documentary representations or offers made by the Parties during such negotiations shall be admissible for any purpose in any subsequent proceedings.

**Section 4.2 Arbitration.** If any Dispute is not resolved within thirty (30) days of receipt of a Dispute Notice pursuant to Section 4.1, then, upon either Party's request, the Dispute shall be finally and exclusively resolved by arbitration as follows:

(a) The arbitration shall be held accordance with the Commercial Arbitration Rules (the "*Rules*") of the American Arbitration Association (the "*AAA*"), then in effect, except as modified herein. The arbitration shall be held, and the award shall be issued in Billings, Montana.

(b) The Parties shall appoint an arbitrator satisfactory to both parties. If the arbitrator is not appointed within the time limit provided herein, such arbitrator shall be appointed by the AAA by using a listing, striking and ranking procedure in accordance with the Rules. Any arbitrator appointed by the AAA shall be a retired judge, preferably from a Federal District Court or Federal Court of Appeals, or a practicing attorney with no less than twenty (20) years of

experience and an experienced arbitrator and if possible shall have experience with disputes relating to electric power infrastructure.

(c) The hearing shall be held, if possible, within four (4) months after the appointment of the arbitrator, or as soon thereafter as is reasonably practicable.

(d) By agreeing to arbitration, the entities signing this Agreement do not intend to deprive any court of its jurisdiction to issue a pre-arbitral injunction, pre-arbitral attachment, or other order in aid of arbitration proceedings and the enforcement of any award. Without prejudice to such provisional remedies as may be available under the jurisdiction of a court, the arbitrator shall have full authority to grant provisional remedies and to direct the entities signing this Agreement to request that any court modify or vacate any temporary or preliminary relief issued by such court, and to award damages for the failure of any entity signing this Agreement to respect the arbitrator's orders to that effect.

(e) Any arbitration proceedings, decision or award rendered hereunder and the validity, effect and interpretation of this arbitration agreement shall be governed by the Federal Arbitration Act, 9 U.S.C. §1 et seq. In arriving at their decision, the arbitrator shall be bound by the terms and conditions of this Agreement and the Closing Documents and shall apply the governing law of this Agreement as designated in Section 7.3 hereof.

(f) Any controversy concerning whether a Dispute is an arbitrable Dispute or as to the interpretation or enforceability of this paragraph shall be determined by the arbitrator.

(g) The arbitrator is not empowered to award damages in excess of compensatory damages, and each Party hereby irrevocably waives any right to recover consequential, punitive, exemplary or similar damages with respect to any Dispute. The award, which shall be in writing and shall state the findings of fact and conclusions of Law upon which it is based, shall be final and binding on the Parties and shall be the sole and exclusive remedy among the Parties regarding any claims, counterclaims, issues or accounting presented to the arbitrator. Judgment upon any award may be entered in any court of competent jurisdiction. In appropriate circumstances, the arbitrator shall have the authority to order a termination of this Agreement.

The arbitrator's award shall allocate, in their discretion, among the Parties to the arbitration all costs of the arbitration, including the fees and expenses of the arbitrator and reasonable attorneys' fees, costs and expert witness expenses of the Parties. The award shall be final and binding on the Parties and may be enforced in any court having jurisdiction.

## **ARTICLE 5 TERM & TERMINATION**

**Section 5.1 Term.** This Agreement shall become effective as of the date first written above and shall continue in full force and effect until the end of the term of the Ownership and Operation Agreement in accordance with Section 32 thereof.



**ARTICLE 6  
REPRESENTATIONS AND WARRANTIES**

Each Party represents and warrants to the other Party that, as of the Effective Date:

(a) such Party is duly formed and validly existing under the laws of the jurisdiction of its organization and is duly authorized to do business in each other jurisdiction in which it is required to be so qualified with full power and authority to perform its obligations hereunder and that the execution, delivery and performance of this Agreement has been duly authorized by such Party;

(b) this Agreement has been duly executed and delivered by such Party and constitutes the legal, valid, binding and enforceable obligation of such Party enforceable in accordance with its terms against such Party subject to the effect of bankruptcy, insolvency, moratorium and other similar laws relating to creditors' rights generally, whether existing at law or in equity, by general equitable principles and by an implied covenant of good faith and fair dealing;

(c) no consent, approval or authorization of, or filing, registration or qualification with, any court or governmental authority on the part of such Party is required for the execution and delivery of this Agreement by such Party and the performance of its obligations and duties hereunder, other than those that have been made or obtained; and

(d) such Party is in material compliance with all laws and legal requirements applicable to its business.

**ARTICLE 7  
MISCELLANEOUS**

**Section 7.1 Assignment: Third Party Beneficiaries.** A transfer or assignment by either Party of any part of its interest under this Agreement to any other Person (an "Assignee") shall be subject to the non-assigning Party's receipt of written evidence that each of the following conditions has been satisfied: (a) the assigning Party shall be simultaneously transferring or assigning a corresponding portion of its Project Share, which is subject to this Agreement, to such Assignee, (b) such Assignee shall have assumed in writing the corresponding duties and obligations of the assigning Party which arise and are attributable to the period after the effective date of the assignment and (c) if a partial (but not a full) assignment of this Agreement is being effected, arrangements regarding the casting of the Shared Vote acceptable to the non-assigning Party shall be agreed upon in writing (including, without limitation, by amending this Agreement). Except as explicitly provided herein, nothing in this Agreement, express or implied, is intended to confer on any person or entity other than the Parties and their successors and assigns permitted hereunder any rights, remedies, obligations or liabilities under or by reason of this Agreement.

**Section 7.2 Specific Performance.** The Parties hereby declare that it is impossible to measure in money the damages that will accrue to a Party hereto by reason of a failure to perform any of the obligations under this Agreement and agree that the terms of this Agreement shall be specifically enforceable. If any Party hereto institutes any action or proceeding to

specifically enforce the provisions hereof, the Party against whom such action or proceeding is brought hereby waives the claim or defense therein that such Party has an adequate remedy at law, and such Party shall not offer in any such action or proceeding the claim or defense that such remedy at law exists.

**Section 7.3 Governing Law.** THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF MONTANA WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES.

**Section 7.4 Severability.** Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

**Section 7.5 Notices and Communications.** Except as otherwise provided in this Agreement, any notice, request, instruction or other document to be given hereunder by a party hereto shall be in writing and shall be deemed to have been given (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient; or (d) on the third (3rd) Business Day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid

Notices to NorthWestern shall be addressed to the NorthWestern Appointee at the address provided pursuant to Section 2.1(c), with a copy to:

NorthWestern Corporation  
208 North Montana Ave. Suite 205  
Helena, MT 59601  
Attention: Legal Department  
Email: [Heather.Grahame@northwestern.com](mailto:Heather.Grahame@northwestern.com) and [John.Tabaracci@northwestern.com](mailto:John.Tabaracci@northwestern.com)

or at such other address and to the attention of such other Person as NorthWestern may designate by written notice to Puget.

Notices to Puget shall be addressed to the Puget Appointee at the address provided pursuant to Section 2.1(c), with a copy to:

Puget Sound Energy, Inc.  
355 110th Avenue NE  
Bellevue, WA 98004  
Attention: Legal Department  
Email: [Steve.Secrist@pse.com](mailto:Steve.Secrist@pse.com) and [Samuel.Osborne@pse.com](mailto:Samuel.Osborne@pse.com)

or at such other address and to the attention of such other Person as Puget may designate by written notice to NorthWestern.

**Section 7.6 Amendments and Waivers.** This Agreement may be amended, supplemented or otherwise modified only by a writing executed and delivered by each Party. No waiver of any right under this Agreement shall be binding unless such waiver is in a writing by the Party to be bound. No failure to exercise and no delay in exercising, on the part of any Party, any right, remedy, power or privilege under this Agreement, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege under this Agreement preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

**Section 7.7 Further Assurances: Cooperation in Seeking Amendment.** Each of the Parties agrees to perform all such acts (including executing and delivering such instruments and documents) as reasonably may be requested by the other Party to fully effect the intent and each and all of the purposes of this Agreement.

**Section 7.8 Conflicts.** In the event of a conflict between the Colstrip Unit 4 Acquisition Agreement, on the one hand, and this Agreement, on the other hand, the terms and provisions of this Agreement shall govern.

**Section 7.9 Headings.** The article and section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

**Section 7.10 Survival.** The representations and warranties set forth in ARTICLE 6 shall survive the Effective Date.

**Section 7.11 Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be considered an original, but all of which together shall constitute a single instrument.

**Section 7.12 Contract Only, etc.** This Agreement creates a contractual relationship between the Parties and does not give rise to any fiduciary, quasi-fiduciary, partnership or other special relationship which would result in the implication of rights, duties or standards of care or performance other than such rights, duties and standards as would attend a contract between sophisticated commercial parties each represented by separate counsel.

*[Signature Page Follows]*

IN WITNESS WHEREOF, this Agreement has been signed by or on behalf of each of the Parties as of the day first above written.

**NORTHWESTERN CORPORATION**

By: \_\_\_\_\_  
Name:  
Title:

**PUGET SOUND ENERGY, INC.**

By: \_\_\_\_\_  
Name:  
Title:

**EXHIBIT G**  
**OFFICER'S CERTIFICATE**

[•], 2020

The undersigned, [•], hereby certifies that [he/she] is the duly elected [•] of NORTHWESTERN CORPORATION, a Delaware corporation (“*Buyer*”), and that [he/she] is authorized to execute this Certificate on behalf of Buyer. Pursuant to Section 3.2(b) of that certain Colstrip Unit 4 Purchase and Sale Agreement, dated December 9, 2019 between and PUGET SOUND ENERGY, INC., a Washington public utility corporation (“*Seller*”), and Buyer (the “*Purchase Agreement*”), the undersigned hereby certifies that:

1. the representations and warranties of Buyer set forth in Article 5 of the Purchase Agreement are true, correct and complete as of the date hereof, except in such circumstances as shall not, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect;
2. the conditions set forth in Section 3.4 of the Purchase Agreement have been fulfilled or waived on or before the date hereof; and
3. the covenants of Buyer set forth in Article 7 of the Purchase Agreement have been fulfilled or waived in writing by Seller.

*[Signature page follows]*

**IN WITNESS WHEREOF**, the undersigned has executed this Certificate as of the date first written above.

---

Name:  
Title:

*[Signature Page to Buyer's Officer's Certificate]*

**EXHIBIT H  
OFFICER'S CERTIFICATE**

[•], 2020

The undersigned, [•], hereby certifies that [he/she] is the duly elected [•] and PUGET SOUND ENERGY, INC., a Washington public utility corporation (“*Seller*”), and that [he/she] is authorized to execute this Certificate on behalf of Seller. Pursuant to Section 3.3(b) of that certain Colstrip Unit 4 Purchase and Sale Agreement, dated December 9, 2019 between Seller and NORTHWESTERN CORPORATION, a Delaware corporation (“*Buyer*”) (the “*Purchase Agreement*”), the undersigned hereby certifies that:

1. the representations and warranties of Seller set forth in Article 4 of the Purchase Agreement are true, correct and complete as of the date hereof, except in such circumstances as shall not, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect;
2. the conditions set forth in Section 3.5 of the Purchase Agreement have been fulfilled or waived on or before the date hereof; and
3. the covenants of Seller set forth in Article 7 of the Purchase Agreement have been fulfilled or waived in writing by Buyer.

*[Signature page follows]*

**IN WITNESS WHEREOF**, the undersigned has executed this Certificate as of the date first written above.

---

Name:  
Title:

*[Signature page to Seller's Officer's Certificate]*



**EXHIBIT I  
FORM OF DEED**

After Recording Return to:  
Northwestern Corporation  
Attn: Lands and Permitting  
11 East Park Street  
Butte, MT 59701

**DEED**

FOR VALUABLE CONSIDERATION, the receipt of which is acknowledged, the undersigned, Puget Sound Energy, Inc., a Washington Public utility corporation with its offices at 355 110th Avenue NE Bellevue, WA 98004 (“Grantor”) hereby grants unto Northwestern Corporation, a Delaware corporation with its offices at 11 East Park Street, Butte, MT 59701 (“Grantee”) all of Grantor’s right, title and interest in and to the following property situated in Rosebud County, Montana (the “County”):

- (a) The real property, interests in real property and other interests described or referenced, or described in the documents referenced, in Part I of Exhibit A (which is attached hereto and hereby made a part hereof) (“Fee Lands”);
- (b) The easements, use rights and other interests described or referenced, or described in the documents referenced, in Part II of Exhibit A (“Easements”);
- (c) The water rights described in Part III of Exhibit A and all other water rights in the County (“Water Rights”);
- (d) The oil and gas leases, severed fee minerals, severed fee oil and gas rights, royalties, agreements, assignments, gas storage agreements and rights, and other interests described or referenced, or described in the documents referenced, in Part IV of Exhibit A, and all operating agreements, farmout agreements, farming agreements, areas of mutual interest, salt water disposal agreements, water injection agreements, gas storage agreements, pooling agreements, unitization agreements, purchase agreements, production sales agreements and all other agreements, rights and interests relating to the interests described or referenced, or described in the documents referenced, in Part IV of Exhibit A (“Mineral Interests”);
- (e) All other real property or interests in real property in the County of any kind or nature, including without limitation fee, term, leasehold, easement (including without limitation all easements appurtenant to Fee Lands or Mineral Interests or granted or reserved in any document referenced in Exhibit A), prescriptive, possessory, oil, gas, mineral, royalty, deferred and reversionary interests and rights other than the “Kluver Property,” as such property is legally described in EXHIBIT C (“Other Interests”); and
- (f) All buildings, fixtures, equipment, and other improvements, and all tenements, hereditaments and appurtenances belonging, appertaining or related to the Fee Lands,

Easements, Water Rights, Mineral Interests and Other Interests (the “Appurtenant Rights”).

Grantor’s right, title and interest in the Fee Lands, Easements, Water Rights, Mineral Interests, Other Interests and Appurtenant Rights, are collectively referred to herein as the “Property.”

The description (meaning herein both word descriptions and specific descriptions) of the Property shall be construed broadly and as inclusive and there shall be no implied exclusions because of the structure of the description of the Property or otherwise. It is Grantor’s intent to make a full and complete transfer to Grantee of all of Grantor’s right, title and interest in and to any and all real property and interests in real property other than the Kluver Property, located in the County owned or otherwise vested in Grantor as of the date hereof, whatever size, wherever located and whether or not described or inaccurately or inadequately described in Exhibit A, and it is Grantor’s further intent that this deed convey after-acquired rights, titles and interests.

TO HAVE AND TO HOLD unto Grantee, and Grantee’s successors and assigns, forever, SUBJECT TO THOSE MATTERS SET FORTH ON EXHIBIT B (the “Permitted Encumbrances”). Grantor agrees to defend the same to the Grantee against the lawful claims and demands of all persons claiming by, through or under Grantor, but against no other persons.

EXCEPT with reference to the items referred to in paragraphs (a) to (e) inclusive, this deed is given with the usual covenants expressed in Montana Code Annotated § 30-11-110.

Grantor also hereby conveys to Grantee, its successors and assigns, all rights of Grantor, to the extent assignable, in and to all covenants and warranties with respect to the Property made by Grantor’s predecessors in title and with full subrogation of all rights accruing under such covenants and warranties and the statutes of limitation, repose or prescription under the laws of Montana and all rights of action of warranty against all former owners of the Property.

Grantor agrees to take all such further action and execute, acknowledge and deliver all such further documents as may be reasonably necessary or useful to accomplish the purposes of this Deed and to evidence Grantee’s interests of record.

This Deed shall be binding upon and shall inure to the benefit of Grantor and Grantee and their respective successors, legal representatives and assigns.

[Signature and acknowledgment on the following page]



**EXHIBIT A**  
**PART I**

*An undivided twenty-five percent (25%) interest as Tenant in  
Common in and to the real property described in Schedule I  
below.*

**SCHEDULE I**  
**UNIT 4 GENERATION**

- Parcel 13      That portion of Sections 34 and 35 in Township 2 North, Range 41 East, PMM, described as Parcel 3 Amended of Certificate of Survey No. 85124 filed December 30, 1998 for record in the office of the Clerk and Recorder of Rosebud County, Montana as document No. 85124.
- Parcel 14      Intentionally deleted and replaced by Parcels 14A, 14B and 14C.<sup>1</sup>
- Parcel 14A     That portion of the E1/2NE1/4 of Section 34 and W1/2NW1/4 of Section 35 in Township 2 North, Range 41 East, described as Tract 1 of Colstrip Unit 3 and 4 Cooling Towers Minor Subdivision being a subdivision of Parcel 2 of Certificate of Survey No. 34153 as amended by Certificate of Survey No. 85789, which Minor Subdivision was filed in the office of the Clerk and Recorder of Rosebud County, Montana on June 5, 2000 under Document No. 88170.
- Parcel 14B     Intentionally deleted.
- Parcel 14C     That portion of the E1/2NE1/4 of Section 34 and W1/2NW1/4 of Section 35 in Township 2 North, Range 41 East, described as Tract 3 of Colstrip Unit 3 and 4 Cooling Towers Minor Subdivision being a subdivision of Parcel 2 of Certificate of Survey No. 34153 as amended by Certificate of Survey No. 85789, which Minor Subdivision was filed in the office of the Clerk and Recorder of Rosebud County, Montana on June 5, 2000 under Document No. 88170.
- Parcel 15      Intentionally deleted and replaced by Parcels 15A, 15B, and 15C.
- Parcel 15A     That portion of the S1/2NE1/4 and N1/2SE1/4 of Section 34 in Township 2 North, Range 41 East, described as Tract 1 of Colstrip Unit 3 and 4 Generation Sites Minor Subdivision being a subdivision of Parcel 4 of Certificate of Survey No. 29931 Amended, filed for record as Document No. 37265, which Minor Subdivision was filed in the office of the Clerk and Recorder of Rosebud County, Montana on June 5, 2000 under Document No. 88169.
- Parcel 15B     Intentionally deleted.

---

<sup>1</sup> Note to Draft: The replacement of Parcels 14 and 15 with 14A, 14B, 14C and 15A, 15B and 15C, respectively, is to be reviewed by Seller between signing and closing.

Parcel 15C That portion of the S1/2NE1/4 and N1/2SE1/4 of Section 34 in Township 2 North, Range 41 East, described as Tract 3 of Colstrip Unit 3 and 4 Generation Sites Minor Subdivision being a subdivision of Parcel 4 of Certificate of Survey No. 29931 Amended, filed for record as Document No. 37265, which Minor Subdivision was filed in the office of the Clerk and Recorder of Rosebud County, Montana on June 5, 2000 under Document No. 88169.

Parcel 16 That portion of Section 3 in Township 1 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 58701 filed October 29, 1987 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 58701.

Parcel 17 Township 1 North, Range 41 East, P.M.M., Rosebud County, Montana

Section 2: W1/2 of Lot 2, Lots 3 and 4, and the S1/2N1/2

Descriptions are from a deed in settlement of a condemnation action given by Burlington Northern Railroad Company to the Montana Power Company, a Montana corporation, Pacific Power & Light Company, a Maine corporation, Portland General Electric Company, an Oregon corporation, The Washington Water Power Company, a Washington Corporation, and Puget Colstrip Construction Company, a Washington corporation, dated January 25, 1983, recorded in Book 79 Deeds, page 588, records of Rosebud County, Montana.

Parcel 17A Township 2 North, Range 41 East, P.M.M.

Section 35: Those portions of the S1/2 being two separate tracts herein referred to as Parcel 1 and Parcel 2 described as follows:

Parcel 1 beginning at the common corner of Sections 34 and 35, T2N, R41E Sections 2 and 3, T1N, R41E, which is the true point of beginning; thence N 02° 06' 11" W along the common line between Sections 34 and 35 a distance of 632.34 feet; thence N 41° 52' 20" E a distance of 2,126.31 feet; thence S 65° 04' 46" E a distance of 1,493.70 feet; thence S 05° 36' 54" E a distance of 1,581.65 feet to the common lines between Sections 2 and 35; thence S 89° 44' 06" W a distance of 260.76 feet along the common line between Section 2 and Section 35 to the quarter section corner common to Sections 2 and 35; thence S 89° 46' 14" W a distance of 2,644.79 feet along the common line between Section 2 and 35 to the true point of beginning.

Parcel 2 beginning at the common corner of Sections 35 and 36, T2N, R41E and Sections 1 and 2, T1N, R41E; thence S 89° 44' 06" W along the common Line of Sections 2 and 35 a distance of 723.39 feet to a point on the Southwesterly boundary of the Burlington Railroad right-of-way, which point is the true point of beginning; thence S 89° 44' 06" W along the common line of Sections 2 and 35 a distance of 599.14 feet; thence N 02° 22' 02" W a distance of 1,640.32 feet to a point on the southwesterly boundary of the Burlington Northern Railroad right-of-

way; thence S 22° 10' 32" E along the southwesterly boundary of the Burlington Northern Railroad right-of-way to the point of beginning.

Descriptions are from a deed in settlement of a condemnation action given by Burlington Northern Railroad Company to The Montana Power Company, a Montana corporation, Pacific Power & Light Company, a Maine corporation, Portland General Electric Company, an Oregon corporation, The Washington Water Power Company, a Washington corporation, and Puget Colstrip Construction Company, a Washington corporation, dated January 25, 1983, recorded in Book 79 Deeds, page 588, records of Rosebud County, Montana.

Parcel 17B Township 1 North, Range 41 East, P.M.M., Rosebud County, Montana

Section 3: That portion of Lot 1 and the SE1/4NE1/4 beginning at the common corner of said Sections 34 and 35, T2N, R41E and Sections 2 and 3, T1N, R41E, which is the true point of beginning; thence S 89° 43' 02" W along the common lines between Sections 34 and 3 a distance of 776.23 feet; thence S 01° 31' 17" W a distance of 2,782.94 feet to the east-west mid-section line of Section 3; thence N 89° 57' 01" E along the mid-section line a distance of 864.60 feet to the quarter section corner common to Sections 2 and 3; thence N 00° 17' 53" W along the common line between Sections 2 and 3 a distance of 2,785.08 feet to the true point of beginning.

Descriptions are from a deed in settlement of a condemnation action given by Burlington Northern Railroad Company to The Montana Power Company, a Montana corporation, Pacific Power & Light, a Maine corporation, Portland General Electric Company, an Oregon corporation, The Washington Water Power Company, a Washington corporation, dated January 25, 1983, recorded in Book 79 Deeds, page 593, records of Rosebud County, Montana.

Parcel 18 Township 2 North, Range 42 East, P.M.M., Rosebud County, Montana

Section 31: S1/2  
Section 32: S1/2

Township 1 North, Range 42 East, P.M.M., Rosebud County, Montana

Section 5: All  
Section 6: Lots 1, 2, 3, 4, 5, and 6, SE1/4, S1/2NE1/4, E1/2SW1/4, SE1/4NW1/4

(Recording Reference: Warranty Deed recorded September 21, 1981 in Book 78 Deeds, page 606).

Parcel 18A Township 1 North, Range 42 East, P.M.M., Rosebud County, Montana

Section 7: NE1/4NW1/4, N1/2NE1/4  
Section 8: N1/2 NW1/4

Parcel 19 Easements and rights-of-way more particularly described in documents recorded in the office of the Clerk and Recorder of Rosebud County, Montana under the following book and page numbers, which documents are incorporated herein by this reference and made a part hereof:

Book 79 Deeds	Page 270
Book 79 Deeds	Page 3
Book 79 Deeds	Page 688
Book 81 Deeds	Page 648
Book 79 Deeds	Page 599
Book 79 Deeds	Page 582
Book 85 Deeds	Page 60

*An undivided 12.5% of the real property described in Schedule II below.*

**SCHEDULE II**  
**UNITS 3 & 4 OTHER**

Parcel 20 That portion of Section 28 in Township 2 North, Range 41 East, PMM, described as Tract 1A-A of Certificate of Survey No. 88360 filed July 17, 2000, for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 88360.

Parcel 21 Intentionally deleted.

Parcel 22 That portion of Section 21 in Township 2 North, Range 41 East, PMM, described as Tract 1A-1 of Amended Tract 1A of Amended Tract 1 of Certificate of Survey No. 27879 filed October 19, 1982 for record in the Clerk and Recorder of Rosebud County, Montana as Document No. 37085.

Parcel 23 That portion of Section 33 in Township 2 North, Range 41 East, PMM, described as Tract 1 Amended of Certificate of Survey No. 85920, filed May 4, 1999 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 85920, excepting therefrom:

(a) Tract 2 of Certificate of Survey No. 44126

(b) Castle Rock Lake Subdivision First Filing Document No. 37500

(c) Castle Rock Lake Subdivision Second Filing Document No. 37501

(d) Castle Rock Lake Subdivision Third Filing Document No. 37502

(e) Cimarron Subdivision First Filing Document No. 37503

(f) Plat of Amended Lots 19 and 20, Block 5 Cimarron Subdivision First Filing Document No. 86070.

(g) Amended Plat of Cimarron Subdivision Second Filing Document No. 39051

(h) Cimarron Subdivision Third Filing Document No. 37505

- Parcel 24 That portion of Sections 21 and 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44906 filed August 4, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44906.
- Parcel 25 That portion of Section 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44909 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44909.
- Parcel 26 That portion of Section 21 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44910 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44910.
- Parcel 27 That portion of Section 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44911 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44911.
- Parcel 28 That portion of Section 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44912 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44912.
- Parcel 29 That portion of Section 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44907 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44907.
- Parcel 30 That portion of Section 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44908 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44908.
- Parcel 31 That portion of Section 27 in Township 2 North, Range 41 East, PMM, described as Tract 1A-1, Tract 1A-2, and Tract 1A-3 of Amended Tract 1A of Amended Tract 1 of Certificate of Survey No. 27874 filed December 1, 1982 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 37510, subject to Dedication of Tract 1A-3 (Pinebutte Drive) as a public roadway.



Parcel 32      Township 2 North, Range 42 East P.M.M., Rosebud County, Montana

Section 31: N1/2

Section 32: N1/2

Section 30: S1/2SE1/4, S1/2SE1/4SW1/4

Township 1 North, Range 42 East, P.M.M., Rosebud County, Montana

Section 4: SW1/4

Parcel 33      Lot 12, Block 1, and Lots 6, 7, 10, 11, 12, 17 and 19, Block 3, of The Amended Plat of BIG TIMBER SUBDIVISION, Corrected Plat of Eastside Townsite Expansion, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 29033.

Lots 1C and 1J, Block 6, Lots 3E, 3H, 3L, Block 7, Lots 2C, 2D, 5, and 6, Block 8, and Lots 2F, 3E, 3G, 4A, and 4B, Block 9, of The Plat of BIG TIMBER SUBDIVISION, Amended Plat of Eastside Townsite Expansion, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 29032.

Lots 1, 2, 3, 4, 5, 6, 7 and 8, of Block 8, Lots 1, 2, 5, 7, 9, 10, 11, 12, 13, 14, 15, 16 and 18, of Block 9, Lots 1 and 5, of Block 11, Lots 1, 2, 3, 6 and 11, Block 4, and Lots 1, 2, 4, 5 and 6, Block 5, of The Amended Plat of STILLWATER SUBDIVISION, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 29031.

Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13 and 14, Block 1, Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22 and 23, Block 2, Lots 1, 2, 3, 4 and 5, Block 3, Lots 7, 8, 12 and 13, Block 5, Lots 3, 7, 8, 9, 12, 13, 14 and 15, Block 6, Lot 20, Block 7, Lots 5 and 11, Block 8, and Lot 5, Block 11, of The Amended Plat of SWEETGRASS SUBDIVISION, First Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 40609.

Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13, Block 1, Lots 1, 2, 3, 4, 6, 7, and 8, Block 2, Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 16, 18, 19 and 20, Block 3, Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30 and 31, Block 6, and Lots 4, 5, 7, 8, 9, 10, 11, 12, 13, 15, 16, 17, 18, 19, 20, 21, 22 and 23, Block 7, of the Amended Plat of STILLWATER SUBDIVISION, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 40611.

Lots 4 and 18, Block 3, Lot 12 Block 4, Lots 3 and 4, Block 6, of CIMARRON SUBDIVISION, Second Filing, Rosebud County, Montana, according to the

official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37504.

Lots 6, 7, 10 and 31, Block 4, of CASTLE ROCK LAKE SUBDIVISION, Second Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37501.

Lots 32, 33 and 34, Block 4, of CASTLE ROCK LAKE SUBDIVISION, Third Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37502.

Tracts 5, 8, 11, 33, 34, 35, 36, 37, 38, 39, 40, 41, 43, 44, 45, 47, 48, 49, of SWEETGRASS ACREAGE TRACTS SUBDIVISION. This Subdivision Plat Amends a portion of Amended Plat of Sweetgrass Subdivision, First Filing, Sweetgrass Subdivision, Second Filing, and a portion of Amended Plat of Sweetgrass Subdivision, Third Filing, Rosebud County Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 44417.

Lots 12, 19, 20, 21 and 24, Block 3, and Lot 16, Block 4, of CIMARRON SUBDIVISION, Second Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37504.

Lots 32, 33, 34, 35 and 36, Block 2, Lots 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32A, 32B, 32C, 32D, 32E, 32F, 32G, 32H, 32I, 32J, 32K, 32L, 32M, 32N, 32O, 32P, 32R, 32S, 32T, 32U, 32V, W, X, Y, Block 5, and Lots 1A, B, C, D, 1E, F, G, H, 1I, J, K, L, 1M, 32Q and 32Z, Block 7, Block 4, of CIMARRON SUBDIVISION, First Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County.

Lot 1B, Block 8, and Lots 1B, 2, and 3, Block 9, of CIMARRON SUBDIVISION, Third Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37505.

Lots 2A, 2B and 2C, Block 11, of the Second Amended Plat of Block 11 of STILLWATER SUBDIVISION, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 73210.

Lots 1A, 1B, 1C, 1D, 1E and 1F, Block 1 and Lots 1A, 1B, 1C and 1D, Block 2 of CASTLEROCK LAKE SUBDIVISION, First Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37500.

Lot 2 in Block 43 and Lots 1 and 2 in Block 46 of the CORRECTED PLAT OF THE AMENDED PLAT OF BLOCKS 43 AND 46 OF COLSTRIP TOWNSITE, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 28708.

Parcel 34 Intentionally deleted

*An undivided 12.5% of the Colstrip Units 3 and 4 interest in the Common Facilities real property as allocated by the Common Facilities Agreement in the real property described in Schedule III below.*

**SCHEDULE III**  
**COMMON FACILITIES - ALL UNITS**

Parcel 35 That portion of Sections 34 and 35 in Township 2 North, Range 41 East, PMM, described as Parcel B Certificate of Survey No. 34152 filed January 8, 1981 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 34152.

Parcel 36 That portion of Sections 27 and 34 in Township 2 North, Range 41 East, PMM, described as Parcel C of Certificate of Survey No. 34153 filed January 8, 1981 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 34153.

Parcel 37 That portion of Section 35 in Township 2 North, Range 41 East & Section 2 in Township 1 North, Range 41 East, PMM, described as Tract H-1, Tract H-2, Tract H-3 of Certificate of Survey No. 34995 filed March 25, 1982 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 34995.

Parcel 38 That portion of Section 3 in Township 1 North, Range 41 East, PMM, described as Parcel G of Certificate of Survey No. 34996 filed March 25, 1982 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 34996.

Parcel 39 That portion of Section 34 in Township 2 North, Range 41 East, PMM, described as Parcel A-1 Amended of Certificate of Survey No. 85561, filed March 17, 1999 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 85561, excluding therefrom a tract of land described as Parcel A-1-B of Certificate of Survey 85561.

Parcel 40 That portion of Sections 28 and 33 in Township 2 North, Range 41 East, PMM, described as Parcel F-1 Amended and Parcel F-2 Amended of Certificate of Survey No. 85920 filed May 4, 1999 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 85920.

- Parcel 41 That portion of Section 34 in Township 2 North, Range 41 East, PMM, described as Parcel D-1 and Parcel D-2 of Certificate of Survey No. 42210 filed January 10, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 42210.
- Parcel 42 That portion of Section 34 in Township 2 North, Range 41 East, PMM, described as Tract 1-A-1, Tract 1-A-2 and Tract 1-A-3 of Certificate of Survey No. 54257 amending Certificate of Survey No. 27875 (Tract 1), Certificate of Survey No. 27878, Certificate of Survey No. 34994 and Dedication of Tracts 1-A-2, 1-B-2, 1-B and 1-D, filed July 30, 1986 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 54257, subject to dedication of Tract 1-A-2 (Willow Avenue) as a public road.
- Parcel 43 That portion of Section 24 in Township 6 North, Range 39 East, PMM, described as Tract A and Tract C of Certificate of Survey No. 6100 filed February 13, 1974 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 6100.
- Parcel 44 That parcel commencing at the section corner common Sections Thirteen (13), Fourteen (14), Twenty-three (23) and Twenty-four (24), Township Six (6) North, of Range Thirty-nine (39) East, M.P.M., Rosebud County, Montana, running thence northerly along the section line common to Sections Fourteen (14) and Thirteen (13) to the Yellowstone River; running thence southeasterly along the Yellowstone River to a point where the south boundary line of Section Thirteen (13) meets the Yellowstone River; thence westerly along the south boundary line of the said Section Thirteen (13) to the point of beginning, containing in all approximately 17 acres as described in deed dated December 7, 1973, recorded December 12, 1973 in Book 73, Page 127 and confirmed in Judgment and Decree dated March 21, 1975 by The District Court of the Sixteenth Judicial District, in and for the County of Rosebud, recorded March 21, 1975 in Book 19 Orders and Decree, page 996, records of the County Clerk and Recorder of Rosebud County, Montana.
- Parcel 45 Easements and rights-of-way more particularly described in documents recorded in the office of the Clerk and Recorder of Rosebud County, Montana, under the following Book and Page numbers; which documents are incorporated herein by this reference and made a part hereof:
- Book 77 Deeds, page 29
  - Book 75 Deeds, page 306
  - Book 73 Deeds, page 430
  - Book 73 Deeds, page 466
  - Book 74 Deeds, page 245
  - Book 78 Deeds, page 782
  - Book 78 Deeds, page 838
  - Book 74 Deeds, page 169
  - Book 74 Deeds, page 110

Book 74 Deeds, page 70  
Book 77 Deeds, page 941  
Book 78 Deeds, page 134  
Book 79 Deeds, page 238  
Book 74 Deeds, page 14  
Book 74 Deeds, page 65  
Book 74 Deeds, page 112  
Book 79 Deeds, page 240  
Book 74 Deeds, page 62  
Book 74 Deeds, page 67  
Book 74 Deeds, page 242  
Book 73 Deeds, page 891  
Book 73 Deeds, page 893  
Book 73 Deeds, page 284  
Book 78 Deeds, page 131  
Book 32 Misc., page 476

*An undivided 12.5% of the real property described in Schedule  
IV below.*

**SCHEULDE IV**  
**COLSTRIP COMM SERV, LLC - PROPERTY**

Township 1 North, Range 41 East, M.P.M

Section 1: Lots 1 (43.40), 2(43.40), N/2SE/4, S/2NE/4, SE/4NW/4, less and except the existing Railroad Right-of-way being the Northern Pacific Railway Company's Cow Creek Extension of its Rosebud Branch line right-of-way.

Township 1 North, Range 42 East, M.P.M

Section 6: Lot 7 (40.55), less and except 2.66 acres of the Burlington Northern Railroad Right-of-way.

Section 7: Lots 1 (40.34), 2 (40.29), SE/4NW/4, NE/4SW/4, N/2SE/4, S/2NE/4, less and except Tract 1 as described in Easement Deed No. 33671-E dated October 11, 1973, recorded in Book 73 Deeds; Page 143 on December 20, 1973, Rosebud County, Montana, and less and except that portion of the Burlington Northern Right-of-way located in Lots 1 and 2.

Section 8: NE/4, S/2NW/4, S/2, less and except 35.93 Ao of the Burlington Northern Railroad Right-of-way, and less and except Tract 1 as described in Easement Deed No. 33671-E dated October 11, 1973, recorded in Book 73 Deeds, Page 143 on December 20, 1973, Rosebud County, Montana.

Section 17: E/2, lying north and east of the north and east boundary line of Tract 1 as described in Easement Deed No. 33671-E dated October 11, 1973, recorded in Book 73 Deeds, Page 143 on December 20, 1973, Rosebud County, Montana and lying north and west of the Cow Creek Road as now established in the E/2E/2 and as recorded in the County Road Book, Rosebud County, Montana.

**EXHIBIT A  
PART II**

[List of easements]<sup>2</sup>

---

<sup>2</sup> Note to Draft: To be provided by Seller between signing and closing.

**EXHIBIT A  
PART III**

An undivided 8.5175% interest subject to its 8.5175% proportionate share of the burden of 2.0 cubic feet per second of water assigned to Colstrip Community Service Company by instrument recorded March 24, 1989 in Book 84 Deeds, page 528:

(1) Water Right Number 42KJ W094423-00                      Statement of Claim

An undivided 12.5% interest:

WRKEY	WR NUMBER
190930-2	42A 108297 00
190949-2	42A 108308 00
190961-2	42A 108317 00
231813-2	42A 146426 00
255643-1	42A 173935 00
255644-1	42A 173937 00
255645-1	42A 173938 00
255646-1	42A 173939 00
255647-1	42A 173940 00
255648-2	2A 17394100
255648-2	42A 17394100
255649-2	42A 173943 00
255650-2	42A 173944 00
255651-2	42A 173945 00
255652-1	42A 173946 00
255653-2	42A 173947 00
311888-1	42A 173948 00
326585-1	42A 48616 00



152039-1	42A 83584 00
335309-1	42KJ 108793 00
110786-1	42KJ 58886 00
166954-2	42KJ 94428 00

All water rights listed above are subject to item (a) following and water right No. 1 above is subject item (b) following:

(a) Final adjudication under Montana Code Annotated, Title 85, Chapter 2, Part 2.

(b) Grantor's water rights are subject to its proportionate share (8.5175%) of the burden of the 1/4" taps and valves for purpose of stock watering, on an "as is from source, if and when available":

- (i) Granted to Janet MacDonald for use at one location on her lands.
- (ii) Granted to Janet K. MacDonald, situate on Section 21, Township 2 North, Range 41 East, for use on one location on her lands.
- (iii) Granted to Albert Kozelka for use at one location on his lands.
- (iv) Granted to Leo DeCock for use at one location on his lands.
- (v) Granted to Vassau's Flying J for use at one location on his lands.
- (vi) Granted to J. R. Lee for use at one location on his lands.
- (vii) Granted to J.M. Nansel for use at one location on his lands.
- (viii) Granted to Friez Circle Four Ranch for use at one location on its land.

**EXHIBIT A**  
**PART IV**

All of Grantor's interest in mineral rights with respect to its ownership interest in the Fee Lands.

## EXHIBIT B

### PERMITTED ENCUMBRANCES:

- (a) Terms and conditions of a Ownership and Operation Agreement between The Montana Power Company, Puget Sound Power and Light Company, The Washington Water Power Company, Portland General Electric Company and Pacific Power & Light Company dated May 6, 1981, as amended by Amendment No. 1 October 11, 1991 and by Amendment No. 2, effective July 13, 1998 (“Ownership and Operation Agreement”).
- (b) Terms and conditions of the Common Facilities Agreement dated as of May 6, 1981, between The Montana Power Company, a Montana corporation, Puget Sound Power and Light Company, a Washington corporation, The Washington Water Power Company, a Washington corporation, Portland General Electric Company, an Oregon corporation, and Pacific Power and Light Company, an Oregon corporation, as amended by Amendment No. 1 dated January 21, 1992 (“Common Facilities Agreement”).
- (c) [Any additional exceptions, including updated list from Schedule B, Section 2 – Exceptions from the PSE title commitment.]<sup>3</sup>

So long as the Project (as defined in the Ownership and Operating Agreement) or the Common Facilities (as defined in the Common Facilities Agreement) or any part thereof as originally constructed, reconstructed or added to is used or useful for the generation of electrical power and energy, or to the end of the period permitted by applicable law, whichever occurs first, Grantee, by acceptance of this deed, waives its right to partition whether by partition in kind or sale and division of the proceeds thereof, and agrees that it will not resort to any action at law or in equity to partition and further waives the benefit of all laws that may now or hereafter authorize such partition of the properties comprising Colstrip Units 3 and 4 or the Common Facilities. It is agreed that this covenant shall be deemed to run with the land.

As to Parcels 13, 14A, 14C, ISA and 15C of Schedule III Exhibit A Part I, all improvements thereon, including without limitation improvements permanently attached to the real property, have been and shall remain personal property, severed from the real property as provided in deed dated April 1, 1983, recorded May 2, 1983 in Book 79, page 648 and made a part hereof. Grantee by acceptance of this Deed accepts the severance of the improvements from the real property and acknowledges that this Deed does not convey title to the improvements.

For purposes of this Deed the following terms are defined:

“Colstrip Units 1 and 2” shall mean the two 333 MW (gross capacity) coal-fired steam electric generating units located in Colstrip, Montana, and referred to herein as “Colstrip Unit 1” and “Colstrip Unit 2” respectively.

---

<sup>3</sup> Note to Draft: To be updated between signing and closing, excluding any mortgages, liens and encumbrances to be released by Seller prior to or following closing.

“Colstrip Units 3 and 4” shall mean the two 805 MW (gross capacity) coal-fired steam electric generating units located in Colstrip, Montana, and referred to herein as “Colstrip Unit 3” and “Colstrip Unit 4” respectively.

“Common Facilities Real Property” shall mean the easements and real property used in common by Colstrip Units 1 and 2 and Colstrip Units 3 and 4 and covered by the Common Facilities Agreement.

**EXHIBIT C**

**THE KLUVER PROPERTY**

Township 1 North, Range 42 East, MPM

Section 9: All

**EXHIBIT J**  
**FORM OF WAIVER OF RIGHT OF FIRST REFUSAL**

[Date]

[Owner's Name and Address]

Re: Rights of First Refusal pursuant to the Ownership and Operation Agreement, dated May 6, 1981, as amended by Amendment No. 1 dated October 11, 1991, Amendment No. 2 dated July 13, 1998, Amendment No. 3 entered into in 2004, and Amendment No. 4 entered into in 2008, between Buyer, Seller, Portland General Electric Company, the Washington Water Power Company (now Avista) and Pacific Power & Light Company (now PacifiCorp)

Ladies and Gentlemen:

Any capitalized term not defined in this letter shall have the definition set forth in the Ownership and Operation Agreement.

Puget Sound Energy, Inc. ("*PSE*"), a Washington public utility corporation, has entered into a binding Colstrip Unit 4 Purchase and Sale Agreement, dated December 9, 2019 (the "*Purchase Agreement*"), pursuant to which it has agreed to sell to NorthWestern Corporation, a Delaware corporation ("*Buyer*") and Buyer has agreed to buy PSE's 25% Project Share in Colstrip Unit 4 for a price of \$1.00 (the "*Transaction*"). An execution copy of the Purchase Agreement is enclosed herewith.

Section 24 of the Ownership and Operation Agreement requires PSE to offer its Project Share to the other Project Users "at the amount of, and on terms not less advantageous than, those of a bona fide offer from a buyer able and willing to purchase such Owner's or Project User's interest." The portion of such interest to be offered to each Project User must be equal to the proportionate interest of each Project User in the Project after excluding the interest being offered. Accordingly, PSE hereby formally offers to you the right to purchase your proportionate share of its Project Share. The Ownership and Operation Agreement requires that such offer be held open for a period of 90 days. Further, if at the end of the 90-day period, any Project User shall have failed to accept such offer, the proportionate interest offered to such Project User shall be offered on a pro rata basis to the other Project Users, who shall have a further period of 7 days to accept the same. The process shall be repeated until all Project Users then being offered an interest shall have failed to accept such offer.

Should you choose to exercise your right of first refusal, you must submit, and be fully prepared and capable of executing and consummating, a purchase agreement that contains terms no less advantageous than the terms and conditions set forth in the attached Purchase Agreement.

Should you decline to exercise your right of first refusal, PSE respectfully requests that you expressly waive your right of first refusal and/or right of first offer under Section 24 of the Ownership and Operation Agreement with respect to the Transaction in order to expedite PSE's closing of the Transaction with the Buyer. If you are willing to waive such right, please

countersign a copy of this letter below under “WAIVER” and return it to the undersigned as soon as possible. PSE has made the same request of all other Project Users.

If you do not affirmatively exercise your right to purchase your proportionate share of PSE’s Project Share within 90 days of the date of this letter, your rights pursuant to Section 24 of the Ownership and Operation Agreement with respect to the Transaction will be deemed to be waived.

Thank you for your prompt consideration of this matter.

Very truly yours,

PUGET SOUND ENERGY, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Enclosures

**WAIVER**

The undersigned hereby agrees to waive its right of first refusal and/or right of first offer under Section 24 of the Ownership and Operation Agreement in connection with the Transaction described above.

[OWNER'S NAME]

Date: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_



[ATTACHMENT: EXECUTED COPY OF PURCHASE AND SALE AGREEMENT]

## DISCLOSURE SCHEDULE

This disclosure schedule (this “Disclosure Schedule”) is delivered in connection with that certain Colstrip Unit 4 Purchase and Sale Agreement, dated as of December 9, 2019 (the “Agreement”), by and between NORTHWESTERN CORPORATION, a Delaware corporation (“Buyer”) and PUGET SOUND ENERGY, INC., a Washington public utility corporation (the “Seller”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Agreement.

Any fact or condition disclosed in any section or paragraph of this Disclosure Schedule shall qualify as disclosures pursuant to any other sections or paragraphs under the Agreement where such disclosure is reasonably apparent on the face of such disclosures, whether or not repeated under any section number where such disclosure might be deemed appropriate.

Matters reflected in this Disclosure Schedule are not necessarily limited to matters required by the Agreement to be reflected herein. Such additional matters are set forth for informational purposes and do not necessarily include other matters of a similar informational nature. Any disclosure of a fact or circumstance shall not establish, or constitute an admission of, the materiality of such fact or such circumstance or such fact’s or circumstance’s consequence or relevance to materiality, to a Material Adverse Effect. The information contained herein is disclosed solely for the purposes of the Agreement, and no information contained herein shall be deemed to be an admission by any party hereto to any third party of any matter whatsoever, including any violation of applicable Law or breach of any agreement.

In accordance with Section 11.3 of the Agreement, this Disclosure Schedule is deemed to be part of the entire agreement of the parties with respect to the subject matter of the Agreement. Any item of information disclosed in this Disclosure Schedule shall be subject to the terms of the Confidentiality Agreement.

Headings and numbers (other than numerical references to sections and subsections of the Agreement) have been inserted in some of the sections of this Disclosure Schedule for convenience of reference only, and such headings or numbers (other than numerical references to sections and subsections of the Agreement) shall not have the effect of amending or changing the express description of the section of this Disclosure Schedule as set forth in the Agreement.

## Schedule 1.1

### Water Rights

Seller's interest in the water rights with respect to Colstrip Unit 4, including those subject to the following Water Right Numbers:

WRKEY	WR NUMBER
166947-2	42KJ W094423 00
190930-2	42A 108297 00
190949-2	42A 108308 00
190961-2	42A 108317 00
231813-2	42A 146426 00
255643-1	42A 173935 00
255644-1	42A 173937 00
255645-1	42A 173938 00
255646-1	42A 173939 00
255647-1	42A 173940 00
255648-2	2A 17394100
255648-2	42A 17394100
255649-2	42A 173943 00
255650-2	42A 173944 00
255651-2	42A 173945 00
255652-1	42A 173946 00
255653-2	42A 173947 00
311888-1	42A 173948 00
326585-1	42A 48616 00
152039-1	42A 83584 00

335309-1	42KJ 108793 00
110786-1	42KJ 58886 00
166954-2	42KJ 94428 00

**Schedule 2.1(a)**

**Real Property<sup>1</sup>**

***An undivided twenty-five percent (25%) interest as Tenant in Common in and to the real property described in Schedule I below.***

**SCHEDULE I**  
**UNIT 4 GENERATION**

- Parcel 13 That portion of Sections 34 and 35 in Township 2 North, Range 41 East, PMM, described as Parcel 3 Amended of Certificate of Survey No. 85124 filed December 30, 1998 for record in the office of the Clerk and Recorder of Rosebud County, Montana as document No. 85124.
- Parcel 14 Intentionally deleted and replaced by Parcels 14A, 14B and 14C.<sup>2</sup>
- Parcel 14A That portion of the E1/2NE1/4 of Section 34 and W1/2NW1/4 of Section 35 in Township 2 North, Range 41 East, described as Tract 1 of Colstrip Unit 3 and 4 Cooling Towers Minor Subdivision being a subdivision of Parcel 2 of Certificate of Survey No. 34153 as amended by Certificate of Survey No. 85789, which Minor Subdivision was filed in the office of the Clerk and Recorder of Rosebud County, Montana on June 5, 2000 under Document No. 88170.
- Parcel 14B Intentionally deleted.
- Parcel 14C That portion of the E1/2NE1/4 of Section 34 and W1/2NW1/4 of Section 35 in Township 2 North, Range 41 East, described as Tract 3 of Colstrip Unit 3 and 4 Cooling Towers Minor Subdivision being a subdivision of Parcel 2 of Certificate of Survey No. 34153 as amended by Certificate of Survey No. 85789, which Minor Subdivision was filed in the office of the Clerk and Recorder of Rosebud County, Montana on June 5, 2000 under Document No. 88170.
- Parcel 15 Intentionally deleted and replaced by Parcels 15A, 15B, and 15C.
- Parcel 15A That portion of the S1/2NE1/4 and N1/2SE1/4 of Section 34 in Township 2 North, Range 41 East, described as Tract 1 of Colstrip Unit 3 and 4 Generation Sites Minor Subdivision being a subdivision of Parcel 4 of Certificate of Survey No. 29931 Amended, filed for record as Document No. 37265, which Minor Subdivision was

---

<sup>1</sup> Note: The parties acknowledge that the real property is intended to include interests in all real property which is a part of Colstrip 4 Interests, and they will cooperate in good faith to update the this schedule prior to closing to ensure all those interests are included in the closing documents and the related schedules.

<sup>2</sup> Note: The replacement of Parcels 14 and 15 with 14A, 14B, 14C and 15A, 15B and 15C, respectively, is to be reviewed by Seller between signing and closing.

filed in the office of the Clerk and Recorder of Rosebud County, Montana on June 5, 2000 under Document No. 88169.

Parcel 15B Intentionally deleted.

Parcel 15C That portion of the S1/2NE1/4 and N1/2SE1/4 of Section 34 in Township 2 North, Range 41 East, described as Tract 3 of Colstrip Unit 3 and 4 Generation Sites Minor Subdivision being a subdivision of Parcel 4 of Certificate of Survey No. 29931 Amended, filed for record as Document No. 37265, which Minor Subdivision was filed in the office of the Clerk and Recorder of Rosebud County, Montana on June 5, 2000 under Document No. 88169.

Parcel 16 That portion of Section 3 in Township 1 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 58701 filed October 29, 1987 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 58701.

Parcel 17 Township 1 North, Range 41 East, P.M.M., Rosebud County, Montana

Section 2: W1/2 of Lot 2, Lots 3 and 4, and the S1/2N1/2

Descriptions are from a deed in settlement of a condemnation action given by Burlington Northern Railroad Company to the Montana Power Company, a Montana corporation, Pacific Power & Light Company, a Maine corporation, Portland General Electric Company, an Oregon corporation, The Washington Water Power Company, a Washington Corporation, and Puget Colstrip Construction Company, a Washington corporation, dated January 25, 1983, recorded in Book 79 Deeds, page 588, records of Rosebud County, Montana.

Parcel 17A Township 2 North, Range 41 East, P.M.M.

Section 35: Those portions of the S1/2 being two separate tracts herein referred to as Parcel 1 and Parcel 2 described as follows:

Parcel 1 beginning at the common corner of Sections 34 and 35, T2N, R41E Sections 2 and 3, T1N, R41E, which is the true point of beginning; thence N 02° 06' 11" W along the common line between Sections 34 and 35 a distance of 632.34 feet; thence N 41° 52' 20" E a distance of 2,126.31 feet; thence S 65° 04' 46" E a distance of 1,493.70 feet; thence S 05° 36' 54" E a distance of 1,581.65 feet to the common lines between Sections 2 and 35; thence S 89° 44' 06" W a distance of 260.76 feet along the common line between Section 2 and Section 35 to the quarter section corner common to Sections 2 and 35; thence S 89° 46' 14" W a distance of 2,644.79 feet along the common line between Section 2 and 35 to the true point of beginning.

Parcel 2 beginning at the common corner of Sections 35 and 36, T2N, R41E and Sections 1 and 2, T1N, R41E; thence S 89° 44' 06" W along the common Line of Sections 2 and 35 a distance of 723.39 feet to a point on the Southwesterly

boundary of the Burlington Railroad right-of-way, which point is the true point of beginning; thence S 89° 44' 06" W along the common line of Sections 2 and 35 a distance of 599.14 feet; thence N 02° 22' 02" W a distance of 1,640.32 feet to a point on the southwesterly boundary of the Burlington Northern Railroad right-of-way; thence S 22° 10' 32" E along the southwesterly boundary of the Burlington Northern Railroad right-of-way to the point of beginning.

Descriptions are from a deed in settlement of a condemnation action given by Burlington Northern Railroad Company to The Montana Power Company, a Montana corporation, Pacific Power & Light Company, a Maine corporation, Portland General Electric Company, an Oregon corporation, The Washington Water Power Company, a Washington corporation, and Puget Colstrip Construction Company, a Washington corporation, dated January 25, 1983, recorded in Book 79 Deeds, page 588, records of Rosebud County, Montana.

Parcel 17B Township 1 North, Range 41 East, P.M.M., Rosebud County, Montana

Section 3: That portion of Lot 1 and the SE1/4NE1/4 beginning at the common corner of said Sections 34 and 35, T2N, R41E and Sections 2 and 3, T1N, R41E, which is the true point of beginning; thence S 89° 43' 02" W along the common lines between Sections 34 and 3 a distance of 776.23 feet; thence S 01° 31' 17" W a distance of 2,782.94 feet to the east-west mid-section line of Section 3; thence N 89° 57' 01" E along the mid-section line a distance of 864.60 feet to the quarter section corner common to Sections 2 and 3; thence N 00° 17' 53" W along the common line between Sections 2 and 3 a distance of 2,785.08 feet to the true point of beginning.

Descriptions are from a deed in settlement of a condemnation action given by Burlington Northern Railroad Company to The Montana Power Company, a Montana corporation, Pacific Power & Light, a Maine corporation, Portland General Electric Company, an Oregon corporation, The Washington Water Power Company, a Washington corporation, dated January 25, 1983, recorded in Book 79 Deeds, page 593, records of Rosebud County, Montana.

Parcel 18 Township 2 North, Range 42 East, P.M.M., Rosebud County, Montana

Section 31: S1/2  
Section 32: S1/2

Township 1 North, Range 42 East, P.M.M., Rosebud County, Montana

Section 5: All  
Section 6: Lots 1, 2, 3, 4, 5, and 6, SE1/4, S1/2NE1/4, E1/2SW1/4, SE1/4NW1/4

(Recording Reference: Warranty Deed recorded September 21, 1981 in Book 78 Deeds, page 606).

Parcel 18A Township 1 North, Range 42 East, P.M.M., Rosebud County, Montana

Section 7: NE1/4NW1/4, N1/2NE1/4  
Section 8: N1/2 NW1/4

Parcel 19 Easements and rights-of-way more particularly described in documents recorded in the office of the Clerk and Recorder of Rosebud County, Montana under the following book and page numbers, which documents are incorporated herein by this reference and made a part hereof:

Book 79 Deeds	Page 270
Book 79 Deeds	Page 3
Book 79 Deeds	Page 688
Book 81 Deeds	Page 648
Book 79 Deeds	Page 599
Book 79 Deeds	Page 582
Book 85 Deeds	Page 60

*An undivided 12.5% of the real property described in Schedule II below.*

**SCHEDULE II**  
**UNITS 3 & 4 OTHER**

Parcel 20 That portion of Section 28 in Township 2 North, Range 41 East, PMM, described as Tract 1A-A of Certificate of Survey No. 88360 filed July 17, 2000, for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 88360.

Parcel 21 Intentionally deleted.

Parcel 22 That portion of Section 21 in Township 2 North, Range 41 East, PMM, described as Tract 1A-1 of Amended Tract 1A of Amended Tract 1 of Certificate of Survey No. 27879 filed October 19, 1982 for record in the Clerk and Recorder of Rosebud County, Montana as Document No. 37085.

Parcel 23 That portion of Section 33 in Township 2 North, Range 41 East, PMM, described as Tract 1 Amended of Certificate of Survey No. 85920, filed May 4, 1999 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 85920, excepting therefrom:

(a) Tract 2 of Certificate of Survey No. 44126

(b) Castle Rock Lake Subdivision First Filing Document No. 37500

(c) Castle Rock Lake Subdivision Second Filing Document No. 37501

(d) Castle Rock Lake Subdivision Third Filing Document No. 37502

(e) Cimarron Subdivision First Filing Document No. 37503



(f) Plat of Amended Lots 19 and 20, Block 5 Cimarron Subdivision First Filing Document No. 86070.

(g) Amended Plat of Cimarron Subdivision Second Filing Document No. 39051

(h) Cimarron Subdivision Third Filing Document No. 37505

- Parcel 24 That portion of Sections 21 and 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44906 filed August 4, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44906.
- Parcel 25 That portion of Section 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44909 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44909.
- Parcel 26 That portion of Section 21 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44910 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44910.
- Parcel 27 That portion of Section 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44911 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44911.
- Parcel 28 That portion of Section 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44912 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44912.
- Parcel 29 That portion of Section 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44907 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44907.
- Parcel 30 That portion of Section 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44908 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44908.
- Parcel 31 That portion of Section 27 in Township 2 North, Range 41 East, PMM, described as Tract 1A-1, Tract 1A-2, and Tract 1A-3 of Amended Tract 1A of Amended Tract 1 of Certificate of Survey No. 27874 filed December 1, 1982 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document

No. 37510, subject to Dedication of Tract 1A-3 (Pinebutte Drive) as a public roadway.

Parcel 32 Township 2 North, Range 42 East P.M.M., Rosebud County, Montana

Section 31: N1/2

Section 32: N1/2

Section 30: S1/2SE1/4, S1/2SE1/4SW1/4

Township 1 North, Range 42 East, P.M.M., Rosebud County, Montana

Section 4: SW1/4

Parcel 33 Lot 12, Block 1, and Lots 6, 7, 10, 11, 12, 17 and 19, Block 3, of The Amended Plat of BIG TIMBER SUBDIVISION, Corrected Plat of Eastside Townsite Expansion, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 29033.

Lots 1C and 1J, Block 6, Lots 3E, 3H, 3L, Block 7, Lots 2C, 2D, 5, and 6, Block 8, and Lots 2F, 3E, 3G, 4A, and 4B, Block 9, of The Plat of BIG TIMBER SUBDIVISION, Amended Plat of Eastside Townsite Expansion, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 29032.

Lots 1, 2, 3, 4, 5, 6, 7 and 8, of Block 8, Lots 1, 2, 5, 7, 9, 10, 11, 12, 13, 14, 15, 16 and 18, of Block 9, Lots 1 and 5, of Block 11, Lots 1, 2, 3, 6 and 11, Block 4, and Lots 1, 2, 4, 5 and 6, Block 5, of The Amended Plat of STILLWATER SUBDIVISION, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 29031.

Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13 and 14, Block 1, Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22 and 23, Block 2, Lots 1, 2, 3, 4 and 5, Block 3, Lots 7, 8, 12 and 13, Block 5, Lots 3, 7, 8, 9, 12, 13, 14 and 15, Block 6, Lot 20, Block 7, Lots 5 and 11, Block 8, and Lot 5, Block 11, of The Amended Plat of SWEETGRASS SUBDIVISION, First Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 40609.

Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13, Block 1, Lots 1, 2, 3, 4, 6, 7, and 8, Block 2, Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 16, 18, 19 and 20, Block 3, Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30 and 31, Block 6, and Lots 4, 5, 7, 8, 9, 10, 11, 12, 13, 15, 16, 17, 18, 19, 20, 21, 22 and 23, Block 7, of the Amended Plat of STILLWATER SUBDIVISION, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 40611.

Lots 4 and 18, Block 3, Lot 12 Block 4, Lots 3 and 4, Block 6, of CIMARRON SUBDIVISION, Second Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37504.

Lots 6, 7, 10 and 31, Block 4, of CASTLE ROCK LAKE SUBDIVISION, Second Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37501.

Lots 32, 33 and 34, Block 4, of CASTLE ROCK LAKE SUBDIVISION, Third Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37502.

Tracts 5, 8, 11, 33, 34, 35, 36, 37, 38, 39, 40, 41, 43, 44, 45, 47, 48, 49, of SWEETGRASS ACREAGE TRACTS SUBDIVISION. This Subdivision Plat Amends a portion of Amended Plat of Sweetgrass Subdivision, First Filing, Sweetgrass Subdivision, Second Filing, and a portion of Amended Plat of Sweetgrass Subdivision, Third Filing, Rosebud County Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 44417.

Lots 12, 19, 20, 21 and 24, Block 3, and Lot 16, Block 4, of CIMARRON SUBDIVISION, Second Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37504.

Lots 32, 33, 34, 35 and 36, Block 2, Lots 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32A, 32B, 32C, 32D, 32E, 32F, 32G, 32H, 32I, 32J, 32K, 32L, 32M, 32N, 32O, 32P, 32R, 32S, 32T, 32U, 32V, W, X, Y, Block 5, and Lots 1A, B, C, D, 1E, F, G, H, 1I, J, K, L, 1M, 32Q and 32Z, Block 7, Block 4, of CIMARRON SUBDIVISION, First Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County.

Lot 1B, Block 8, and Lots 1B, 2, and 3, Block 9, of CIMARRON SUBDIVISION, Third Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37505.

Lots 2A, 2B and 2C, Block 11, of the Second Amended Plat of Block 11 of STILLWATER SUBDIVISION, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 73210.

Lots 1A, 1B, 1C, 1D, 1E and 1F, Block 1 and Lots 1A, 1B, 1C and 1D, Block 2 of CASTLEROCK LAKE SUBDIVISION, First Filing, Rosebud County, Montana,

according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37500.

Lot 2 in Block 43 and Lots 1 and 2 in Block 46 of the CORRECTED PLAT OF THE AMENDED PLAT OF BLOCKS 43 AND 46 OF COLSTRIP TOWNSITE, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 28708.

Parcel 34 Intentionally deleted

*An undivided 12.5% of the Colstrip Units 3 and 4 interest in the Common Facilities real property as allocated by the Common Facilities Agreement in the real property described in Schedule III below.*

**SCHEDULE III**  
**COMMON FACILITIES - ALL UNITS**

Parcel 35 That portion of Sections 34 and 35 in Township 2 North, Range 41 East, PMM, described as Parcel B Certificate of Survey No. 34152 filed January 8, 1981 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 34152.

Parcel 36 That portion of Sections 27 and 34 in Township 2 North, Range 41 East, PMM, described as Parcel C of Certificate of Survey No. 34153 filed January 8, 1981 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 34153.

Parcel 37 That portion of Section 35 in Township 2 North, Range 41 East & Section 2 in Township 1 North, Range 41 East, PMM, described as Tract H-1, Tract H-2, Tract H-3 of Certificate of Survey No. 34995 filed March 25, 1982 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 34995.

Parcel 38 That portion of Section 3 in Township 1 North, Range 41 East, PMM, described as Parcel G of Certificate of Survey No. 34996 filed March 25, 1982 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 34996.

Parcel 39 That portion of Section 34 in Township 2 North, Range 41 East, PMM, described as Parcel A-1 Amended of Certificate of Survey No. 85561, filed March 17, 1999 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 85561, excluding therefrom a tract of land described as Parcel A-1-B of Certificate of Survey 85561.

Parcel 40 That portion of Sections 28 and 33 in Township 2 North, Range 41 East, PMM, described as Parcel F-1 Amended and Parcel F-2 Amended of Certificate of Survey

No. 85920 filed May 4, 1999 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 85920.

Parcel 41 That portion of Section 34 in Township 2 North, Range 41 East, PMM, described as Parcel D-1 and Parcel D-2 of Certificate of Survey No. 42210 filed January 10, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 42210.

Parcel 42 That portion of Section 34 in Township 2 North, Range 41 East, PMM, described as Tract 1-A-1, Tract 1-A-2 and Tract 1-A-3 of Certificate of Survey No. 54257 amending Certificate of Survey No. 27875 (Tract 1), Certificate of Survey No. 27878, Certificate of Survey No. 34994 and Dedication of Tracts 1-A-2, 1-B-2, 1-B and 1-D, filed July 30, 1986 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 54257, subject to dedication of Tract 1-A-2 (Willow Avenue) as a public road.

Parcel 43 That portion of Section 24 in Township 6 North, Range 39 East, PMM, described as Tract A and Tract C of Certificate of Survey No. 6100 filed February 13, 1974 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 6100.

Parcel 44 That parcel commencing at the section corner common Sections Thirteen (13), Fourteen (14), Twenty-three (23) and Twenty-four (24), Township Six (6) North, of Range Thirty-nine (39) East, M.P.M., Rosebud County, Montana, running thence northerly along the section line common to Sections Fourteen (14) and Thirteen (13) to the Yellowstone River; running thence southeasterly along the Yellowstone River to a point where the south boundary line of Section Thirteen (13) meets the Yellowstone River; thence westerly along the south boundary line of the said Section Thirteen (13) to the point of beginning, containing in all approximately 17 acres as described in deed dated December 7, 1973, recorded December 12, 1973 in Book 73, Page 127 and confirmed in Judgment and Decree dated March 21, 1975 by The District Court of the Sixteenth Judicial District, in and for the County of Rosebud, recorded March 21, 1975 in Book 19 Orders and Decree, page 996, records of the County Clerk and Recorder of Rosebud County, Montana.

Parcel 45 Easements and rights-of-way more particularly described in documents recorded in the office of the Clerk and Recorder of Rosebud County, Montana, under the following Book and Page numbers; which documents are incorporated herein by this reference and made a part hereof:

- Book 77 Deeds, page 29
- Book 75 Deeds, page 306
- Book 73 Deeds, page 430
- Book 73 Deeds, page 466
- Book 74 Deeds, page 245
- Book 78 Deeds, page 782

Book 78 Deeds, page 838  
Book 74 Deeds, page 169  
Book 74 Deeds, page 110  
Book 74 Deeds, page 70  
Book 77 Deeds, page 941  
Book 78 Deeds, page 134  
Book 79 Deeds, page 238  
Book 74 Deeds, page 14  
Book 74 Deeds, page 65  
Book 74 Deeds, page 112  
Book 79 Deeds, page 240  
Book 74 Deeds, page 62  
Book 74 Deeds, page 67  
Book 74 Deeds, page 242  
Book 73 Deeds, page 891  
Book 73 Deeds, page 893  
Book 73 Deeds, page 284  
Book 78 Deeds, page 131  
Book 32 Misc., page 476

*An undivided 12.5% of the real property described in Schedule IV below.*

**SCHEULDE IV**  
**COLSTRIP COMM SERV, LLC - PROPERTY**

Township 1 North, Range 41 East, M.P.M

Section 1: Lots 1 (43.40), 2(43.40), N/2SE/4, S/2NE/4, SE/4NW/4, less and except the existing Railroad Right-of-way being the Northern Pacific Railway Company's Cow Creek Extension of its Rosebud Branch line right-of-way.

Township 1 North, Range 42 East, M.P.M

Section 6: Lot 7 (40.55), less and except 2.66 acres of the Burlington Northern Railroad Right-of-way.

Section 7: Lots 1 (40.34), 2 (40.29), SE/4NW/4, NE/4SW/4, N/2SE/4, S/2NE/4, less and except Tract 1 as described in Easement Deed No. 33671-E dated October 11, 1973, recorded in Book 73 Deeds; Page 143 on December 20, 1973, Rosebud County, Montana, and less and except that portion of the Burlington Northern Right-of-way located in Lots 1 and 2.

Section 8: NE/4, S/2NW/4, S/2, less and except 35.93 Ao of the Burlington Northern Railroad Right-of-way, and less and except Tract 1 as described in

Easement Deed No. 33671-E dated October 11, 1973, recorded in Book 73 Deeds, Page 143 on December 20, 1973, Rosebud County, Montana.

Section 17: E/2, lying north and east of the north and east boundary line of Tract 1 as described in Easement Deed No. 33671-E dated October 11, 1973, recorded in Book 73 Deeds, Page 143 on December 20, 1973, Rosebud County, Montana and lying north and west of the Cow Creek Road as now established in the E/2E/2 and as recorded in the County Road Book, Rosebud County, Montana.

*An undivided 12.5% of the easements described in Schedule V below.*

***SCHEDULE V***  
***Easements***

[List of easements]<sup>3</sup>

---

<sup>3</sup> Note: To be provided by Seller between signing and closing.

## **Schedule 2.1(b)**

### **Common Facilities Interest and Associated Assets**

An undivided twelve and one-half percent (12.5%) interest as Tenant in Common in those certain Common Facilities described in Exhibit A to that certain Common Facilities Agreement dated as of May 6, 1981 by and between The Montana Power Company (predecessor in interest to Buyer), Puget Sound Power & Light Company (now known as Puget Sound Energy, Inc.), Puget Colstrip Construction Company, The Washington Water Power Company (now known as Avista Corporation), Portland General Electric Company, Pacific Power & Light Company (now known as PacifiCorp), and Basin Electric Power Cooperative, as the same has been amended by that certain Amendment No. 1 to the Common Facilities Agreement dated as of January 21, 1992; together with all replacements, accessions, improvements and repairs thereof.

The Common Facilities are located on the property described in Schedule III of Schedule 2.1(a) hereto as Parcels 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, and 45.



## Schedule 2.1(c)

### Material Contracts

1. Ownership and Operation Agreement.
2. Common Facilities Agreement by and between The Montana Power Company (now NorthWestern Corporation), Puget Sound Power & Light Company and Puget Colstrip Construction Company (now Puget Sound Energy, Inc.), The Washington Water Power Company (now Avista Corporation), Portland General Electric Company, Pacific Power & Light Company (now PacifiCorp) and Basin Electric Power Cooperative dated as of May 6, 1981.
3. Comm Serv Agreement<sup>4</sup>
4. Colstrip Project Transmission Agreement (as amended) by and among NorthWestern Corporation, Puget Sound Energy, Inc., Avista Corporation, Portland General Electric Company and PacifiCorp dated as of September 27, 2013 (the "Transmission Agreement").
5. Long Term Service Agreement between Avista Corporation, NorthWestern Energy, Talen Montana, LLC, PacifiCorp, Portland General Electric Company and Puget Sound Energy, Inc. ("Pumping Station Agreement").
6. Amended and Restated Coal Supply Agreement by and among Avista Corporation, NorthWestern Corporation, PacifiCorp, Portland General Electric Company, Talen Montana, LLC, Puget Sound Energy, Inc., on the one hand and Westmoreland Rosebud Mining, LLC dated as of August 24, 1998, as amended by that certain 2019 First Amendment to Amended and Restated Coal Supply Agreement dated as of December 5, 2019 ("Coal Supply Agreement").

---

<sup>4</sup> Note: Description to be provided prior to Closing.

#### Schedule 4.4

1. Fortieth Supplemental Indenture dated as of September 1, 1954, supplemental to and modifying First Mortgage dated as of June 2, 1924, defining the rights of the holders of Puget Sound Energy, Inc.'s Electric Utility First Mortgage Bonds, as amended, supplemented and modified by the supplemental indentures entered into thereafter (the "Electric Mortgage")
2. Indenture of First Mortgage dated as of April 1, 1957, defining the rights of the holders of Puget Sound Energy, Inc.'s Gas Utility First Mortgage Bonds, as amended, supplemented and modified by the supplemental indentures entered into thereafter (the "Gas Mortgage")
3. Puget Sound Energy, Inc. issued pollution control bonds in May 2013, which are secured by Senior Notes, which are in turn secured by bonds issued under the Electric Mortgage.

**Schedule 4.5**  
**No Violation or Breach**

None.

## Schedule 4.6

### Consents

1. The Ownership and Operation Agreement requires Seller to offer its Project Share (as defined in the Ownership and Operation Agreement) to the other Project Users prior to consummation of the transactions contemplated by the Agreement.
2. The Transmission Agreement requires Seller to offer its interest in the Colstrip Project Transmission System (as defined in the Transmission Agreement) to the other Transmission Owners (as defined in the Transmission Agreement) prior to consummation of the transactions contemplated by the Colstrip Transmission System Purchase and Sale Agreement executed simultaneously with the Agreement.
3. The Pumping Station Agreement requires prior written notice in connection with assignment.
4. Comm Serve Agreement<sup>5</sup>

---

<sup>5</sup> Note: To be confirmed whether consent is required.

**Schedule 4.7**  
**Material Contracts**

None.

**Schedule 7.1**

**Conduct of Business Pending Closing**

None.

## **Schedule 8.5**

### **Other Losses Allocated Based on Pre-Closing Date Project Shares**

Any operating costs incurred for work performed before the Closing Date, but not billed to the Owners by the Operator until after the Closing Date.

**Schedule 8.6**

**Losses Allocated Based on Post-Closing Date Project Shares**

None.



## **ATTACHMENT C**

**COLSTRIP TRANSMISSION SYSTEM PURCHASE AND SALE AGREEMENT**

**by and between**

**NORTHWESTERN CORPORATION**

**and**

**PUGET SOUND ENERGY, INC.**

**Dated December 9, 2019**

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE 1 DEFINITIONS.....	2
Section 1.1    Certain Defined Terms.....	2
Section 1.2    Interpretation.....	9
ARTICLE 2 PURCHASE AND SALE OF THE PUGET TRANSMISSION ASSETS .....	10
Section 2.1    Purchase and Sale of Puget Transmission Interests.....	10
Section 2.2    Purchase Price.....	11
Section 2.3    Allocation of Purchase Price; Tax Filings .....	12
Section 2.4    Assumption of Liabilities.....	12
Section 2.5    Real Property Taxes.....	12
ARTICLE 3 INITIAL CLOSING; CONDITIONS PRECEDENT .....	13
Section 3.1    Initial Closing.....	13
Section 3.2    Initial Closing Deliveries by Buyer .....	13
Section 3.3    Initial Closing Deliveries by Seller.....	14
Section 3.4    Conditions Precedent to the Initial Closing Obligations of Buyer .....	15
Section 3.5    Conditions Precedent to the Initial Closing Obligations of Seller.....	16
Section 3.6    Failure to Close.....	16
ARTICLE 4 Option Closing .....	17
Section 4.1    Exercise of Option .....	17
Section 4.2    Option Closing .....	17
Section 4.3    Option Closing Deliveries by Buyer.....	17
Section 4.4    Option Closing Deliveries by Seller .....	17
Section 4.5    Conditions Precedent to the Option Closing Obligations of Buyer.....	18
Section 4.6    Conditions Precedent to the Option Closing Obligations of Seller .....	19
ARTICLE 5 REPRESENTATIONS AND WARRANTIES OF SELLER.....	20
Section 5.1    Organization and Good Standing.....	20
Section 5.2    Authority .....	20
Section 5.3    Enforceability.....	20
Section 5.4    Title to Puget Transmission Assets.....	21
Section 5.5    No Violation or Breach.....	21
Section 5.6    Consents.....	21
Section 5.7    Actions Pending.....	21
Section 5.8    Compliance With Applicable Law.....	21
Section 5.9    Real Property .....	21
Section 5.10   Material Changes since December 31, 2018.....	22
Section 5.11   Brokerage Fees and Commissions .....	22
Section 5.12   Bankruptcy .....	22
Section 5.13   Tax Matters .....	22
Section 5.14   Material Contracts.....	23

Section 5.15	Licenses.....	24
Section 5.16	Insurance.....	24
Section 5.17	Environmental Matters.....	24
Section 5.18	No Employees or Benefits Plans.....	25
Section 5.19	Labor Matters.....	25
Section 5.20	Intellectual Property.....	25
Section 5.21	Books and Records.....	25
Section 5.22	No Options.....	25
Section 5.23	Undisclosed Liabilities.....	25
Section 5.24	Puget Transmission Assets Operations.....	25
Section 5.25	Affiliate Transactions.....	25
ARTICLE 6 REPRESENTATIONS AND WARRANTIES OF BUYER.....		26
Section 6.1	Organization and Qualification.....	26
Section 6.2	Authority.....	26
Section 6.3	Enforceability.....	26
Section 6.4	No Violation or Breach.....	26
Section 6.5	Consents.....	26
Section 6.6	No Disputes; Litigation.....	27
Section 6.7	Brokerage Fees and Commissions.....	27
Section 6.8	Bankruptcy.....	27
Section 6.9	Regulatory Matters.....	27
ARTICLE 7 ACCESS AND CONFIDENTIALITY.....		27
Section 7.1	General Access.....	27
Section 7.2	Confidential Information.....	28
ARTICLE 8 COVENANTS OF SELLER AND BUYER.....		28
Section 8.1	Conduct of Business Pending Closing.....	28
Section 8.2	Public Announcements.....	29
Section 8.3	Actions by Parties.....	30
Section 8.4	Further Assurances.....	30
Section 8.5	Records.....	30
Section 8.6	Amendment of Colstrip Project Transmission Agreement.....	31
Section 8.7	Regulatory and Other Authorizations and Consents Filings.....	31
Section 8.8	Fees and Expenses.....	32
Section 8.9	Tax Matters.....	32
Section 8.10	Insurance Cooperation.....	33
Section 8.11	Right of First Refusal.....	33
Section 8.12	Updates to Disclosure Schedules.....	33
ARTICLE 9 INDEMNIFICATION.....		34
Section 9.1	Survival.....	34
Section 9.2	Indemnification By Seller.....	34
Section 9.3	Indemnification By Buyer.....	35
Section 9.4	Third Party Claims.....	35
Section 9.5	Direct Claims.....	36

Section 9.6	Acknowledgement .....	37
Section 9.7	Certain Limitations .....	37
ARTICLE 10 TERMINATION AND REMEDIES .....		39
Section 10.1	Methods of Termination .....	39
Section 10.2	Effect of Termination.....	40
Section 10.3	No Liability.....	40
ARTICLE 11 DISPUTE RESOLUTION .....		40
Section 11.1	Mutual Discussions.....	40
Section 11.2	Arbitration.....	41
ARTICLE 12 OTHER PROVISIONS.....		42
Section 12.1	Counterparts.....	42
Section 12.2	Governing Law .....	42
Section 12.3	Entire Agreement.....	42
Section 12.4	Notices .....	42
Section 12.5	Successors and Assigns.....	43
Section 12.6	Amendments .....	44
Section 12.7	Agreement for the Parties' Benefit Only .....	44
Section 12.8	Severability .....	44
Section 12.9	Bulk Sales or Transfer Laws.....	44
Section 12.10	No Waiver.....	44
Section 12.11	Cumulative Remedies .....	44
Section 12.12	Further Assurances.....	44
Section 12.13	Counterparts; Effectiveness .....	45
Section 12.14	Specific Performance .....	45

## EXHIBITS AND SCHEDULES

### Exhibits:

Exhibit A	Assignment and Assumption Agreement
Exhibit B	Excluded Assets
Exhibit C	Buyer's Officer's Certificate
Exhibit D	Seller's Officer's Certificate
Exhibit E	Form of Deed Conveying Seller's Interest
Exhibit F	Waivers of Right of First Refusal

### Schedules:

Schedule 1	Puget Transmission Ownership Interest
Schedule 1(a)	Initial Purchase Assets
Schedule 1(b)	Option Assets
Schedule 2.1(a)	Real Property
Schedule 2.1(b)	Material Contracts
Schedule 5.4	Title to Puget Transmission Assets
Schedule 5.5	No Violation or Breach
Schedule 5.6	Seller's Consents
Schedule 5.7	Actions Pending
Schedule 5.8	Compliance with Applicable Law
Schedule 5.9(a)	Liens
Schedule 5.10	Material Changes
Schedule 5.11	Brokerage Fees
Schedule 5.13	Tax Matters
Schedule 5.14	Material Contracts
Schedule 5.15	Licenses
Schedule 5.16	Insurance
Schedule 5.17	Environmental Matters
Schedule 5.23	Undisclosed Liabilities
Schedule 6.5	Buyer's Consents
Schedule 8.1	Conduct of Business Pending Closing

## **COLSTRIP TRANSMISSION SYSTEM PURCHASE AND SALE AGREEMENT**

THIS COLSTRIP TRANSMISSION SYSTEM PURCHASE AND SALE AGREEMENT (this “*Agreement*”), dated as of December 9, 2019, is by and between NORTHWESTERN CORPORATION, a Delaware corporation (“*Buyer*”), and PUGET SOUND ENERGY, INC., a Washington public utility corporation (“*Seller*”). Buyer and Seller are sometimes referred to herein individually as a “*Party*” and, collectively, as the “*Parties*.”

### **RECITALS**

WHEREAS, Seller owns an undivided interest in the 500 kilovolt Colstrip Project Transmission System (as defined in the Colstrip Project Transmission Agreement), which consists of a thirty-three percent (33%) interest in the Colstrip to Broadview Segment and a thirty-nine and 3/10ths percent (39.3%) interest in the Broadview to Townsend Segment, together with associated switchyards, substations and telecommunications facilities and equipment as further described on Schedule 1 hereto (the “*Puget Transmission Ownership Interest*”).

WHEREAS, Seller desires to sell and convey to Buyer, and Buyer desires to purchase and acquire from Seller, an undivided interest in the Puget Transmission Ownership Interest representing not less than 95 MW, consisting of not less than a four and 2/10ths percent (4.2%) interest in the Colstrip to Broadview Segment and a four and 9/10ths percent (4.9%) interest in the Broadview to Townsend Segment, as further described on Schedule 1(a) hereto (the “*Initial Purchase Assets*”) on the terms and subject to the conditions hereinafter set forth (the “*Initial Purchase*”).

WHEREAS, Seller desires to grant and Buyer desires to accept an option to acquire an undivided ownership interest in the Puget Transmission Ownership Interest representing not less than 90 MW, consisting of not less than a four percent (4%) interest in the Colstrip to Broadview Segment and a four and 2/10ths percent (4.2%) interest in the Broadview to Townsend Segment, as further described on Schedule 1(b) hereto (the “*Option Assets*” and, together with the Initial Purchase Assets, the “*Puget Transmission Assets*”) on the terms and subject to the conditions hereinafter set forth (the “*Option*”).

WHEREAS, Seller and Buyer are entering into this Agreement to evidence their respective duties, obligations, and responsibilities in respect of the purchase and sale of an undivided interest in the Puget Transmission Assets as contemplated herein.

WHEREAS, certain capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in ARTICLE 1 hereof.

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements contained in this Agreement, and intending to be legally bound, the Parties agree as follows:

## ARTICLE 1 DEFINITIONS

**Section 1.1 Certain Defined Terms.** As used in this Agreement, the following terms have the respective meanings set forth below or set forth in the Sections referred to below:

“AAA” is defined in Section 11.2(a).

“*Action*” means any action, suit, investigation of which Seller has Knowledge, proceeding, condemnation, or audit by or before any court or other Governmental Authority or any arbitration proceeding.

“*Affiliate*” means, as to the Person specified, any Person controlling, controlled by or under common control with such specified Person. The concept of control, controlling or controlled by as used in the aforesaid context means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of another, whether through the ownership of voting securities, by contract or otherwise. No Person shall be deemed an Affiliate of any Person solely by reason of the exercise or existence of rights, interests, or remedies under this Agreement.

“*Agreement*” is defined in the preamble.

“*Allocation Schedule*” is defined in Section 2.3.

“*Assignment and Assumption Agreement*” means an Assignment of the Material Contracts from Seller to Buyer to be dated as of each respective Closing Date and substantially in the form set forth on Exhibit A.

“*Assumed Liabilities*” is defined in Section 2.4.

“*Business Day*” means any day which is not a Saturday, Sunday, or legal holiday in the state of Montana.

“*Buyer*” is defined in the preamble.

“*Buyer’s Consents*” means the consents, filings and notices required to be obtained by Buyer and delivered at a Closing as listed on Section 6.5.

“*Buyer Fundamental Representations*” means the representations and warranties of Buyer set forth in Section 6.1 (Organization and Qualification), Section 6.2 (Authority), Section 6.3 (Enforceability), and Section 6.7 (Brokerage Fees and Commissions).

“*Buyer Indemnified Parties*” is defined in Section 9.2.

“*Closing*” means either the Initial Closing or the Option Closing, each a “*Closing*.”

“*Closing Date*” means either the Initial Closing Date or the Option Closing Date, each a “*Closing Date*.”



“*Closing Documents*” means the documents to be delivered by Buyer and Seller at a Closing in accordance with Section 3.2 and Section 3.3 with respect to the Initial Closing and in accordance with Section 4.3 and Section 4.4 with respect to the Option Closing.

“*Code*” means the Internal Revenue Code of 1986, as amended.

“*Colstrip Project Transmission Agreement*” means the Colstrip Project Transmission Agreement, as last dated September 27, 2013 among Buyer, Seller, Avista Corporation, Portland General Electric Company and PacifiCorp, as amended from time to time.

“*Commercially Reasonable Efforts*” means efforts which are reasonably necessary to cause, or assist in, the consummation of the transactions contemplated by this Agreement and which do not require the performing Party to (i) expend funds, incur expenses or assume liabilities other than those which are reasonable in nature and amount within the context of the transactions contemplated by this Agreement in order for the performing Party to satisfy its obligations hereunder or (ii) amend, waive or terminate the material terms of any Material Contract or arrangement to which the performing Party is a party.

“*Confidentiality Agreement*” is defined in Section 7.2.

“*Damages*” is defined in Section 9.2.

“*Debt*” of any Person means at any date, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business and payable not more than 12 months from the date of incurrence, (iv) all obligations of such Person as lessee under any lease of any property (whether real, personal or mixed) by that Person as lessee that, in conformity with GAAP, has been or would be required to be accounted for as a capital lease on the consolidated balance sheet of that Person, (v) the undrawn face amount of any outstanding letters of credit issued in favor of such Person, and all obligations of such Person to reimburse or prepay any bank or other Person in respect of amounts paid under a letter of credit, banker’s acceptance or similar instrument, (vi) all Debt or other monetary obligations (of such Person or of others) secured by any mortgage, lien, pledge, charge, security interest or encumbrance of any kind on any asset of such Person, whether or not such Debt or other monetary obligation is assumed by such Person, (vii) all obligations of such Person to pay a specified purchase price for assets, goods, securities or services whether or not delivered or accepted (including take-or-pay arrangements and similar obligations), (viii) all obligations of such Person under conditional sale or other title retention agreements (even if the remedies of the sellers or lenders under such agreements in the event of a default thereunder are limited to the repossession or sale of the property or assets covered thereby), and (ix) all Debt or other monetary obligations of others in respect of which such Person has any contingent liability, including without limitation any guarantee.

“*Depreciated Net Book Value*” means the depreciated net book value of the Puget Transmission assets calculated in accordance with GAP and Seller’s past practices.

“*Disclosure Schedule*” is defined in the preamble of ARTICLE 5.

“*Dispute*” is defined in Section 11.1.

“*Dispute Notice*” is defined in Section 11.1.

“*Dispute Notice Response*” is defined in Section 11.1.

“*Employee Benefit Plans*” means any retirement plan, welfare plan, stock option plan, equity or equity based plan, bonus plan, change-in-control, retention, incentive award plan, severance pay plan or policy, deferred compensation plan or policy, executive compensation or supplemental income plan or policy, vacation, sick leave, disability, death benefit, group insurance, hospitalization, medical, dental, life or any other employee benefit plan or program, including, without limitation, each “employee benefit plan” within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (“*ERISA*”), “multiemployer plan” within the meaning of Section 4001(a)(3) of ERISA and other employee benefit plan, program, policy, practice, agreement or arrangement, whether or not subject to ERISA.

“*Environmental Laws*” means any Law relating to pollution control or the protection of the environment, including: (a) (i) the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601 et seq., (ii) the Solid Waste Disposal Act, §§ 6901 et seq., (iii) the Federal Water Pollution Control Act, 33 U.S.C. §§ 1251 et seq., (iv) the Clean Air Act, 42 U.S.C. §§ 7401 et seq., (v) the Hazardous Materials Transportation Act, 49 U.S.C. §§ 1471 et seq., (vi) the Toxic Substances Control Act, 15 U.S.C. §§ 2601 et seq., and (vii) the Safe Drinking Water Act, 42 U.S.C. §§ 300f-300j; and (b) such Laws imposing requirements pertaining to (i) any Hazardous Substance, (ii) the manufacture, possession, presence, use, generation, transportation, treatment, storage, disposal, Release or threatened Release of any Hazardous Substance, (iii) reporting, licensing, permitting, or investigation in connection with such activities or (iv) any abatement, removal, remedial, corrective or other corrective action in connection with any Hazardous Substance.

“*Environmental Liabilities*” means all liabilities involving or arising out of the operation or ownership of the Acquired Assets and arising out of or resulting from or relating to any Environmental Law or any Hazardous Substance.

“*Excluded Assets*” means those assets listed on Exhibit B.

“*FERC*” means the Federal Energy Regulatory Commission, or any successor to its functions.

“*FERC 203 Approval*” means the authorization from FERC to transfer certain of the Puget Transmission Assets to Buyer pursuant to Section 203 of the Federal Power Act.

“*Final Order*” is defined in Section 9.5(b)(iv).

“*GAAP*” means generally accepted accounting principles consistently applied as in effect on the date of this Agreement in the United States.

“*Governmental Authority*” means (i) the federal government of the United States of America, (ii) any state, county, municipality, or other governmental subdivision within the United States of America, and (iii) any executive, legislative or judicial court, department, commission, board, bureau, agency, or other instrumentality of the federal government of the United States of America or of any state, county, municipality, or other governmental subdivision within the United States of America.

“*Hazardous Substance*” means any substance or material listed, defined or classified as a pollutant, contaminant, hazardous substance, toxic substance, hazardous waste or words of similar import under any Environmental Law, including petroleum, polychlorinated biphenyls, and friable asbestos, or any coal combustion materials or by-products.

“*Indemnification Dispute Notice*” is defined in Section 9.5(b).

“*Indemnified Party*” is defined in Section 9.4(a).

“*Indemnifying Party*” is defined in Section 9.4(a).

“*Indemnity Claim Amount*” is defined in Section 9.5(a).

“*Initial Closing*” is defined in Section 3.1.

“*Initial Purchase*” is defined in the recitals.

“*Initial Purchase Assets*” is defined in the recitals.

“*Initial Purchase Price*” is defined in Section 2.2.

“*Intellectual Property Rights*” means all common law and statutory rights associated with patents and industrial designs, copyrights, trademarks, trade names, service marks, service names, know-how, processes, trade secrets, inventions, proprietary rights, formulae, research, databases and computer programs.

“*Knowledge*” means, with respect to Seller, the actual knowledge of any fact, circumstance, or condition, assuming reasonable inquiry of their direct reports, by Ron Roberts, and with respect to Buyer, the actual knowledge of any fact, circumstance, or condition, assuming reasonable inquiry of their direct reports, by Mike Cashell.

“*Labor Laws*” means any and all Laws relating in any manner to employment, employees and/or individuals performing work as consultants or contractors, including employment standards, employment of minors, employment discrimination, health and safety, labor relations, unions, withholding, wages and hours and overtime of any kind, work authorization verification, workplace safety and insurance and pay equity.

“*Law*” means any law, statute, rule, regulation, ordinance, standard, code, order, judgment, decision, writ, injunction, decree, certificate of need, award, or other governmental restriction, including any published and publicly available policy or procedure enforceable by any Governmental Authority.

“*Licenses*” is defined in Section 5.15.

“*Lien*” means any lien, security interest, charge, claim, mortgage, deed of trust, option, warrant, purchase right, lease, pledge, easement, right-of-way, encroachment, building or use restrictions, conditional sales agreement or other encumbrance.

“*Losses*” means any and all claims, liabilities, losses, causes of action, damages, judgments, obligations, deficiencies, demands, fines, penalties, litigation, lawsuits, administrative proceedings, administrative investigations, costs, and expenses and Environmental Liabilities, including reasonable attorneys’ fees, court costs, investigator expenses, and other costs of suit.

“*Material Adverse Effect*” means a material and adverse effect on (i) the ability of Seller or Buyer to consummate the transactions contemplated by this Agreement or otherwise to comply with its obligations hereunder or (ii) the business, assets, financial condition, or results of operations comprising the Puget Transmission Assets, in each case taken as a whole, including without limitation (a) any change in any applicable Law if such change has an effect on the Puget Transmission Assets that is disproportionate to the effect on other electric transmission facilities, (b) the Puget Transmission Assets are substantially damaged or destroyed by any casualty event or a substantial portion of the Puget Transmission Assets are taken, in part or on whole by any Government Authority, (c) changes or developments in national, regional, state, or local wholesale or retail markets for electric power, fuel, or related products, including seasonal changes, (including changes in commodity prices or the effects of actions by competitors), if such matters have an effect on the Puget Transmission Assets that is disproportionate to the effect on other electric transmission facilities; and (d) changes or developments in national, regional, state, or local electric transmission or distribution systems, if such matters have an effect on the Puget Transmission Assets that is disproportionate to the effect on other electric transmission facilities; provided, however, that such determination shall exclude (A) general economic or political conditions; (B) conditions generally affecting the industries in which the Puget Transmission Assets operate; (C) any changes in financial, banking or securities markets in general, including any disruption and any decline in the price of any security or any market index or change in prevailing interest rates; (D) any adverse change or effect principally attributable to the announcement, pendency, or consummation of the transactions contemplated by this Agreement (including any action required or permitted by this Agreement with the written consent of or at the written request of Buyer, decrease in customer demand, any reduction in revenues, any disruption in supplier, partner or similar relationships, or any loss of employees attributable thereto but excluding any failure to obtain Required Regulatory Approvals); (E) any outbreak or escalation of hostilities or the declaration by the United States of a national emergency or war; (F) any failure by the Puget Transmission Assets meet any internal or published projections, forecasts or supply predictions; (G) any matter of which Buyer is aware of on the date hereof; or (H) any acts of terrorism, any other international or domestic calamity or crisis or geopolitical event, except to the extent such matters in subsections (A), (B), (C), (E) or (F) have an effect on the Puget Transmission Assets that is disproportionate to the effect on other electric transmission facilities.

“*Material Contracts*” is defined in Section 2.1(b).

“*MPSC*” means the Montana Public Service Commission.

“*Notice of Claim*” is defined in Section 9.5(a).

“*Option*” is defined in the Recitals.

“*Option Closing*” is defined in Section 4.2.

“*Option Closing Disclosure Schedules*” is defined in Section 8.12(b).

“*Option Notice*” has the meaning set forth in Section 4.1.

“*Option Purchase Price*” is defined in Section 2.2.

“*Party*” is defined in the preamble.

“*Permits*” means written permits, licenses, franchises, registrations, variances and approvals obtained from any Governmental Authority.

“*Permitted Liens*” means (i) Liens for Taxes not yet due and payable, pledges or deposits made in the ordinary course of business under workers’ compensation legislation, unemployment insurance Laws or similar Laws, good faith deposits made in the ordinary course of business in connection with bids, tenders or contracts, including rent security deposits, (ii) in the case of the Real Property, encumbrances and other restrictions and irregularities to title which exist on the date hereof or on the Closing Date and which were not created by, through or under the Seller, (iii) rights reserved to or vested but not yet asserted respecting any Puget Transmission Assets by any Governmental Authority by the terms of any franchise, grant, license, Permit or provision of applicable Law, to purchase, condemn, appropriate or recapture, or designate a buyer of the real property, (iv) rights reserved to or vested in any municipality or public authority to control or regulate the use of the real property or to use the real property in any manner, including zoning and land use regulations, and (v) mechanic and other similar liens for amounts not yet due or payable.

“*Person*” means any Governmental Authority or any individual, firm, partnership, corporation, limited liability company, joint venture, trust, unincorporated organization or other entity or organization.

“*PPA*” means the Power Purchase Agreement between Buyer and Seller, dated as of the Closing Date.

“*Pre-Closing Periods*” is defined in Section 2.5(a).

“*Prudent Utility Practices*” means the practices, methods and acts generally engaged in or approved by the electric utility industry in the United States for similarly situated facilities in the United States during a particular time period, in a manner consistent with Laws, reliability, safety and environmental protection, and taking into consideration the requirements of this Agreement, the Material Contracts and the other contracts affecting the operation of the Colstrip Transmission System. Prudent Utility Practices are not necessarily intended to require the

optimum or best practices, methods or acts to the exclusion of all others, but rather to include a spectrum of possible practices, methods or acts consistent with the immediately preceding sentence.

“*Puget Transmission Assets*” is defined in the Recitals.

“*Puget Transmission Interests*” is defined in the Recitals.

“*Purchase Price*” is defined in Section 2.2.

“*Real Property*” means the real property interests which are included as part of the Puget Transmission Assets as set forth on Schedule 2.1(a).

“*Records*” means any and all of the books, records, contracts, agreements and files of the Seller existing on the Closing Date and pertaining to the Puget Transmission Assets, excluding any information if disclosure to Buyer would, in Seller’s sole discretion, jeopardize any attorney-client, work-product or other privilege or other information reasonably deemed confidential by Seller.

“*Release*” or “*Released*” means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing into the environment.

“*Representatives*” means officers, directors, employees and other agents of a particular Person.

“*Required Regulatory Approvals*” means the FERC 203 Approval and such approvals as may be necessary from the MPSC and the Washington Utilities and Transportation Commission; *provided* that an approval will not be deemed to have been obtained until the date after which all appeals have been fully adjudicated and an appeal may no longer be filed, regardless of whether an appeal is filed.

“*Retained Liabilities*” is defined in Section 2.1.

“*ROFR Resolution Notice*” is defined in Section 8.11.

“*Rules*” is defined in Section 11.2.

“*Seller*” is defined in the preamble.

“*Seller’s Consents*” means the consents, filings and notices required to be obtained by Seller (other than the Required Regulatory Approvals) and delivered at a Closing as listed on Schedule 5.6.

“*Seller Fundamental Representations*” means the representations and warranties of Buyer set forth in Section 5.1 (Organization and Good Standing), Section 5.2 (Authority), Section 5.3 (Enforceability), Section 5.4 (Title to Puget Transmission Assets), Section 5.11 (Brokerage Fees and Commissions), Section 5.13 (Taxes) and Section 5.17 (Environmental Matters).

“*Seller Indemnified Parties*” is defined in Section 9.3.

“*Straddle Period*” is defined in Section 2.5(a).

“*Tax*” or “*Taxes*” means all federal, state, local, foreign and other net income, gross income, estimated, gross receipts, sales, use, ad valorem, transfer, franchise, profits, license, lease, service, service use, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property taxes and levied and pending assessments, windfall profits, value added, commercial rent, customs duties, capital gain, social security, royalty, documentary, environmental or other taxes, or fees, assessments, duties or charges in the nature or taxes, of any kind whatever, together with any interest and any penalties, additions to tax or additional amounts with respect thereto.

“*Tax Return*” means all returns and reports (including elections, declarations, disclosures, attachments, schedules, estimates, information returns, and amended returns and reports) required to be filed with or sent to a taxing authority relating to Taxes.

“*Third Party Claim*” is defined in Section 9.4(a).

“*Transfer Taxes*” means all sales, use, real property transfer, excise, stock, stamp, documentary, filing, recording, permit, license, authorization and other similar Taxes, filing fees and similar charges incurred by either Party in connection with the transactions contemplated hereby.

“*Transmission Owners*” has the meaning assigned to it under the Colstrip Project Transmission Agreement.

“*Unit 4 Acquisition Agreement*” means the Colstrip Unit 4 Purchase and Sale Agreement between Buyer and Seller in connection with Buyer’s purchase of Seller’s undivided interest in the 740MW Colstrip Unit 4, a coal-fired, base-load electric generation facility located in Colstrip, Montana.

“*Update*” is defined in Section 8.12.

**Section 1.2 Interpretation.** This Agreement shall not be construed against either Party, and no consideration shall be given or presumption made, on the basis of who drafted this Agreement or any particular provision hereof or who supplied the form of this Agreement. In construing this Agreement:

(a) all references in this Agreement to an “Article,” “Section,” “subsection,” “Exhibit,” or “Schedule” shall be to an Article, Section, subsection, Exhibit, or Schedule of this Agreement, unless the context requires otherwise;

(b) unless the context otherwise requires, the words “this Agreement,” “hereof,” “hereunder,” “herein,” “hereby” or words of similar import shall refer to this Agreement as a whole and not to a particular Article, Section, subsection, clause or other subdivision hereof;



- (c) whenever the context requires, the words used herein shall include the masculine, feminine and neuter gender, and the singular and the plural;
- (d) examples shall not be construed to limit, expressly or by implication, the matter they illustrate;
- (e) the word “includes” and its derivatives means “includes, but is not limited to” and corresponding derivative expressions;
- (f) a defined term has its defined meaning throughout this Agreement and in each Exhibit and Schedule hereto, regardless of whether it appears before or after the place where it is defined;
- (g) each Exhibit and Schedule to this Agreement is a part of this Agreement, and should be construed in light of each other;
- (h) the headings and titles herein are for convenience only and shall have no significance in the interpretation hereof; and
- (i) references to a Law, rule, regulation, contract, agreement, or other document mean that Law, rule, regulation, contract, agreement, or document as amended, modified, or supplemented, if applicable.

## ARTICLE 2 PURCHASE AND SALE OF THE PUGET TRANSMISSION ASSETS

**Section 2.1 Purchase and Sale of Puget Transmission Interests.** On the terms and subject to the conditions hereof, Seller covenants and agrees to sell, assign and transfer to Buyer all of Seller’s right, title and interest in, and Buyer covenants and agrees to purchase from Seller, effective as of the each Closing, all of Seller’s right, title and interest in, all of the assets, properties and rights of Seller owned and/or used in or relating to the portion of the Puget Transmission Assets to be conveyed at such Closing, free and clear of any and all Liens, other than Permitted Liens and excluding the Excluded Assets (as hereinafter defined). The assets, properties and rights to be purchased or otherwise transferred to Buyer under this Agreement, all of which solely relate to the portion of the Puget Transmission Assets acquired and, except for Excluded Assets, constitute, or will constitute as of a Closing, all of Seller’s interests in or to the respective portion of the Puget Transmission Assets, are as follows:

- (a) all of Seller’s ownership rights to the Real Property;
- (b) all of Seller’s rights under the contracts, leases and agreements related to the Puget Transmission Interest, including the contracts, leases and agreements that are set forth on Schedule 2.1(b), and have not been amended except for such amendments as are set forth therein (the “*Material Contracts*”);
- (c) notwithstanding the provisions of Section 2.1(a)-(c) above, the Puget Transmission Assets shall not include (and the Seller shall retain and the Buyer shall not assume):



- (i) claims arising out of liabilities occurring prior to a Closing, including Environmental Liabilities,
- (ii) any obligation or liability related to or arising out of any of the Excluded Assets;
- (iii) any obligation or liability related to or arising out of (x) any real property lease or sublease not included in the Real Property and (y) any contract not included in the Material Contracts;
- (iv) any obligation or liability related to or arising out of any Real Property or Material Contract to the extent such obligation or liability relates to or arises out of the time period prior to a Closing;
- (v) any obligation or liability related to or arising out of Actions pending as of a Closing Date against the Seller or any of its Affiliates;
- (vi) any obligation or liability (including any future Actions) related to or arising out of the Seller's conduct of the business or ownership of the Puget Transmission Assets prior to a Closing;
- (vii) any obligation or liability of any kind or nature relating to (A) Taxes of the Seller; and (B) Taxes related to the Seller's conduct of the business or ownership of the Puget Transmission Assets prior to the Closing (in the case of real property Taxes, as determined in accordance with Section 2.5(a)); and
- (viii) any obligation or liability of Seller for any Debt.

The foregoing liabilities listed in this Section 2.1(c) are collectively referred to as the “*Retained Liabilities*” and shall remain and be the obligations and liabilities solely of the Seller.

**Section 2.2 Purchase Price.**

(a) At least three (3) Business Days prior to each of the Initial Closing Date and the Option Closing Date, Seller shall deliver to Buyer a certificate signed by an executive officer of Seller which sets forth in reasonable detail Seller's calculation of the Depreciated Net Book Value of the Initial Purchase Assets and the Option Assets, respectively, which calculations shall be consistent with Schedule 2.2(a).

(b) Upon receipt of the Depreciated Net Book Value calculation by Buyer, the aggregate purchase price and additional consideration for the sale and conveyance of the Initial Purchase Assets shall be equal to such Depreciated Net Book Value of the Initial Purchase Assets (the “*Initial Purchase Price*”) and the aggregate purchase price and additional consideration for the sale and conveyance of the Option Assets shall be equal to such Depreciated Net Book Value of the Option Assets (the “*Option Purchase Price*”) and, together with the Initial Purchase Price, the “*Purchase Price*”).

**Section 2.3 Allocation of Purchase Price; Tax Filings.**

(a) The amount realized by Seller and the consideration paid by Buyer for the Puget Transmission Assets (taking into account for this purpose the Purchase Price, the Assumed Liabilities, and any other amounts treated as consideration or adjustments to the Purchase Price for federal income Tax purposes) shall be allocated in compliance with section 1060 of the Code and the regulations promulgated thereunder. Buyer shall prepare and deliver to Seller an allocation schedule setting forth Buyer's determination of the allocation (the "*Allocation Schedule*") within thirty (30) days after a Closing, which Allocation Schedule shall be subject to the review, comment and approval of Seller, which approval shall not be unreasonably withheld, delayed, conditioned or delayed. If Seller objects to any item of the Allocation Schedule, Seller shall deliver its written objection to Buyer within 10 days after Seller's receipt of the Allocation Schedule. If Seller does not timely object, in writing, to the Allocation Schedule, Seller shall be deemed to have approved the Allocation Schedule. Buyer and Seller shall negotiate in good faith to resolve any objection timely raised in writing by Seller. If Buyer and Seller are unable to resolve any such dispute within 15 days after Buyer's receipt of Seller's written objection to the Allocation Schedule, such dispute shall be submitted to an independent accounting firm mutually agreed to by Buyer and Seller, and the resolution of such independent accounting firm shall be final and binding.

(b) Each of Buyer and Seller shall (i) be bound by the Allocation Schedule for purposes of determining Taxes, (ii) prepare and file, and, if applicable, cause its Affiliates to prepare and file, Tax Returns and Internal Revenue Service Forms 8594 in a manner consistent with the Allocation Schedule, and (iii) take no position, and cause its Affiliates to take no position, inconsistent with the Allocation Schedule on any applicable Tax Return, in any audit or proceeding before any Governmental Authority, in any report made for Tax, financial accounting or any other purposes, or otherwise, unless required by a "determination," within the meaning of Section 1313(a)(1) of the Code. If the Buyer or the Seller or any of their Affiliates receives notice from any Governmental Authority disputing such allocation, the Party receiving such notice shall promptly notify the other Party of such dispute.

**Section 2.4 Assumption of Liabilities.** Buyer shall assume and agree to pay, perform and discharge the liabilities and obligations of Seller related to the Puget Transmission Assets acquired at each respective closing, including without limitation those liabilities and obligations contained in the Material Contracts, but solely with respect to liabilities or obligations arising solely during periods following a Closing Date (the "*Assumed Liabilities*").

**Section 2.5 Real Property Taxes.**

(a) Seller shall be responsible for all real property Taxes imposed on or with respect to the Real Property for all Tax periods (or portion of any Tax period beginning on or before and ending after the Closing Date (a "*Straddle Period*") ending on or prior to the Closing Date (the "*Pre-Closing Periods*"). The portion of such Taxes for which Seller shall be liable for a Straddle Period shall be determined by multiplying its pre-Closing Date Project Share of the amount of Taxes for the entire Straddle Period by a

fraction, the numerator of which is the number of days in such Straddle Period prior to and including the Closing Date and the denominator of which is the total number of days in such Straddle Period.

(b) Any real property Tax reductions or refunds with respect to the Real Property for or relating to a Pre-Closing Period (as determined in accordance with Section 2.5(a)) shall be for the account of Seller. If Buyer receives a property Tax refund or credit with respect to the Real Property for or relating to a Pre-Closing Period, Buyer shall promptly remit to Seller the portion of such refund or credit relating to the Pre-Closing Period.

(c) Prior to a Closing Date, Seller shall control and conduct all negotiations, proceedings and communications with the Montana Department of Revenue regarding real property Taxes with respect to the Real Property, shall keep Buyer informed regarding such negotiations, proceedings and communications and shall not agree to any settlement with the Montana Department of Revenue that affects any Tax period or portion of a Straddle Period beginning on or after a Closing Date without Buyer's consent, which consent shall not be unreasonably withheld, conditioned or delayed. From and after a Closing Date, Buyer shall control and conduct all negotiations, proceedings and communications with the Montana Department of Revenue regarding real property Taxes with respect to the Real Property, shall keep Seller informed regarding such negotiations, proceedings and communications, and shall not agree to any settlement with the Montana Department of Revenue that affects any Tax period or Straddle Period ending on or prior to a Closing Date without Seller's consent, which consent shall not be unreasonably withheld, conditioned or delayed. Seller shall reasonably cooperate with all such negotiations, proceeds and communications.

### **ARTICLE 3 INITIAL CLOSING; CONDITIONS PRECEDENT**

**Section 3.1 Initial Closing.** The closing of the transactions contemplated by this Agreement with regard to the Initial Purchase Assets (the "*Initial Closing*") shall occur at the offices Dorsey & Whitney LLP, 50 South Sixth Street, Suite 1500, Minneapolis, Minnesota, commencing at 9:00 A.M. or at such other location as may be agreed upon by the Parties on either (a) the second (2<sup>nd</sup>) Business Day after the satisfaction of all the conditions precedent to the Initial Closing in accordance with Sections 3.4 and 3.5 hereof, or (b) at such other time or place as may be mutually agreed upon by the Parties in writing. The date on which the Initial Closing occurs is referred to herein as the "*Initial Closing Date*".

**Section 3.2 Initial Closing Deliveries by Buyer.** At the Initial Closing, Buyer shall deliver, or cause to be delivered, to Seller the following:

- (a) The Initial Purchase Price in cash in accordance with Section 2.2 hereof;
- (b) A certificate of an authorized officer of Buyer, dated as of the Initial Closing Date, in the form set forth in Exhibit C, certifying that (i) the representations and warranties of Buyer set forth in ARTICLE 6 are true, correct and complete as of the

Initial Closing Date, except in such circumstances as shall not, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect, (ii) the conditions set forth in Section 3.4 have been fulfilled or waived and (iii) the covenants of Buyer set forth in ARTICLE 8 to be performed on or before the Initial Closing Date have been fulfilled or waived in writing by Seller.

- (c) A duly executed copy of an Assignment and Assumption Agreement;
- (d) Duly executed copies of each of the Buyer's Consents;
- (e) Such other documents and certificates as Seller may reasonably request and which are customarily and ordinarily delivered in transactions similar to the transactions to be consummated at the Initial Closing.

**Section 3.3 Initial Closing Deliveries by Seller.** At the Initial Closing, Seller shall execute and deliver, or cause to be executed and delivered, to Buyer the following:

- (a) A duly executed copy of an Assignment and Assumption Agreement;
- (b) A certificate of an authorized officer of Seller, dated as of the Initial Closing Date, except in such circumstances as shall not, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect, in the form set forth in Exhibit D, certifying that (i) the representations and warranties of Seller set forth in ARTICLE 5 are true, correct and complete as of the Initial Closing Date, (ii) the conditions set forth in Section 3.5 have been fulfilled or waived and (iii) the covenants of Seller set forth in ARTICLE 8 to be performed on or before the Initial Closing Date have been fulfilled or waived in writing by Buyer;
- (c) Duly executed copies of each of the Seller's Consents;
- (d) A certificate that Seller is not a "foreign" person within the meaning of Section 1445 of the Code, which certificate shall set forth all information required by, and otherwise be executed in accordance with, Treasury Regulations Section 1.445-2(b)(2);
- (e) A deed in the form attached hereto as Exhibit E conveying Seller's interest in the Real Property subject to Permitted Liens (i.e., a deed (i) in which Seller warrants that the Real Property is free from all encumbrances made by the Seller other than Permitted Liens and that Seller will defend the same to the Buyer against the lawful claims and demands of all persons claiming by, through or under Seller, but against no other persons; and (ii) that conveys any after-acquired title to the Real Property that Seller may subsequently obtain, but reserving for Seller, for so long as the Colstrip Project Transmission Agreement, is in effect, such easements as may be reasonably necessary for the purpose of owning, operating, maintaining, repairing, replacing, or removing any transmission facility and associated equipment in their current locations on the Real Property), all in a form reasonably acceptable to Buyer (which shall include language providing that such easements shall not, other than to a de minimis extent, adversely affect operations on the Real Property as currently conducted); and

(f) Such other documents and certificates as Buyer may reasonably request and which are customarily and ordinarily delivered in transactions similar to the transactions to be consummated at the Initial Closing.

**Section 3.4 Conditions Precedent to the Initial Closing Obligations of Buyer.** The obligation of Buyer to proceed with the Initial Closing contemplated hereby is subject to the fulfillment or waiver (by the Buyer, in its absolute discretion, by written notice to the Seller) on or prior to the Initial Closing Date, or on or prior to such earlier date if specified below, of all of the following conditions:

(a) Seller shall have delivered to Buyer each of the documents described in Section 3.3.

(b) The representations and warranties of Seller in ARTICLE 5 of this Agreement shall be true and correct without regard to any qualification respecting materiality or Material Adverse Effect on and as of the Initial Closing Date except in such circumstances as shall not, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect, and the covenants and agreements of Seller to be performed on or before the Initial Closing Date shall have been performed in all material respects in accordance with this Agreement.

(c) Seller shall have obtained and provided copies to Buyer of all the Seller's Consents required for the Initial Closing listed in Schedule 5.6.

(d) Seller shall have obtained and provided a copy to Buyer of the Required Regulatory Approvals.

(e) No order or decree by any federal or state court or Governmental Authority which prevents the consummation of the sale of the Puget Transmission Assets contemplated herein shall have been issued and remain in effect (each Party agreeing to use its Commercially Reasonable Efforts to have any such order or decree lifted) and no statute, rule or regulation shall have been enacted by any state or federal government or Governmental Authority which prohibits the consummation of the sale of the Puget Transmission Assets.

(f) All Transmission Owners shall have either declined to exercise or executed a waiver substantially in the form attached hereto as Exhibit F with respect to their rights of first refusal contained in Section 28 of the Colstrip Project Transmission Agreement.

(g) Seller shall have delivered to Buyer evidence of the filing for termination of all Liens that are not Permitted Liens in form and substance reasonably satisfactory to Buyer; *provided* that Seller shall indemnify Buyer for any Losses incurred by Buyer in connection with Seller's failure to terminate any Lien that is not a Permitted Lien.

(h) Seller shall have completed the transactions contemplated by the Unit 4 Acquisition Agreement.

(i) No event causing or constituting a Material Adverse Effect shall have occurred or be occurring.

**Section 3.5 Conditions Precedent to the Initial Closing Obligations of Seller.** The obligation of Seller to proceed with the Initial Closing contemplated hereby is subject to the fulfillment or waiver (by the Seller, in its absolute discretion, by written notice to the Buyer) on or prior to the Initial Closing Date of all of the following conditions:

(a) Buyer shall have delivered the Initial Purchase Price as provided in Section 2.2.

(b) Buyer shall have delivered to Seller each of the documents described in Section 3.2.

(c) The representations and warranties of Buyer contained in ARTICLE 6 of this Agreement shall be true and correct without regard to any qualification respecting materiality or Material Adverse Effect on and as of the Initial Closing Date except in such circumstances as shall not, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect, and the covenants and agreements of Buyer to be performed on or before the Initial Closing Date shall have been performed in all material respects in accordance with this Agreement.

(d) Buyer shall have obtained and provided copies to Seller of all of Buyer's Consents required for the Initial Closing listed on Schedule 6.5.

(e) Seller shall have obtained the Required Regulatory Approvals and such approvals shall be in form and substance reasonably satisfactory (including no materially adverse conditions) to Seller.

(f) All Transmission Owners shall have either declined to exercise or executed a waiver substantially in the form attached hereto as Exhibit F with respect to their rights of first refusal contained in Section 28 of the Colstrip Project Transmission Agreement.

(g) Buyer shall have completed the transactions contemplated by the Unit 4 Acquisition Agreement.

(h) No order or, decree by any federal or state court or Governmental Authority which prevents the consummation of the sale of the Puget Transmission Assets contemplated herein shall have been issued and remain in effect (each Party agreeing to use its Commercially Reasonable Efforts to have any such order or decree lifted) and no statute, rule or regulation shall have been enacted by any state or federal government or Governmental Authority which prohibits the consummation of the sale of the Puget Transmission Assets.

**Section 3.6 Failure to Close.** In the event of any failure to satisfy or waive the conditions precedent set forth in Section 3.4 or Section 3.5, the termination and other provisions of ARTICLE 10 shall govern to the extent applicable.



## ARTICLE 4 OPTION CLOSING

**Section 4.1 Exercise of Option.** Upon the termination of the PPA according to the terms thereof, Buyer may elect, at its sole option, to provide notice to Seller that it wishes to exercise the Option and acquire the Option Assets (the “*Option Notice*”).

**Section 4.2 Option Closing.** After receipt of the Option Notice by Seller, the closing of the transactions contemplated by this Agreement with regard to the Option Assets (the “*Option Closing*”) shall occur at the offices Dorsey & Whitney LLP, 50 South Sixth Street, Suite 1500, Minneapolis, Minnesota, commencing at 9:00 A.M. or at such other location as may be agreed upon by the Parties on either (a) the second (2<sup>nd</sup>) Business Day after the satisfaction of all the conditions precedent to the Option Closing in accordance with Section 4.5 and Section 4.6 hereof, or (b) at such other time or place as may be mutually agreed upon by the Parties in writing. The date on which the Option Closing occurs is referred to herein as the “*Option Closing Date*”.

**Section 4.3 Option Closing Deliveries by Buyer.** At the Option Closing, Buyer shall deliver, or cause to be delivered, to Seller the following:

- (a) The Option Purchase Price in cash in accordance with Section 2.2 hereof;
- (b) A certificate of an authorized officer of Buyer, dated as of the Option Closing Date, in the form set forth in Exhibit C, certifying that (i) the representations and warranties of Buyer set forth in ARTICLE 6 are true, correct and complete as of the Option Closing Date, (ii) the conditions set forth in Section 3.4 have been fulfilled or waived and (iii) the covenants of Buyer set forth in ARTICLE 8 have been fulfilled or waived in writing by Seller.
- (c) Duly executed copies of each of the Buyer’s Consents;
- (d) Such other documents and certificates as Seller may reasonably request and which are customarily and ordinarily delivered in transactions similar to the transactions to be consummated at the Option Closing.

**Section 4.4 Option Closing Deliveries by Seller.** At the Option Closing, Seller shall execute and deliver, or cause to be executed and delivered, to Buyer the following:

- (a) A duly executed copy of the Assignment and Assumption Agreement;
- (b) A certificate of an authorized officer of Seller, dated as of the Option Closing Date, in the form set forth in Exhibit D, certifying that (i) the representations and warranties of Seller set forth in ARTICLE 5 are true, correct and complete as of the Option Closing Date, except in such circumstances as shall not, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect, (ii) the conditions set forth in Section 4.6 have been fulfilled or waived and (iii) the covenants of Seller set forth in ARTICLE 8 to be performed on or before the Option Closing Date have been fulfilled or waived in writing by Buyer;

(c) A certificate that Seller is not a “foreign” person within the meaning of Section 1445 of the Code, which certificate shall set forth all information required by, and otherwise be executed in accordance with, Treasury Regulations Section 1.445-2(b)(2);

(d) A deed in the form attached hereto as Exhibit E conveying Seller’s interest in the Real Property subject to Permitted Liens (i.e., a deed (i) in which Seller warrants that the Real Property is free from all encumbrances made by the Seller other than Permitted Liens and that Seller will defend the same to the Buyer against the lawful claims and demands of all persons claiming by, through or under Seller, but against no other persons; and (ii) that conveys any after-acquired title to the Real Property that Seller may subsequently obtain, but reserving for Seller, for so long as the Colstrip Project Transmission Agreement, is in effect, such easements as may be reasonably necessary for the purpose of owning, operating, maintaining, repairing, replacing, or removing any transmission facility and associated equipment in their current locations on the Real Property), all in a form reasonably acceptable to Buyer (which shall include language providing that such easements shall not, other than to a de minimis extent, adversely affect operations on the Real Property as currently conducted);

(e) Duly executed copies of each of the Buyer’s Consents; and

(f) Such other documents and certificates as Buyer may reasonably request and which are customarily and ordinarily delivered in transactions similar to the transactions to be consummated at the Option Closing.

**Section 4.5 Conditions Precedent to the Option Closing Obligations of Buyer.**

The obligation of Buyer to proceed with the Option Closing contemplated hereby is subject to the fulfillment or waiver (by the Buyer, in its absolute discretion, by written notice to the Seller) on or prior to the Option Closing Date, or on or prior to such earlier date if specified below, of all of the following conditions:

(a) Seller shall have delivered to Buyer each of the documents described in Section 4.4.

(b) The representations and warranties of Seller in ARTICLE 5 of this Agreement shall be true and correct without regard to any qualification respecting materiality or Material Adverse Effect on and as of the Option Closing Date, except in such circumstances as shall not, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect, and the covenants and agreements of Seller to be performed on or before the Option Closing Date shall have been performed in all material respects in accordance with this Agreement.

(c) Seller shall have obtained and provided copies to Buyer of all the Seller’s Consents required for the Option Closing listed in Schedule 5.6.

(d) Seller shall have obtained and provided a copy to Buyer of the Required Regulatory Approvals.



(e) No order or decree by any federal or state court or Governmental Authority which prevents the consummation of the sale of the Puget Transmission Assets contemplated herein shall have been issued and remain in effect (each Party agreeing to use its Commercially Reasonable Efforts to have any such order or decree lifted) and no statute, rule or regulation shall have been enacted by any state or federal government or Governmental Authority which prohibits the consummation of the sale of the Option Assets.

(f) Seller shall have delivered to Buyer evidence of the termination of all Liens that are not Permitted Liens in form and substance reasonably satisfactory to Buyer; *provided* that Seller shall indemnify Buyer for any Losses incurred by Buyer in connection with Seller's failure to terminate any Lien that is not a Permitted Lien.

(g) No event causing or constituting a Material Adverse Effect shall have occurred or be occurring.

**Section 4.6 Conditions Precedent to the Option Closing Obligations of Seller.** The obligation of Seller to proceed with the Option Closing contemplated hereby is subject to the fulfillment or waiver (by the Seller, in its absolute discretion, by written notice to the Buyer) on or prior to the Option Closing Date of all of the following conditions:

(a) Buyer shall have delivered the Option Purchase Price as provided in Section 2.2.

(b) Buyer shall have delivered to Seller each of the documents described in Section 4.3.

(c) The representations and warranties of Buyer contained in ARTICLE 6 of this Agreement shall be true and correct without regard to any qualification respecting materiality or Material Adverse Effect on and as of the Option Closing Date except in such circumstances as shall not, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect, and the covenants and agreements of Buyer to be performed on or before the Option Closing Date shall have been performed in all material respects in accordance with this Agreement.

(d) Buyer shall have obtained and provided copies to Seller of all of Buyer's Consents required for the Option Closing listed on Schedule 6.5.

(e) Seller shall have obtained the Required Regulatory Approvals.

(f) No order or, decree by any federal or state court or Governmental Authority which prevents the consummation of the sale of the Puget Transmission Assets contemplated herein shall have been issued and remain in effect (each Party agreeing to use its Commercially Reasonable Efforts to have any such order or decree lifted) and no statute, rule or regulation shall have been enacted by any state or federal government or Governmental Authority which prohibits the consummation of the sale of the Option Assets.

## ARTICLE 5 REPRESENTATIONS AND WARRANTIES OF SELLER

As of the date of this Agreement, Seller hereby represents and warrants to Buyer that the statements contained in this ARTICLE 5 (as modified and supplemented by the disclosure schedule delivered to Buyer by Seller contemporaneously herewith setting forth, among other things, items the disclosure of which is necessary or appropriate either in response to an express informational requirement contained in or requested by a provision of this ARTICLE 5, or as an exception to one or more representations or warranties contained in this ARTICLE 5 (the “*Disclosure Schedule*” or “*Schedule*”)) are true and correct provided that the mere inclusion of an item in a Disclosure Schedule as an exception to a representation or warranty or covenant shall not be deemed an admission by a Party that such item (or any undisclosed item or information of comparable or greater significance) represents a material exception or fact, event or circumstance with respect to the Seller. The Disclosure Schedule shall be arranged in sections and paragraphs corresponding to the numbered and lettered sections and paragraphs contained in this ARTICLE 5; provided, however, the disclosures in any section or paragraph of the Disclosure Schedule shall qualify as disclosures pursuant to any other sections or paragraphs under the Agreement where such disclosure is reasonably apparent on the face of such disclosures, whether or not repeated under any section number where such disclosure might be deemed appropriate.

**Section 5.1 Organization and Good Standing.** Seller is a public utility corporation duly organized and validly existing under the laws of the State of Washington and each other jurisdiction where such qualification is required, except where the failure to be so qualified has not had, and is not reasonably likely to have, individually or in the aggregate, a Material Adverse Effect.

**Section 5.2 Authority.** Seller has all requisite power and authority to own, and to carry on its businesses related to, the Puget Transmission Assets as now being conducted. Seller has all requisite power and authority and as of each Closing will have obtained all other applicable governmental, statutory, regulatory or other consents, licenses, waivers or exemptions necessary to execute and deliver this Agreement and the Closing Documents, and to perform its obligations hereunder and thereunder. The execution, delivery, and performance of this Agreement and the Closing Documents, when executed and delivered in accordance herewith, and the transactions contemplated hereby and thereby have been duly and validly authorized by all requisite action on the part of Seller.

**Section 5.3 Enforceability.** This Agreement has been, and the Closing Documents, when executed and delivered in accordance herewith, will be, duly and validly executed and delivered by Seller and, assuming due and valid authorization, execution and delivery hereof by Buyer, is a valid and binding agreement of Seller, enforceable against it in accordance with their respective terms, subject to (a) applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar Laws of general application from time to time in effect that affect creditors’ rights generally, (b) general principles of equity, and (c) the power of a court to deny enforcement of remedies generally based upon public policy.

**Section 5.4 Title to Puget Transmission Assets.** Seller owns the Puget Transmission Assets free and clear of all Liens, other than Permitted Liens, those liens set forth on Schedule 5.9(a) and the liens set forth on Schedule 5.4 (which relevant liens will be terminated or released as of each respective Closing).

**Section 5.5 No Violation or Breach.** Except as set forth in Schedule 5.5 and assuming that all of the Required Regulatory Approvals and Seller's Consents have been obtained, neither the execution and delivery of this Agreement nor the Closing Documents, nor the consummation of the transactions contemplated hereby or thereby and performance of the terms and conditions hereof or thereof by Seller will result in a violation or breach of, or default under, (a) any provision of the organizational documents of Seller and any indenture or (b) any Material Contract under which Seller or the assets comprising the Puget Transmission Assets are bound, except with regard solely to clause (b), any violation, breach or default that would not have a Material Adverse Effect.

**Section 5.6 Consents.** No consent, approval, authorization or permit of, or filing with or notification to, any Person is required for or in connection with the execution and delivery of this Agreement or the Closing Documents by Seller or for, or in connection with, the consummation of the transactions and performance of the terms and conditions contemplated hereby and thereby by Seller except for (a) the Required Regulatory Approvals; (b) the third-party consents, filings, and notices set forth on Schedule 5.6, and (c) immaterial consents, approvals, authorizations, permits, filings or notices. Neither the execution and delivery of this Agreement or the Closing Documents nor the consummation of the transactions and performance of the terms and conditions hereof or thereof by Seller requires the consent, approval, authorization or permit of the MPSC or the Montana Consumer Counsel.

**Section 5.7 Actions Pending.** Except as set forth on Schedule 5.7, there is no Action pending, or to Seller's Knowledge, threatened in writing against Seller related to the Puget Transmission Assets, except for Actions that would not have a Material Adverse Effect on the Puget Transmission Assets or operation of the Puget Transmission Assets or have a Material Adverse Effect on Seller's ability to perform its obligations under the Closing Documents.

**Section 5.8 Compliance With Applicable Law.** Except as set forth on Schedule 5.8, Seller has complied in a timely manner and in all material respects with all applicable Laws that specifically apply to the Puget Transmission Assets. Seller is not in material default of any order, decree or judgment of any Governmental Authority or arbitrator related to the Puget Transmission Assets and there are no unsatisfied judgments against the Seller related to the Puget Transmission Assets.

**Section 5.9 Real Property.**

(a) Except as set forth on Schedule 5.9(a), Seller has good and valid title to, or a valid leasehold interest in or a valid and enforceable right to use, all of the Real Property, free and clear of any Liens, except for Permitted Liens. The Real Property includes all of the rights and interests in real property that the Seller has with regard to or relating to the Puget Transmission Assets.

(b) There are no actions pending or, to the Knowledge of the Seller, threatened, that would alter the current zoning classification of the Real Property that would adversely affect the continued use of the Puget Transmission Assets by the Seller. The Seller has not received written notice from any insurance company or Governmental Authority of any defects or inadequacies in the Real Property or the improvements thereon that would adversely affect the insurability or usability of the Real Property or such improvements or prevent the issuance of new insurance policies thereon. To the Knowledge of the Seller, no fact or condition exists that would that would adversely affect the usability of the Real Property or its improvements or result in the termination of current access to and from the Real Property. No portion of the Real Property has been condemned, requisitioned, or otherwise taken by any public authority and there is no pending, or, to the Knowledge of the Seller, threatened or contemplated condemnation actions or special assessments with respect to the Real Property. No Governmental Authority has given notice of an assertion of rights to the Puget Transmission Assets or the Real Property, such as those described in subsection (iii) of the definition of Permitted Liens.

(c) The Seller is not a “foreign person” as that term is defined in § 1445 of the Code, and applicable regulations.

**Section 5.10 Material Changes since December 31, 2018.** Since December 31, 2018, there has been no Material Adverse Effect with respect to the Puget Transmission Assets and, to Seller’s Knowledge, no event, fact or matter has occurred which is likely to give rise to any such change. Since December 31, 2018, and except for the transactions contemplated by this Agreement and as set forth in Schedule 5.10, the ownership and operation of the Puget Transmission Assets and the Puget Transmission Assets has been carried on in the ordinary and usual course.

**Section 5.11 Brokerage Fees and Commissions.** Neither Seller nor any Affiliate of Seller has incurred any obligation or entered into any agreement for any investment banking, brokerage, or finder’s fee or commission in respect of the transactions contemplated by this Agreement or the Closing Documents, except as set forth on Schedule 5.11, which shall be the sole responsibility of Seller.

**Section 5.12 Bankruptcy.** There are no bankruptcy, reorganization, or arrangement proceedings pending against, being contemplated by, or to Seller’s Knowledge, threatened against, Seller or the Puget Transmission Assets.

**Section 5.13 Tax Matters.** With respect to the Puget Transmission Assets, except as set forth in Schedule 5.13.

(a) all Tax Returns required to be filed by the Seller related to the Puget Transmission Assets on or before each Closing Date have been or will be timely filed with the appropriate taxing authorities in all jurisdictions in which such Tax Returns are required to be filed;

(b) such Tax Returns related to the Puget Transmission Assets are or will be true and correct in all material respects, and all Taxes reported on such Tax Returns have been or will be timely paid;

(c) Seller has not extended or waived the application of any statute of limitations of any jurisdiction regarding the assessment or collection of any Tax related to the Puget Transmission Assets;

(d) there are no audits, claims, assessments, levies, administrative proceedings, or lawsuits pending, or to the Knowledge of Seller, threatened against Seller and relating to the Puget Transmission Assets by any Governmental Authority in respect of Taxes, no Governmental Authority has given notice of any intention to assert any deficiency or claim for additional Taxes against Seller in respect of the Puget Transmission Assets, and all deficiencies for Taxes asserted or assessed against Seller in respect of the Puget Transmission Assets have been fully or timely paid or settled;

(e) there are no Liens for Taxes (other than for current Taxes not yet due or payable, or for Taxes being contested in good faith through appropriate proceedings) upon the Puget Transmission Assets;

(f) there are no Tax rulings, requests for rulings, or closing agreements relating to Seller which affect its liability for Taxes relating to the Puget Transmission Assets for any period (or portion of a period) after the date hereof;

(g) Seller has provided to Buyer copies of all Tax audit reports affecting the Puget Transmission Assets that have been issued with respect to the previous five (5) taxable years of Seller; and

(h) none of the Puget Transmission Assets are interests (other than “indebtedness,” within the meaning of Section 163 of the Code) in an entity taxable as a corporation, partnership, trust, or real estate mortgage investment conduit for federal income tax purposes.

**Section 5.14 Material Contracts.** The Material Contracts set forth on Schedule 2.1(b) are all of the material agreements, contracts, real and personal property leases arrangements necessary for use and operation of the Puget Transmission Assets, to which Seller or any of its Affiliates is a party, all of which are in full force and effect, except as disclosed on Schedule 5.14. The Material Contracts include all of the agreements necessary for the use and operation of with regard to the Puget Transmission Assets. True and correct copies of the Material Contracts have been provided to Buyer. Except as otherwise set forth in Schedule 4.15, no consent is required with respect to any of the Material Contracts in connection with the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby. The Material Contracts are legal, valid and binding obligations of the Seller, and Seller has performed all obligations required to be performed under the Material Contracts and is not in material default under or in material breach of any Material Contract and to Seller’s Knowledge such other party has performed all obligations required to be performed by such other party and to Seller’s Knowledge, no other party is in material default

under or in breach of any Material Contract. Except as set forth in Schedule 5.14, to Seller's Knowledge, no Material Contract has been breached or cancelled by any other party thereto.

**Section 5.15 Licenses.** Schedule 5.15 lists all the Permits, material licenses, permissions, authorizations and consents that are required for the ownership and operation of the Puget Transmission Assets in the manner in which it has been owned or operated by the Seller, or which are held by the Seller, in each case related to the Puget Transmission Assets or Seller's ownership of the Puget Transmission Assets (the "*Licenses*"), true and correct copies of which have been provided, or will be provided prior each Closing, to Buyer. Except as set forth in Schedule 5.15, the Licenses are in full force and effect and have been complied with in all material respects. Other than as set forth in Section 4.6, Seller makes no representation regarding the transferability or assignment of the Licenses to Buyer. As of the date of this Agreement, Seller has not received, since January 1, 2016, any written notification from any Governmental Authority alleging that it is in material violation of any of such License.

**Section 5.16 Insurance.** Schedule 5.16 lists all insurance policies maintained by Seller covering the Puget Transmission Assets and/or the Puget Transmission Assets. Seller's insurance policies are in full force and effect and fully paid covering all periods up to and including the date hereof, and it has not received written notice of cancellation of any such insurance policies other than those policies the absence or cancellation of which would not reasonably be expected to have a Material Adverse Effect. Except as set forth on Schedule 5.16, no claim is outstanding against the Seller under any such policy of insurance and, to the Knowledge of Seller, there are no circumstances likely to give rise to such a claim.

**Section 5.17 Environmental Matters.**

(a) Except as disclosed on Schedule 5.17, to the Knowledge of Seller, the Puget Transmission Assets have been operated and maintained in compliance with all Environmental Laws and in a manner that will not give rise to any liability under any Environmental Laws, except where the failure to comply would not, individually or in the aggregate, have a Material Adverse Effect.

(b) Except as disclosed on Schedule 5.17, Seller has not received any written notice at any time that the Puget Transmission Assets are in violation of the provisions of any Environmental Law the violation of which would have a Material Adverse Effect, and there is no pending, or to the Knowledge of the Seller, threatened lawsuit, administrative, governmental or other legal action to that effect.

(c) Except as disclosed on Schedule 5.17, Seller has not used, generated, treated, stored, transported, disposed of, handled or permitted any Hazardous Substances on, under, about or from the Puget Transmission Assets that would, individually or in the aggregate, cause a Material Adverse Effect, and except for quantities of any such Hazardous Substances stored or otherwise held on, under or about the Puget Transmission Assets in material compliance with all Environmental Laws and which are necessary for the operation of the Puget Transmission Assets.



(d) Except as disclosed on Schedule 5.17, there are no present or, to the Knowledge of Seller, past Releases in any way relating to the Real Property.

**Section 5.18 No Employees or Benefits Plans.** Seller does not have any employees that are stationed or provide services at, or with respect to, the Puget Transmission Assets and Seller does not maintain, sponsor, contribute to, is not required or obligated to contribute to, and is not a party to any Employee Benefit Plan related to the Puget Transmission Assets that are being transferred to the Buyer.

**Section 5.19 Labor Matters.**

(a) Seller is not a party to any collective bargaining or other labor union contract relating to the personnel servicing the Puget Transmission Assets exists.

(b) There is no pending or, Seller's Knowledge, threatened, labor dispute, strike, work stoppage, lockout or other labor controversy relating to the employees of Seller that provide services at, or with respect to, the Puget Transmission Assets.

**Section 5.20 Intellectual Property.** To Seller's Knowledge, (a) the conduct of Seller's business in connection with the Puget Transmission Assets, as currently conducted, does not infringe upon or otherwise violate the Intellectual Property Rights of any Person, and (b) no Person is infringing upon or otherwise violating the Intellectual Property Rights of the Seller or the Puget Transmission Assets, in either case of (a) or (b), except which would have a Material Adverse Effect.

**Section 5.21 Books and Records.** The records of the Seller relating to the Puget Transmission Assets have been made available to Buyer prior to the execution of this Agreement.

**Section 5.22 No Options.** There are no outstanding options or other rights or agreements for the purchase from the Seller of any of the Puget Transmission Assets.

**Section 5.23 Undisclosed Liabilities.** Except as set forth on Schedule 5.23, the Puget Transmission Assets are not subject to any liability or obligation (whether absolute, contingent or otherwise), except (a) liabilities arising in the ordinary course of business under any contract or commitment, (b) those liabilities or obligations incurred in the ordinary course of business since December 31, 2018, and (c) liabilities that have not had, and are not reasonably likely to have, individually or in the aggregate, a Material Adverse Effect.

**Section 5.24 Puget Transmission Assets Operations.** To the Knowledge of Seller, the Puget Transmission Assets are currently in operating order consistent with past practices.

**Section 5.25 Affiliate Transactions.** Other than as disclosed by this Agreement, no Affiliate of Seller is a party to any material agreement necessary to the use or operation the Puget Transmission Assets.

**ARTICLE 6**  
**REPRESENTATIONS AND WARRANTIES OF BUYER**

As of the date of this Agreement and as of each respective Closing Date, Buyer represents and warrants to Seller as follows and, except as expressly set forth to the contrary herein, acknowledges that the Seller has entered into this Agreement in reliance upon such representations and warranties:

**Section 6.1 Organization and Qualification.** Buyer is a corporation, duly incorporated, validly existing, and in good standing under the laws of the State of Delaware, and has all requisite corporate power and authority and all necessary permits to carry on its business as now being conducted.

**Section 6.2 Authority.** Buyer has all requisite corporate power and authority to execute and deliver this Agreement and the Closing Documents and to perform its obligations hereunder and thereunder. The execution, delivery, and performance of this Agreement and the Closing Documents, when executed and delivered in accordance herewith, and the transactions contemplated hereby and thereby have been duly and validly authorized by all requisite corporate action on the part of Buyer.

**Section 6.3 Enforceability.** This Agreement has been and, when executed and delivered in accordance herewith, the Closing Documents will be, duly and validly executed and delivered by Buyer and constitute valid and binding obligations of Buyer enforceable against it in accordance with their respective terms, subject to (a) applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, and other similar Laws of general application from time to time in effect that affect creditors' rights generally, (b) general principles of equity, and (c) the power of a court to deny enforcement of remedies generally based upon public policy.

**Section 6.4 No Violation or Breach.** Neither the execution and delivery of this Agreement or the Closing Documents nor the consummation of the transactions and performance of the terms and conditions hereof or thereof by Buyer will (a) result in a violation or breach of any provision of the certificate of incorporation, bylaws or other similar governing documents of Buyer or any material agreement, indenture or other instrument under which Buyer is bound or (b) violate any applicable Law other than such violations as would not, individually or in the aggregate, have a Material Adverse Effect.

**Section 6.5 Consents.** No consent, approval, authorization or permit of, or filing with or notification to, any Person is required for or in connection with the execution and delivery of this Agreement or the Closing Documents by Buyer or for, or in connection with, the consummation of the transactions and performance of the terms and conditions contemplated hereby and thereby by Buyer, except for (a) the Required Regulatory Approvals; (b) the third-party consents, filings, and notices set forth on Schedule 6.5, and (c) consents, approvals, authorizations, permits, filings, or notices that, if not obtained or made, would not, individually or in the aggregate, have a Material Adverse Effect.



**Section 6.6 No Disputes; Litigation.** There is no Action pending, or to Buyer's Knowledge, threatened in writing against Buyer, except for Actions that would not have a Material Adverse Effect on Buyer's ability to perform its obligations under the Closing Documents.

**Section 6.7 Brokerage Fees and Commissions.** Neither Buyer nor any Affiliate of Buyer has incurred any obligation or entered into any agreement for any investment banking, brokerage, or finder's fee or commission in respect of the transactions contemplated by this Agreement or the Closing Documents for which Seller or any of the Seller's Affiliates shall incur any liability.

**Section 6.8 Bankruptcy.** There are no bankruptcy, reorganization, or arrangement proceedings pending against, being contemplated by, or to the Knowledge of Buyer threatened against, Buyer.

**Section 6.9 Regulatory Matters.**

(a) Buyer represents that its acquisition of the Puget Transmission Assets would not reasonably be expected to result in (i) a denial of any Required Regulatory Approvals primarily based upon Buyer's ability to exercise horizontal or vertical market power or (ii) a denial of any Required Regulatory Approvals primarily based upon any increase in Buyer's horizontal or vertical market power in the NorthWestern balancing authority area using the standards adopted by FERC in Order No. 697.

(b) Buyer represents that it does not need approval from any Governmental Authority, other than the Required Regulatory Approvals, to acquire the Puget Transmission Assets.

**ARTICLE 7  
ACCESS AND CONFIDENTIALITY**

**Section 7.1 General Access.**

(a) Seller shall, until a respective Closing Date (or the earlier termination of this Agreement), (i) give Buyer and its authorized representatives reasonable access to all books, records, contracts, agreements, files, personnel, offices and other facilities and properties, in each case, of Seller, related to the Puget Transmission Assets, (ii) permit Buyer to make such copies and inspections thereof as Buyer may reasonably request, and (iii) furnish Buyer with such financial and operating data and other information with respect to the Puget Transmission Assets as Buyer may from time to time reasonably request; provided, that any such access shall be conducted at Buyer's expense, at a reasonable time and on reasonable notice, under the reasonable supervision of Seller's personnel and in such a manner as to maintain the confidentiality of such information, this Agreement, and the transactions contemplated hereby and not to interfere with the normal operation of the business of Seller or the Puget Transmission Assets; and provided, further, that Buyer and its representatives shall comply with all applicable safety rules, regulations and procedures implemented by Seller, as the case may be.

(b) In addition to Section 7.1(a) above, Seller specifically agrees to facilitate Buyer's environmental due diligence by promptly providing Buyer copies of any documents prepared by Seller's internal environmental professionals or outside environmental consultants retained by or on behalf of Seller which analyze, quantify, audit, or report on actual or potential environmental issues, conditions, or Environmental Liabilities connected with the Puget Transmission Assets.

(c) Nothing in this ARTICLE 7 shall be construed to permit Buyer or its representatives to have access prior to the Closing to (i) any files, records, contracts, or documents of Seller not relating to the Puget Transmission Assets, (ii) any bids or offers received by Seller for the sale of any of the Puget Transmission Assets, it being agreed that all such bids or offers shall be the sole property of Seller, or (iii) any jeopardize any attorney-client or other privilege as determined by Seller's sole discretion.

**Section 7.2 Confidential Information.** Buyer and Seller agree to maintain in confidence all information made available to it under this Agreement and to cause their respective officers, directors, agents, employees, representatives, consultants, and advisors to maintain in confidence all information made available to them under this Agreement, all as provided in that certain Mutual Non-Disclosure Agreement between Buyer and Seller dated July 19, 2019 (the "*Confidentiality Agreement*"), and the terms of which are incorporated herein by reference and made a part of this Agreement; provided that the Confidentiality Agreement shall terminate upon each Closing or two years following the date hereof. In the event that terms of the Confidentiality Agreement and this Agreement conflict, the terms of the Confidentiality Agreement shall control.

## **ARTICLE 8 COVENANTS OF SELLER AND BUYER**

**Section 8.1 Conduct of Business Pending Closing.** Seller covenants and agrees that:

(a) *Exclusivity.* Upon execution of this Agreement and except as noted below, Seller grants Buyer the exclusive right to acquire the Puget Transmission Assets until the earlier of the Option Closing or termination of this Agreement. During such exclusivity period, Seller agrees to: (i) deal with Buyer, or its representatives, exclusively with regard to all aspects of the acquisition of the Puget Transmission Assets, and (ii) refrain, directly or indirectly, from soliciting, initiating, encouraging, or engaging in any discussions or negotiations with any Person or entering into any agreement, commitment, understanding or transaction with any Person concerning any proposal regarding the acquisition of the Puget Transmission Assets, or providing any business, financial or other information relating to any such transaction to any person or entity. Notwithstanding the foregoing, Buyer and Seller acknowledge and agree that nothing in this Section 8.1 or elsewhere in this Agreement shall restrict or impair Seller's right or obligation to provide a right of first refusal to the Transmission Owners under the Colstrip Project Transmission Project Agreement pursuant and subject to Section 8.11. Notwithstanding this Section 8.1(a), nothing in this Section 8.1 shall be construed as limiting the termination rights of the Buyer or Seller under ARTICLE 10 or Buyer's or Seller's rights if any party shall exercise such right of first refusal.

(b) *Conduct of Business.* Pending each Closing, and taking into consideration the fact that the Seller is not the operator of the Puget Transmission Assets, and except as provided for in Section 8.1(a) or as reasonably necessary under emergency circumstances (or if required or prohibited pursuant to applicable Law or the Colstrip Transmission Project Agreement), and always subject to and consistent with the extent of Seller's rights and limitations under the Colstrip Transmission Project Agreement, Seller shall comply with the following:

(i) Seller shall conduct its business related to the Puget Transmission Assets, and utilize its Commercially Reasonable Efforts to cause the Puget Transmission Assets to conduct its business, in the ordinary course in accordance with past practice, and not make any material change with respect thereto;

(ii) Seller shall comply in all material respects with the Colstrip Transmission Project Agreement;

(iii) Seller shall take all Commercially Reasonable Efforts to preserve and protect the Puget Transmission Assets, subject to the terms of the Colstrip Transmission Project Agreement and applicable Laws;

(iv) except as set forth on Schedule 8.1, Seller shall not assign, terminate, amend, give any consent with respect to or waive any rights under, in any material respect, any Material Contract;

(v) Seller shall not take any action or enter into any commitment with respect to or in contemplation of any liquidation, dissolution, recapitalization, reorganization, or other winding up of its business or operations related to the Puget Transmission Assets, except as required by applicable Laws;

(vi) Seller shall not grant any express further Lien on any of the Puget Transmission Assets, except for Permitted Liens, those Liens that will be terminated, without cost to Buyer, at each Closing;

(vii) Seller shall provide prompt written disclosure to the Buyer of all relevant information which comes to the attention of the Seller in relation to any fact or matter (whether existing on or before the date of this Agreement or arising afterwards) which may constitute a breach of any of the Seller's representations and warranties set forth in ARTICLE 5; and

**Section 8.2 Public Announcements.** Without the prior written approval of the other Party, no Party shall issue, or permit any agent or Affiliate of such Party to issue, any press releases or otherwise make, or cause any agent or Affiliate of such Party to make, any public statements with respect to this Agreement or the Closing Documents or the transactions contemplated hereby or thereby, except when and to the extent that such release or statement is deemed in good faith by the releasing Party to be required to obtain the Required Regulatory Approvals or by applicable Law or under the applicable rules and regulations of a stock exchange or market on which the securities of the releasing Party or any of its Affiliates are listed. In each case to which such exception applies, the releasing Party will use its reasonable

efforts to provide a copy of such release or statement to the other Party and incorporate any reasonable changes which are suggested by the non-releasing Party prior to releasing or making the statement.

**Section 8.3 Actions by Parties.** Each Party agrees to use Commercially Reasonable Efforts to satisfy the conditions to each respective Closing set forth in Sections 3.4, 3.5, 4.5 and 4.6, provided, however, that neither Buyer nor Seller shall be deemed to have breached its obligations under Section 7.2, Section 8.2 or this Section 8.3 by pursuing the discussions with the MPSC or the Washington Utilities and Transportation Commission or by making any required filings in connection with obtaining the Required Regulatory Approvals.

**Section 8.4 Further Assurances.** Seller and Buyer each agree that from time to time after the Closing, it will execute and deliver or cause its respective Affiliates to execute and deliver such further agreements, certificates, documents or opinions and take (or cause its respective Affiliates to take) such other action, as may be reasonably necessary to carry out the purposes and intents of this Agreement. If at any time any Party shall reasonably request any further action by any other Party to carry out the purposes of this Agreement and the Closing Documents or to further effectuate the transactions contemplated hereby, such other Party, shall promptly take such action (including the prompt execution and delivery of further instruments and documents).

**Section 8.5 Records.**

(a) *Maintenance.* Buyer agrees to maintain the Records in accordance with its records retention policy as maintained in compliance with applicable Laws and Buyer's past practices, or if any of the Records pertain to any claim or dispute pending on the date upon which such records would be destroyed pursuant to Buyer's records retention policy, Buyer shall maintain any of the Records designated by Seller until such claim or dispute is finally resolved and the time for all appeals has been exhausted. Buyer shall give Seller reasonable notice and an opportunity to retain any Records relating to Taxes in the event that Buyer determines to destroy or dispose of them during such period. After a Closing Date, except as might result in a waiver of any attorney/client, work product or like privilege or violate applicable Laws, Buyer shall provide Seller and its representatives during normal business hours, and upon reasonable notice, reasonable access to, and the right to copy, the Records existing as of a Closing Date, at Seller's cost and expense, for the purposes of

(i) complying with any applicable Law affecting Seller's ownership of the Puget Transmission Assets prior to a Closing Date;

(ii) preparing any audit of the books and records of any third party relating to the Puget Transmission Assets prior to a Closing Date, or responding to any audit prepared by such third parties;

(iii) preparing Tax Returns;

(iv) responding to or disputing any audit, examination, claim or other proceeding in respect of Taxes; or

(v) asserting, defending, or otherwise dealing with any inquiry, investigation, claim or dispute under this Agreement or with respect to the Puget Transmission Assets.

(b) *Privilege.* Buyer shall not after a Closing Date intentionally waive the attorney/client, work product, or like privilege of Seller or its Affiliates with respect to any of the Records existing as of a Closing Date, without Seller's prior written consent.

**Section 8.6 Amendment of Colstrip Project Transmission Agreement.** Buyer and Seller shall cooperate in good faith to (i) amend the Colstrip Project Transmission Agreement to reflect the transactions contemplated by this Agreement and (ii) obtain all consents from the other Transmission Owners necessary for such amendment.

**Section 8.7 Regulatory and Other Authorizations and Consents Filings.**

(a) *General.* Each Party shall use Commercially Reasonable Efforts to obtain all authorizations, consents, orders, and approvals of, and to give all notices to and make all filings with, all Governmental Authorities and third parties that may be or become necessary for its execution and delivery of, and the performance of its obligations under, this Agreement and will cooperate fully with the other Party in promptly seeking to obtain all such authorizations, consents, orders, and approvals, giving such notices, and making such filings.

(b) *Required Regulatory Approvals.* Without limiting the generality of the undertakings pursuant to Section 8.7(a) above, each Party shall (i) use its Commercially Reasonable Efforts to: gather and obtain all necessary information to complete its respective filings in connection with the Required Regulatory Approvals (including all reports, studies, and exhibits related thereto); consult with the other Party regarding any such filings, consider and incorporate all reasonable comments (if any) submitted by the other Party or its representatives; and the Parties shall make such filings as soon as practicable following the execution and delivery of this Agreement, if not already completed; (ii) prior to and during the pendency of any notice and approval period with respect to such filings, (A) consult with the other Party prior to providing any supplemental information to the applicable regulatory authority and provide prompt written notice to the other Party of all discussions and correspondence with the applicable regulatory authorities that reasonably relates to or bears upon such filings, and (B) use all Commercially Reasonable Efforts and act in good faith to expedite and obtain the Required Regulatory Approvals. In furtherance and not in limitation of the foregoing, each of the Parties agrees to use its Commercially Reasonable Efforts to file applications with any applicable Governmental Authority whose approval is required in connection with the consummation of the purchase by Buyer of the Puget Transmission Assets as promptly as practicable following the date of this Agreement, the date of which shall be mutually agreed upon by Buyer and Seller.

(c) *Transfer.* If the transfer of any instrument, contract, license, lease, permit, or Material Contract to Buyer hereunder shall require the consent of any party thereto other than Seller, then such item shall not be assigned to or assumed by Buyer, if an

actual or attempted assignment thereof would constitute a breach thereof or default thereunder. In such case, Seller and Buyer shall cooperate and each shall use Commercially Reasonable Efforts to obtain such consents to the extent required by such other parties and, if and when any such consents are obtained, to transfer the applicable instrument, contract, license, lease, permit, or Material Contract. If any such consent cannot be obtained, Seller shall, at Buyer's expense, cooperate in any commercially reasonable arrangement designed to obtain for Buyer all benefits, obligations and privileges of the applicable instrument, contract, license, lease, permit, or document. Buyer shall indemnify and hold harmless the Seller from any and all Losses arising from or related to Seller's actions taken pursuant to the Buyer's request and/or direction (or such non-action as requested and/or directed by the Buyer, as the case may be) pursuant to this Section 8.7(c). Notwithstanding the foregoing, the indemnification provisions of this Section 8.7(c) shall not apply to any actions taken by Seller with regard to the Colstrip Project Transmission Agreement.

(d) *Third Party Consents.* Seller shall use its Commercially Reasonable Efforts, and Buyer shall use its Commercially Reasonable Efforts to assist Seller, in obtaining any and all consents of third parties and Governmental Authorities necessary or advisable in connection with the transactions contemplated by this Agreement and the Closing Documents, including the provision by Buyer to such third parties and Governmental Authorities of such publicly available financial statements and other publicly available financial information with respect to Buyer and its parent company or companies as such third parties or Governmental Authorities may reasonably request.

**Section 8.8 Fees and Expenses.** Except as otherwise expressly provided in this Agreement, all fees and expenses, including fees and expenses of counsel, financial advisors, and accountants, incurred in connection with this Agreement and the Closing Documents and the transactions contemplated hereby, shall be paid by the Party incurring such fee or expense, whether or not the respective Closing shall have occurred.

**Section 8.9 Tax Matters.**

(a) After the Closing Date, Buyer and Seller shall provide each other with such cooperation and information related to the Puget Transmission Assets as the Parties reasonably may request in (i) filing any Tax Return, amending any Tax Return or claiming any Tax refund, (ii) determining any liability for Taxes or any right to Tax refunds or (iii) conducting or defending any audit, examination, claim or other proceeding in respect of Taxes. Seller and Buyer shall retain all Tax Returns, schedules and work papers, and all material records and other documents related thereto until the expiration of the statute of limitations for the taxable years to which such Tax Returns and other documents relate.

(b) Buyer and Seller each shall be responsible under applicable Law for payment of fifty percent (50%) of all Transfer Taxes. The Party responsible for preparing any Tax Returns or other documentation relating to such Transfer Taxes shall prepare and file such Tax Returns or other documentation; *provided, however*, that to the extent required by applicable Law, the other Party shall join in the execution of any such



Tax Returns and other documentation relating to such Transfer Taxes. The Party responsible for preparing and filing any such Tax Return or other documentation shall provide to the other Party copies of each such Tax Return or other documentation at least fifteen (15) days prior to the date on which such Tax Return is required to be filed.

(c) In the event of any conflict between the provisions of ARTICLE 9 of this Agreement and this Section 8.9 or Section 2.5, the provisions of this Section 8.9 and Section 2.5 shall control.

**Section 8.10 Insurance Cooperation.** Seller shall use Commercially Reasonable Efforts to assist Buyer in making arrangements to obtain customary insurance with respect to the Puget Transmission Assets.

**Section 8.11 Right of First Refusal.** Without limiting the generality of the undertakings pursuant to Section 8.3 above, Seller shall use its Commercially Reasonable Efforts to: (a) within five (5) Business Days of the date hereof, notify the Transmission Owners (as such term is defined in the Colstrip Project Transmission Agreement) concerning their execution of a waiver substantially in the form attached hereto as Exhibit F with respect to their rights of first refusal contained in Section 28 of the Colstrip Project Transmission Agreement, (b) use its Commercially Reasonable Efforts to satisfy the condition to the Initial Closing set forth in Section 3.4(f), and (c) keep Buyer reasonably informed in respect of the status and substance of such discussions, including by providing copies of all relevant correspondence to Buyer. Seller shall immediately notify Buyer if at any time any Transmission Owner shall exercise or indicate their intent to exercise any such right of first refusal. Seller shall (x) as soon as practicable, but in any event no later than [date], notify Buyer in writing that the condition set forth in Section 3.4(f) has been satisfied (the “*ROFR Resolution Notice*”), or (y) no later than one hundred twenty (120) days after the date hereof, notify Buyer in writing that the condition set forth in Section 3.4(f) has not yet been satisfied.

**Section 8.12 Updates to Disclosure Schedules.**

(a) From time to time prior to and up to three (3) days prior to the Initial Closing Date, Seller shall provide written notice to Buyer of any fact, matter, condition, event or circumstance that occurs following the date of this Agreement and that, individually or in the aggregate, renders Seller unable, without amending the Disclosure Schedules, to satisfy the condition precedent under Section 3.4(b) (each, an “*Update*”). For the avoidance of doubt, the uploading of documents to the electronic data site of Seller related to the Puget Transmission Assets or other delivery of documents to Buyer or Seller, as applicable, shall not constitute written notice of an Update. In the event that Buyer does not terminate this Agreement pursuant to Section 10.1(d)(i) following delivery of such Update, then Seller shall be permitted to update the applicable Schedule(s) to properly reflect the fact, matter, condition, event or circumstance disclosed to Buyer in such Update, and the applicable representations and warranties of Seller set forth in this Agreement made following the Update shall be subject to the Schedules attached hereto, as modified or amended by such Update, for purposes of satisfying the conditions to the Initial Closing set forth in Section 3.4; provided, that, if the Initial Closing occurs, such Update shall not be deemed to have modified the Schedules for

purposes of determining whether there has been a breach of the applicable representations and warranties related to Seller's indemnification obligations in ARTICLE 9.

(b) At least three (3) days prior to the Option Closing Date, Seller shall provide Buyer with a full, complete and updated copy of the Disclosure Schedules and the Schedules to this Agreement which shall contain such disclosure as is necessary to satisfy the condition precedent under Section 4.5 (the "*Option Closing Disclosure Schedules*"). In the event that Buyer determines, in its sole discretion, that the Option Closing Disclosure Schedules contain material additional disclosures in addition to the Disclosure Schedules, Buyer shall have the right to terminate this agreement upon five (5) days written notice to Seller.

## **ARTICLE 9 INDEMNIFICATION**

**Section 9.1 Survival.** The representations and warranties of Buyer and Seller shall survive until the date that is eighteen (18) months after each respective Closing Date, except that the Seller Fundamental Representations, the Buyer Fundamental Representations shall each survive each respective Closing indefinitely. Claims for breach of any of the covenants and agreements of the Parties set forth herein must be brought no later than sixty (60) days following the expiration of the applicable statute of limitations applicable to such claims.

**Section 9.2 Indemnification By Seller.** Seller shall indemnify, save and hold harmless, Buyer, its Affiliates, and their respective Representatives (collectively, the "*Buyer Indemnified Parties*") from and against any and all costs, losses, liabilities (including liabilities arising under principles of strict or joint and several liability), damages, lawsuits, deficiencies, claims and expenses (whether or not arising out of third-party claims), including interest, penalties, additions, travel expenses, wages allocable to loss of employee time, reasonable attorneys' fees and all amounts paid in investigation, defense or settlement of any of the foregoing (collectively, the "*Damages*"), incurred by Buyer in connection with or arising out of or resulting from:

(a) any breach or inaccuracy in any of the representations or warranties of Seller contained in this Agreement, any Closing Document to which Seller is a party or any certificate delivered by or on behalf of Seller pursuant to this Agreement (any such breach or inaccuracy to be determined without regard to any qualification for "materiality," "in all material respects" or similar qualification);

(b) any breach or violation of any covenant, agreement or other obligation of Seller set forth in this Agreement or any Closing Document to which Seller is a party;

(c) if a Closing has occurred, any failure by Seller to pay, perform or discharge any Retained Liability as and when due;

(d) if a Closing has occurred, any liability, obligation or commitment of Seller of any nature (absolute, accrued, contingent or otherwise) relating to the Puget Transmission Assets and not assumed;



(e) Seller's portion of any Transfer Taxes in accordance with Section 8.9(b);  
or

(f) any fraud, willful misconduct or gross negligence in connection with this Agreement by Seller or its Affiliates.

**Section 9.3 Indemnification By Buyer.** Buyer shall indemnify, save and hold harmless, Seller, its Affiliates, and their respective Representatives (collectively, the "*Seller Indemnified Parties*") from and against any and all Damages incurred in connection with or arising out of or resulting from:

(a) any breach or inaccuracy of any representation or warranty made by Buyer in this Agreement or any Closing Document to which Buyer is a party;

(b) any breach or violation of any covenant, agreement or obligation of Buyer set forth in this Agreement or any Closing Document to which Buyer is a party;

(c) if a Closing has occurred, any failure of Buyer to pay, discharge or perform any of the Assumed Liabilities as and when due;

(d) Buyer's portion of any Transfer Taxes in accordance with Section 8.9(b);  
or

(e) any fraud, willful misconduct or gross negligence in connection with this Agreement by Buyer.

**Section 9.4 Third Party Claims.**

(a) Promptly after receipt by a Party of notice of the commencement of any Action by a third party (a "*Third Party Claim*") with respect to any matter for which indemnification is or may be owing pursuant to Section 9.2 or Section 9.3 hereof (such Party making a claim under this ARTICLE 9, an "*Indemnified Party*"), the Indemnified Party will give notice thereof to Buyer or Seller, as applicable (the "*Indemnifying Party*"); provided, however, that the failure of the Indemnified Party to notify the Indemnifying Party will not relieve the Indemnifying Party of any of its obligations hereunder, except to the extent that the Indemnifying Party demonstrates that the defense of such Third Party Claim has been actually prejudiced by the Indemnified Party's failure to give such notice.

(b) If any Action referred to in Section 9.4 is brought against an Indemnified Party and the Indemnified Party gives notice to the Indemnifying Party of the commencement of such Action, the Indemnifying Party will be entitled to participate in such Action, and (unless (i) the Indemnifying Party is also a party to such Action and the Indemnified Party determines in good faith that joint representation would be inappropriate upon the advice of outside counsel that a conflict of interest exists between the Indemnified Party and the Indemnifying Party with respect to such Action, or (ii) the Indemnifying Party fails to provide reasonable assurance to the Indemnified Party of its financial capacity to defend such Action and provide indemnification with respect to such

Action) may assume the defense of such Action with counsel reasonably satisfactory to the Indemnified Party and, after notice from the Indemnifying Party to the Indemnified Party of its election to assume the defense of such Action, the Indemnifying Party will not, as long as it diligently conducts such defense, be liable to the Indemnified Party under this Section 9.4 for any fees of other counsel with respect to the defense of such Action, in each case subsequently incurred by the Indemnified Party in connection with the defense of such Action.

(c) If the Indemnifying Party is entitled to and assumes the defense of an Action, no compromise or settlement of such claims or Action may be effected by the Indemnifying Party without the Indemnified Party's written consent unless (i) there is no effect on or grounds for the basis of any other claims that may be made against the Indemnified Party, (ii) the sole relief provided is monetary damages that are paid in full by the Indemnifying Party, and (iii) the Indemnified Party will have no liability with respect to any compromise or settlement of such claims or Action. Notwithstanding the assumption by the Indemnifying Party of the defense of any claim or Action, the Indemnified Party will be permitted to join in such defense and to employ counsel at its own expense.

(d) Notwithstanding the foregoing, if the Indemnified Party determines in good faith that there is a reasonable probability that an Action may result in the Indemnified Party or its Affiliates having to pay monetary Damages for which it would not be entitled to indemnification under this Agreement or having to perform specific performance, the Indemnified Party may, by notice to the Indemnifying Party, assume the exclusive right to defend, compromise or settle such Action, but the Indemnifying Party will not be bound by any compromise or settlement thereof effected without its written consent (which consent shall not be unreasonably withheld, delayed or conditioned).

(e) The Indemnifying Party and the Indemnified Party agree to provide each other with reasonable access during regular business hours to the properties, books and records and representatives of the other, as reasonably necessary in connection with the preparation for an existing or anticipated Action involving a Third Party Claim and its obligations with respect thereto pursuant to this ARTICLE 9.

**Section 9.5 Direct Claims.** The following procedures will apply to any claim for indemnification by an Indemnified Party that does not involve a Third Party Claim.

(a) An Indemnified Party will deliver a notice to the Indemnifying Party (a "*Notice of Claim*") as soon as practicable, but in no event later than sixty (60) days, after the Indemnified Party determines that it is or may be entitled to indemnification pursuant to this Agreement; provided, however, that failure to provide notice will not prejudice the Indemnified Party's right to indemnity, except to the extent the Indemnifying Party is prejudiced by the Indemnified Party's failure to give such notice.

(b) If the Indemnifying Party disputes (i) its obligation to indemnify the Indemnified Party in respect of any indemnification claim set forth in a Notice of Claim, or (ii) the amount of such indemnification claim set forth in a Notice of Claim (the

“*Indemnity Claim Amount*”), a dispute notice (“*Indemnification Dispute Notice*”) will be given as soon as practicable, but in no event later than thirty (30) days, after the Notice of Claim. If no Indemnification Dispute Notice is given within such thirty (30) day period, the validity of the claim for indemnification and the amount of such claim, each as set forth in the Notice of Claim, will be deemed to be agreed, effective on the first (1st) day following such thirty (30) day period, and the amount of such claim as set forth in the Notice of Claim will immediately be payable by the Indemnifying Party. If an Indemnification Dispute Notice is given within such thirty (30) day period, then:

(i) The portion, if any, of the amount of such claim which is not disputed in the Indemnification Dispute Notice will immediately be payable by the Indemnifying Party.

(ii) Buyer and Seller will negotiate in good faith to settle the dispute, and the portion, if any, of the claim amount which Buyer and Seller agree in writing is payable will be immediately payable by the Indemnifying Party.

(iii) If Buyer and Seller are unable to resolve any portion of the Indemnity Claim Amount within two (2) months following the date the Indemnification Dispute Notice is given, either Buyer or Seller may initiate proceedings in accordance with Section 9.4 to obtain resolution of the dispute.

(iv) If neither Buyer nor Seller initiates legal proceedings in respect of the dispute within twelve (12) months following the date the Indemnification Dispute Notice is given, the portion of the claim amount which is disputed will not be payable, and the Indemnified Party will have no further right, under this Agreement, to seek to recover such amount from the Indemnifying Party.

(v) If Buyer or Seller initiates legal proceedings within the twelve (12) month period specified in Section 9.5(b)(iv), the amount, if any, determined in a written final order of a court of competent jurisdiction or final non-appealable decision of an arbitrator (“*Final Order*”) as payable by the Indemnifying Party will be payable by the Indemnified Party as of the date of such Final Order.

**Section 9.6 Acknowledgement.** Seller and Buyer each acknowledge that (a) only representations, warranties, covenants or agreements expressly made in this Agreement or the Closing Documents will be deemed to be representations, warranties, covenants or agreements for purposes of this Agreement, and (b) neither Party has relied on any representation, warranty, covenant or agreement not expressly made in this Agreement or the Closing Documents in consummating the transactions herein.

**Section 9.7 Certain Limitations.** Notwithstanding any other provision of this Agreement, including ARTICLE 9:

(a) *Parallel Caps and Thresholds.* The Initial Closing and the Option Closing shall be subject to individual and mutually exclusive (i) caps on liability and (ii) aggregate threshold amounts for each of Buyer and Seller.

(b) *Seller Caps.* The aggregate Damages to which the Buyer Indemnified Parties shall be entitled as a result of indemnification claims related to breaches of representations and warranties under Section 9.2(a) with respect to each respective Closing (other than Damages arising from gross negligence, fraud, willful misconduct, breaches of Seller Fundamental Representations or Seller's liabilities under Sections 9.2(c), or 9.2(d)) shall not exceed fifteen (15) percent of the Initial Purchase Price or the Option Purchase Price, respectively.

(c) *Buyer Caps.* The aggregate Damages to which the Seller Indemnified Parties shall be entitled as a result of indemnification claims related to breaches of representations and warranties under Section 9.3(a) with respect to each respective Closing (other than Damages arising from gross negligence, fraud, willful misconduct or breaches of Buyer Fundamental Representations) shall not exceed ten (10) percent of the Initial Purchase Price or the Option Purchase Price, respectively.

(d) *Seller Thresholds.* No claim for indemnification shall be brought pursuant to Section 9.2(a) until the total Damages for which Seller would be liable under Section 9.2(a) exceeds in the aggregate a threshold amount equal to one (1) percent of the Initial Purchase Price or the Option Purchase Price, respectively, and, once such amount is exceeded, indemnification may be sought for the full aggregate amount of Damages, including indemnification for such amounts of Damages as do not exceed such respective threshold amount; provided, however, that such threshold requirement shall not apply in the case of a claim arising from any breach of the Seller Fundamental Representations.

(e) *Buyer Thresholds.* No claim for indemnification shall be brought pursuant to Section 9.3(a) until the total Damages for which Buyer would be liable under Section 9.3(a) exceeds in the aggregate a threshold amount equal to equal to one (1) percent of the Initial Purchase Price or the Option Purchase Price, respectively, and, once such amount is exceeded, indemnification may be sought for the full aggregate amount of Damages, including indemnification for such amounts of Damages as do not exceed such respective threshold amount; provided, however, that such threshold requirement shall not apply in the case of a claim arising from Buyer's breach of the Buyer Fundamental Representations.

(f) *Tax Treatment.* Any indemnity payment made pursuant to this Agreement will be treated as an adjustment to the Purchase Price for Tax purposes, unless otherwise required by applicable Law.

(g) *Qualifications.* Notwithstanding anything in this Agreement to the contrary, for purposes of the indemnification obligations under this ARTICLE 9, the representations and warranties contained in this Agreement will be considered without regard to any "material," "Material Adverse Effect" or similar non-monetary qualifications (other than Knowledge qualifications) contained therein for purposes of (i) determining the amount of any Damages and (ii) determining whether or not any breaches of such representations or warranties have occurred.

(h) *Representations and Warranties.* Notwithstanding any other provision of this Agreement, Buyer shall be entitled to be indemnified by Seller pursuant to Section 9.2 regardless of: (i) any due diligence done by Buyer and its Representatives prior to the date hereof and (ii) any knowledge or information known or available to Buyer prior to the date hereof from Seller or any other source.

## ARTICLE 10 TERMINATION AND REMEDIES

**Section 10.1 Methods of Termination.** This Agreement and the transactions contemplated hereby may be terminated prior to a Closing Date as follows:

(a) at any time by mutual written agreement of Seller and Buyer; or

(b) by either Seller or Buyer upon the material breach of this Agreement by the other, to be effective, if curable, upon the breaching Party's failure to cure within five (5) Business Days of notice given, and if incurable, upon notice given, provided that the Party seeking to terminate has complied with and fulfilled its obligations and undertakings under this Agreement in all material respects; or

(c) by Seller, in the following events:

(i) at any time after any final, non-appealable decision is made by the applicable Governmental Authority denying any Required Regulatory Approval requested by Seller or failing to reasonably meet the request of Seller in all material respects; or

(ii) at any time after December 31, 2020 if the Initial Closing has not yet occurred;

*provided further,* that the event triggering Seller's termination right did not result from the failure by Seller to fulfill any undertaking or commitment provided for herein on the part of Seller that is required to be fulfilled on or prior to a Closing Date or any such applicable date.

(d) by Buyer, in the following events:

(i) if a fact, matter, condition, event or circumstance first disclosed in an Update from Seller has had or would reasonably be expected to have a Material Adverse Effect; provided, that (A) Buyer has given Seller at least fifteen (15) Business Days' prior notice of the intent to terminate and (B) Seller has not cured such Material Adverse Effect during such fifteen (15) Business Day period;

(ii) at any time after Buyer receives the Option Closing Disclosure Schedules pursuant to Section 8.12(b);

(iii) at any time after any final, non-appealable decision is made by the applicable Governmental Authority denying any Required Regulatory Approval

requested by Buyer or failing to reasonably meet the request of Buyer in all material respects;

(iv) at any time after December 31, 2020 if the Initial Closing has not yet occurred;

(v) at any time after December 31, 2020, if any order or decree by any federal or state court or Governmental Authority exists which would delay or otherwise impair the consummation of the sale of the Puget Transmission Assets;

(vi) at any time if any Transmission Owner exercises a right of first refusal offered to it by the Seller (pursuant to the terms of the Colstrip Project Transmission Agreement); or

(vii) if Seller has failed to deliver to the Buyer the ROFR Resolution Notice by the date specified in Section 8.11;

*provided*, that the event triggering Buyer's termination right did not result from the failure by Buyer to fulfill any undertaking or commitment provided for herein on the part of Buyer that is required to be fulfilled on or prior to a Closing Date or any such applicable date.

**Section 10.2 Effect of Termination.** In the event either Party desires to terminate this Agreement pursuant to Section 10.1, written notice thereof shall promptly be given by the terminating Party to the other Party, and this Agreement shall terminate effective as of the later of the date such notice is received (or such later effective date as may be set forth therein) or the expiration of any cure period. If this Agreement is terminated as provided in Section 10.1, all filings, applications and other submissions made to any Governmental Authority with respect to the transactions contemplated by this Agreement and the Closing Documents (other than any filings, applications and other submissions made by Seller that do not involve Buyer) shall, to the extent practicable, be withdrawn from the Governmental Authority to which they were made; and except for those obligations set forth in ARTICLE 7, pursuant to which the Parties shall continue to be bound, no Party shall have any further obligation hereunder; provided, that such termination shall not be construed to limit or waive any right with respect to any breach of this Agreement occurring prior to such termination.

**Section 10.3 No Liability.** There shall be no liability of any shareholder, partner, member, director, officer, employee, advisor or representative of Buyer or Seller or any Affiliate thereof, whether to Buyer or Seller, as the case may be, or any other Person (including any shareholder, partner, member, director, officer, employee, advisor or representative thereof) in connection with any liability or other obligation of Buyer or Seller or any Affiliate thereof, whether hereunder or otherwise in connection with the transactions contemplated hereby.

## ARTICLE 11 DISPUTE RESOLUTION

**Section 11.1 Mutual Discussions.** If any dispute or difference of any kind whatsoever shall arise between the Parties in connection with, or arising out of, this Agreement or the



Closing Documents, or the interpretation, performance, breach, termination or validity hereof or thereof, including without limitation any claim based on contract, text or statute (the “*Dispute*”), the Parties shall attempt to settle such Dispute in the first instance by mutual discussions in accordance with this Section 11.1. Within seven (7) Business Days of the receipt by either Party of a notice from the other Party of the existence of a Dispute referring to this ARTICLE 11 (the “*Dispute Notice*”), the receiving Party shall reply with a written response (a “*Dispute Notice Response*”). Both the Dispute Notice and the Dispute Notice Response shall include (i) a statement of the relevant Party’s position with regard to the Dispute and a summary of arguments supporting such position; and (ii) the name and title of the executive who will represent that Party in attempting to resolve the Dispute pursuant to this Section 11.1. Within seven (7) Business Days of delivery of the Dispute Notice Response, the designated executives shall meet and attempt to resolve the Dispute. All negotiations pursuant to this clause shall be confidential and shall be treated as compromise and settlement negotiations, and no oral or documentary representations or offers made by the Parties during such negotiations shall be admissible for any purpose in any subsequent proceedings.

**Section 11.2 Arbitration.** If any Dispute is not resolved within thirty (30) Days of receipt of a Dispute Notice pursuant to Section 11.1, then, upon either Party’s request, the Dispute shall be finally and exclusively resolved by arbitration as follows:

(a) The arbitration shall be held accordance with the Commercial Arbitration Rules (the “*Rules*”) of the American Arbitration Association (the “*AAA*”), then in effect, except as modified herein. The arbitration shall be held, and the award shall be issued in Chicago, Illinois.

(b) The Parties shall appoint an arbitrator satisfactory to both Parties. If the arbitrator is not appointed within the time limit provided herein, such arbitrator shall be appointed by the AAA by using a listing, striking and ranking procedure in accordance with the Rules. Any arbitrator appointed by the AAA shall be a retired judge, preferably from a Federal District Court or Federal Court of Appeals, or a practicing attorney with no less than twenty (20) years of experience and an experienced arbitrator and if possible shall have experience with disputes relating to electric power infrastructure.

(c) The hearing shall be held, if possible, within four (4) months after the appointment of the arbitrator, or as soon thereafter as is reasonably practicable.

(d) By agreeing to arbitration, the entities signing this Agreement do not intend to deprive any court of its jurisdiction to issue a pre-arbitral injunction, pre-arbitral attachment, or other order in aid of arbitration proceedings and the enforcement of any award. Without prejudice to such provisional remedies as may be available under the jurisdiction of a court, the arbitrator shall have full authority to grant provisional remedies and to direct the entities signing this Agreement to request that any court modify or vacate any temporary or preliminary relief issued by such court, and to award damages for the failure of any entity signing this Agreement to respect the arbitrator’s orders to that effect.

(e) Any arbitration proceedings, decision or award rendered hereunder and the validity, effect and interpretation of this arbitration agreement shall be governed by the Federal Arbitration Act, 9 U.S.C. §1 et seq. In arriving at their decision, the arbitrator shall be bound by the terms and conditions of this Agreement and the Closing Documents and shall apply the governing law of this Agreement as designated in Section 12.2 hereof.

(f) Any controversy concerning whether a Dispute is an arbitrable Dispute or as to the interpretation or enforceability of this paragraph shall be determined by the arbitrator.

(g) The arbitrator is not empowered to award damages in excess of compensatory damages, and each Party hereby irrevocably waives any right to recover consequential, punitive, exemplary or similar damages with respect to any Dispute. The award, which shall be in writing and shall state the findings of fact and conclusions of Law upon which it is based, shall be final and binding on the Parties and shall be the sole and exclusive remedy among the Parties regarding any claims, counterclaims, issues or accounting presented to the arbitrator. Judgment upon any award may be entered in any court of competent jurisdiction. In appropriate circumstances, the arbitrator shall have the authority to order a termination of this Agreement.

(h) The arbitrator's award shall allocate, in their discretion, among the Parties to the arbitration all costs of the arbitration, including the fees and expenses of the arbitrator and reasonable attorneys' fees, costs and expert witness expenses of the Parties. The award shall be final and binding on the Parties and may be enforced in any court having jurisdiction.

## **ARTICLE 12 OTHER PROVISIONS**

**Section 12.1 Counterparts.** This Agreement may be executed in one or more counterparts, all of which, taken together, shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the Parties and delivered to the other Party.

**Section 12.2 Governing Law.** THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER AND THE TRANSACTIONS CONTEMPLATED HEREBY SHALL BE GOVERNED BY, ENFORCED, AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS.

**Section 12.3 Entire Agreement.** This Agreement and the Confidentiality Agreement and the Schedules and Exhibits hereto and thereto contain the entire agreement between the Parties with respect to the subject matter hereof and supersedes any prior agreements, understandings, representations, or warranties between the Parties.

**Section 12.4 Notices.** Any notice, request, instruction or other document to be given hereunder by a Party hereto shall be in writing and shall be deemed to have been given (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if



sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient; or (d) on the third (3rd) Business Day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid.

Notices to Seller shall be addressed as follows:

NorthWestern Corporation  
208 North Montana Ave. Suite 205  
Helena, MT 59601  
Attention: Legal Department  
Email: [Heather.Grahame@northwestern.com](mailto:Heather.Grahame@northwestern.com) and [John.Tabaracci@northwestern.com](mailto:John.Tabaracci@northwestern.com)

with copies to:

Dorsey & Whitney LLP  
50 South Sixth Street, Suite 1500  
Minneapolis, MN 55042  
Attention: B. Andrew Brown and David Swanson  
Email: [Brown.Andrew@dorsey.com](mailto:Brown.Andrew@dorsey.com) and [Swanson.Dave@dorsey.com](mailto:Swanson.Dave@dorsey.com)

or at such other address and to the attention of such other Person as Seller may designate by written notice to Buyer.

Notices to Seller shall be addressed to:

Puget Sound Energy, Inc.  
355 110th Avenue NE  
Bellevue, WA 98004  
Attention: Legal Department  
Email: [Steve.Secrist@pse.com](mailto:Steve.Secrist@pse.com) and [Samuel.Osborne@pse.com](mailto:Samuel.Osborne@pse.com)

with copies to:

Perkins Coie LLP  
1201 Third Avenue, Suite 4900  
Seattle, WA 98101  
Attention: Andrew Bor and Stephanie Hirano  
Email: [ABor@perkinscoie.com](mailto:ABor@perkinscoie.com) and [SHirano@perkinscoie.com](mailto:SHirano@perkinscoie.com)

or at such other address and to the attention of such other Person as Buyer may designate by written notice to Seller.

**Section 12.5 Successors and Assigns.** The rights and obligations of the Parties shall not be assigned or delegated by either Party, other than with the written consent of the other Party, which may be withheld in such Party's sole discretion; provided, however, that

notwithstanding the foregoing, Buyer may freely transfer its obligations hereunder to any subsidiary or financing source of Buyer, without Seller's prior consent, provided that Buyer shall remain liable for all obligations of Buyer hereunder that may be assumed by such subsidiary or financing source. Subject to the preceding sentence, this Agreement shall be-binding upon and inure to the benefit of the Parties and their successors and assigns.

**Section 12.6 Amendments.** This Agreement may not be modified or amended except by an instrument or instruments in writing signed by both Parties.

**Section 12.7 Agreement for the Parties' Benefit Only.** This Agreement is not intended to confer upon any Person not a Party hereto any rights or remedies hereunder, and no Person, other than the Parties and the Indemnified Parties is entitled to rely on any representation, warranty, covenant, or agreement contained herein.

**Section 12.8 Severability.** If any term or other provision of this Agreement is invalid, illegal, or incapable of being enforced by any applicable Law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect. Upon such determination that any term or other provision is invalid, illegal, or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to give effect to the original intent of the Parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

**Section 12.9 Bulk Sales or Transfer Laws.** Buyer hereby waives compliance by Seller with the provisions of the bulk sales or transfer laws of all applicable jurisdictions. Seller agrees to pay all claims of creditors which could be asserted against Buyer because of such noncompliance. Seller indemnifies Buyer against any liability or expense, including attorneys' fees, incurred by Buyer by reason of the failure of Seller to pay such claims.

**Section 12.10 No Waiver.** No failure or delay by a Party to this Agreement in exercising any right or remedy provided by Law or under or pursuant to this Agreement shall impair such right or remedy or operate or be construed as a waiver or variation of it or preclude its exercise at any subsequent time and no single or partial exercise of any such right or remedy shall preclude any other or further exercise of it or the exercise of any other right or remedy.

**Section 12.11 Cumulative Remedies.** The rights and remedies of the Parties under or pursuant to this Agreement are cumulative, may be exercised as often as such Party considers appropriate and are in addition to its rights and remedies under general law.

**Section 12.12 Further Assurances.** The Parties agree to use Commercially Reasonable Efforts to perform (or procure the performance of) all further acts and things, and execute and deliver (or procure the execution and delivery of) such further documents, and may be required by applicable Law or as either of the Parties may reasonably require, whether on or after a Closing, to implement and/or give effect to this Agreement and the Closing Documents and the transactions contemplated herein and therein and for the purpose of vesting in the Buyer the full benefit of the Puget Transmission Assets, rights and benefits to be transferred to the Buyer under this Agreement and the Closing Documents.

**Section 12.13 Counterparts; Effectiveness.** This Agreement may be executed in counterparts (including by PDF), each of which shall be deemed an original, but all of which together shall constitute one and the same original instrument. This Agreement shall become effective when each Party hereto shall have received a counterpart hereof signed by the other Party hereto.

**Section 12.14 Specific Performance.** Seller hereby acknowledges and agrees that money damages would not be a sufficient remedy for any breach of this Agreement by Seller, that Buyer would suffer irreparable harm as a result of any such breach, and that, in addition to all other remedies available under this Agreement or at Law or in equity, Buyer shall be entitled to specific performance and injunctive or other equitable relief as a remedy for any such breach or threatened breach, without posting any bond, security or other undertaking. In the event of any action by Buyer to enforce this Agreement, Seller hereby waives the defense that there is an adequate remedy at Law.

IN WITNESS WHEREOF, this Agreement has been signed by or on behalf of each of the Parties as of the day first above written.

Buyer:

**NORTHWESTERN CORPORATION**

By:   
Name: Robert C. Rowe  
Title: CEO

Seller:

**PUGET SOUND ENERGY, INC.**

By: \_\_\_\_\_  
Name:  
Title:

IN WITNESS WHEREOF, this Agreement has been signed by or on behalf of each of the Parties as of the day first above written.

**NORTHWESTERN CORPORATION**

By: \_\_\_\_\_  
Name:  
Title:

**PUGET SOUND ENERGY, INC.**

By:  \_\_\_\_\_  
Name: Mary Kipp  
Title: President

**EXHIBIT A**  
**ASSIGNMENT AND ASSUMPTION AGREEMENT**

ASSIGNMENT AND ASSUMPTION AGREEMENT (this “*Agreement*”), dated as of [•], 2020 (the “*Effective Date*”), between PUGET SOUND ENERGY, INC., a Washington public utility corporation (“*Assignor*”), and NORTHWESTERN CORPORATION, a Delaware corporation (“*Assignee*”).

**RECITALS:**

WHEREAS, Assignor and Assignee are parties to that certain Colstrip Transmission System Purchase and Sale Agreement, dated December 9, 2019 (the “*Purchase Agreement*”);

WHEREAS, Assignor is a party to, or has obligations with respect to the Material Contracts set forth on Schedule 2.1(b) to the Purchase Agreement, each of which Assignor has agreed to assign and, except as otherwise provided herein or in the Purchase Agreement, Assignee has agreed to assume (collectively, the “*Assumed Contracts*”); and

WHEREAS, pursuant to the Purchase Agreement, Assignor agrees to assign the Assumed Contracts to Assignee and, except as otherwise provided herein or in the Purchase Agreement, Assignee agrees to assume the obligations of Assignor under the Assumed Contracts.

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the parties agree as follows:

**SECTION 1. Sale and Assignment.** Except as otherwise provided herein or in the Purchase Agreement, Assignor, for good and valuable consideration to it, receipt of which is hereby acknowledged, does hereby assign, transfer, sell and convey unto Assignee all of Assignor’s right, title and interest in and to the Assumed Contracts.

**SECTION 2. Assumption.**

(a) Assignee hereby (i) assumes the obligations and liabilities of Assignor under the Assumed Contracts to the extent that such obligation or liability. relates to or arises out of the time period after the Effective Date, (ii) shall, subject to clause (i), hereafter be deemed a party to the Assumed Contracts in the same role formerly held by Assignor, (iii) confirms that it has the requisite corporate power and authority to enter into and carry out the transactions contemplated by the Assumed Contracts, and (iv) agrees that after the Effective Date it shall be bound by all the terms of, and undertake all the obligations of Assignor contained in, the Assumed Contracts, with the same force and effect as if Assignee had executed on the Effective Date each of the Assumed Contracts originally as the contracting party named therein. Each of the foregoing is for the benefit of Assignor and the other parties to the Assumed Contracts.

(b) Assignee and Assignor hereby covenant and agree to execute and to deliver to the other parties to the Assumed Contracts from time to time such other documents, instruments and agreements as they reasonably may request in order to further evidence the assignment,

assumption and substitution effected hereby or otherwise to carry out the purposes and intent of this Agreement.

(c) Upon the Effective Date, Assignor shall be released and discharged from each obligation, liability or duty pursuant to the Assumed Contracts arising or accruing on or after the Effective Date and Assignee shall be substituted in lieu of Assignor as a party to each of the Assumed Contracts to which Assignor is a party.

**SECTION 3. Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of and shall be enforceable by the parties hereto and their respective successors and assigns and shall inure to the benefit of the other parties to the Assumed Contracts and their respective successors and assigns.

**SECTION 4. Governing Law.** This Agreement, including all matters of construction, validity and performance, shall in all respects be governed by, and construed in accordance with, the law of the State of Delaware applicable to contracts made in such state and to be performed entirely within such state, without giving effect to principles relating to conflicts of law.

**SECTION 5. Counterparts.** This Agreement may be executed by the parties hereto in separate counterparts (or upon separate signature pages bound together into one or more counterparts), each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

*[Signature page follows]*

**IN WITNESS WHEREOF**, the parties hereto have each caused this Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the Effective Date.

**Assignor:**

**PUGET SOUND ENERGY, INC.**

By: \_\_\_\_\_  
Name:  
Title:

**Assignee:**

**NORTHWESTERN CORPORATION**

By: \_\_\_\_\_  
Name:  
Title:



**EXHIBIT B  
EXCLUDED ASSETS**

None.

**EXHIBIT C  
OFFICER'S CERTIFICATE**

[•], 2020

The undersigned, [•], hereby certifies that he/she is the duly elected [•] of NORTHWESTERN CORPORATION, a Delaware corporation (“*Buyer*”), and that he/she is authorized to execute this Certificate on behalf of Buyer. Pursuant to Section 3.2(b) of that certain Colstrip Transmission System Purchase and Sale Agreement, dated December 9, 2019 between and PUGET SOUND ENERGY, INC., a Washington public utility corporations (“*Seller*”), and Buyer (the “*Purchase Agreement*”), the undersigned hereby certifies that:

1. the representations and warranties of Buyer set forth in Article 6 of the Purchase Agreement are true, correct and complete as of the date hereof;
2. the conditions set forth in Section 3.4 of the Purchase Agreement have been fulfilled or waived on or before the date hereof; and
3. the covenants of Buyer set forth in Article 8 of the Purchase Agreement have been fulfilled or waived in writing by Seller.

*[Signature page follows]*

**IN WITNESS WHEREOF**, the undersigned has executed this Certificate the undersigned has executed this Certificate as of the date first written above.

---

Name:  
Title:

*[Signature Page to Buyer's Officer's Certificate]*

**EXHIBIT D  
OFFICER'S CERTIFICATE**

[•], 2020

The undersigned, [•], hereby certifies that he/she is the duly elected [•] of and PUGET SOUND ENERGY, INC., a Washington public utility corporation (“*Seller*”), and that he/she is authorized to execute this Certificate on behalf of Seller. Pursuant to Section 3.3(b) of that certain Colstrip Transmission System Purchase and Sale Agreement, dated December 9, 2019 between Seller and NORTHWESTERN CORPORATION, a Delaware corporation (“*Buyer*”) (the “*Purchase Agreement*”), the undersigned hereby certifies that:

1. the representations and warranties of Seller set forth in Article 5 of the Purchase Agreement are true, correct and complete as of the date hereof;
2. the conditions set forth in Section 3.5 of the Purchase Agreement have been fulfilled or waived on or before the date hereof; and
3. the covenants of Seller set forth in Article 8 of the Purchase Agreement have been fulfilled or waived in writing by Buyer.

*[Signature page follows]*

**IN WITNESS WHEREOF**, the undersigned has executed this Certificate the undersigned has executed this Certificate as of the date first written above.

---

Name:  
Title:

*[Signature page to Seller's Officer's Certificate]*

**EXHIBIT E  
FORM OF DEED**

After Recording Return to:  
Northwestern Corporation  
Attn: Lands and Permitting  
11 East Park Street  
Butte, MT 59701

**DEED**

FOR VALUABLE CONSIDERATION, the receipt of which is acknowledged, the undersigned, Puget Sound Energy, Inc., a Washington Public utility corporation with its offices at 355 110th Avenue NE Bellevue, WA 98004 (“Grantor”) hereby grants unto Northwestern Corporation, a Delaware corporation with its offices at 11 East Park Street, Butte, MT 59701 (“Grantee”) all of Grantor’s right, title and interest in and to the following property situated in Rosebud County, Montana (the “County”):

A tract of land situated in the SE ¼ of Section 27, Township 2 North, Range 41 East, P.M.M., being Tract 1 of Certificate of Survey No. 35013, as filed with the Clerk and Recorder of Rosebud County, Montana, and containing 30.647 acres, more or less.

TOGETHER with all buildings, fixtures and improvements thereon and all rights-of-way, easements, tenements, hereditaments, privileges and appurtenances thereto (the “Property”).

The description (meaning herein both word descriptions and specific descriptions) of the Property shall be construed broadly and as inclusive and there shall be no implied exclusions because of the structure of the description of the Property or otherwise. It is Grantor’s intent to make a full and complete transfer to Grantee of all of Grantor’s right, title and interest in and to any and all real property and interests in real property, located in the County owned or otherwise vested in Grantor as of the date hereof, whatever size, wherever located and whether or not described or inaccurately or inadequately described in Exhibit A, and it is Grantor’s further intent that this deed convey after-acquired rights, titles and interests.

TO HAVE AND TO HOLD unto Grantee, and Grantee’s successors and assigns, forever, SUBJECT TO THOSE MATTERS SET FORTH ON EXHIBIT A (the “Permitted Encumbrances”). Grantor agrees to defend the same to the Grantee against the lawful claims and demands of all persons claiming by, through or under Grantor, but against no other persons.

EXCEPT with reference to the items referred to in paragraphs (a) to (e) inclusive, this deed is given with the usual covenants expressed in Montana Code Annotated § 30-11-110.

Grantor also hereby conveys to Grantee, its successors and assigns, all rights of Grantor, to the extent assignable, in and to all covenants and warranties with respect to the Property made by Grantor's predecessors in title and with full subrogation of all rights accruing under such covenants and warranties and the statutes of limitation, repose or prescription under the laws of Montana and all rights of action of warranty against all former owners of the Property.

Grantor agrees to take all such further action and execute, acknowledge and deliver all such further documents as may be reasonably necessary or useful to accomplish the purposes of this Deed and to evidence Grantee's interests of record.

This Deed shall be binding upon and shall inure to the benefit of Grantor and Grantee and their respective successors, legal representatives and assigns.

[Signature and acknowledgment on the following page]

Grantor:

PUGET SOUND ENERGY, INC.  
a Washington public utility company

By: \_\_\_\_\_  
Name:  
Its:

STATE OF WASHINGTON            )  
  ) ss.  
COUNTY OF \_\_\_\_\_        )

This instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 20\_\_\_, by \_\_\_\_\_,  
a \_\_\_\_\_ of PUGET SOUND ENERGY, INC. a Washington public utility company.

Name \_\_\_\_\_  
Notary Public for the State of \_\_\_\_\_  
Residing at \_\_\_\_\_  
My Commission expires \_\_\_\_\_



**EXHIBIT E  
FORM OF DEED**

**EXHIBIT B**

**PERMITTED ENCUMBRANCES:**

[To be provided]

**EXHIBIT E**  
**FORM OF DEED**

After Recording Return to:  
Northwestern Corporation  
Attn: Lands and Permitting  
11 East Park Street  
Butte, MT 59701

**DEED**

FOR VALUABLE CONSIDERATION, the receipt of which is acknowledged, the undersigned, Puget Sound Energy, Inc., a Washington Public utility corporation with its offices at 355 110th Avenue NE Bellevue, WA 98004 (“Grantor”) hereby grants unto Northwestern Corporation, a Delaware corporation with its offices at 11 East Park Street, Butte, MT 59701 (“Grantee”) all of Grantor’s right, title and interest in and to the following property situated in Yellowstone County, Montana (the “County”):

A tract of land situated in Section 34, Township 4 North, Range 23 East, P.M.M., being Tract B of Certificate of Survey No. 1520 Amended, as filed with the Clerk and Recorder of Yellowstone County, Montana, and containing 90.55 acres, more or less.

TOGETHER with all buildings, fixtures and improvements thereon and all rights-of-way, easements, tenements, hereditaments, privileges and appurtenances thereto (the “Property”).

The description (meaning herein both word descriptions and specific descriptions) of the Property shall be construed broadly and as inclusive and there shall be no implied exclusions because of the structure of the description of the Property or otherwise. It is Grantor’s intent to make a full and complete transfer to Grantee of all of Grantor’s right, title and interest in and to any and all real property and interests in real property, located in the County owned or otherwise vested in Grantor as of the date hereof, whatever size, wherever located and whether or not described or inaccurately or inadequately described in Exhibit A, and it is Grantor’s further intent that this deed convey after-acquired rights, titles and interests.

TO HAVE AND TO HOLD unto Grantee, and Grantee’s successors and assigns, forever, SUBJECT TO THOSE MATTERS SET FORTH ON EXHIBIT A (the “Permitted Encumbrances”). Grantor agrees to defend the same to the Grantee against the lawful claims and demands of all persons claiming by, through or under Grantor, but against no other persons.

EXCEPT with reference to the items referred to in paragraphs (a) to (e) inclusive, this deed is given with the usual covenants expressed in Montana Code Annotated § 30-11-110.

Grantor also hereby conveys to Grantee, its successors and assigns, all rights of Grantor, to the extent assignable, in and to all covenants and warranties with respect to the Property made by Grantor's predecessors in title and with full subrogation of all rights accruing under such covenants and warranties and the statutes of limitation, repose or prescription under the laws of Montana and all rights of action of warranty against all former owners of the Property.

Grantor agrees to take all such further action and execute, acknowledge and deliver all such further documents as may be reasonably necessary or useful to accomplish the purposes of this Deed and to evidence Grantee's interests of record.

This Deed shall be binding upon and shall inure to the benefit of Grantor and Grantee and their respective successors, legal representatives and assigns.

[Signature and acknowledgment on the following page]

Grantor:

PUGET SOUND ENERGY, INC.  
a Washington public utility company

By: \_\_\_\_\_

Name:

Its:

STATE OF WASHINGTON            )  
  ) ss.  
COUNTY OF \_\_\_\_\_        )

This instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 20\_\_\_, by \_\_\_\_\_,  
a \_\_\_\_\_ of PUGET SOUND ENERGY, INC. a Washington public utility company.

Name \_\_\_\_\_

Notary Public for the State of \_\_\_\_\_

Residing at \_\_\_\_\_

My Commission expires \_\_\_\_\_

**EXHIBIT E  
FORM OF DEED**

**EXHIBIT B**

**PERMITTED ENCUMBRANCES:**

[To be provided]

**EXHIBIT F**  
**FORM OF WAIVER OF RIGHT OF FIRST REFUSAL**

[Date]

[Owner's Name and Address]

Re: Rights of First Refusal pursuant to the Colstrip Project Transmission Agreement, as last dated September 27, 2013 among NorthWestern Corporation, Puget Sound Energy Inc., Avista Corporation, Portland General Electric Company and PacifiCorp, as amended from time to time

Ladies and Gentlemen:

Any capitalized term not defined in this letter shall have the definition set forth in the Colstrip Project Transmission Agreement.

Puget Sound Energy Inc. ("*PSE*"), has entered into a binding Colstrip Transmission System Purchase and Sale Agreement, dated December 9, 2019 (the "*Purchase Agreement*"), pursuant to which it has agreed to sell to Northwestern Corporation, a Delaware corporation ("*Buyer*") and Buyer has agreed to buy PSE's undivided interest in the Puget Transmission Ownership Interest representing not less than 95 MW, consisting of not less than a four and 2/10ths percent (4.2%) interest in the Colstrip to Broadview Segment and a four and 9/10ths percent (4.9%) interest in the Broadview to Townsend Segment for a price to be determined at the time of closing pursuant to Section 2.2 of the Purchase Agreement (the "*Transaction*"). An execution copy of the Purchase Agreement is enclosed herewith.

Section 28 of the Colstrip Project Transmission Agreement requires PSE to offer its Project Share to the other Transmission Owners "at the amount of, and on terms not less advantageous than, those of a bona fide offer from a buyer able and willing to purchase such Owner's or Transmission Owner's interest." The portion of such interest to be offered to each Transmission Owner must be equal to the proportionate interest of each Transmission Owner in the Project after excluding the interest being offered. Accordingly, PSE hereby formally offers to you the right to purchase your proportionate share of its Project Share. The Colstrip Project Transmission Agreement requires that such offer be held open for a period of 90 days. Further, if at the end of the 90-day period, any Transmission Owner shall have failed to accept such offer, the proportionate interest offered to such Transmission Owner shall be offered on a pro rata basis to the other Transmission Owners, who shall have a further period of 7 days to accept the same. The process shall be repeated until all Transmission Owners then being offered an interest shall have failed to accept such offer.

Should you choose to exercise your right of first refusal, you must submit, and be fully prepared and capable of executing and consummating, a purchase agreement that contains terms no less advantageous than the terms and conditions set forth in the attached Purchase Agreement.

Should you decline to exercise your right of first refusal, PSE respectfully requests that you expressly waive your right of first refusal and/or right of first offer under Section 28 of the Colstrip Project Transmission Agreement with respect to the Transaction in order to expedite PSE's closing of the Transaction with Buyer. If you are willing to waive such right, please countersign a copy of this letter below under "WAIVER" and return it to the undersigned as soon as possible. PSE has made the same request of all other Transmission Owners.

If you do not affirmatively exercise your right to purchase your proportionate share of PSE's Project Share within 90 days of the date of this letter, your rights pursuant to Section 28 of the Colstrip Project Transmission Agreement with respect to the Transaction will be deemed to be waived.

Thank you for your prompt consideration of this matter.

Very truly yours,

PUGET SOUND ENERGY, INC.

By: \_\_\_\_\_

Title: \_\_\_\_\_

Enclosures

**WAIVER**

The undersigned hereby agrees to waive its right of first refusal and/or right of first offer under Section 28 of the Colstrip Project Transmission Agreement in connection with the Transaction described above.

[OWNER'S NAME]

Date: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_



[ATTACHMENT: EXECUTED COPY OF PURCHASE AND SALE AGREEMENT]

## DISCLOSURE SCHEDULE

This disclosure schedule (this “Disclosure Schedule”) is delivered in connection with that certain Colstrip Transmission System Purchase and Sale Agreement, dated as of December 9, 2019 (the “Agreement”), by and between NORTHWESTERN CORPORATION, a Delaware corporation (“Buyer”) and PUGET SOUND ENERGY, INC., a Washington public utility corporation (the “Seller”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Agreement.

Any fact or condition disclosed in any section or paragraph of this Disclosure Schedule shall qualify as disclosures pursuant to any other sections or paragraphs under the Agreement where such disclosure is reasonably apparent on the face of such disclosures, whether or not repeated under any section number where such disclosure might be deemed appropriate.

Matters reflected in this Disclosure Schedule are not necessarily limited to matters required by the Agreement to be reflected herein. Such additional matters are set forth for informational purposes and do not necessarily include other matters of a similar informational nature. Any disclosure of a fact or circumstance shall not establish, or constitute an admission of, the materiality of such fact or such circumstance or such fact’s or circumstance’s consequence or relevance to materiality, to a Material Adverse Effect. The information contained herein is disclosed solely for the purposes of the Agreement, and no information contained herein shall be deemed to be an admission by any party hereto to any third party of any matter whatsoever, including any violation of applicable Law or breach of any agreement.

In accordance with Section 12.3 of the Agreement, this Disclosure Schedule is deemed to be part of the entire agreement of the parties with respect to the subject matter of the Agreement. Any item of information disclosed in this Disclosure Schedule shall be subject to the terms of the Confidentiality Agreement.

Headings and numbers (other than numerical references to sections and subsections of the Agreement) have been inserted in some of the sections of this Disclosure Schedule for convenience of reference only, and such headings or numbers (other than numerical references to sections and subsections of the Agreement) shall not have the effect of amending or changing the express description of the section of this Disclosure Schedule as set forth in the Agreement.

## Schedule 1

### Puget Transmission Ownership Interest

The facilities described in this Schedule 1 and related facilities, real property and property rights, including but not limited to the real property described in Schedule 2.1(a).

#### COLSTRIP-BROADVIEW SEGMENT

##### 500 kV Transmission Line Sections

1. One overhead 500 kV line, approximately 116 miles long, extending from the Colstrip 500 kV switchyard to the Broadview 500 kV switchyard NW of Billings, Montana.
2. One existing overhead 500 kV line, that was previously operated as a double circuit 230 kV line and which was converted to a single circuit 500 kV line, extending approximately 113 miles from the Colstrip 500 kV switchyard to the Broadview 500 kV switchyard NW of Billings, Montana.

##### 500kV Switchyards and Substations

3. The Colstrip 500 kV switchyard immediately east of Montana's existing Colstrip 230kV switchyard and substation, including the following major equipment and associated structures and facilities:
  - 7 – 500 kV Power Circuit Breakers
  - 2 Banks – 500 kV Shunt Line Reactors (approx. 100 Mvar. each)
  - 2 Banks – 500/230/34.5 kV, Autotransformers (approx. 300/400/500 Mva. each)
  - 2 – 230 kV 3 Ø Disconnect Switches to Interconnect with Montana's Existing 230 kV Bus
  - 2 Banks – 34.5 kV Switchable Shunt Reactors for System Voltage Control (approx. 45 Mvar. each)
  - 34.5 kV Station Power Transformers
  - Ground Mat, Excluding Underground Ties to the Plant Ground Mat
  - Conduits to Montana's 230 kV Switchyard Control House and to the Generating Units #1, #2, #3, and #4 Extending Only to the First Manhole Outside the Switchyard Fence
  - Control Cables to Montana's 230 kV Switchyard Control House, but Excluding Such Cables to the Generating Units #1, #2, #3, and #4
  - Fencing, Except Immediately Adjacent to Montana's Existing 230 kV Switchyard
  - 1 – Control House, including Supervisory Control, Telemetering, Relaying and Other Equipment and Devices therein
  - 1 – Emergency Internal Combustion Generator Set
4. A portion of the Broadview 500 kV switchyard immediately north of Montana's existing Broadview 230 kV switchyard and substation, including the following major equipment and associated structures and facilities related to the Colstrip-Broadview 500 kV lines and the Broadview 500/230/34.5 kV Autotransformers:

All 500 kV Transmission Line Relays  
2 Banks – 500 kV Shunt Line Reactor (approx. 100 Mvar. each), including relays  
2 Banks – 500 kV Series Capacitors, including relays  
1 Bank – 34.5 kV Switchable Shunt Reactors for System Voltage Control (approx. 90 Mvar.), including relays

\* 1/3 of 2 Banks – 500/230/34.5 kV Autotransformers (approx. 360/480/600 Mva. each), including relays

\*\* 7/18 of the following Common Facilities:

\*\*\* 7 – 500 kV Power Circuit Breakers and 500 kV Buswork  
230 kV Buswork to Interconnect at Two Existing Disconnect Switches in Montana’s 230 kV bus  
2 – 34.5 kV Station Power Transformers  
Fencing, Except Immediately Adjacent to Montana’s Existing 230 kV Switchyard  
1 – Switchyard Control House  
1 – Warehouse  
1 – Emergency Internal Combustion Generation Set  
Supervisory Control, Telemetry, Relaying and Other Equipment and Devices in the Control House which are Directly Related to the Common Facilities Listed Herein

\* Not including 2/3 owned exclusively by Montana

\*\* Not including 2/9 owned exclusively by Montana

\*\*\* Allocations of Common Facilities are based on the following:

1st level – between line positions and transformer positions:

2/6 to transformers and 4/6 to lines

2nd level – between Transmission System and Montana;

Transformers: 1/3 to Transmission System and 2/3 to Montana

Lines: 100% to Transmission System and 0% to Montana

3rd level – between Segments:

Transmission System: 1/2 to Colstrip-Broadview Segment and

1/2 to Broadview-Townsend Segment

Allocation to Colstrip-Broadview Segment of Transmission System is therefore:

$$1/2 (1 \times 4/6 + 1/3 \times 2/6) = 7/18$$

#### Allocation Computer and ATRs

5. One-half (1/2) of the Allocation Computer and ATRs.

The term “Allocation Computer” as used herein refers to the equipment and computer software primarily located at Montana Power Company’s Systems Operations Control Center in Butte, Montana, which is used to measure the output of each owners’ share of

electrical generation from Colstrip Units 1& 2 and Colstrip Units 3&4 and allocates to each owner the associated transmission losses for their share of the generation output.

The term “ATRs” as used herein refers to the acceleration trend relays, which include equipment and computer systems used to detect acceleration in the generation shafts of Colstrip Units 1&2 and Colstrip Units 3&4, and selectively trips the appropriate Colstrip units(s) and the generation at the Montana One project, so that the electrically connected system meets the stability requirements of WSCC.

### BROADVIEW-TOWNSEND SEGMENT

#### 500 kV Transmission Line Sections

1. Two overhead 500 kV lines, each approximately 133 miles long, extending from the Broadview 500 kV switchyard to the interconnection point with Bonneville Power Administration’s 500 kV double-circuit line near Townsend, Montana.

#### 500 kV Switchyards and Substations

2. A portion of the Broadview 500 kV switchyard immediately north of Montana’s existing Broadview 230 kV switchyard and substation including the following major equipment and associated structures and facilities related to the Broadview-Townsend 500 kV lines:

All 500 kV Transmission Line Relays  
2 Banks – 500 kV Shunt Line Reactors (approx. 225 Mvar. (each))  
including relays  
2 – Neutral Reactors for Single Pole Switching, including relays  
1 Bank – 34.5 kV Switchable Shunt Reactors for System Voltage  
Control(approx. 90 Mvar.), including relays

\*\* 7/18 of the following Common Facilities:

\*\*\*\* 7 – 500 kV Power Circuit Breakers and 500 kV Buswork  
230 kV Buswork to Interconnect at Two Existing Disconnect  
Switches in Montana’s 230 kV Bus  
2 – 34.5 kV Station Power Transformers  
Fencing, Except Immediately Adjacent to Montana’s Existing 230  
kV Switchyard  
1 – Switchyard Control House  
1 – Warehouse  
1 – Emergency Internal Combustion Generation Set  
Supervisory Control, Telemetry, Relaying and Other Equipment  
and Devices in the Control House which are Directly Related to  
the Common Facilities Listed Herein

\*\* Not including 2/9 owned exclusively by Montana

\*\*\*\* Allocations of Common Facilities are based on the following:

1st level – between line positions and transformer positions:  
2/6 to transformers and 4/6 to lines

2nd level – between Transmission System and Montana:  
Transformers: 1/3 to Transmission System and 2/3 to Montana  
Lines: 100% to Transmission System and 0% to Montana

3rd level – between Segments:  
Transmission System: ½ to Colstrip-Broadview Segment and  
½ to Broadview-Townsend Segment

Allocation to Broadview-Townsend Segment of Transmission System is therefore:

$$1/2 (1 \times 4/6 + 1/3 \times 2/6) = 7/18$$

#### Allocation Computer and ATRs

##### 3. One-half (1/2) of the Allocation Computer and ATRs.

The term “Allocation Computer” as used herein refers to the equipment and computer software primarily located at Montana Power Company’s Systems Operations Control Center in Butte, Montana, which is used to measure the output of each owners’ share of electrical generation from Colstrip Units 1& 2 and Colstrip Units 3&4 and allocates to each owner the associated transmission losses for their share of the generation output.

The term “ATRs” as used herein refers to the acceleration trend relays, which include equipment and computer systems used to detect acceleration in the generation shafts of Colstrip Units 1&2 and Colstrip Units 3&4, and selectively trips the appropriate Colstrip units(s) and the generation at the Montana One project, so that the electrically connected system meets the stability requirements of WSCC.

#### OTHER

The SSR Protection Systems are not included in the Transmission System.

The term “SSR Protection Systems” as used herein refers to the plant protection relay equipment that protects Colstrip Units 1&2 and Colstrip Units 3&4 against subsynchronous resonance.

## **Schedule 1(a)**

### **Initial Purchase Assets**

An undivided interest in the Puget Transmission Ownership Interest representing 95 MW, consisting of four and 2/10ths percent (4.2%) interest in the Colstrip to Broadview Segment and a four and 9/10ths percent (4.9%) interest in the Broadview to Townsend Segment.

## **Schedule 1(b)**

### **Option Assets**

An undivided interest in the Puget Transmission Ownership Interest representing 90 MW, consisting of a four percent (4%) interest in the Colstrip to Broadview Segment and a four and 2/10ths percent (4.2%) interest in the Broadview to Townsend Segment.



## Schedule 2.1(a)

### Real Property

1. The Broadview Switchyard is located on the following real property:

A tract of land situated in Section 34, Township 4 North, Range 23 East, P.M.M., being Tract B of Certificate of Survey No. 1520 Amended, as filed with the Clerk and Recorder of Yellowstone County, Montana, and containing 90.55 acres, more or less.

2. The Colstrip Switchyard is located on the following real property:

A tract of land situated in the SE  $\frac{1}{4}$  of Section 27, Township 2 North, Range 41 East, P.M.M., being Tract 1 of Certificate of Survey No. 35013, as filed with the Clerk and Recorder of Rosebud County, Montana, and containing 30.647 acres, more or less.

3. In connection with the operation of the Colstrip Project Transmission System (as defined in the Colstrip Project Transmission Agreement), there are certain leases, subleases and easements held by operators or other service providers of the Colstrip Project Transmission System. As an owner of Colstrip Unit 4, Seller may have certain indirect rights and obligations in connection with these leases, subleases and easements despite Seller not being a party to those leases, subleases and easements.<sup>1</sup>

---

<sup>1</sup> Note to Draft: Seller and Buyer agree to revise this schedule between signing and closing to reflect the various easements in connection with the transmission lines.

**Schedule 2.1(b)**

**Material Contracts**

1. Colstrip Project Transmission Agreement.

## Schedule 5.4

### Title to Puget Transmission Assets

1. Fortieth Supplemental Indenture dated as of September 1, 1954, supplemental to and modifying First Mortgage dated as of June 2, 1924, defining the rights of the holders of Puget Sound Energy, Inc.'s Electric Utility First Mortgage Bonds, as amended, supplemented and modified by the supplemental indentures entered into thereafter (the "Electric Mortgage")
2. Indenture of First Mortgage dated as of April 1, 1957, defining the rights of the holders of Puget Sound Energy, Inc.'s Gas Utility First Mortgage Bonds, as amended, supplemented and modified by the supplemental indentures entered into thereafter (the "Gas Mortgage")
3. Puget Sound Energy, Inc. issued pollution control bonds in May 2013, which are secured by Senior Notes, which are in turn secured by bonds issued under the Electric Mortgage.

**Schedule 5.5**  
**No Violation or Breach**

None.

## **Schedule 5.6**

### **Consents**

1. The Colstrip Project Transmission Agreement requires Seller to offer its interest in the Colstrip Project Transmission System to the other Transmission Owners prior to consummation of the transactions contemplated by the Agreement.
2. The Ownership and Operation Agreement, dated May 6, 1981, as amended by Amendment No. 1 dated October 11, 1991, Amendment No. 2 dated July 13, 1998, Amendment No. 3 entered into in 2004, and Amendment No. 4 entered into in 2008, between Buyer, Seller, Portland General Electric Company, the Washington Water Power Company (now Avista) and Pacific Power & Light Company (now PacifiCorp) requires Seller to offer its Project Share (as defined in the Ownership and Operation Agreement) to the other Project Users (as defined in the Ownership and Operation Agreement) prior to consummation of the transactions contemplated by the Agreement Colstrip Unit 4 Purchase and Sale Agreement executed simultaneously with the Agreement.

**Schedule 5.7**

**Actions Pending**

None.

**Schedule 5.8**

**Compliance with Applicable Law**

None.

## **Schedule 5.9(a)**

### **Real Property**

1. Fortieth Supplemental Indenture dated as of September 1, 1954, supplemental to and modifying First Mortgage dated as of June 2, 1924, defining the rights of the holders of Puget Sound Energy, Inc.'s Electric Utility First Mortgage Bonds, as amended, supplemented and modified by the supplemental indentures entered into thereafter (the "Electric Mortgage")
2. Indenture of First Mortgage dated as of April 1, 1957, defining the rights of the holders of Puget Sound Energy, Inc.'s Gas Utility First Mortgage Bonds, as amended, supplemented and modified by the supplemental indentures entered into thereafter (the "Gas Mortgage")
3. Puget Sound Energy, Inc. issued pollution control bonds in May 2013, which are secured by Senior Notes, which are in turn secured by bonds issued under the Electric Mortgage.



**Schedule 5.10**

**Material Changes since December 31, 2018**

None.

**Schedule 5.14**  
**Material Contracts**

See Schedule 2.1(b).

## **Schedule 5.15**

### **Licenses**

In connection with the operation of the Colstrip Project Transmission System (as defined in the Colstrip Project Transmission Agreement), there are certain Permits, licenses, permissions, authorizations and consents held by or obtained by the operators or other service providers of the Colstrip Project Transmission System. As an owner of Colstrip Unit 4, Seller may have certain indirect rights and obligations in connection with these leases, subleases and easements despite Seller not being a party to those Permits, licenses, permissions, authorizations and consents.

## **Schedule 5.16**

### **Insurance**

1. Seller maintains insurance policies on plants and substations it owns, which may cover transmission lines in the Colstrip Project Transmission System (as defined in the Colstrip Project Transmission Agreement) from such plant or substation up to 1,000 feet.
2. To Seller's Knowledge, a general liability insurance policy is maintained on behalf of all of the Transmission Owners, collectively, with respect to the Colstrip Project Transmission System.
3. Seller maintains general liability insurance for its operations.

**Schedule 5.17**  
**Environmental Matters**

None.

**Schedule 8.1**

**Conduct of Business Pending Closing**

None.

## **ATTACHMENT D**

**AMENDMENT NO. 1**  
**to**  
**COLSTRIP UNIT 4 PURCHASE AND SALE AGREEMENT**

THIS AMENDMENT NO. 1 (this “*Amendment*”), dated as of August 18, 2020, is by and between NORTHWESTERN CORPORATION, a Delaware corporation (“*Buyer*”), and PUGET SOUND ENERGY, INC., a Washington public utility corporation (“*Seller*”). Capitalized terms not defined herein shall have the meanings assigned to them in the Purchase Agreement (as defined below).

WHEREAS, Buyer and Seller are party to that certain Colstrip Unit 4 Purchase and Sale Agreement, dated as of December 9, 2019 (the “*Purchase Agreement*”);

WHEREAS, pursuant to the Ownership and Operation Agreement, Seller was required to offer to other Project Users the right to purchase Seller’s interest in Colstrip and Seller has done so by letters dated January 10, 2019;

WHEREAS, Talen Montana, LLC (“*Talen*”) has exercised such rights by letters dated April 8, 2020 and April 15, 2020, pursuant to the Ownership and Operation Agreement, with the intent of acquiring its proportionate share of the Colstrip 4 Interests (such potential acquisition, the “*Talen Acquisition*”)

WHEREAS Buyer, as a Project User, has exercised such rights by letters dated April 8, 2020 and April 14, 2020, pursuant to the Ownership and Operation Agreement; and

WHEREAS, in light of Talen’s exercise and Buyer’s exercise of such rights, Buyer and Seller have agreed to amend the Purchase Agreement in the manner set forth below.

NOW, THEREFORE, in consideration of the foregoing, and intending to be legally bound, the Parties agree as follows:

**1. Amendments.**

(a) The first recital of the Purchase Agreement is deleted in its entirety and replaced with the following:

“WHEREAS, Seller is the Owner with respect to a twenty-five percent (25%) undivided interest in the 740MW Colstrip Unit 4, a coal-fired, base-load electric generation facility located in Colstrip, Montana (“*Colstrip Unit 4*”) and Seller desires to sell to Buyer a twelve and a half percent (12.5%) undivided interest in Colstrip Unit 4 and all associated real property, equipment, common real property and common equipment and facilities and all rights incidental thereto, as more specifically defined in Section 2.1 (the “*Colstrip 4 Interests*”).”

(b) All references in the Agreement and the exhibits and schedules thereto with regard to the acquisition by Buyer of Seller’s undivided interest in Colstrip Unit 4 shall be reduced by half (*e.g.*, from 25% to 12.5% or from 12.5% to 6.25%) and all references to “90



MW” in the Power Purchase Agreement attached to the Agreement as Exhibit C shall be replaced with “45 MW.”

(c) Exhibit F attached to the Purchase Agreement shall be replaced with Amended Exhibit F, attached to this Amendment.

(d) Section 2.2 the Purchase Price shall be reduced in proportion to the reduction in interest in Colstrip Unit 4 to be acquired by Buyer.

(e) Section 3.5(g) is deleted in its entirety.

(f) Subsection 7.1(b)(iv) is amended to read as follows:

(iv) With respect to any approvals of the Committee prior to the earliest of the effectiveness of the Vote Sharing Agreement, the termination of this Agreement, or the termination of the Colstrip Unit 4 Purchase and Sale Agreement dated as of August \_\_, 2020 by and between Talen Montana, LLC and Seller: (A) in the case of any proposal to be voted upon under the Ownership and Operation Agreement that relates primarily to Colstrip Unit 4, and that does not involve the Common Facilities, Seller shall cast its vote in accordance with the joint instructions of Buyer and Talen Montana, LLC, if Buyer and Talen Montana, LLC are in agreement regarding how the vote should be cast, and if Buyer and Talen Montana, LLC are not in agreement regarding how to cast the vote, Seller shall abstain from voting on such proposal, (B) in the case of any vote arising from Seller’s ownership interest in Colstrip Units 1 & 2, or any proposal to be voted upon under the Ownership and Operation Agreement that relates primarily to Colstrip Unit 3, and that does not involve the Common Facilities, Seller shall cast its vote in its sole discretion and without involvement of Buyer or Talen Montana, LLC, and (C) in the case of any proposal to be voted upon under the Ownership and Operation Agreement that relates to both Colstrip Unit 3 and Colstrip Unit 4 and/or Common Facilities, Buyer, Talen Montana, LLC, and Seller shall consult with one another in good faith prior to Seller casting the vote on such proposal;

(g) A new Section 7.12 is added to read as follows:

“**Section 7.12. Scheduling Protocols/Allocation Software.** Buyer and Seller agree to use Commercially Reasonable Efforts and act in good faith to address scheduling issues by either revisions to the allocation software presently utilized to schedule and dispatch output from Colstrip Units 3 and 4 or entry into an agreement to true-up scheduling, or a combination of the both, so as to appropriately and equitably implement the effects of the transactions contemplated by the Agreement as may be necessary to equitably and appropriately implement the impact of the transactions contemplated by the Agreement on operations of Colstrip Unit 4.”

## 2. **Effect of Amendment.**

(a) As of and after the date hereof, each reference in the Purchase Agreement to “this Agreement”, “hereunder”, “hereof”, “herein”, “hereby” or words of like import referring to the Purchase Agreement shall mean and be a reference to the Purchase Agreement as amended by this Amendment. Except as expressly provided in this Amendment, the Purchase Agreement shall not be amended or otherwise modified. In the event there is a conflict between the terms of the Purchase Agreement and the terms of this Amendment, the terms provided in this Amendment shall control. This Amendment is expressly made subject to the terms and conditions of the Purchase Agreement as modified herein, and, except as expressly modified herein, the Purchase Agreement shall continue in full force and effect without change.

(b) In the event that the Talen Acquisition is not consummated, Buyer may, at its sole option, terminate this Amendment, which termination shall, effective immediately upon the exercise of such option, render all amendments to the Agreement contained herein null and void as if this Amendment had never been executed.

(c) Notwithstanding this Amendment, Buyer and Seller retain all rights and remedies available to them pursuant to the Agreement so unamended to the extent such rights and remedies are due to any act or omission of either Buyer or Seller that may have occurred prior to the date hereof.

(d) Nothing contained in this Amendment shall be construed to modify, limit or in any other way affect that certain Colstrip Transmission System Purchase and Sale Agreement, dated December 9, 2019 entered between Seller and Buyer.

3. **No Waiver.** Nothing contained in this Amendment shall be construed as a waiver by Buyer of any covenant or provision of the Agreement and the failure of Buyer at any time or times hereafter to require strict performance by Seller of any provision thereof shall not waive, affect or diminish any right of Buyer to thereafter demand strict performance therewith.

4. **Governing Law.** This Amendment shall be governed in all respects in accordance with the provisions of Section 11.2 of the Purchase Agreement.

5. **Counterparts.** This Amendment may be executed in counterparts (including by PDF and further including electronic signatures), each of which shall be deemed an original, but all of which together shall constitute one and the same original instrument. This Amendment shall become effective when each Party hereto shall have received a counterpart hereof signed by the other Party hereto.

*[Signature page follows]*

IN WITNESS WHEREOF, this Amendment has been signed on or behalf of each of the Parties as of the date first above written.

Buyer:

**NORTHWESTERN CORPORATION**

By: John Hines  
Name:

Title: VP, Supply & MT Government Affairs

Seller:

**PUGET SOUND ENERGY, INC.**

By: [Signature]  
Name: STUDS FISHER  
Title: SR VP FGC

**Amended Exhibit F  
Vote Sharing Agreement**

**VOTE SHARING AGREEMENT**

THIS VOTE SHARING AGREEMENT (this “*Agreement*”) is entered into as of [●], 2020 (the “*Effective Date*”) by and among NORTHWESTERN CORPORATION, a Delaware corporation (“*NorthWestern*”), PUGET SOUND ENERGY, INC., a Washington public utility corporation (“*Puget*”), and TALEN MONTANA, LLC, a Delaware limited liability company (“*Talen*”). NorthWestern, Puget, and Talen are sometimes referred to herein individually as a “*Party*” and, collectively, as the “*Parties.*” Capitalized terms used herein without definition shall have the respective meanings assigned to such terms in the Ownership and Operation Agreement.

**RECITALS**

WHEREAS, the ownership, operation and maintenance of the Project is governed by that certain Ownership and Operation Agreement, dated as of May 6, 1981, by and between The Montana Power Company, a Montana corporation, Puget Sound Energy, Inc. (formerly named “Puget Sound Power & Light Company”), a Washington corporation, Avista Corporation (formerly named “Washington Water Power Company”), a Washington corporation, Portland General Electric Company, an Oregon corporation, and PacifiCorp (successor by merger to the Maine corporation named “Pacific Power & Light Company”), an Oregon corporation, as amended on or about October 11, 1991, July 13, 1998, September 14, 2004 and August 18, 2008 (and as may be subsequently amended, modified and supplemented from time to time, the “*Ownership and Operation Agreement*”);

WHEREAS, NorthWestern and Puget are parties to that certain Colstrip Unit 4 Purchase and Sale Agreement dated as of December 9, 2019, as amended by Amendment No. 1 to the Colstrip Unit 4 Purchase and Sale Agreement dated as of [●], 2020, whereby NorthWestern acquired a fifty percent (50%) undivided interest in Puget’s undivided interest in Colstrip Unit 4 (the “*NorthWestern Colstrip Unit 4 Acquisition Agreement*”);

WHEREAS, Talen and Puget are parties to that certain Colstrip Unit 4 Purchase and Sale Agreement dated as of [●], 2020 whereby Talen acquired a fifty percent (50%) undivided interest in Puget’s undivided interest in Colstrip Unit 4 (the “*Talen Colstrip Unit 4 Acquisition Agreement*”); and

WHEREAS, the Parties desire to enter into this Agreement to govern their respective voting obligations under the Ownership and Operation Agreement with respect to Puget’s retained undivided interest in Colstrip Unit 3 and the undivided interest of each of NorthWestern and Talen in Colstrip Unit 4 acquired from Puget (the “*Shared Vote*”).

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements contained in this Agreement, and intending to be legally bound, the Parties agree as follows:

**ARTICLE 1  
DEFINITIONS & INTERPRETATION**

**Section 1.1 Definitions.** In this Agreement, the following capitalized terms have the meanings assigned below.

“AAA” has the meaning assigned to it in Section 4.2(a).

“*Appointee*” means any of a NorthWestern Appointee, a Puget Appointee, or a Talen Appointee.

“*Authorized Officer*” means, with respect to a Party, any officer of such Party.

“*Business Day*” means any day which is not a Saturday, Sunday or legal holiday in the state of Montana.

“*Colstrip 3 Proposal*” means a Proposal, other than a Unit 3 Decommissioning Proposal or Remediation Proposal, that relates primarily to Colstrip Unit 3, and does not involve the Common Facilities.

“*Colstrip 4 Proposal*” means a Proposal, other than a Unit 4 Decommissioning Proposal or Remediation Proposal, that relates primarily to Colstrip Unit 4, and does not involve the Common Facilities.

“*Colstrip Unit 3*” means such portion of the Project commonly known as “Colstrip Unit 3” and the corresponding interest in the Common Facilities and related facilities, real property and property rights.

“*Colstrip Unit 4*” means such portion of the Project commonly known as “Colstrip Unit 4” and the corresponding interest in the Common Facilities and related facilities, real property and property rights.

“*Common Facilities*” has the meaning assigned to it under the Ownership and Operation Agreement.

“*Dispute*” has the meaning assigned to it in Section 4.1.

“*Dispute Notice*” has the meaning assigned to it in Section 4.1.

“*Dispute Notice Response*” has the meaning assigned to it in Section 4.1.

“*Disapproval Statement*” means the written statement submitted to the other members of the Project Committee pursuant to Section 17(h) of the Ownership and Operation Agreement.

“*Governmental Authority*” means (i) the federal government of the United States of America, (ii) any state, county, municipality, or other governmental subdivision within the United States of America, and (iii) any executive, legislative or judicial court, department, commission, board, bureau, agency, or other instrumentality of the federal government of the United States of America or of any state, county, municipality, or other governmental subdivision within the United States of America.

“*Law*” means any applicable law, statute, rule, regulation, ordinance, standard, code, order, judgment, decision, writ, injunction, decree, certificate of need, award, or other governmental restrictions, including any published and publicly available policy or procedure enforceable by any Governmental Authority.

“*Mixed Proposal*” means a Proposal that is not a Colstrip 3 Proposal, Colstrip 4 Proposal, Unit 3 Decommissioning Proposal, Unit 4 Decommissioning Proposal, Unit 3 Budget Proposal, Unit 4 Budget Proposal, or Remediation Proposal. A Mixed Proposal may be either a Mixed Proposal for Replacement of Talen as Operator or a Mixed Proposal Other than for Replacement of Talen as Operator; provided, however, that if a Mixed Proposal may reasonably be classified in any category of Proposal other than as a Mixed Proposal for Replacement of Talen as Operator, such Proposal shall be classified in such other category. A Mixed Proposal Other than for Replacement of Talen as Operator shall include, but is not limited to, budget proposals for years for which there are no planned maintenance outages and budget proposals for years for which there are planned maintenance outages for both Unit 3 and Unit 4 which are of the exact same scheduled duration.

“*NorthWestern Appointee*” has the meaning assigned in Section 2.1(b).

“*NorthWestern Colstrip Unit 4 Acquisition Agreement*” has the meaning assigned to it in the Recitals.

“*NorthWestern’s Colstrip 4 Project Share*” means the 12.5% undivided interest in Colstrip Unit 4 acquired by NorthWestern from Puget, pursuant to the NorthWestern Colstrip Unit 4 Acquisition Agreement. For avoidance of doubt NorthWestern’s Colstrip 4 Project Share shall not include NorthWestern’s 30% undivided interest in Colstrip Unit 4 that was acquired by NorthWestern from The Montana Power Company and that at the time of this Agreement is subject to a separate vote sharing agreement.

“*Objection*” means an objection by a Party (or such Party’s Appointee) to the manner in which another Party’s Appointee intends to use the Shared Vote. Only Prudency Objections may be asserted under this Agreement.

“*Ownership and Operation Agreement*” has the meaning assigned to it in the Recitals.

“*Party Appointee*” means a Talen Appointee, a NorthWestern Appointee, or a Puget Appointee.

“*Person*” means any Governmental Authority or any individual, firm, partnership, corporation, limited liability company, joint venture, trust, unincorporated organization or other entity or organization.

“*Poll*” has the meaning assigned in Section 3.2(b).

“*Project*” has the meaning assigned to it under the Ownership and Operation Agreement.

“*Project Committee*” has the meaning assigned to it under the Ownership and Operation Agreement.

“*Proposal*” means any proposal being considered for action by the Project Committee.

“*Prudency Objection*” means an objection by a Party resulting from a good faith determination by an Authorized Officer of such Party that all or a portion of a Proposal would be inconsistent with Prudent Utility Practices (such determination to be made on the assumption that such Party is a long-term owner (and not merely a lessee) of such Party’s Project Share.

“*Prudent Utility Practices*” means the practices, methods and acts generally engaged in or approved by the electric utility industry in the United States for similarly situated facilities in the United States during a particular time period, in a manner consistent with Laws, reliability, safety and environmental protection, and taking into consideration the requirements of this Agreement, the contracts set forth on [Schedule 2.1(c)] to the NorthWestern Colstrip Unit 4 Acquisition Agreement and on [Schedule 2.1(c)] to the Talen Colstrip Unit 4 Acquisition Agreement, and the other contracts affecting the operation of the Project. Prudent Utility Practices are not necessarily intended to require the optimum or best practices, methods or acts to the exclusion of all others, but rather to include a spectrum of possible practices, methods or acts consistent with the immediately preceding sentence.

“*Puget Appointee*” has the meaning assigned in Section 2.1(b).

“*Puget’s Colstrip 3 Project Share*” means the 25% undivided interest in Colstrip Unit 3 owned by Puget.

“*Remediation Proposal*” means a Proposal primarily concerning the remediation of ground water or soil contamination located at Colstrip Unit 3 or Colstrip Unit 4 as required under applicable Laws.

“*Rules*” has the meaning assigned to it in Section 4.2(a).

“*Shared Vote*” has the meaning assigned to it in the Recitals.

“*Talen Appointee*” has the meaning assigned in Section 2.1(b).

“*Talen Colstrip Unit 4 Acquisition Agreement*” has the meaning assigned to it in the Recitals.

“*Talen’s Colstrip 4 Project Share*” means the 12.5% undivided interest in Colstrip Unit 4 acquired by Talen from Puget, pursuant to the Talen Colstrip Unit 4 Acquisition Agreement.

“*Unit 3 Budget Proposal*” means a Proposal regarding the Project’s budget for a year during which (i) Unit 3 is the only unit at the Project for which there is a planned maintenance outage, or (ii) both Unit 3 and Unit 4 have planned maintenance outages, but the scheduled duration of the planned maintenance outage for Unit 3 is longer than the scheduled duration of the planned maintenance outage for Unit 4.

“*Unit 3 Decommissioning Proposal*” means a Proposal regarding the decommissioning, mothballing, closure, retirement, deactivation, shut down, deconstruction, removal, or demolition of all or a portion of Colstrip Unit 3 alone.

“*Unit 4 Budget Proposal*” means a Proposal regarding the Project’s budget for a year during which (i) Unit 4 is the only unit at the Project for which there is a planned maintenance outage, or (ii) both Unit 3 and Unit 4 have planned maintenance outages, but the scheduled duration of the planned maintenance outage for Unit 4 is longer than the scheduled duration of the planned maintenance outage for Unit 3.

“*Unit 4 Decommissioning Proposal*” means a Proposal regarding the decommissioning, mothballing, closure, retirement, deactivation, shut down, deconstruction, removal, or demolition of all or a portion of Colstrip Unit 4 alone.

“*Unit 4 Owner*” means Talen and NorthWestern, individually, and “*Unit 4 Owners*” means Talen and NorthWestern, collectively.

**Section 1.2 Other Capitalization.** Unless otherwise defined in this Agreement (including the Recitals), all other capitalized terms used in this Agreement have the meanings assigned to such terms in the Ownership and Operation Agreement.

**Section 1.3 Interpretation.** Unless the context of this Agreement otherwise requires, (a) words of any gender include each other gender; (b) words using the singular or plural number also include the plural or singular number, respectively; (c) the terms “hereof,” “herein,” “hereby” and derivative or similar words refer to this entire Agreement; (d) the terms “Article” or “Section” refer to the specified Article or Section of this Agreement; and (e) any reference to the entirety or any part of any agreement or document shall refer to any amendment, supplement or replacement of the same. Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified.

## ARTICLE 2 APPOINTEES; GENERAL COVENANTS OF THE PARTIES

### **Section 2.1 Appointment Processes.**

(a) Unless otherwise agreed in writing by the Parties, each Appointee appointed pursuant to this Agreement shall (i) have sufficient financial and/or operational experience with electric energy plants similar to the Project, (ii) be an individual who is an employee of one of the Parties to this Agreement or one of their respective affiliates, and (iii) serve in accordance with the applicable terms and provisions of this Agreement and the Ownership and Operation Agreement.

(b) Puget shall appoint the individual and alternates who shall be entitled to use the Shared Vote on Puget’s behalf under this Agreement (the “*Puget Appointee*”). NorthWestern shall appoint the individual and alternates who shall be entitled to use the Shared Vote on NorthWestern’s behalf under this Agreement (the “*NorthWestern Appointee*”). Talen shall appoint the individual and alternates who shall be entitled to use the Shared Vote on Talen’s behalf under this Agreement (the “*Talen Appointee*”).

(c) Notice of any appointment made pursuant to this Section 2.1 shall be delivered in writing to the other Parties not later than one Business Day prior to the effective date of such appointment. Nothing in this Section 2.1 is intended to limit the Parties’ ability to agree in writing to alter the selection process for any Appointee. The Notice of appointment shall contain



contact information for the Appointee, including a physical mailing address, electronic mail address, and telephone number.

**Section 2.2 Appointee Obligations.** During his or her term each Appointee shall act in accordance with this Agreement. If an Appointee breaches any of its material obligations under this Agreement, such Appointee shall be removed by the appointing Party promptly after (a) receipt of written notice from the non-appointing Party, which notice shall describe the breach in reasonable detail, and (b) such appointing Party's or its Appointee's failure to cure such breach within five business days from the date such written notice is received. A replacement Appointee shall be selected in the manner of selecting the Appointee set forth in Section 2.1.

**Section 2.3 General Acknowledgments and Agreements.** The Parties hereby make the following acknowledgements and agreements:

(a) Wherever either Party's approval, consent or agreement is required under this Agreement, it is understood that such approval, consent or agreement shall not be unreasonably withheld, delayed or conditioned unless this Agreement specifically provides that a different standard should apply.

(b) The Parties shall maintain in confidence the communications, discussions and deliberations with the Appointees and between the Parties regarding the advice to, consultation with, and the establishment of strategy and casting of votes with respect to the Shared Vote; provided that (i) the obligation set forth herein shall not be construed to prohibit disclosure (A) to a Party's employees, shareholders, directors, officers, advisors, agents, representatives or lenders, (B) of information that is or becomes generally available to the public other than as a result of any improper disclosure of such information by the disclosing Party, or (C) of information required to be disclosed under applicable Laws and (ii) the Parties may mutually agree to disclose some or all of the communications, discussions or deliberations addressed hereby. Nothing in this Section 2.3(b) shall constitute a waiver of, or agreement not to assert, any attorney-client, work product, or other privilege unless otherwise available with respect to a Party, its Appointees and their separate deliberations and consultations.

(c) Nothing contained herein shall prohibit an Appointee from advancing any argument or taking any position at a Project Committee meeting inconsistent with the official vote being cast by the Shared Vote, and the Parties shall not interfere with an Appointee's efforts to communicate with the Project Committee on any matter before the Project Committee.

(d) This Agreement does not apply to rights, votes, approvals, consents, waivers or the like that are to be made or exercised directly by Owners or Project Users or the Operator (including by an individual appointed as a Party Appointee but only to the extent acting on behalf of such Owners or Project Users and not as a Party Appointee) under the Ownership and Operation Agreement (as opposed to rights, votes, approvals, consents, waivers or the like designed to be made or exercised by the members of the Project Committee or the Project Committee as a whole). The Party Appointees shall not have the power to bind the Parties beyond their ability to cast the Shared Vote hereunder; it being understood that Appointees may

waive Objections but do not, in capacities as such, have the power to waive any other rights under this Agreement.

**Section 2.4 Exclusive Remedies.** Furthermore, each Party agrees that its exclusive remedy for a breach of this Agreement shall be an action against the other Parties, and not its Appointee, in the manner permitted by this Agreement.

### **ARTICLE 3 THE VOTING PROCESS**

#### **Section 3.1 Voting Rights and Objections Generally.**

(a) With respect to any Colstrip 3 Proposal, Colstrip 4 Proposal, Mixed Proposal, Colstrip 3 Decommissioning Proposal, Colstrip 4 Decommissioning Proposal, Colstrip 3 Budget Proposal, Colstrip 4 Budget Proposal, or Remediation Proposal, the Shared Vote shall be cast strictly in accordance with this Agreement by the Party Appointee or Party Appointees as described in the table contained below in this Section 3.1(a). Objections shall be communicated as soon as possible but in any event prior to the casting of an official vote by the Project Committee as follows: (i) the Objection shall be communicated in writing delivered via email or verbally by telephone or in person to the other Parties' Appointees for any Proposal received on the day of the Project Committee meeting in which such Proposal is to be considered and (ii) the Objection shall be communicated in writing delivered via email or verbally by telephone or in person to the other Parties' Appointees for any Proposal received prior to the day of the Project Committee meeting in which such Proposal is to be considered. The Objections which may be raised and the manner in which the Shared Vote may be cast are set forth on the table below. If the Puget Appointee is designated in the table contained below in this Section 3.1(a) to cast the Shared Vote, and the Puget Appointee is absent from a Project Committee meeting and appropriate alternate arrangements consistent with the Ownership and Operation Agreement have not been made (except for such absences due to an emergency or similar circumstances beyond such Appointee's control), the Unit 4 Owners' Appointees may collectively cast the Shared Vote as determined in accordance with the provisions of this Section 3.1(a). If the Unit 4 Owners' Appointees are designated in the table contained below in this Section 3.1(a) to cast the Shared Vote, and one of such Unit 4 Owners' Appointees is absent from a Project Committee meeting and appropriate alternate arrangements consistent with the Ownership and Operation Agreement have not been made (except for such absences due to an emergency or similar circumstances beyond such Appointees' control), the other Unit 4 Owners' Appointee may cast the Shared Vote as determined in accordance with the provisions of this Section 3.1(a). If the Unit 4 Owners' Appointees are designated in the table contained below in this Section 3.1(a) to cast the Shared Vote, and both of such Appointees are absent from a Project Committee meeting and appropriate alternate arrangements consistent with the Ownership and Operation Agreement have not been made (except for such absences due to an emergency or similar circumstances beyond such Appointees' control), the Puget Appointee may cast the Shared Vote as determined in accordance with the provisions of this Section 3.1(a).

<b>Subject Matter</b>	<b>Voting Rights if no Objection is Raised</b>	<b>Permitted Objections</b>	<b>Default Resolution in Event of Objection or Disagreement between Unit 4 Owners' Appointees</b>
<b>Colstrip 3 Proposal</b>	Puget Appointee casts the Shared Vote	<i>None</i>	Not Applicable
<b>Colstrip 4 Proposal</b>	Unit 4 Owners' Appointees collectively cast the Shared Vote, if the Unit 4 Owners are in agreement regarding how to cast the Shared Vote	<i>None</i>	If the Unit 4 Owners' Appointees are not in agreement regarding how to cast the Shared Vote, the Unit 4 Owners' Appointees shall abstain from voting on the Colstrip 4 Proposal, and no Shared Vote shall be cast with respect to such Proposal under this Agreement.
<b>Mixed Proposal Other than for Replacement of Talen as Operator</b>	Unit 4 Owners' Appointees collectively cast the Shared Vote, if the Unit 4 Owners are in agreement regarding how to cast the Shared Vote	<i>Prudency Objection:</i> The Puget Appointee shall be entitled to raise a Prudency Objection.	<p>If the Puget Appointee raises a Prudency Objection, the Unit 4 Owners' Appointees shall collectively cast the Shared Vote consistent with the results of a valid Poll conducted in accordance with <u>Section 3.2</u>. So long as such a Poll may be conducted, <u>Article 4</u> does not apply to Prudency Objections.</p> <p>If the Puget Appointee does not raise a Prudency Objection, but the Unit 4 Owners' Appointees are not in agreement regarding how to cast the Shared Vote, the Unit 4 Owners' Appointees shall abstain from voting on the Mixed Proposal, and no Shared Vote shall be cast with respect to such Proposal under this Agreement.</p>

Subject Matter	Voting Rights if no Objection is Raised	Permitted Objections	Default Resolution in Event of Objection or Disagreement between Unit 4 Owners' Appointees
<b>Mixed Proposal for Replacement of Talen as Operator</b>	NorthWestern Appointee casts the Shared Vote	<i>Prudency Objection:</i> Either or both the Puget Appointee and the Talen Appointee shall be entitled to raise a Prudency Objection.	If either the Puget Appointee or the Talen Appointee raises a Prudency Objection, the NorthWestern Appointee shall cast the Shared Vote consistent with the results of a valid Poll conducted in accordance with <u>Section 3.2</u> . So long as such a Poll may be conducted, <u>Article 4</u> does not apply to Prudency Objections.
<b>Unit 3 Budget Proposal</b>	Puget Appointee casts the Shared Vote	<i>None</i>	Not Applicable
<b>Unit 4 Budget Proposal</b>	Unit 4 Owners' Appointees collectively cast the Shared Vote, if the Unit 4 Owners are in agreement regarding how to cast the Shared Vote	<i>None</i>	If the Unit 4 Owners' Appointees are not in agreement regarding how to cast the Shared Vote, the Unit 4 Owners' Appointees shall abstain from voting on the Unit 4 Budget Proposal, and no Shared Vote shall be cast with respect to such Proposal under this Agreement.
<b>Unit 4 Decommissioning Proposal</b>	Unit 4 Owners' Appointees collectively cast the Shared Vote, if the Unit 4 Owners are in agreement regarding how to cast the Shared Vote	<i>Prudency Objection:</i> The Puget Appointee shall be entitled to raise a Prudency Objection.	If the Puget Appointee raises a Prudency Objection, the Unit 4 Owners' Appointees shall collectively cast the Shared Vote consistent with the results of a valid Poll conducted in accordance with <u>Section 3.2</u> . So long as such a Poll may be conducted, <u>Article 4</u> does not apply to Prudency Objections.  If the Puget Appointee does not raise a Prudency Objection, but the Unit 4

Subject Matter	Voting Rights if no Objection is Raised	Permitted Objections	Default Resolution in Event of Objection or Disagreement between Unit 4 Owners' Appointees
			Owners' Appointees are not in agreement regarding how to cast the Shared Vote, the Unit 4 Owners' Appointees shall abstain from voting on the Unit 4 Decommissioning Proposal, and no Shared Vote shall be cast with respect to such Proposal under this Agreement.
<b>Unit 3 Decommissioning Proposal</b>	Puget Appointee casts the Shared Vote	<i>Prudency Objection:</i> Either or both the NorthWestern Appointee and the Talen Appointee shall be entitled to raise a Prudency Objection with respect to any Unit 3 Decommissioning Proposal for the deconstruction, removal, or demolition of all or a portion of Colstrip Unit 3.	If either or both the NorthWestern Appointee and the Talen Appointee raise a Prudency Objection, the Puget Appointee shall cast the Shared Vote consistent with the results of a valid Poll conducted in accordance with <u>Section 3.2</u> . So long as such a Poll may be conducted, <u>Article 4</u> does not apply to Prudency Objections.
<b>Remediation Proposal</b>	Puget Appointee casts the Shared Vote	<i>Prudency Objection:</i> Either or both the NorthWestern Appointee and the Talen Appointee shall be entitled to raise a Prudency Objection.	If either or both the NorthWestern Appointee and the Talen Appointee raise a Prudency Objection, the Puget Appointee shall cast the Shared Vote consistent with the results of a valid Poll conducted in accordance with <u>Section 3.2</u> . So long as such a Poll may be conducted, <u>Article</u>

Subject Matter	Voting Rights if no Objection is Raised	Permitted Objections	Default Resolution in Event of Objection or Disagreement between Unit 4 Owners' Appointees
			4 does not apply to Prudency Objections.

(b) In connection with any Colstrip 3 Proposal, Colstrip 4 Proposal, Mixed Proposal, Unit 3 Decommissioning Proposal, Unit 4 Decommissioning Proposal, Unit 3 Budget Proposal, Unit 4 Budget Proposal, or Remediation Proposal, the Puget Appointee, the NorthWestern Appointee, and the Talen Appointee agree to cooperate reasonably and consult with one another regarding the classification of such Proposal and the establishment of strategy and casting of the Shared Vote in accordance with and subject to the terms of this Agreement. This covenant to cooperate includes, without limitation, the obligation to provide each other Party with notice of any conflict or disagreement regarding classification of a Proposal as soon as reasonably practicable, and in any event within two (2) Business Days following the Parties' receipt of such Proposal in accordance with the provisions of the Ownership and Operation Agreement. If a Proposal may reasonably be classified in more than one category of Proposal, such Proposal shall (except as otherwise provided in the definition of "Mixed Proposal" with respect to Mixed Proposals for Replacement of Talen as Operator) be classified in the category to which the Proposal primarily relates. Without limiting any provision of Section 3.1(a), if the Puget appointee, the NorthWestern Appointee, and the Talen Appointee are unable to agree upon the appropriate classification of a Proposal within seven (7) days after the Parties' receipt of notice of such Proposal, the dispute regarding classification shall be resolved in accordance with Article 4, and the classification of such Proposal as determined in accordance with Article 4 shall be binding upon the Parties. If, despite the good faith efforts of the Parties, the Project Committee vote occurs prior to resolution of a disagreement regarding classification of a Proposal, the Shared Vote shall not be cast.

(c) In each instance in which the Shared Vote is cast, the Puget Project Committee member shall, without regard to the Party or Parties authorized to cast such Shared Vote under this Agreement, be deemed for purposes of Section 17(f) of the Ownership and Operation Agreement to have voted in a manner consistent with such Shared Vote.

**Section 3.2 The Conduct and Results of a Prudency Objection Poll.**

(a) If a Party Appointee asserts a Prudency Objection, the applicable Party or Parties that are entitled to cast the vote pursuant to Section 3.1 shall request that the Project Committee conduct a Poll regarding such Proposal as follows: (i) if the Prudency Objection is asserted on the day of or during the Project Committee meeting in which the Proposal is to be considered, such Party or Parties shall request during the Project Committee meeting that a Poll be conducted during such meeting and (ii) if the Prudency Objection is asserted prior to the day of the Project Committee meeting in which the Proposal is to be considered, such Party or Parties shall give notice both telephonically and by email to the Party asserting the Prudency Objection that such Party or Parties will request that a Poll be taken at the Project Committee meeting.

(b) A valid “Poll” is one in which the Party Appointees and the Project Committee members representing the other Project Users present their respective good faith indications of how they intend to vote on the Proposal being considered. For purposes of conducting the Poll, the Project Shares of each Party shall be tallied separately. Therefore, the results of a valid Poll shall present a pure tally of the Project Users’ positions with respect to a Proposal based on each Project User’s separate Project Share. For purposes of such Poll a Proposal shall be deemed approved if the Proposal is approved by Party Appointees and other Project User Project Committee members representing not less than the minimum percentage of the Project Shares (as determined in accordance with Section 3.2(b)) required for approval of such Proposal under the Ownership and Operation Agreement, without application of the requirement of Section 17(f) of the Ownership and Operation Agreement for approval by the Operator’s Project Committee member and two other Project Committee members. The official Shared Vote on the Proposal being considered in the Poll shall be cast consistent with the results of the Poll in light of the voting and approval requirements that are applicable to such Proposal under the Ownership and Operation Agreement (i.e., either approved or not approved). The fact that a Party Appointee or other Project User’s Project Committee member casts an official vote on the Proposal that differs from its Poll vote shall have no bearing on the validity of the official Shared Vote. The Shared Vote cast may be changed only upon the concurrence of all of the Parties, and in accordance with the terms and provisions of the Ownership and Operation Agreement.

(c) Where Puget, through its Appointee, has cast the Shared Vote to reject (or not approve) a Proposal, Puget shall have the sole right and, as among the Parties, the responsibility to submit a Disapproval Statement, and the Unit 4 Owners shall have no right to submit a Disapproval Statement representing the Shared Vote relating to such rejected (or unapproved) Proposal. Where the Unit 4 Owners, through their Appointees, have abstained from voting on a Proposal or have cast the Shared Vote to reject (or not approve) a Proposal, the Unit 4 Owners shall have the sole right and, as among the Parties, the responsibility to submit a Disapproval Statement, and Puget shall have no right to submit a Disapproval Statement representing the Shared Vote relating to such rejected (or unapproved) Proposal. If the Shared Vote was not cast for any other reason, Puget, on the one hand, and the Unit 4 Owners, on the other hand, shall attempt to submit, through the Puget Project Committee member, a joint Disapproval Statement that contains the Parties’ positions on, and alternatives with respect to, the Proposal. If two or more Parties are submitting a Disapproval Statement, such Parties shall reasonably cooperate to prepare and submit a Disapproval Statement on behalf of the Shared Vote that present positions and alternative proposals that are agreeable to such Parties; it being the express preference of this Agreement that a Disapproval Statement actually be submitted within the time periods required under the Ownership and Operation Agreement.

## **ARTICLE 4 DISPUTE RESOLUTION**

**Section 4.1 Mutual Discussions.** If any dispute or difference of any kind whatsoever shall arise between the Parties in connection with, or arising out of, this Agreement or the interpretation, performance, breach, termination or validity hereof, including without limitation any claim based on contract, text or statute (the “*Dispute*”), the Parties shall attempt to settle such Dispute in the first instance by mutual discussions in accordance with this Section 4.1. Within seven (7) Business Days of the receipt by any Party of a notice from any other Party of

the existence of a Dispute referring to this Article 4 (the “*Dispute Notice*”), the receiving Party shall reply with a written response (a “*Dispute Notice Response*”). Both the Dispute Notice and the Dispute Notice Response shall include (i) a statement of the relevant Party’s position with regard to the Dispute and a summary of arguments supporting such position; and the name and title of the executive who will represent that Party in attempting to resolve the Dispute pursuant to this Section 4.1. Within seven (7) Business Days of delivery of the Dispute Notice Response, the designated executives shall meet and attempt to resolve the Dispute. All negotiations pursuant to this clause shall be confidential and shall be treated as compromise and settlement negotiations, and no oral or documentary representations or offers made by the Parties during such negotiations shall be admissible for any purpose in any subsequent proceedings.

**Section 4.2 Arbitration.** If any Dispute is not resolved within thirty (30) days of receipt of a Dispute Notice pursuant to Section 4.1, then, upon any Party’s request, the Dispute shall be finally and exclusively resolved by arbitration as follows:

(a) The arbitration shall be held accordance with the Commercial Arbitration Rules (the “*Rules*”) of the American Arbitration Association (the “AAA”), then in effect, except as modified herein. The arbitration shall be held, and the award shall be issued in Billings, Montana.

(b) The Parties shall appoint an arbitrator satisfactory to all Parties. If the arbitrator is not appointed within the time limit provided herein, such arbitrator shall be appointed by the AAA by using a listing, striking and ranking procedure in accordance with the Rules. Any arbitrator appointed by the AAA shall be a retired judge, preferably from a Federal District Court or Federal Court of Appeals, or a practicing attorney with no less than twenty (20) years of experience and an experienced arbitrator and if possible shall have experience with disputes relating to electric power infrastructure.

(c) The hearing shall be held, if possible, within four (4) months after the appointment of the arbitrator, or as soon thereafter as is reasonably practicable.

(d) By agreeing to arbitration, the entities signing this Agreement do not intend to deprive any court of its jurisdiction to issue a pre-arbitral injunction, pre-arbitral attachment, or other order in aid of arbitration proceedings and the enforcement of any award. Without prejudice to such provisional remedies as may be available under the jurisdiction of a court, the arbitrator shall have full authority to grant provisional remedies and to direct the entities signing this Agreement to request that any court modify or vacate any temporary or preliminary relief issued by such court, and to award damages for the failure of any entity signing this Agreement to respect the arbitrator’s orders to that effect.

(e) Any arbitration proceedings, decision or award rendered hereunder and the validity, effect and interpretation of this arbitration agreement shall be governed by the Federal Arbitration Act, 9 U.S.C. §1 et seq. In arriving at their decision, the arbitrator shall be bound by the terms and conditions of this Agreement and the Closing Documents (as defined in the NorthWestern Colstrip Unit 4 Acquisition Agreement and the Talen Colstrip Unit 4 Acquisition Agreement, respectively) and shall apply the governing law of this Agreement as designated in Section 7.3 hereof.



(f) Any controversy concerning whether a Dispute is an arbitrable Dispute or as to the interpretation or enforceability of this paragraph shall be determined by the arbitrator.

(g) The arbitrator is not empowered to award damages in excess of compensatory damages, and each Party hereby irrevocably waives any right to recover consequential, punitive, exemplary or similar damages with respect to any Dispute. The award, which shall be in writing and shall state the findings of fact and conclusions of law upon which it is based, shall be final and binding on the Parties and shall be the sole and exclusive remedy among the Parties regarding any claims, counterclaims, issues or accounting presented to the arbitrator. Judgment upon any award may be entered in any court of competent jurisdiction. In appropriate circumstances, the arbitrator shall have the authority to order a termination of this Agreement.

The arbitrator's award shall allocate, in their discretion, among the Parties to the arbitration all costs of the arbitration, including the fees and expenses of the arbitrator and reasonable attorneys' fees, costs and expert witness expenses of the Parties. The award shall be final and binding on the Parties and may be enforced in any court having jurisdiction.

## **ARTICLE 5 TERM & TERMINATION**

**Section 5.1** **Term.** This Agreement shall become effective as of the date first written above and shall continue in full force and effect until the end of the term of the Ownership and Operation Agreement in accordance with Section 32 thereof.

## **ARTICLE 6 REPRESENTATIONS AND WARRANTIES**

Each Party represents and warrants to the other Parties that, as of the Effective Date:

(a) such Party is duly formed and validly existing under the laws of the jurisdiction of its organization and is duly authorized to do business in each other jurisdiction in which it is required to be so qualified with full power and authority to perform its obligations hereunder and that the execution, delivery and performance of this Agreement has been duly authorized by such Party;

(b) this Agreement has been duly executed and delivered by such Party and constitutes the legal, valid, binding and enforceable obligation of such Party enforceable in accordance with its terms against such Party subject to the effect of bankruptcy, insolvency, moratorium and other similar Laws relating to creditors' rights generally, whether existing at law or in equity, by general equitable principles and by an implied covenant of good faith and fair dealing;

(c) no consent, approval or authorization of, or filing, registration or qualification with, any court or governmental authority on the part of such Party is required for the execution and delivery of this Agreement by such Party and the performance of its obligations and duties hereunder, other than those that have been made or obtained; and

(d) such Party is in material compliance with all Laws and legal requirements applicable to its business.

## ARTICLE 7 MISCELLANEOUS

**Section 7.1 Assignment: Third Party Beneficiaries.** A transfer or assignment by any Party of any part of its interest under this Agreement to any other Person (an “*Assignee*”) shall be subject to the non-assigning Parties’ receipt of written evidence that each of the following conditions has been satisfied: (a) the assigning Party shall be simultaneously transferring or assigning a corresponding portion of its Project Share, which is subject to this Agreement, to such Assignee, (b) such Assignee shall have assumed in writing the corresponding duties and obligations of the assigning Party which arise and are attributable to the period after the effective date of the assignment and (c) if a partial (but not a full) assignment of this Agreement is being effected, arrangements regarding the casting of the Shared Vote acceptable to the non-assigning Parties shall be agreed upon in writing (including, without limitation, by amending this Agreement). Except as explicitly provided herein, nothing in this Agreement, express or implied, is intended to confer on any person or entity other than the Parties and their successors and assigns permitted hereunder any rights, remedies, obligations or liabilities under or by reason of this Agreement.

**Section 7.2 Specific Performance.** The Parties hereby declare that it is impossible to measure in money the damages that will accrue to a Party hereto by reason of a failure to perform any of the obligations under this Agreement and agree that the terms of this Agreement shall be specifically enforceable. If any Party hereto institutes any action or proceeding to specifically enforce the provisions hereof, the Party against which such action or proceeding is brought hereby waives the claim or defense therein that such Party has an adequate remedy at law, and such Party shall not offer in any such action or proceeding the claim or defense that such remedy at law exists.

**Section 7.3 Governing Law.** THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF MONTANA WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES THAT WOULD RESULT IN THE APPLICATION OF THE LAWS OF ANY OTHER JURISDICTION.

**Section 7.4 Limitation on Certain Damages.** NOTWITHSTANDING ANYTHING IN THIS AGREEMENT TO THE CONTRARY, NO PARTY SHALL BE LIABLE FOR SPECIAL, PUNITIVE, SPECULATIVE, EXEMPLARY, INCIDENTAL, CONSEQUENTIAL OR INDIRECT DAMAGES, INCLUDING LOST PROFITS IN THE NATURE OF INDIRECT DAMAGES OR LOSS OF OPPORTUNITY DAMAGES, FOR ANY REASON WITH RESPECT TO THE SUBJECT MATTER OF THIS AGREEMENT, WHETHER BASED ON CONTRACT, TORT, STRICT LIABILITY, STATUTE, OTHER LAW OR OTHERWISE AND WHETHER OR NOT ARISING FROM ANY OTHER PARTY’S SOLE, JOINT OR CONCURRENT NEGLIGENCE, STRICT LIABILITY OR OTHER FAULT, UNLESS SUCH DAMAGES ARE AWARDED TO A PERSON IN AN INDEMNIFIABLE THIRD PARTY CLAIM OR ARE ATTRIBUTABLE TO THE FRAUD OR WILLFUL MISCONDUCT OF A PARTY.

**Section 7.5 Severability.** Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

**Section 7.6 Notices and Communications.** Except as otherwise provided in this Agreement, any notice, request, instruction or other document to be given hereunder by a Party hereto shall be in writing and shall be deemed to have been given (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient; or (d) on the third (3rd) Business Day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid

Notices to NorthWestern shall be addressed to the NorthWestern Appointee at the address provided pursuant to Section 2.1(c), with a copy to:

NorthWestern Corporation  
208 North Montana Ave. Suite 205  
Helena, MT 59601  
Attention: Legal Department  
Email: Heather.Grahame@northwestern.com and [John.Tabaracci@northwestern.com](mailto:John.Tabaracci@northwestern.com)

or at such other address and to the attention of such other Person as NorthWestern may designate by written notice to the other Parties.

Notices to Puget shall be addressed to the Puget Appointee at the address provided pursuant to Section 2.1(c), with a copy to:

Puget Sound Energy, Inc.  
355 110th Avenue NE  
Bellevue, WA 98004  
Attention: Legal Department  
Email: [Steve.Secrist@pse.com](mailto:Steve.Secrist@pse.com) and Samuel.Osborne@pse.com

or at such other address and to the attention of such other Person as Puget may designate by written notice to the other Parties.

Notices to Talen shall be addressed to the Talen Appointee at the address provided pursuant to Section 2.1(c), with a copy to:

Talen Montana, LLC  
1780 Hughes Landing Boulevard Suite 800  
The Woodlands, TX 77380  
Attn: General Counsel

Email: [Andrew.Wright@talenergy.com](mailto:Andrew.Wright@talenergy.com) and Damon.Obie@talenergy.com

or at such other address and to the attention of such other Person as Talen may designate by written notice to the other Parties.

**Section 7.7 Amendments and Waivers.** This Agreement may be amended, supplemented or otherwise modified only by a writing executed and delivered by each Party. No waiver of any right under this Agreement shall be binding unless such waiver is in a writing by the Party to be bound. No failure to exercise and no delay in exercising, on the part of any Party, any right, remedy, power or privilege under this Agreement, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege under this Agreement preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

**Section 7.8 Further Assurances.** Each of the Parties agrees to perform all such acts (including executing and delivering such instruments and documents) as reasonably may be requested by any other Party to fully effect the intent and each and all of the purposes of this Agreement.

**Section 7.9 Conflicts.** In the event of a conflict between either the NorthWestern Colstrip Unit 4 Acquisition Agreement or the Talen Colstrip Unit 4 Acquisition Agreement, on the one hand, and this Agreement, on the other hand, the terms and provisions of this Agreement shall govern.

**Section 7.10 Headings.** The Article and Section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

**Section 7.11 Survival.** The representations and warranties set forth in Article 6 shall survive the Effective Date.

**Section 7.12 Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be considered an original, but all of which together shall constitute a single instrument.

**Section 7.13 Contract Only, etc.** This Agreement creates a contractual relationship among the Parties and does not give rise to any fiduciary, quasi-fiduciary, partnership or other special relationship which would result in the implication of rights, duties or standards of care or performance other than such rights, duties and standards as would attend a contract between sophisticated commercial parties each represented by separate counsel.

*[Signature Page Follows]*

IN WITNESS WHEREOF, this Agreement has been signed by or on behalf of each of the Parties as of the day first above written.

**NORTHWESTERN CORPORATION**

By: \_\_\_\_\_  
Name:  
Title:

**PUGET SOUND ENERGY, INC.**

By: \_\_\_\_\_  
Name:  
Title:

**TALEN MONTANA, LLC**

By: \_\_\_\_\_  
Name:  
Title:

# **ATTACHMENT E**

*Execution Version*

**COLSTRIP UNIT 4 PURCHASE AND SALE AGREEMENT**

**by and between**

**TALEN MONTANA, LLC**

**and**

**PUGET SOUND ENERGY, INC.**

**Dated as of August 14, 2020**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
ARTICLE 1 DEFINITIONS.....	1
Section 1.1    Certain Defined Terms.....	1
Section 1.2    Interpretation.....	10
ARTICLE 2 PURCHASE AND SALE OF THE COLSTRIP 4 INTERESTS .....	11
Section 2.1    Purchase and Sale of Colstrip 4 Interests.....	11
Section 2.2    Purchase Price.....	12
Section 2.3    Assumption of Liabilities.....	12
Section 2.4    Ad Valorem Real and Personal Property Taxes. ....	13
ARTICLE 3 CLOSING; CONDITIONS PRECEDENT.....	13
Section 3.1    Closing.....	13
Section 3.2    Closing Deliveries by Buyer.....	14
Section 3.3    Closing Deliveries by Seller. ....	14
Section 3.4    Conditions Precedent to the Closing Obligations of Buyer.....	15
Section 3.5    Conditions Precedent to the Closing Obligations of Seller. ....	16
Section 3.6    Failure to Close.....	17
ARTICLE 4 REPRESENTATIONS AND WARRANTIES OF SELLER.....	17
Section 4.1    Organization and Good Standing.....	17
Section 4.2    Authority.....	17
Section 4.3    Enforceability.....	17
Section 4.4    Title to Colstrip 4 Interests. ....	18
Section 4.5    No Violation or Breach.....	18
Section 4.6    Consents.....	18
Section 4.7    Material Contracts.....	18
Section 4.8    No Disputes; Litigation.....	18
Section 4.9    Brokerage Fees and Commissions.....	18
Section 4.10   Bankruptcy.....	18
Section 4.11   Records. ....	19
Section 4.12   Amendment of NorthWestern Colstrip Unit 4 Acquisition Agreement.....	19
ARTICLE 5 REPRESENTATIONS AND WARRANTIES OF BUYER.....	19
Section 5.1    Organization and Qualification.....	19



Section 5.2	Authority.....	19
Section 5.3	Enforceability.....	19
Section 5.4	No Violation or Breach.....	19
Section 5.5	Consents.....	20
Section 5.6	No Disputes; Litigation.....	20
Section 5.7	Brokerage Fees and Commissions.....	20
Section 5.8	Bankruptcy.....	20
Section 5.9	Regulatory Matters.....	20
ARTICLE 6 ACCESS AND CONFIDENTIALITY .....		20
Section 6.1	General Access.....	20
Section 6.2	Confidential Information. ....	21
ARTICLE 7 COVENANTS OF SELLER AND BUYER .....		21
Section 7.1	Conduct of Business Pending Closing.....	21
Section 7.2	Public Announcements. ....	23
Section 7.3	Actions by Parties. ....	23
Section 7.4	Further Assurances.....	23
Section 7.5	Records. ....	24
Section 7.6	Regulatory and Other Authorizations and Consents Filings.....	24
Section 7.7	Fees and Expenses. ....	25
Section 7.8	Tax Matters. ....	26
Section 7.9	[Intentionally Omitted]. ....	26
Section 7.10	Updates to Disclosure Schedules.....	26
Section 7.11	Transfers of Interests.....	26
Section 7.12	Puget Transmission Assets. ....	27
Section 7.13	Delivery of Copies of Amendments to NorthWestern Colstrip Unit 4 Acquisition Agreement.....	27
Section 7.14	Buyer Purchase Right in Event of Failure of Closing to Occur Under NorthWestern Colstrip Unit 4 Acquisition Agreement. ....	27
ARTICLE 8 LIABILITY AND INDEMNIFICATION .....		27
Section 8.1	Survival.....	27
Section 8.2	AOC and CCR Rules. ....	27
Section 8.3	Decommissioning. ....	28
Section 8.4	Pension Costs.....	28

Section 8.5	Other Losses Allocated Based on Pre-Closing Date Project Shares.	29
Section 8.6	Losses Allocated Based on Post-Closing Date Project Shares.	29
Section 8.7	Disagreements Regarding Causes of Losses.	30
Section 8.8	Resolution if Executive Negotiations Do Not Succeed.	30
Section 8.9	Indemnification By Seller.	31
Section 8.10	Indemnification By Buyer.	32
Section 8.11	Third Party Claims.	32
Section 8.12	Direct Claims.	33
Section 8.13	Acknowledgement.	34
Section 8.14	Limitation on Certain Damages.	34
ARTICLE 9	TERMINATION AND REMEDIES	35
Section 9.1	Methods of Termination.	35
Section 9.2	Effect of Termination.	36
Section 9.3	No Liability.	36
ARTICLE 10	DISPUTE RESOLUTION	36
Section 10.1	Mutual Discussions.	36
Section 10.2	Arbitration.	37
ARTICLE 11	OTHER PROVISIONS	38
Section 11.1	Counterparts.	38
Section 11.2	Governing Law.	38
Section 11.3	Entire Agreement.	38
Section 11.4	Notices.	38
Section 11.5	Successors and Assigns.	39
Section 11.6	Amendments.	39
Section 11.7	Agreement for the Parties' Benefit Only.	39
Section 11.8	Severability.	40
Section 11.9	Bulk Sales or Transfer Laws.	40
Section 11.10	No Waiver.	40
Section 11.11	Cumulative Remedies.	40
Section 11.12	Further Assurances.	40
Section 11.13	Counterparts; Effectiveness.	40
Section 11.14	Specific Performance.	40

## EXHIBITS AND SCHEDULES

### Exhibits:

Exhibit A	Assignment and Assumption Agreement
Exhibit B	Excluded Assets
Exhibit C	Power Purchase Agreement
Exhibit E	Water Rights Transfer Certificate
Exhibit F	Vote Sharing Agreement
Exhibit G	Buyer's Officer's Certificate
Exhibit H	Seller's Officer's Certificate
Exhibit I	Form of Deed Conveying Seller's Interest

### Schedules:

Schedule 1.1	Water Rights
Schedule 2.1(a)	Real Property
Schedule 2.1(b)	Common Facilities Interest and Associated Assets
Schedule 2.1(c)	Material Contracts
Schedule 4.4	Title to Colstrip 4 Interests
Schedule 4.5	No Violation or Breach
Schedule 4.6	Seller's Consents
Schedule 4.7	Material Contracts
Schedule 5.5	Buyer's Consents
Schedule 7.1	Conduct of Business Pending Closing
Schedule 8.5	Other Losses Allocated Based on Pre-Closing Project Shares
Schedule 8.6	Losses Allocated Based on Post-Closing Project Shares

## **COLSTRIP UNIT 4 PURCHASE AND SALE AGREEMENT**

THIS COLSTRIP UNIT 4 PURCHASE AND SALE AGREEMENT (this “*Agreement*”), dated as of August 14, 2020, is by and between TALEN MONTANA, LLC, a Delaware limited liability company (“*Buyer*”), and PUGET SOUND ENERGY, INC., a Washington public utility corporation (“*Seller*”). Buyer and Seller are sometimes referred to herein individually as a “*Party*” and, collectively, as the “*Parties*.”

### **RECITALS**

WHEREAS, Seller is the Owner with respect to a twenty-five percent (25%) undivided interest in the 740MW Colstrip Unit 4, a coal-fired, base-load electric generation facility located in Colstrip, Montana (“*Colstrip Unit 4*”) and in all associated real property, equipment, common real property and common equipment and facilities and all rights incidental thereto, as more specifically defined in Section 2.1 (the “*PSE Colstrip 4 Interests*”).

WHEREAS, Seller is a party to a Colstrip Unit 4 Purchase and Sale Agreement dated as of December 9, 2019 by and between NorthWestern Corporation, a Delaware corporation (“*NorthWestern*”), and Seller, under which Seller has agreed to sell, and NorthWestern has agreed to purchase, the PSE Colstrip 4 Interests (such agreement, as amended, the “*NorthWestern Colstrip Unit 4 Acquisition Agreement*”).

WHEREAS, in accordance with its rights of first refusal under Section 24(f) of the Ownership and Operation Agreement (as hereinafter defined), Buyer has exercised its rights to acquire from Seller a fifty percent (50%) undivided interest in the PSE Colstrip 4 Interests (such fifty percent (50%) undivided interest, the “*Colstrip 4 Interests*”).

WHEREAS, Seller desires to sell and convey to Buyer, and Buyer desires to purchase and acquire from Seller, the Colstrip 4 Interests on the terms and subject to the conditions hereinafter set forth.

WHEREAS, Seller and Buyer are entering into this Agreement to evidence their respective duties, obligations, and responsibilities in respect of the purchase and sale of the Colstrip 4 Interests as contemplated herein.

WHEREAS, certain capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in ARTICLE 1 hereof.

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements contained in this Agreement, and intending to be legally bound, the Parties agree as follows:

### **ARTICLE 1 DEFINITIONS**

**Section 1.1 Certain Defined Terms.** As used in this Agreement, the following terms have the respective meanings set forth below or set forth in the Sections referred to below:

“AAA” is defined in Section 10.2(a).

“*Action*” means any action, suit, investigation of which Seller has Knowledge, proceeding, condemnation, or audit by or before any court or other Governmental Authority or any arbitration proceeding.

“*Ad Valorem Property*” is defined in Section 2.4(a).

“*Affiliate*” means, as to the Person specified, any Person controlling, controlled by or under common control with such specified Person. The concept of control, controlling or controlled by as used in the aforesaid context means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of another, whether through the ownership of voting securities, by contract or otherwise. No Person shall be deemed an Affiliate of any Person solely by reason of the exercise or existence of rights, interests, or remedies under this Agreement.

“*Agreement*” is defined in the preamble.

“*Allocation Dispute Notice*” is defined in Section 8.7.

“*Allocation Dispute Notice Response*” is defined in Section 8.7.

“*AOC*” means the means the Administrative Order on Consent Regarding Impacts Related to Wastewater Facilities Comprising the Closed-Loop System at Colstrip Steam Electric Station, Colstrip Montana entered into between PPL Montana, LLC (n/k/a Talen Montana, LLC) and the Montana Department of Environmental Quality in July and August of 2012, as amended by the March 1, 2017 Agreement to Amend Administrative Order on Consent.

“*Assignment and Assumption Agreement*” means an Assignment of the Material Contracts from Seller to Buyer to be dated as of the Closing Date and substantially in the form set forth on Exhibit A.

“*Assumed Liabilities*” is defined in Section 2.3.

“*Business Day*” means any day which is not a Saturday, Sunday, or legal holiday in the state of Montana.

“*Buyer*” is defined in the preamble.

“*Buyer’s Consents*” means the consents, filings and notices required to be obtained by Buyer and delivered at the Closing as listed on Section 5.5.

“*Buyer Fundamental Representations*” means the representations and warranties of Buyer set forth in Section 5.1 (Organization and Qualification), Section 5.2 (Authority), Section 5.3 (Enforceability), and Section 5.7 (Brokerage Fees and Commissions).

“*CCR Rules*” means those Environmental Laws relating to the release, discharge, disposal, storage, remediation, or removal of coal combustion residuals, including those rules

issued by the United States Environmental Protection Agency pursuant to subtitle D of the Resource Conservation and Recovery Act.

“*Closing*” means the consummation of the transaction contemplated by this Agreement as further defined in Section 3.1.

“*Closing Date*” is defined in Section 3.1.

“*Closing Documents*” means the documents to be delivered by Buyer and Seller at the Closing in accordance with Section 3.2 and Section 3.3, respectively.

“*Code*” means the Internal Revenue Code of 1986, as amended.

“*Colstrip 4 Interests*” is defined in the Recitals and further defined in Section 2.1.

“*Colstrip Project Transmission Agreement*” means the Colstrip Project Transmission Agreement dated as of September 27, 2013 by and among NorthWestern Corporation, Puget Sound Energy, Inc., Avista Corporation, Portland General Electric Company and PacifiCorp, as amended.

“*Colstrip Unit 3*” means the coal-fired thermal generating plant commonly referred to as Colstrip Unit 3, located near Colstrip, Montana.

“*Colstrip Unit 4*” is defined in the Recitals.

“*Colstrip Units 1 & 2*” means the coal-fired thermal generating plant, consisting of two units commonly referred to as “Colstrip Units 1 & 2,” located near Colstrip, Montana.

“*Commercially Reasonable Efforts*” means efforts which are reasonably necessary to cause, or assist in, the consummation of the transactions contemplated by this Agreement and which do not require the performing Party to (i) expend funds, incur expenses or assume liabilities other than those which are reasonable in nature and amount within the context of the transactions contemplated by this Agreement or (ii) amend, waive or terminate the material terms of any Material Contract or arrangement to which the performing Party is a party; *provided* that the Parties will cooperate to amend the Ownership and Operation Agreement and to replace the Common Facilities Agreement to the degree required to give effect to the transactions contemplated by this Agreement.

“*Committee*” has the meaning assigned to it under the Ownership and Operation Agreement.

“*Common Facilities*” has the meaning assigned to it under the Ownership and Operation Agreement.

“*Common Facilities Agreement*” means the Common Facilities Agreement dated as of May 6, 1981, by and among Puget Sound Energy, Inc., Avista Corporation, Portland General Electric Company, PacifiCorp, NorthWestern Corporation, and Talen Montana, LLC, as amended by Amendment No. 1 dated as of January 21, 1992 (to the extent of the survival of any

rights and obligations under such agreement following the termination of such agreement in January 2020), and any replacement of or successor to such agreement.

“*Common Facilities Interest*” is defined in Section 2.1(b).

“*Confidentiality Agreement*” is defined in Section 6.2.

“*Damages*” is defined in Section 8.9.

“*Debt*” of any Person means at any date, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business and payable not more than 12 months from the date of incurrence, (iv) all obligations of such Person as lessee under any lease of any property (whether real, personal or mixed) by that Person as lessee that, in conformity with GAAP, has been or would be required to be accounted for as a capital lease on the consolidated balance sheet of that Person, (v) the undrawn face amount of any outstanding letters of credit issued in favor of such Person, and all obligations of such Person to reimburse or prepay any bank or other Person in respect of amounts paid under a letter of credit, banker’s acceptance or similar instrument, (vi) all Debt or other monetary obligations (of such Person or of others) secured by any mortgage, lien, pledge, charge, security interest or encumbrance of any kind on any asset of such Person, whether or not such Debt or other monetary obligation is assumed by such Person, (vii) all obligations of such Person to pay a specified purchase price for assets, goods, securities or services whether or not delivered or accepted (including take-or-pay arrangements and similar obligations), (viii) all obligations of such Person under conditional sale or other title retention agreements (even if the remedies of the sellers or lenders under such agreements in the event of a default thereunder are limited to the repossession or sale of the property or assets covered thereby), and (ix) all Debt or other monetary obligations of others in respect of which such Person has any contingent liability, including without limitation any guarantee.

“*Disclosure Schedule*” is defined in the preamble of ARTICLE 4.

“*Dispute*” is defined in Section 10.1.

“*Dispute Notice*” is defined in Section 10.1.

“*Dispute Notice Response*” is defined in Section 10.1.

“*Employee Benefit Plans*” means any retirement plan, welfare plan, stock option plan, equity or equity based plan, bonus plan, change-in-control, retention, incentive award plan, severance pay plan or policy, deferred compensation plan or policy, executive compensation or supplemental income plan or policy, vacation, sick leave, disability, death benefit, group insurance, hospitalization, medical, dental, life or any other employee benefit plan or program, including, without limitation, each “employee benefit plan” within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), “multiemployer plan” within the meaning of Section 4001(a)(3) of ERISA and other employee

benefit plan, program, policy, practice, agreement or arrangement, whether or not subject to ERISA.

“*Environmental Laws*” means any Law relating to pollution control or the protection of the environment, including: (a) (i) the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601 et seq., (ii) the Solid Waste Disposal Act, §§ 6901 et seq., (iii) the Federal Water Pollution Control Act, 33 U.S.C. §§ 1251 et seq., (iv) the Clean Air Act, 42 U.S.C. §§ 7401 et seq., (v) the Hazardous Materials Transportation Act, 49 U.S.C. §§ 1471 et seq., (vi) the Toxic Substances Control Act, 15 U.S.C. §§ 2601 et seq., and (vii) the Safe Drinking Water Act, 42 U.S.C. §§ 300f-300j; and (b) such Laws imposing requirements pertaining to (i) any Hazardous Substance, (ii) the manufacture, possession, presence, use, generation, transportation, treatment, storage, disposal, Release or threatened Release of any Hazardous Substance, (iii) reporting, licensing, permitting, or investigation in connection with such activities or (iv) any abatement, removal, remedial, corrective or other corrective action in connection with any Hazardous Substance; and (c) such Laws imposing requirements pertaining to the protection of health or safety of employees or the public.

“*Environmental Liabilities*” means all liabilities involving or arising out of the operation or ownership of the Colstrip 4 Interests and arising out of or resulting from or relating to any Environmental Law or any Hazardous Substance.

“*ERISA Affiliate Liability*” means any liabilities, obligations or responsibilities (whether contingent or otherwise) imposed by law on Seller relating to any Employee Benefit Plan maintained by any trade or business (whether or not incorporated) which are or have been within the last six years under common control with Seller within the meaning of Section 414(b), (c), (m) or (o) of the Code (an “*ERISA Affiliate*”), including (i) liability to any multiemployer plan contributed to, or obligated to contribute to, by the Seller or any of their ERISA Affiliates, including without limitation any liability to the Pension Benefit Guaranty Corporation under Title IV of ERISA and (ii) liability with respect to non-compliance with the notice and benefit continuation requirements of COBRA.

“*Excluded Assets*” means those assets listed on Exhibit B.

“*FERC*” means the Federal Energy Regulatory Commission, or any successor to its functions.

“*Final Order*” is defined in Section 8.12(h).

“*GAAP*” means generally accepted accounting principles consistently applied as in effect on the date of this Agreement in the United States.

“*Governmental Authority*” means (i) the federal government of the United States of America, (ii) any state, county, municipality, or other governmental subdivision within the United States of America, and (iii) any executive, legislative or judicial court, department, commission, board, bureau, agency, or other instrumentality of the federal government of the United States of America or of any state, county, municipality, or other governmental subdivision within the United States of America.



“*Hazardous Substance*” means any substance or material listed, defined or classified as a pollutant, contaminant, hazardous substance, toxic substance, hazardous waste or words of similar import under any Environmental Law, including petroleum, polychlorinated biphenyls, and asbestos in any form, or any coal combustion materials or by-products.

“*Indemnification Dispute Notice*” is defined in Section 8.12(b).

“*Indemnified Party*” is defined in Section 8.11(a).

“*Indemnifying Party*” is defined in Section 8.11(a).

“*Indemnity Claim Amount*” is defined in Section 8.12(b).

“*Knowledge*” means, with respect to Seller, the actual knowledge of any fact, circumstance, or condition, assuming reasonable inquiry of their direct reports, by Ron Roberts, and with respect to Buyer, the actual knowledge of any fact, circumstance, or condition, assuming reasonable inquiry of their direct reports, by Dale Lebsack.

“*Labor Laws*” means any and all Laws relating in any manner to employment, employees and/or individuals performing work as consultants or contractors, including employment standards, employment of minors, employment discrimination, health and safety, labor relations, unions, withholding, wages and hours and overtime of any kind, work authorization verification, workplace safety and insurance and pay equity.

“*Law*” means any law, statute, rule, regulation, ordinance, standard, code, order, judgment, decision, writ, injunction, decree, certificate of need, award, or other governmental restriction, including any published and publicly available policy or procedure enforceable by any Governmental Authority.

“*Lien*” means any lien, security interest, charge, claim, mortgage, deed of trust, option, warrant, purchase right, lease, pledge, easement, right-of-way, encroachment, building or use restrictions, conditional sales agreement or other encumbrance.

“*Losses*” means any and all claims, liabilities, losses, causes of action, damages, judgments, obligations, deficiencies, demands, fines, penalties, litigation, lawsuits, administrative proceedings, administrative investigations, costs, and expenses, Environmental Liabilities, and ERISA Affiliate Liability, including reasonable attorneys’ fees, court costs, investigator expenses, and other costs of suit.

“*Material Adverse Effect*” means a material and adverse effect on (i) the ability of Seller or Buyer to consummate the transactions contemplated by this Agreement or otherwise to comply with its obligations hereunder or (ii) the business, assets, financial condition, or results of operations comprising the Colstrip 4 Interests, in each case taken as a whole, including without limitation (a) any change in any applicable Law if such change has an effect on the Colstrip 4 Interests that is disproportionate to the effect on other coal generation facilities, (b) the Colstrip 4 Interests are substantially damaged or destroyed by any casualty event or a substantial portion of the Colstrip 4 Interests are taken, in part or on whole by any Governmental Authority, (c) changes or developments in national, regional, state, or local wholesale or retail markets for

electric power, fuel, or related products, including seasonal changes (including changes in commodity prices or the effects of actions by competitors), if such matters have an effect on the Colstrip 4 Interests that is disproportionate to the effect on other coal generation facilities; and (d) changes or developments in national, regional, state, or local electric transmission or distribution systems, if such matters have an effect on the Colstrip 4 Interests that is disproportionate to the effect on other coal generation facilities; provided, however, that such determination shall exclude (A) general economic or political conditions; (B) conditions generally affecting the industries in which the Colstrip 4 Interests operate; (C) any changes in financial, banking or securities markets in general, including any disruption and any decline in the price of any security or any market index or change in prevailing interest rates; (D) any adverse change or effect principally attributable to the announcement, pendency, or consummation of the transactions contemplated by this Agreement (including any action required or permitted by this Agreement with the written consent of or at the written request of Buyer, decrease in customer demand, any reduction in revenues, any disruption in supplier, partner or similar relationships, or any loss of employees attributable thereto but excluding any failure to obtain Required Regulatory Approvals); (E) any outbreak or escalation of hostilities or the declaration by the United States of a national emergency or war; (F) any failure by the Colstrip 4 Interests to meet any internal or published projections, forecasts or supply predictions; (G) any matter of which Buyer is aware of on the date hereof; or (H) any acts of terrorism, any other international or domestic calamity or crisis or geopolitical event, except to the extent such matters in subsections (A), (B), (C), (E) or (F) have an effect on the Colstrip 4 Interests that is disproportionate to the effect on other coal generation facilities.

“*Material Contracts*” is defined in Section 2.1(c).

“*MPSC*” means the Montana Public Service Commission.

“*NorthWestern*” is defined in the Recitals.

“*NorthWestern Colstrip Unit 4 Acquisition Agreement*” is defined in the Recitals.

“*NorthWestern Transmission Acquisition Agreement*” means the Colstrip Transmission System Purchase and Sale Agreement dated as of December 9, 2019 by and between NorthWestern and Seller, together with any amendments thereto.

“*Notice of Claim*” is defined in Section 8.12(a).

“*Operator*” means Buyer in its capacity as the operator of Colstrip Unit 3 and Colstrip Unit 4.

“*Owner*” has the meaning assigned to it under the Ownership and Operation Agreement.

“*Ownership and Operation Agreement*” means the Ownership and Operation Agreement, dated as of May 6, 1981, as amended by Amendment No. 1 dated as of October 11, 1991, Amendment No. 2 dated as of July 13, 1998, Amendment No. 3 dated as of September 14, 2004, and Amendment No. 4 dated as of August 18, 2008, and as may be subsequently amended, modified and supplemented from time to time, among Seller, Avista Corporation, Portland General Electric Company, PacifiCorp, NorthWestern, and Buyer.

“Party” is defined in the preamble.

“Permits” means written permits, licenses, franchises, registrations, variances and approvals obtained from any Governmental Authority.

“Permitted Liens” means (i) Liens for Taxes not yet due and payable, pledges or deposits made in the ordinary course of business under workers’ compensation legislation, unemployment insurance Laws or similar Laws, good faith deposits made in the ordinary course of business in connection with bids, tenders or contracts, including rent security deposits, (ii) in the case of the Real Property, encumbrances and other restrictions and irregularities to title which exist on the date hereof or on the Closing Date and which were not created by, through or under the Seller, (iii) rights reserved to or vested but not yet asserted respecting any Colstrip 4 Interests by any Governmental Authority by the terms of any franchise, grant, license, Permit or provision of applicable Law, to purchase, condemn, appropriate or recapture, or designate a buyer of the real property, (iv) rights reserved to or vested in any municipality or public authority to control or regulate the use of the real property or to use the real property in any manner, including zoning and land use regulations, and (v) mechanic and other similar liens for amounts not yet due or payable.

“Person” means any Governmental Authority or any individual, firm, partnership, corporation, limited liability company, joint venture, trust, unincorporated organization or other entity or organization.

“post-Closing Date Project Share” means the Project Share attributable to each of Buyer and Seller after giving effect to the transactions contemplated by this Agreement.

“PPA” means the Power Purchase Agreement between Buyer and Seller in the form set forth on Exhibit C.

“pre-Closing Date Project Share” means the Project Share attributable to each of Buyer and Seller as specified in the Ownership and Operation Agreement.

“Pre-Closing Period” is defined in Section 2.4(a).

“Project” has the meaning assigned to it under the Ownership and Operation Agreement.

“Project Share” has the meaning set forth in the Ownership and Operation Agreement.

“Project Users” has the meaning assigned to it under the Ownership and Operation Agreement.

“Prudent Utility Practices” means the practices, methods and acts generally engaged in or approved by the electric utility industry in the United States for similarly situated facilities in the United States during a particular time period, in a manner consistent with Laws, reliability, safety and environmental protection, and taking into consideration the requirements of this Agreement, the Material Contracts and the other contracts affecting the operation of the Colstrip 4 Interests. Prudent Utility Practices are not necessarily intended to require the optimum or best

practices, methods or acts to the exclusion of all others, but rather to include a spectrum of possible practices, methods or acts consistent with the immediately preceding sentence.

“*PSE Colstrip 4 Interests*” is defined in the Recitals.

“*Puget Transmission Assets*” has the meaning assigned to it under the NorthWestern Transmission Acquisition Agreement.

“*Purchase Price*” is defined in Section 2.2.

“*Real Property*” means the real property interests which are included as part of the Colstrip 4 Interest as set forth on Schedule 2.1(a).

“*Records*” means any and all of the books, records, contracts, agreements and files of the Seller existing on the Closing Date and pertaining to the Colstrip 4 Interests, excluding any information if disclosure to Buyer would, in Seller’s sole discretion, jeopardize any attorney-client, work-product or other privilege or other information reasonably deemed confidential by Seller.

“*Release*” means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing into the environment.

“*Representatives*” means officers, directors, employees and other agents of a particular Person.

“*Required Regulatory Approvals*” means such approvals as may be necessary from FERC under Section 203 of the Federal Power Act and from the Washington Utilities and Transportation Commission for the transfer of the Colstrip 4 Interests from Seller to Buyer; provided that an approval will not be deemed to have been obtained until the date after which all appeals have been fully adjudicated and an appeal may no longer be filed, regardless of whether an appeal is filed.

“*Retained Liabilities*” is defined in Section 2.1.

“*Rules*” is defined in Section 10.2.

“*Seller*” is defined in the preamble.

“*Seller’s Consents*” means the consents, filings and notices required to be obtained by Seller (other than the Required Regulatory Approvals) and delivered at the Closing as listed on Schedule 4.6.

“*Seller Fundamental Representations*” means the representations and warranties of Seller set forth in Section 4.1 (Organization and Good Standing), Section 4.2 (Authority), Section 4.3 (Enforceability), Section 4.4 (Title to Colstrip 4 Interests), and Section 4.9 (Brokerage Fees and Commissions).

“*Straddle Period*” is defined in Section 2.4(c).

“Tax” or “Taxes” means all federal, state, local, foreign and other net income, gross income, estimated, gross receipts, sales, use, ad valorem, transfer, franchise, profits, license, lease, service, service use, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property taxes and levied and pending assessments, windfall profits, value added, commercial rent, customs duties, capital gain, social security, royalty, documentary, environmental or other taxes, or fees, assessments, duties or charges in the nature or taxes, of any kind whatever, together with any interest and any penalties, additions to tax or additional amounts with respect thereto.

“Tax Return” means all returns and reports (including elections, declarations, disclosures, attachments, schedules, estimates, information returns, and amended returns and reports) required to be filed with respect to Taxes.

“Third Party Claim” is defined in Section 8.11(a).

“Transfer Taxes” means all sales, use, excise, stock, stamp, documentary, filing, recording, permit, license, authorization and other similar Taxes, filing fees and similar charges incurred by either Party in connection with the transactions contemplated hereby.

“Update” is defined in Section 7.10.

“Vote Sharing Agreement” means the Vote Sharing Agreement between Buyer and Seller in the form set forth on Exhibit F.

“Water Rights Transfer Certificate” means a water rights transfer certificate in the form set forth on Exhibit E pursuant to which Seller shall convey to Buyer the water rights listed on Schedule 1.1.

**Section 1.2 Interpretation.** This Agreement shall not be construed against either Party, and no consideration shall be given or presumption made, on the basis of who drafted this Agreement or any particular provision hereof or who supplied the form of this Agreement. In construing this Agreement:

(a) all references in this Agreement to an “Article,” “Section,” “subsection,” “Exhibit,” or “Schedule” shall be to an Article, Section, subsection, Exhibit, or Schedule of this Agreement, unless the context requires otherwise;

(b) unless the context otherwise requires, the words “this Agreement,” “hereof,” “hereunder,” “herein,” “hereby” or words of similar import shall refer to this Agreement as a whole and not to a particular Article, Section, subsection, clause or other subdivision hereof;

(c) whenever the context requires, the words used herein shall include the masculine, feminine and neuter gender, and the singular and the plural;

(d) examples shall not be construed to limit, expressly or by implication, the matter they illustrate;

(e) the word “includes” and its derivatives means “includes, but is not limited to” and corresponding derivative expressions;

(f) a defined term has its defined meaning throughout this Agreement and in each Exhibit and Schedule hereto, regardless of whether it appears before or after the place where it is defined;

(g) each Exhibit and Schedule to this Agreement is a part of this Agreement, and should be construed in light of each other;

(h) the headings and titles herein are for convenience only and shall have no significance in the interpretation hereof; and

(i) references to a Law, rule, regulation, contract, agreement, or other document mean that Law, rule, regulation, contract, agreement, or document as amended, modified, or supplemented, if applicable.

## **ARTICLE 2 PURCHASE AND SALE OF THE COLSTRIP 4 INTERESTS**

**Section 2.1 Purchase and Sale of Colstrip 4 Interests.** On the terms and subject to the conditions hereof, Seller covenants and agrees to sell, assign and transfer to Buyer all of Seller’s right, title and interest in, and Buyer covenants and agrees to purchase from Seller, effective as of the Closing, all of Seller’s right, title and interest in, all of the Colstrip 4 Interests, free and clear of any and all Liens, other than Permitted Liens and excluding the Excluded Assets (as hereinafter defined). The assets, properties and rights to be purchased or otherwise transferred to Buyer under this Agreement, all of which solely relate to the Colstrip 4 Interests and, except for Excluded Assets, constitute, or will constitute as of Closing, all of Seller’s interests in or to the Colstrip 4 Interests, are as follows:

(a) all of Seller’s ownership rights to the Real Property;

(b) the portion of Seller’s interest in the Common Facilities and associated assets as described on Schedule 2.1(b) which are associated with the Colstrip 4 Interests (the “*Common Facilities Interest*”);

(c) the portion of Seller’s rights under the contracts, leases and agreements related to the Colstrip 4 Interests and which are associated with the Colstrip 4 Interests, including the contracts, leases and agreement that are set forth on Schedule 2.1(c) (the “*Material Contracts*”);

(d) notwithstanding the provisions of Section 2.1(a)-(c) above, the Colstrip 4 Interests shall not include (and the Seller shall retain and the Buyer shall not assume):

(i) all of Seller’s rights and interests related to its interest in Colstrip Units 1 & 2 and Colstrip Unit 3 including interests in Common Facilities and associated assets, rights under contracts, leases and agreements, and ownership rights to real property, to the extent such rights are associated with Seller’s continued ownership of Colstrip Units 1 & 2 and a portion of Colstrip Unit 3;

(ii) claims arising out of liabilities occurring prior to Closing, including Environmental Liabilities and pension liabilities to the extent and as provided for in Sections 8.2, 8.4 and 8.5;

(iii) claims arising out of those items listed on Schedule 8.5 and as provided for in Section 8.5;

(iv) future decommissioning and demolition costs in connection with the Colstrip 4 Interests to the extent and as provided for in Section 8.3;

(v) any obligation or liability related to or arising out of any of the Excluded Assets;

(vi) any obligation or liability related to or arising out of Actions pending as of the Closing Date against the Seller or any of its Affiliates;

(vii) any obligation or liability (including any future Actions) related to or arising out of the Seller's conduct of the business or ownership of the Colstrip 4 Interests prior to the Closing;

(viii) any ERISA Affiliate Liability or any obligation or liability related to or arising out of any collective bargaining agreement of the Seller, whether prior to, on or after the Closing;

(ix) any ERISA Affiliate Liability or any obligation, liability or expense relating to or arising out of (A) the employment or termination of employment or consultancy of any employee or consultant, or former employee or consultant of the Operator, on or prior to the Closing, (B) any collective bargaining agreement of the Operator on or prior to the Closing or (C) compliance with or violations of any Labor Laws by the Operator on or prior to the Closing;

(x) any obligation or liability of any kind or nature relating to (A) Taxes of the Seller; and (B) Taxes related to the Seller's conduct of the business or ownership of the Colstrip 4 Interests prior to the Closing (in the case of real property Taxes, as determined in accordance with Section 2.4(a)); and

(xi) any obligation or liability of Seller for any Debt.

The foregoing liabilities listed in this Section 2.1(d) are collectively referred to as the "*Retained Liabilities*" and shall remain and be the obligations and liabilities solely of the Seller.

**Section 2.2 Purchase Price.** The aggregate purchase price and additional consideration for the sale and conveyance of the Colstrip 4 Interests shall be: Fifty Cents (\$0.50) (the "*Purchase Price*").

**Section 2.3 Assumption of Liabilities.** Except as otherwise provided in ARTICLE 8, Buyer shall assume and agree to pay, perform and discharge the liabilities and obligations of Seller related to the Colstrip 4 Interests, including without limitation those liabilities and

obligations contained in the Material Contracts, but solely with respect to liabilities or obligations arising solely during periods following the Closing Date (the “*Assumed Liabilities*”).

**Section 2.4 Ad Valorem Real and Personal Property Taxes.**

(a) Seller shall be responsible for its pre-Closing Date Project Share of all ad valorem Taxes imposed on or with respect to the Real Property and any personal property (the “*Ad Valorem Property*”) for all Tax periods (or portion of any Tax period beginning on or before and ending after the Closing Date (a “*Straddle Period*”) ending on or prior to the Closing Date (the “*Pre-Closing Periods*”). The portion of such Taxes for which Seller shall be liable for a Straddle Period shall be determined by multiplying its pre-Closing Date Project Share of the amount of Taxes for the entire Straddle Period by a fraction, the numerator of which is the number of days in such Straddle Period prior to and including the Closing Date and the denominator of which is the total number of days in such Straddle Period.

(b) Any real or personal property tax reductions or refunds with respect to the Ad Valorem Property for or relating to a Pre-Closing Period (as determined in accordance with Section 2.4(a)) shall be for the account of Seller. If Buyer receives a real property Tax refund or credit with respect to the Ad Valorem Property for or relating to a Pre-Closing Period, Buyer shall promptly remit to Seller its pre-Closing Date Project Share of such refund or credit relating to the Pre-Closing Period.

(c) Prior to the Closing Date, Seller shall control and conduct all negotiations, proceedings and communications with the Montana Department of Revenue regarding real property Taxes with respect to the Ad Valorem Property, shall keep Buyer informed regarding such negotiations, proceedings and communications and shall not agree to any settlement with the Montana Department of Revenue that affects any Tax period or portion of a Straddle Period beginning after the Closing Date without Buyer’s consent, which consent shall not be unreasonably withheld, conditioned or delayed. From and after the Closing Date, Buyer shall control and conduct all negotiations, proceedings and communications with the Montana Department of Revenue regarding real property Taxes with respect to the Ad Valorem Property, shall keep Seller informed regarding such negotiations, proceedings and communications, and shall not agree to any settlement with the Montana Department of Revenue that affects any Tax period or portion of a Straddle Period ending on or prior to the Closing Date without Seller’s consent, which consent shall not be unreasonably withheld, conditioned or delayed. Seller shall reasonably cooperate with all such negotiations, proceeds and communications.

**ARTICLE 3  
CLOSING; CONDITIONS PRECEDENT**

**Section 3.1 Closing.** The closing of the transactions contemplated by this Agreement (the “*Closing*”) shall occur at the offices of K&L Gates LLP, 925 Fourth Avenue, Suite 2900, Seattle, Washington, commencing at 9:00 A.M. or at such other location as may be agreed upon by the Parties on either (i) the second (2nd) Business Day after the satisfaction of all the conditions precedent to the Closing in accordance with Sections 3.4 and 3.5 hereof, or (ii) at such other time or place as may be mutually agreed upon by the Parties in writing. The date on which the Closing occurs is referred to herein as the “*Closing Date*”.



**Section 3.2 Closing Deliveries by Buyer.** At the Closing, Buyer shall deliver, or cause to be delivered, to Seller the following:

- (a) The Purchase Price in cash in accordance with Section 2.2 hereof;
- (b) A certificate of an authorized officer of Buyer, dated as of the Closing Date, in the form set forth in Exhibit G, certifying that (i) the representations and warranties of Buyer set forth in ARTICLE 5 are true, correct and complete as of the Closing Date, except in such circumstances as shall not, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect, (ii) the conditions set forth in Section 3.4 have been fulfilled or waived and (iii) the covenants of Buyer set forth in ARTICLE 7 to be performed on or before the Closing Date have been fulfilled or waived in writing by Seller.
- (c) A duly executed copy of the Assignment and Assumption Agreement;
- (d) A copy of the PPA, duly executed by Buyer;
- (e) Duly executed copies of each of the Buyer's Consents;
- (f) A copy of the Vote Sharing Agreement, duly executed by Buyer; and
- (g) Such other documents and certificates as Seller may reasonably request and which are customarily and ordinarily delivered in transactions similar to the transactions to be consummated at the Closing.

**Section 3.3 Closing Deliveries by Seller.** At the Closing, Seller shall execute and deliver, or cause to be executed and delivered, to Buyer the following:

- (a) A duly executed copy of the Assignment and Assumption Agreement;
- (b) A certificate of an authorized officer of Seller, dated as of the Closing Date, in the form set forth in Exhibit H, certifying that (i) the representations and warranties of Seller set forth in ARTICLE 4 are true, correct and complete as of the Closing Date, except in such circumstances as shall not, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect, (ii) the conditions set forth in Section 3.5 have been fulfilled or waived and (iii) the covenants of Seller set forth in ARTICLE 7 to be performed on or before the Closing Date have been fulfilled or waived in writing by Buyer;
- (c) A copy of the PPA, duly executed by Seller;
- (d) Duly executed copies of each of the Seller's Consents;
- (e) A copy of the Vote Sharing Agreement, duly executed by Seller;
- (f) A certificate that Seller is not a "foreign" person within the meaning of Section 1445 of the Code, which certificate shall set forth all information required by, and otherwise be executed in accordance with, Treasury Regulations Section 1.445-2(b)(2);

(g) A deed in the form attached hereto as Exhibit I conveying Seller's interest in the Real Property subject only to Permitted Liens (i.e., a deed (i) in which Seller warrants that the Real Property is free from all encumbrances made by the Seller other than Permitted Liens and that Seller will defend the same to the Buyer against the lawful claims and demands of all persons claiming by, through or under Seller, but against no other persons; and (ii) that conveys any after-acquired title to the Real Property that Seller may subsequently obtain, but reserving for Seller, for so long as the Colstrip Project Transmission Agreement is in effect, such easements as may be reasonably necessary for the purpose of owning, operating, maintaining, repairing, replacing, or removing any transmission facility and associated equipment in their current locations on the Real Property), all in a form reasonably acceptable to Buyer (which shall include language providing that such easements shall not, other than to a de minimis extent, adversely affect operations on the Real Property as currently conducted);

(h) The Water Rights Transfer Certificate; and

(i) Such other documents and certificates as Buyer may reasonably request and which are customarily and ordinarily delivered in transactions similar to the transactions to be consummated at the Closing.

**Section 3.4 Conditions Precedent to the Closing Obligations of Buyer.** The obligation of Buyer to proceed with the Closing contemplated hereby is subject to the fulfillment or waiver (by the Buyer, in its absolute discretion, by written notice to the Seller) on or prior to the Closing Date, or on or prior to such earlier date if specified below, of all of the following conditions:

(a) Seller shall have delivered to Buyer each of the documents described in Section 3.3.

(b) The representations and warranties of Seller in ARTICLE 4 of this Agreement shall be true and correct without regard to any qualification respecting materiality or Material Adverse Effect on and as of the Closing Date except in such circumstances as shall not, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect, and the covenants and agreements of Seller to be performed on or before the Closing Date shall have been performed in all material respects in accordance with this Agreement.

(c) Seller shall have obtained and provided copies to Buyer of all the Seller's Consents required for the Closing listed in Schedule 4.6.

(d) Seller shall have obtained and provided a copy to Buyer of the Required Regulatory Approvals.

(e) [Intentionally omitted.]

(f) No order or decree by any federal or state court or Governmental Authority which prevents the consummation of the sale of the Colstrip 4 Interests contemplated herein shall have been issued and remain in effect (each Party agreeing to use its Commercially Reasonable Efforts to have any such order or decree lifted) and no statute, rule or regulation shall have been

enacted by any state or federal government or Governmental Authority which prohibits the consummation of the sale of the Colstrip 4 Interests.

(g) Seller shall have delivered to Buyer evidence of the filing for termination of all Liens that are not Permitted Liens in form and substance reasonably satisfactory to Buyer; *provided* that Seller shall indemnify Buyer for any Losses incurred by Buyer in connection with Seller's failure to terminate any Lien that is not a Permitted Lien.

(h) No event causing or constituting a Material Adverse Effect shall have occurred or be occurring.

(i) Seller shall have delivered to Buyer a true, correct, and complete copy of the NorthWestern Colstrip Unit 4 Acquisition Agreement and all amendments thereto entered into by Seller and NorthWestern on or prior to the Closing Date.

**Section 3.5 Conditions Precedent to the Closing Obligations of Seller.** The obligation of Seller to proceed with the Closing contemplated hereby is subject to the fulfillment or waiver (by the Seller, in its absolute discretion, by written notice to the Buyer) on or prior to the Closing Date of all of the following conditions:

(a) Buyer shall have delivered to Seller each of the documents described in Section 3.2.

(b) The representations and warranties of Buyer contained in ARTICLE 5 of this Agreement shall be true and correct without regard to any qualification respecting materiality or Material Adverse Effect on and as of the Closing Date except in such circumstances as shall not, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect, and the covenants and agreements of Buyer to be performed on or before the Closing Date shall have been performed in all material respects in accordance with this Agreement.

(c) Buyer shall have obtained and provided copies to Seller of all of Buyer's Consents required for the Closing listed on Schedule 5.5.

(d) Buyer shall have obtained and provided a copy to Seller of the Required Regulatory Approvals.

(e) [Intentionally omitted.]

(f) Buyer shall have delivered the Purchase Price as provided in ARTICLE 2 hereof.

(g) [Intentionally omitted.]

(h) No order or, decree by any federal or state court or Governmental Authority which prevents the consummation of the sale of the Colstrip 4 Interests contemplated herein shall have been issued and remain in effect (each Party agreeing to use its Commercially Reasonable Efforts to have any such order or decree lifted) and no statute, rule or regulation shall have been enacted by any state or federal government or Governmental Authority which prohibits the consummation of the sale of the Colstrip 4 Interests.

**Section 3.6 Failure to Close.** In the event of any failure to satisfy or waive the conditions precedent set forth in Section 3.4 or Section 3.5, the termination and other provisions of ARTICLE 9 shall govern to the extent applicable.

## **ARTICLE 4 REPRESENTATIONS AND WARRANTIES OF SELLER**

As of the date of this Agreement, Seller hereby represents and warrants to Buyer that the statements contained in this ARTICLE 4 (as modified and supplemented by the disclosure schedule delivered to Buyer by Seller contemporaneously herewith setting forth, among other things, items the disclosure of which is necessary or appropriate either in response to an express informational requirement contained in or requested by a provision of this ARTICLE 4, or as an exception to one or more representations or warranties contained in this ARTICLE 4 (the “*Disclosure Schedule*” or “*Schedule*”)) are true and correct, *provided* that the mere inclusion of an item in a Disclosure Schedule as an exception to a representation or warranty or covenant shall not be deemed an admission by a Party that such item (or any undisclosed item or information of comparable or greater significance) represents a material exception or fact, event or circumstance with respect to the Seller. The Disclosure Schedule shall be arranged in sections and paragraphs corresponding to the numbered and lettered sections and paragraphs contained in this ARTICLE 4; *provided*, however, the disclosures in any section or paragraph of the Disclosure Schedule shall qualify as disclosures pursuant to any other sections or paragraphs under the Agreement where such disclosure is reasonably apparent on the face of such disclosures, whether or not repeated under any section number where such disclosure might be deemed appropriate.

**Section 4.1 Organization and Good Standing.** Seller is a public utility corporation duly organized and validly existing under the laws of the State of Washington and each other jurisdiction where such qualification is required, except where the failure to be so qualified has not had, and is not reasonably likely to have, individually or in the aggregate, a Material Adverse Effect.

**Section 4.2 Authority.** Seller has all requisite power and authority to own, and to carry on its businesses related to, the Colstrip 4 Interests as now being conducted. Seller has all requisite power and authority and as of the Closing will have obtained all other applicable governmental, statutory, regulatory or other consents, licenses, waivers or exemptions necessary to execute and deliver this Agreement and the Closing Documents, and to perform its obligations hereunder and thereunder. The execution, delivery, and performance of this Agreement and the Closing Documents, when executed and delivered in accordance herewith, and the transactions contemplated hereby and thereby have been duly and validly authorized by all requisite action on the part of Seller.

**Section 4.3 Enforceability.** This Agreement has been, and the Closing Documents, when executed and delivered in accordance herewith, will be, duly and validly executed and delivered by Seller and, assuming due and valid authorization, execution and delivery hereof by Buyer, is a valid and binding agreement of Seller, enforceable against it in accordance with their respective terms, subject to (a) applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar Laws of general application from time to time in effect

that affect creditors' rights generally, (b) general principles of equity, and (c) the power of a court to deny enforcement of remedies generally based upon public policy.

**Section 4.4 Title to Colstrip 4 Interests.** Seller owns the Colstrip 4 Interests free and clear of all Liens, other than Permitted Liens and those liens set forth on Schedule 4.4 (which will be terminated or released as of the Closing).

**Section 4.5 No Violation or Breach.** Except as set forth in Schedule 4.5, and assuming that all of the Required Regulatory Approvals and Seller's Consents have been obtained, neither the execution and delivery of this Agreement nor the Closing Documents, nor the consummation of the transactions contemplated hereby or thereby and performance of the terms and conditions hereof or thereof by Seller will result in a violation or breach of, or default under, (a) any provision of the organizational documents of Seller and any indenture or (b) any Material Contract under which Seller or the assets comprising Colstrip 4 Interests is bound, except with regard solely to clause (b), any violation, breach or default that would not have a Material Adverse Effect.

**Section 4.6 Consents.** No consent, approval, authorization or permit of, or filing with or notification to, any Person is required for or in connection with the execution and delivery of this Agreement or the Closing Documents by Seller or for, or in connection with, the consummation of the transactions and performance of the terms and conditions contemplated hereby and thereby by Seller except for (a) the Required Regulatory Approvals; (b) the third-party consents, filings, and notices set forth on Schedule 4.6, and (c) immaterial consents, approvals, authorizations, permits, filings or notices. Neither the execution and delivery of this Agreement or the Closing Documents nor the consummation of the transactions and performance of the terms and conditions hereof or thereof by Seller requires the consent, approval, authorization or permit of the MPSC or the Montana Consumer Counsel.

**Section 4.7 Material Contracts.** Except as set forth on Schedule 4.7, Seller is not party to any contract reasonably necessary for Buyer's use of the Colstrip 4 Interests after Closing to which Buyer is not also a party.

**Section 4.8 No Disputes; Litigation.** There is no Action pending, or to Seller's Knowledge, threatened in writing against Seller, except for Actions that would not have a Material Adverse Effect on Seller's ability to perform its obligations under the Closing Documents.

**Section 4.9 Brokerage Fees and Commissions.** Neither Seller nor any Affiliate of Seller has incurred any obligation or entered into any agreement for any investment banking, brokerage, or finder's fee or commission in respect of the transactions contemplated by this Agreement or the Closing Documents for which Buyer or any of Buyer's Affiliates shall incur any liability.

**Section 4.10 Bankruptcy.** There are no bankruptcy, reorganization, or arrangement proceedings pending against, being contemplated by, or to the Knowledge of Seller threatened against, Seller.

**Section 4.11 Records.** Seller has provided to Buyer copies of any final reports, memoranda, audits, studies, or investigations prepared by Seller's internal environmental professionals or outside environmental consultants retained by or on behalf of Seller which analyze, quantify, audit, or report on actual or potential environmental issues, conditions, or Environmental Liabilities connected with the Colstrip 4 Interests, other than any documents protected by the attorney-client privilege or work-product prepared for litigation or in anticipation of litigation at the direction of counsel.

**Section 4.12 Amendment of NorthWestern Colstrip Unit 4 Acquisition Agreement.** Seller and NorthWestern have, effective as of not later than the execution and delivery of this Agreement, amended the NorthWestern Colstrip Unit 4 Acquisition Agreement to provide for the sale by Seller and the purchase by NorthWestern of a fifty percent (50%) undivided interest in the PSE Colstrip 4 Interests, and Seller has delivered to Buyer a true, correct, and complete copy of the NorthWestern Colstrip Unit 4 Acquisition Agreement and all amendments thereto entered into by Seller and NorthWestern on or prior to the date of this Agreement.

## **ARTICLE 5 REPRESENTATIONS AND WARRANTIES OF BUYER**

As of the date of this Agreement and as of the Closing Date, Buyer represents and warrants to Seller as follows and, except as expressly set forth to the contrary herein, acknowledges that the Seller has entered into this Agreement in reliance upon such representations and warranties:

**Section 5.1 Organization and Qualification.** Buyer is a limited liability company duly organized, validly existing, and in good standing under the laws of the State of Delaware, and has all requisite limited liability company power and authority and all necessary permits to carry on its business as now being conducted.

**Section 5.2 Authority.** Buyer has all requisite limited liability company power and authority to execute and deliver this Agreement and the Closing Documents and to perform its obligations hereunder and thereunder. The execution, delivery, and performance of this Agreement and the Closing Documents, when executed and delivered in accordance herewith, and the transactions contemplated hereby and thereby have been duly and validly authorized by all requisite limited liability company action on the part of Buyer.

**Section 5.3 Enforceability.** This Agreement has been and, when executed and delivered in accordance herewith, the Closing Documents will be, duly and validly executed and delivered by Buyer and constitute valid and binding obligations of Buyer enforceable against it in accordance with their respective terms, subject to (a) applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, and other similar Laws of general application from time to time in effect that affect creditors' rights generally, (b) general principles of equity, and (c) the power of a court to deny enforcement of remedies generally based upon public policy.

**Section 5.4 No Violation or Breach.** Assuming that any approval that may be required from FERC under Section 203 of the Federal Power Act has been obtained, neither the

execution and delivery of this Agreement or the Closing Documents nor the consummation of the transactions and performance of the terms and conditions hereof or thereof by Buyer will (a) result in a violation or breach of any provision of the certificate of formation or limited liability company agreement of Buyer or any material agreement, indenture or other instrument under which Buyer is bound or (b) violate any applicable Law other than such violations as would not, individually or in the aggregate, have a Material Adverse Effect.

**Section 5.5 Consents.** No consent, approval, authorization or permit of, or filing with or notification to, any Person is required for or in connection with the execution and delivery of this Agreement or the Closing Documents by Buyer or for, or in connection with, the consummation of the transactions and performance of the terms and conditions contemplated hereby and thereby by Buyer, except for (a) the Required Regulatory Approvals; (b) the third-party consents, filings, and notices set forth on Schedule 5.5, and (c) consents, approvals, authorizations, permits, filings, or notices that, if not obtained or made, would not, individually or in the aggregate, have a Material Adverse Effect.

**Section 5.6 No Disputes; Litigation.** There is no Action pending, or to Buyer's Knowledge, threatened in writing against Buyer, except for Actions that would not have a Material Adverse Effect on Buyer's ability to perform its obligations under the Closing Documents.

**Section 5.7 Brokerage Fees and Commissions.** Neither Buyer nor any Affiliate of Buyer has incurred any obligation or entered into any agreement for any investment banking, brokerage, or finder's fee or commission in respect of the transactions contemplated by this Agreement or the Closing Documents for which Seller or any of the Seller's Affiliates shall incur any liability.

**Section 5.8 Bankruptcy.** There are no bankruptcy, reorganization, or arrangement proceedings pending against, being contemplated by, or to the Knowledge of Buyer threatened against, Buyer.

**Section 5.9 Regulatory Matters.** Assuming that the Required Regulatory Approvals have been obtained, the acquisition by Buyer of the Colstrip 4 Interests will not require any approval from any Governmental Authority other than such consents, approvals, notices, declarations, filings or registrations which, if not made or obtained, would not reasonably be expected to result in a material adverse effect on Buyer's ability to perform its obligations hereunder.

## ARTICLE 6 ACCESS AND CONFIDENTIALITY

**Section 6.1 General Access.** (a) Seller shall, until the Closing Date (or the earlier termination of this Agreement), (i) cooperate in facilitating reasonable access by Buyer to all of Seller's books, records, contracts, agreements, files, personnel, offices and other facilities and properties, in each case, of Seller, related to the Colstrip 4 Interests and to, (ii) permit Buyer to make such copies and inspections thereof as Buyer may reasonably request, and (iii) furnish Buyer with such financial and operating data and other information with respect to the Colstrip 4

Interests as Buyer may from time to time reasonably request; *provided*, that any such access shall be conducted at Buyer's expense, at a reasonable time and on reasonable notice, under the reasonable supervision of Seller's or Operator's personnel, as appropriate, and in such a manner as to maintain the confidentiality of such information, this Agreement, and the transactions contemplated hereby and not to interfere with the normal operation of the business of Seller or the Colstrip 4 Interests; and *provided, further*, that Buyer and its representatives shall comply with all applicable safety rules, regulations and procedures implemented by Seller or Operator, as the case may be.

(b) In addition to Section 6.1(a) above, Seller specifically agrees to facilitate Buyer's environmental due diligence by promptly providing Buyer copies of any documents prepared by Seller's internal environmental professionals or outside environmental consultants retained by or on behalf of Seller which analyze, quantify, audit, or report on actual or potential environmental issues, conditions, or Environmental Liabilities connected with the Colstrip 4 Interests.

(c) Nothing in this ARTICLE 6 shall be construed to permit Buyer or its representatives to have access prior to the Closing to (i) any files, records, contracts, or documents of Seller not relating to the Colstrip 4 Interests, (ii) any bids or offers received by Seller for the sale of any of the Colstrip 4 Interests, it being agreed that all such bids or offers shall be the sole property of Seller, (iii) any jeopardize any attorney-client or other privilege as determined by Seller's sole discretion.

**Section 6.2 Confidential Information.** Buyer and Seller agree to maintain in confidence all information made available to it under this Agreement and to cause their respective officers, directors, agents, employees, representatives, consultants, and advisors to maintain in confidence all information made available to them under this Agreement, all as provided in that certain Mutual Nondisclosure Agreement executed as of January 29, 2019 among Seller, NorthWestern, and Buyer (the "*Confidentiality Agreement*"), and the terms of which are incorporated herein by reference and made a part of this Agreement; *provided* that the Confidentiality Agreement shall terminate upon Closing or two years following the date hereof. In the event that terms of the Confidentiality Agreement and this Agreement conflict, the terms of the Confidentiality Agreement shall control.

## ARTICLE 7 COVENANTS OF SELLER AND BUYER

### **Section 7.1 Conduct of Business Pending Closing.**

Seller covenants and agrees that:

(a) *Exclusivity.* Upon execution of this Agreement, Seller grants Buyer the exclusive right to acquire the Colstrip 4 Interests until the earlier of the Closing or termination of this Agreement. During such exclusivity period, Seller agrees to: (i) deal with Buyer, or its representatives, exclusively with regard to all aspects of the acquisition of the Colstrip 4 Interests, and (ii) refrain, directly or indirectly, from soliciting, initiating, encouraging, or engaging in any discussions or negotiations with any Person or entering into any agreement, commitment, understanding or transaction with any Person concerning any proposal regarding



the acquisition of the Colstrip 4 Interests, or providing any business, financial or other information relating to any such transaction to any person or entity.

(b) *Conduct of Business.* Pending the Closing, and taking into consideration the fact that the Seller is not the Operator and except as provided for in Section 7.1(a) or as reasonably necessary under emergency circumstances (or if required or prohibited pursuant to applicable Law or the Ownership and Operation Agreement), and always subject to and consistent with the extent of Seller's rights and limitations under the Ownership and Operation Agreement, Seller shall comply with the following:

(i) Seller shall conduct its business related to the Colstrip 4 Interests, and utilize its Commercially Reasonable Efforts to cause the Colstrip 4 Interests to conduct its business in a manner which assumes the long-term operation of Colstrip Unit 4, in the ordinary course in accordance with past practice, and not make any material change with respect thereto;

(ii) Seller shall comply in all material respects with the Ownership and Operation Agreement;

(iii) Seller shall take all Commercially Reasonable Efforts to preserve and protect the Colstrip 4 Interests subject to the terms of the Ownership and Operation Agreement and applicable Laws;

(iv) With respect to any approvals of the Committee prior to the earliest of the effectiveness of the Vote Sharing Agreement, the termination of this Agreement, or the termination of the Colstrip Unit 4 Purchase and Sale Agreement dated as of December 9, 2019 by and between NorthWestern and Seller: (A) in the case of any proposal to be voted upon under the Ownership and Operation Agreement that relates primarily to Colstrip Unit 4, and that does not involve the Common Facilities, Seller shall cast its vote in accordance with the joint instructions of Buyer and NorthWestern, if Buyer and NorthWestern are in agreement regarding how the vote should be cast, and if Buyer and NorthWestern are not in agreement regarding how to cast the vote, Seller shall abstain from voting on such proposal, (B) in the case of any vote arising from Seller's ownership interest in Colstrip Units 1 & 2, or any proposal to be voted upon under the Ownership and Operation Agreement that relates primarily to Colstrip Unit 3, and that does not involve the Common Facilities, Seller shall have no obligation to confer with Buyer or NorthWestern under this Agreement regarding such vote, and (C) in the case of any proposal to be voted upon under the Ownership and Operation Agreement that relates to both Colstrip Unit 3 and Colstrip Unit 4 and/or Common Facilities, Buyer, NorthWestern, and Seller shall consult with one another in good faith prior to Seller casting the vote on such proposal;

(v) except as set forth on Schedule 7.1, Seller shall not assign, terminate, amend, give any consent with respect to or waive any rights under, in any material respect, any Material Contract;

(vi) Seller shall not take any action or enter into any commitment with respect to or in contemplation of any liquidation, dissolution, recapitalization, reorganization, or other winding up of its business or operations related to the Colstrip 4 Interests, except as required by applicable Laws;

(vii) Seller shall not grant any express further Lien on any of the Colstrip 4 Interests, except for Permitted Liens, those Liens that will be terminated, without cost to Buyer, at Closing;

(viii) Seller shall provide prompt written disclosure to the Buyer of all relevant information which comes to the attention of the Seller in relation to any fact or matter (whether existing on or before the date of this Agreement or arising afterwards) which may constitute a breach of any of the Seller's representations and warranties set forth in ARTICLE 4; and

**Section 7.2 Public Announcements.** Without the prior written approval of the other Party, no Party shall issue, or permit any agent or Affiliate of such Party to issue, any press releases or otherwise make, or cause any agent or Affiliate of such Party to make, any public statements with respect to this Agreement or the Closing Documents or the transactions contemplated hereby or thereby, except when and to the extent that such release or statement is deemed in good faith by the releasing Party to be required to obtain the Required Regulatory Approvals or by applicable Law or under the applicable rules and regulations of a stock exchange or market on which the securities of the releasing Party or any of its Affiliates are listed. In each case to which such exception applies, the releasing Party will use its reasonable efforts to provide a copy of such release or statement to the other Party and incorporate any reasonable changes which are suggested by the non-releasing Party prior to releasing or making the statement.

**Section 7.3 Actions by Parties.** Each Party agrees to use Commercially Reasonable Efforts to satisfy the conditions to the Closing set forth in Sections 3.4 and 3.5; provided, however, that neither Buyer nor Seller shall be deemed to have breached its obligations under Section 6.2, Section 7.2 or this Section 7.3 by pursuing the discussions with the MPSC, the Washington Utilities and Transportation Commission, or FERC, or by making any required filings in connection with obtaining the Required Regulatory Approvals.

**Section 7.4 Further Assurances.** Seller and Buyer each agree that from time to time after the Closing, it will execute and deliver or cause its respective Affiliates to execute and deliver such further agreements, certificates, documents or opinions and take (or cause its respective Affiliates to take) such other action, as may be reasonably necessary to carry out the purposes and intents of this Agreement. If at any time any Party shall reasonably request any further action by any other Party to carry out the purposes of this Agreement and the Closing Documents or to further effectuate the transactions contemplated hereby, such other Party, shall promptly take such action (including the prompt execution and delivery of further instruments and documents).

## **Section 7.5 Records.**

(a) **Maintenance.** Buyer agrees to maintain the Records in accordance with its records retention policy as maintained in compliance with applicable Laws and Buyer's past practices, or if any of the Records pertain to any claim or dispute pending on the date upon which such records would be destroyed pursuant to Buyer's records retention policy, Buyer shall maintain any of the Records designated by Seller until such claim or dispute is finally resolved and the time for all appeals has been exhausted. Buyer shall give Seller reasonable notice and an opportunity to retain any Records relating to Taxes in the event that Buyer determines to destroy or dispose of them during such period. After the Closing Date, except as might result in a waiver of any attorney/client, work product or like privilege or violate applicable Laws, Buyer shall provide Seller and its representatives during normal business hours, and upon reasonable notice, reasonable access to, and the right to copy, the Records existing as of the Closing Date, at Seller's cost and expense, for the purposes of

(i) complying with any applicable Law affecting Seller's ownership of the Colstrip 4 Interests prior to the Closing Date;

(ii) preparing any audit of the books and records of any third party relating to Colstrip Unit 4 prior to the Closing Date, or responding to any audit prepared by such third parties;

(iii) preparing Tax Returns;

(iv) responding to or disputing any audit, examination, claim or other proceeding in respect of Taxes; or

(v) asserting, defending, or otherwise dealing with any inquiry, investigation, claim or dispute under this Agreement or with respect to the Colstrip 4 Interests.

(b) **Privilege.** Buyer shall not after the Closing Date intentionally waive the attorney/client, work product, or like privilege of Seller or its Affiliates with respect to any of the Records existing as of the Closing Date, without Seller's prior written consent.

## **Section 7.6 Regulatory and Other Authorizations and Consents Filings.**

(a) **General.** Each Party shall use Commercially Reasonable Efforts to obtain all authorizations, consents, orders, and approvals of, and to give all notices to and make all filings with, all Governmental Authorities and third parties that may be or become necessary for its execution and delivery of, and the performance of its obligations under, this Agreement and will cooperate fully with the other Party in promptly seeking to obtain all such authorizations, consents, orders, and approvals, giving such notices, and making such filings.

(b) **Required Regulatory Approvals.** Without limiting the generality of the undertakings pursuant to Section 7.6(a) above, each Party shall (i) use its Commercially Reasonable Efforts to: gather and obtain all necessary information to complete its respective filings in connection with the Required Regulatory Approvals (including all reports, studies, and

exhibits related thereto); consult with the other Party regarding any such filings, consider and incorporate all reasonable comments (if any) submitted by the other Party or its representatives; and the Parties shall make such filings as soon as practicable following the execution and delivery of this Agreement, if not already completed; (ii) prior to and during the pendency of any notice and approval period with respect to such filings, (A) consult with the other Party prior to providing any supplemental information to the applicable regulatory authority, provide prompt written notice to the other Party of all discussions and correspondence with the applicable regulatory authorities that reasonably relates to or bears upon such filings, and, to the extent permitted by applicable Law, permit such other Party a reasonable opportunity to participate in any such discussions, and (B) use all Commercially Reasonable Efforts and act in good faith to expedite and obtain the Required Regulatory Approvals. In furtherance and not in limitation of the foregoing, each of the Parties agrees to use its Commercially Reasonable Efforts to applications with any applicable Governmental Authority whose approval is required in connection with the consummation of the purchase by Buyer of the Colstrip 4 Interests as promptly as practicable following the date of this Agreement, the date of which shall be mutually agreed upon by Buyer and Seller.

(c) *Transfer.* If the transfer of any instrument, contract, license, lease, permit, or Material Contract to Buyer hereunder shall require the consent of any party thereto other than Seller, then such item shall not be assigned to or assumed by Buyer, if an actual or attempted assignment thereof would constitute a breach thereof or default thereunder. In such case, Seller and Buyer shall cooperate and each shall use Commercially Reasonable Efforts to obtain such consents to the extent required by such other parties and, if and when any such consents are obtained, to transfer the applicable instrument, contract, license, lease, permit, or Material Contract. If any such consent cannot be obtained, Seller shall, at Buyer's expense, cooperate in any commercially reasonable arrangement designed to obtain for Buyer all benefits, obligations and privileges of the applicable instrument, contract, license, lease, permit, or document. Buyer shall indemnify and hold harmless the Seller from any and all Losses arising from or related to Seller's actions taken pursuant to the Buyer's request and/or direction (or such non-action as requested and/or directed by the Buyer, as the case may be) pursuant to this Section 7.6(c). Notwithstanding the foregoing, the indemnification provisions of this Section 7.6(c) shall not apply to any actions taken by Seller with regard to the Ownership and Operation Agreement.

(d) *Third Party Consents.* Seller shall use its Commercially Reasonable Efforts, and Buyer shall use its Commercially Reasonable Efforts to assist Seller, in obtaining any and all consents of third parties and Governmental Authorities necessary or advisable in connection with the transactions contemplated by this Agreement and the Closing Documents, including the provision by Buyer to such third parties and Governmental Authorities of such publicly available financial statements and other publicly available financial information with respect to Buyer and its parent company or companies as such third parties or Governmental Authorities may reasonably request.

**Section 7.7 Fees and Expenses.** Except as otherwise expressly provided in this Agreement, all fees and expenses, including fees and expenses of counsel, financial advisors, and accountants, incurred in connection with this Agreement and the Closing Documents and the transactions contemplated hereby, shall be paid by the Party incurring such fee or expense, whether or not the Closing shall have occurred.

**Section 7.8 Tax Matters.**

(a) After the Closing Date, Buyer and Seller shall provide each other with such cooperation and information related to Colstrip Unit 4 and the Colstrip 4 Interests as the Parties reasonably may request in (i) filing any Tax Return, amending any Tax Return or claiming any Tax refund, (ii) determining any liability for Taxes or any right to Tax refunds or (iii) conducting or defending any audit, examination, claim or other proceeding in respect of Taxes. Seller and Buyer shall retain all Tax Returns, schedules and work papers, and all material records and other documents related thereto until the expiration of the statute of limitations for the taxable years to which such Tax Returns and other documents relate.

(b) Buyer and Seller each shall be responsible under applicable Law for payment of fifty percent (50%) of all Transfer Taxes with respect to the Colstrip 4 Interests. The Party responsible for preparing any Tax Returns or other documentation relating to such Transfer Taxes shall prepare and file such Tax Returns or other documentation; *provided, however*, that to the extent required by applicable Law, the other Party shall join in the execution of any such Tax Returns and other documentation relating to such Transfer Taxes. The Party responsible for preparing and filing any such Tax Return or other documentation shall provide to the other Party copies of each such Tax Return or other documentation at least fifteen (15) days prior to the date on which such Tax Return is required to be filed.

(c) In the event of any conflict between the provisions of ARTICLE 8 of this Agreement and this Section 7.8 or Section 2.4, the provisions of this Section 7.8 and Section 2.4 shall control.

**Section 7.9 [Intentionally Omitted].**

**Section 7.10 Updates to Disclosure Schedules.** From time to time prior to and up to three (3) days prior to the Closing Date, Seller shall provide written notice to Buyer of any fact, matter, condition, event or circumstance that occurs following the date of this Agreement and that, individually or in the aggregate, renders Seller unable, without amending the Disclosure Schedules, to satisfy the condition precedent under Section 3.4(b) (each, an “*Update*”). For the avoidance of doubt, the delivery of documents to Buyer or Seller, as applicable, shall not constitute written notice of an Update. In the event that Buyer does not terminate this Agreement pursuant to Section 9.1(d)(i) following delivery of such Update, then Seller shall be permitted to update the applicable Schedule(s) to properly reflect the fact, matter, condition, event or circumstance disclosed to Buyer in such Update, and the applicable representations and warranties of Seller set forth in this Agreement made following the Update shall be subject to the Schedules attached hereto, as modified or amended by such Update, for purposes of satisfying the conditions to Closing set forth in Section 3.4; *provided*, that, if the Closing occurs, such Update shall not be deemed to have modified the Schedules for purposes of determining whether there has been a breach of the applicable representations and warranties related to Seller’s indemnification obligations in ARTICLE 8.

**Section 7.11 Transfers of Interests.** If, at any time between the date of this Agreement and one year following the Closing Date, Buyer enters into any contract, agreement, arrangement or other understanding with respect to the purchase of any interests of Colstrip Units 1 & 2,

Colstrip Unit 3 or Colstrip Unit 4 on terms (individually or in the aggregate) more favorable to the seller of such interests than the terms as agreed upon in this Agreement (as determined by Seller in its sole discretion), Buyer hereby agrees to amend this Agreement to reflect such more favorable terms in this Agreement.

**Section 7.12 Puget Transmission Assets.** NorthWestern and Seller are parties to the NorthWestern Transmission Acquisition Agreement, in which Seller has agreed to sell to NorthWestern, and NorthWestern has agreed to purchase from Seller, the Puget Transmission Assets. The Parties acknowledge that on July 8, 2020, Buyer initiated an arbitration proceeding against Seller and NorthWestern requesting an order requiring that Seller offer to Buyer a right to acquire a proportionate share of the Puget Transmission Assets equal to fifty percent (50%) of the Puget Transmission Assets on substantially the same terms and conditions as those set forth in the NorthWestern Transmission Acquisition Agreement.

**Section 7.13 Delivery of Copies of Amendments to NorthWestern Colstrip Unit 4 Acquisition Agreement.** If, at any time between the date of this Agreement and the Closing, Seller and NorthWestern enter into any amendment to the NorthWestern Colstrip Unit 4 Acquisition Agreement, Seller shall, not later than the earlier of (a) three (3) days after the effectiveness of amendment or (b) the Closing Date, deliver to Buyer a true, correct, and complete copy of such amendment.

**Section 7.14 Buyer Purchase Right in Event of Failure of Closing to Occur Under NorthWestern Colstrip Unit 4 Acquisition Agreement.** If the closing under the NorthWestern Colstrip Unit 4 Acquisition Agreement shall fail to occur for any reason, Buyer shall have a right, exercisable at any time within ninety (90) days after any such failure of such closing to occur, to purchase from Seller, on the terms and conditions of this Agreement, the right, title, and interest in the PSE Colstrip 4 Interests that Seller agreed to sell, and that NorthWestern agreed to purchase, under the NorthWestern Colstrip Unit 4 Acquisition Agreement. If Buyer exercises such right, Seller and Buyer shall amend this Agreement, or enter into a new agreement on substantially the same terms and conditions as those of this Agreement, to provide for the sale by Seller and the purchase by Buyer of such additional right, title, and interest in the PSE Colstrip 4 Interests.

## ARTICLE 8 LIABILITY AND INDEMNIFICATION

**Section 8.1 Survival.** The representations and warranties of Buyer and Seller shall survive until the date that is eighteen (18) months after the Closing Date, except that the Seller Fundamental Representations, the Buyer Fundamental Representations shall each survive Closing indefinitely. Claims for breach of any of the covenants and agreements of the Parties set forth herein must be brought no later than sixty (60) days following the expiration of the applicable statute of limitations applicable to such claims.

**Section 8.2 AOC and CCR Rules.** The Parties shall be responsible for Losses arising from the ownership or operation of the Colstrip 4 Interests, the Project, or the Common Facilities, in each case that are caused by or arise from the AOC and/or CCR Rules, based on their respective pre-Closing Date Project Shares; provided, however, to the extent any such

Losses increase due to violations of Environmental Laws by the Operator or Owners or Releases of Hazardous Substances that (a) wholly arise or wholly take place after the Closing or (b) commenced prior to Closing but that a reasonable environmental professional would determine substantially all of such violations or Releases of Hazardous Substances occurred after the Closing, liability with respect to those incremental Losses shall be as set forth in Section 8.6. The Parties specifically recognize that the Project will continue to burn coal and generate coal combustion residuals after Closing, and agree, notwithstanding anything to the contrary in the proviso contained in the prior sentence, that Losses arising from the continued burning of coal and the generation, storage, deposit, and Release of coal combustion residuals, including the deposit of coal combustion residuals into ponds, the dry storage or staging of coal combustion residuals, and any Release of coal combustion residuals or Hazardous Substances resulting from coal combustion residuals from existing ponds, shall not be considered incremental Losses of the sort described in the preceding sentence and shall not decrease Seller's liability or responsibility for such Losses based on the Parties' respective pre-Closing Date Project Shares, such that all Losses caused by or arising from the AOC and/or CCR Rules that arise from or are caused by the deposit, storage, generation, staging, or Release of coal combustion residuals shall be based on pre-Closing Date Project Shares without regard to whether such deposit, storage, generation, staging, or Release occurs before or after Closing. Continued operation of the Colstrip 4 Interests consistent with Prudent Utility Practice shall not have any bearing on the allocation of Losses provided for in this Section. Changes in Law, including changes that alter the nature, scope, or expense of obligations and Losses caused by or arising from the AOC and/or the CCR Rules, shall not alter or otherwise have any bearing on the allocation of Losses provided for in this Section; provided, that if any changes in Law after the Closing impact the operation of Colstrip Unit 4, Seller's liability for Losses arising from such impacts on the operation of Colstrip Unit 4 shall be as set forth in Section 8.6.

**Section 8.3 Decommissioning.** The Parties shall be responsible for Losses arising from the decommissioning, mothballing, closure, retirement, deactivation, shut down, deconstruction, removal, or demolition of all or a portion of Colstrip Unit 4, the Project, or the Common Facilities based on their respective pre-Closing Date Project Shares; provided, however, that Seller shall not be responsible for Losses caused by or arising from the decommissioning, mothballing, closure, retirement, deactivation, shut down, deconstruction, removal, or demolition of any buildings constructed after Closing intended to predominantly benefit Colstrip Unit 4. Continued operation of the Colstrip 4 Interests consistent with Prudent Utility Practice shall not have any bearing on the allocation of Losses provided for in this Section. Changes in Law, including changes that alter the nature, scope, or expense of obligations and Losses caused by or arising from the decommissioning, mothballing, closure, retirement, deactivation, shut down, deconstruction, removal, or demolition of all or a portion of the Colstrip 4 Interests, the Project, or the Common Facilities, shall not alter or otherwise have any bearing on the allocation of Losses provided for in this Section; *provided* that if any changes in Law after the Closing impact the operation of Colstrip Unit 4, Seller's liability for Losses arising from such impacts on Colstrip Unit 4 shall be as set forth in Section 8.6.

**Section 8.4 Pension Costs.** The Parties shall be responsible for Losses arising from pension liabilities that arose prior to Closing or are wholly or partially caused by events, incidents, liabilities, work performed, or conditions from prior to Closing, including claims by the Operator that it has made excess pension contributions, based on their respective pre-Closing



Date Project Shares. If some or all of the pensions for those employed at the Project are converted after Closing to annuities, the Parties' responsibility for any costs to the Owners of such conversions shall be based on the pre-Closing Date Project Shares for that portion of the costs attributable to employment before Closing and based on post-Closing Date Project Shares for that portion of the costs attributable to employment after Closing. Changes in Law shall not have any bearing on the allocation of Losses provided for in this Section.

**Section 8.5 Other Losses Allocated Based on Pre-Closing Date Project Shares.**

The Parties specifically agree that they shall be responsible for all Losses arising from or caused by the items listed on Schedule 8.5 based on their respective pre-Closing Date Project Shares. The Parties shall be responsible for Losses arising from the ownership or operation of the Colstrip 4 Interests, the Project, or the Common Facilities, in each case that are not described in Sections 8.2, 8.3, 8.4, or 8.6, and that do not arise from or are not caused by items listed on Schedule 8.5 or Schedule 8.6, but that are caused by or which arise from events, occurrences or conditions which a reasonable environmental professional would determine substantially all of such events, occurrences or conditions took place or existed before Closing based on their respective pre-Closing Date Project Shares; provided, however, to the extent any such Losses increase due to (a) actions taken after Closing by the Operator or Owners, (b) violations of Environmental Laws by the Operator or Owners that wholly arise or wholly take place after Closing or which a reasonable environmental professional would determine substantially all of such violations took place after the Closing or (c) Releases of Hazardous Substances arising from events, occurrences or conditions that wholly arise or take place or which a reasonable environmental professional would determine substantially all of such events, occurrences or conditions took place after the Closing, Seller's liability with respect to those incremental Losses shall be as set forth in Section 8.6, except that continued operation of the Colstrip 4 Interests consistent with Prudent Utility Practice shall not be deemed an action which gives rise to an increase in Losses. Continued operation of the Colstrip 4 Interests consistent with Prudent Utility Practices shall not have any bearing on the allocation of Losses provided for in this Section. The Parties specifically recognize that the Project will continue to burn coal and generate coal combustion residuals after Closing, and agree, notwithstanding anything to the contrary in the proviso contained in the prior sentence, that Losses arising from the continued burning of coal and the generation, storage, deposit, and Release of coal combustion residuals, including the deposit of coal combustion residuals into ponds, the dry storage or staging of coal combustion residuals, and any Release of coal combustion residuals or Hazardous Substances resulting from coal combustion residuals from existing ponds, shall not reduce Seller's liability or be deemed an increase in Losses of the sort described in the proviso to the first sentence in this Section. Changes in Law shall not have any bearing on the allocation of Losses provided for in this Section; *provided* that if changes in Law after the Closing impact the operation of Colstrip Unit 4, Seller's liability for Losses arising from such impacts on the operations of Colstrip Unit 4 shall be as set forth in Section 8.6.

**Section 8.6 Losses Allocated Based on Post-Closing Date Project Shares.** The Parties specifically agree that they shall be responsible for all Losses arising from or caused by the items listed on Schedule 8.6 based on their respective post-Closing Date Project Shares. The Parties shall be responsible for Losses arising from the ownership or operation of the Colstrip 4 Interests, the Project, or the Common Facilities, in each case that are not governed by Sections 8.2, 8.3, 8.4, or 8.5, and that do not arise from or are not caused by items listed on Schedule 8.5



or Schedule 8.6, but that are wholly caused by or arise wholly from events or occurrences which take place, or which a reasonable environmental professional would determine substantially all of such events or occurrences took place, after Closing based on their respective post-Closing Date Project Shares.

**Section 8.7 Disagreements Regarding Causes of Losses.** If the Parties are unable to agree as to how Sections 8.2 through 8.6 apply to the allocation of liability for particular Losses, the Parties agree in the first instance to attempt to settle such disagreement by mutual discussion between executives from both Parties. Within seven (7) Business Days of the receipt by either Party of a notice from the other Party of the existence of a disagreement referring to this ARTICLE 8 (the “*Allocation Dispute Notice*”), the receiving Party shall reply with a written response (an “*Allocation Dispute Notice Response*”). Both the Allocation Dispute Notice and the Allocation Dispute Notice Response shall include (a) a statement of the relevant Party’s position with regard to the Dispute and a summary of arguments supporting such position; and (b) the name and title of the executive who will represent that Party in attempting to resolve the Dispute pursuant to this Section 8.7. Within seven (7) Business Days of delivery of the Allocation Dispute Notice Response, the designated executives shall meet and attempt to resolve the disagreement. All negotiations pursuant to this clause shall be confidential and shall be treated as compromise and settlement negotiations, and no oral or documentary representations or offers made by the Parties during such negotiations shall be admissible for any purpose in any subsequent proceedings.

**Section 8.8 Resolution if Executive Negotiations Do Not Succeed.**

(a) If any disagreement is not resolved within thirty (30) Days of receipt of an Allocation Dispute Notice pursuant to Section 8.7, then, upon either Party’s request, the Parties shall jointly retain an independent third-party consultant (with expertise in the subject matter giving rise to the liability) to promptly determine whether the events or occurrences that caused or gave rise to the Losses in question fit within the scope of Section 8.2, Section 8.3, Section 8.4, Section 8.5 (including Schedule 8.5), or Section 8.6 (including Schedule 8.6), and how such Losses are to be allocated based on the application of those sections. To the extent permitted by law, the Parties shall provide for the confidentiality of the independent third-party consultant’s determination, and each Party shall pay half of the consultant’s fees and costs. The determination of the third-party consultant shall be final and binding on the Parties and is not subject to review in other arbitration or in court. Apportionment of liability disputes described in this Section shall be resolved using the procedures and requirements set forth in this Section (and the subsections below) and not using the procedures provided for in ARTICLE 10 of this Agreement.

(b) The independent third-party consultant shall agree to act as an impartial and neutral arbitrator in carrying out the duties set forth herein. The independent third-party consultant shall carry out his or her duties based on the standard procedures used by consultants researching or investigating matters in the industry in question, and not by using processes that are quasi-judicial in nature. In particular, the independent third-party consultant shall not be required to hold a hearing. The Parties shall jointly submit written background information to the independent third-party consultant, and shall then cooperate in responding to follow-up questions and requests for documents from the independent third-party consultant. If the independent third-party consultant asks to conduct a site visit and/or interview Colstrip personnel, the Parties shall

cooperate in facilitating such a site visit and/or interviews, including by jointly making requests to the Operator. The independent third-party consultant shall not communicate to either Party without also including or copying the other Party in such conversation or exchange. The independent third-party consultant shall provide his or her determination in a written report that is to be transmitted to both Parties.

(c) If the Parties are unable to agree on an independent third-party consultant, each Party shall appoint one third-party consultant, each of whom shall agree to serve impartially and independently, and then the two consultants so appointed shall themselves find and appoint a third consultant who agrees to serve as the independent third-party consultant contemplated by this Section under the procedures and requirements set forth in this Section.

**Section 8.9 Indemnification By Seller.** Seller shall indemnify, save and hold harmless, Buyer, its Affiliates, and their respective Representatives from and against any and all Losses, costs, losses, liabilities (including liabilities arising under principles of strict or joint and several liability), damages, lawsuits, deficiencies, claims and expenses (whether or not arising out of Third Party Claims), including interest, penalties, additions, travel expenses, wages allocable to loss of employee time, reasonable attorneys' fees and all amounts paid in investigation, defense or settlement of any of the foregoing (collectively, the "*Damages*"), incurred in connection with or arising out of or resulting from:

(a) any breach or inaccuracy in any of the representations or warranties of Seller contained in this Agreement, any Closing Document to which Seller is a party or any certificate delivered by or on behalf of Seller pursuant to this Agreement (any such breach or inaccuracy to be determined without regard to any qualification for "materiality," "in all material respects" or similar qualification);

(b) any breach or violation of any covenant, agreement or other obligation of Seller set forth in this Agreement or any Closing Document to which Seller is a party;

(c) if the Closing has occurred, any failure by Seller to pay, perform or discharge any Retained Liabilities as and when due;

(d) if the Closing has occurred, any failure by Seller to pay, perform or discharge any Retained Liability as and when due;

(e) if the Closing has occurred, any liability, obligation or commitment of Seller of any nature (absolute, accrued, contingent or otherwise) relating to the Colstrip 4 Interests and not assumed;

(f) Seller's portion of any Transfer Taxes in accordance with Section 7.8(b);

(g) any fraud, willful misconduct or gross negligence in connection with this Agreement by Seller or its Affiliates; or

(h) any claim by a third-party or liability to a third-party, including a current or former Project User, to the extent it seeks to hold Buyer responsible for any Losses that are the responsibility of Seller under Sections 8.2 through 8.6 above.

**Section 8.10 Indemnification By Buyer.** Buyer shall indemnify, save and hold harmless, Seller, its Affiliates, and their respective Representatives from and against any and all Damages incurred in connection with or arising out of or resulting from:

- (a) any breach or inaccuracy of any representation or warranty made by Buyer in this Agreement or any Closing Document to which Buyer is a party;
- (b) any breach or violation of any covenant, agreement or obligation of Buyer set forth in this Agreement or any Closing Document to which Buyer is a party;
- (c) if the Closing has occurred, any failure of Buyer to pay, discharge or perform any of the Assumed Liabilities as and when due;
- (d) Buyer's portion of any Transfer Taxes in accordance with Section 7.8(b);
- (e) any fraud, willful misconduct or gross negligence in connection with this Agreement by Buyer; or
- (f) any claim by a third-party or liability to a third-party, including a current or former Project User, to the extent it seeks to hold Seller responsible for any Losses that are the responsibility of Buyer under Sections 8.2 through 8.6 above.

**Section 8.11 Third Party Claims.**

(a) Promptly after receipt by a Party of notice of the commencement of any Action by a third party (a "*Third Party Claim*") with respect to any matter for which indemnification is or may be owing pursuant to Section 8.9 or Section 8.10 hereof (such Party making a claim under this ARTICLE 8, an "*Indemnified Party*"), the Indemnified Party will give notice thereof to Buyer or Seller, as applicable (the "*Indemnifying Party*"); *provided, however*, that the failure of the Indemnified Party to notify the Indemnifying Party will not relieve the Indemnifying Party of any of its obligations hereunder, except to the extent that the Indemnifying Party demonstrates that the defense of such Third Party Claim has been actually prejudiced by the Indemnified Party's failure to give such notice.

(b) If any Action referred to in this Section is brought against an Indemnified Party and the Indemnified Party gives notice to the Indemnifying Party of the commencement of such Action, the Indemnifying Party will be entitled to participate in such Action, and (unless (x) the Indemnifying Party is also a party to such Action and the Indemnified Party determines in good faith that joint representation would be inappropriate upon the advice of outside counsel that a conflict of interest exists between the Indemnified Party and the Indemnifying Party with respect to such Action, or (y) the Indemnifying Party fails to provide reasonable assurance to the Indemnified Party of its financial capacity to defend such Action and provide indemnification with respect to such Action) may assume the defense of such Action with counsel reasonably satisfactory to the Indemnified Party and, after notice from the Indemnifying Party to the Indemnified Party of its election to assume the defense of such Action, the Indemnifying Party will not, as long as it diligently conducts such defense, be liable to the Indemnified Party under this Section for any fees of other counsel with respect to the defense of such Action, in each case subsequently incurred by the Indemnified Party in connection with the defense of such Action.

(c) If the Indemnifying Party is entitled to and assumes the defense of an Action, no compromise or settlement of such claims or Action may be effected by the Indemnifying Party without the Indemnified Party's written consent unless (i) there is no effect on or grounds for the basis of any other claims that may be made against the Indemnified Party, (ii) the sole relief provided is monetary damages that are paid in full by the Indemnifying Party, and (iii) the Indemnified Party will have no liability with respect to any compromise or settlement of such claims or Action. Notwithstanding the assumption by the Indemnifying Party of the defense of any claim or Action, the Indemnified Party will be permitted to join in such defense and to employ counsel at its own expense.

(d) Notwithstanding the foregoing, if the Indemnified Party determines in good faith that there is a reasonable probability that an Action may result in the Indemnified Party or its Affiliates having to pay monetary Damages for which it would not be entitled to indemnification under this Agreement or having to perform specific performance, the Indemnified Party may, by notice to the Indemnifying Party, assume the exclusive right to defend, compromise or settle such Action, but the Indemnifying Party will not be bound by any compromise or settlement thereof effected without its written consent (which consent shall not be unreasonably withheld, delayed or conditioned).

(e) The Indemnifying Party and the Indemnified Party agree to provide each other with reasonable access during regular business hours to the properties, books and records and representatives of the other, as reasonably necessary in connection with the preparation for an existing or anticipated Action involving a Third Party Claim and its obligations with respect thereto pursuant to this Article.

#### **Section 8.12 Direct Claims.**

(a) The following procedures will apply to any claim for indemnification by an Indemnified Party that does not involve a Third Party Claim.

(b) An Indemnified Party will deliver a notice to the Indemnifying Party (a "*Notice of Claim*") as soon as practicable, but in no event later than sixty (60) days, after the Indemnified Party determines that it is or may be entitled to indemnification pursuant to this Agreement; *provided, however*, that failure to provide notice will not prejudice the Indemnified Party's right to indemnity, except to the extent the Indemnifying Party is prejudiced by the Indemnified Party's failure to give such notice.

(c) If the Indemnifying Party disputes (x) its obligation to indemnify the Indemnified Party in respect of any indemnification claim set forth in a Notice of Claim, or (y) the amount of such indemnification claim set forth in a Notice of Claim (the "*Indemnity Claim Amount*"), a dispute notice ("*Indemnification Dispute Notice*") will be given as soon as practicable, but in no event later than thirty (30) days, after the Notice of Claim. If no Indemnification Dispute Notice is given within such thirty (30) day period, the validity of the claim for indemnification and the amount of such claim, each as set forth in the Notice of Claim, will be deemed to be agreed, effective on the first (1st) day following such thirty (30) day period, and the amount of such claim as set forth in the Notice of Claim will immediately be payable by the Indemnifying Party. If an Indemnification Dispute Notice is given within such thirty (30) day period, then:

(d) The portion, if any, of the amount of such claim which is not disputed in the Indemnification Dispute Notice will immediately be payable by the Indemnifying Party.

(e) Buyer and Seller will negotiate in good faith to settle the dispute, and the portion, if any, of the claim amount which Buyer and Seller agree in writing is payable will be immediately payable by the Indemnifying Party.

(f) If Buyer and Seller are unable to resolve any portion of the Indemnity Claim Amount within two (2) months following the date the Indemnification Dispute Notice is given, either Buyer or Seller may initiate proceedings in accordance with Section 8.7 to obtain resolution of the dispute.

(g) If neither Buyer nor Seller initiates legal or arbitration proceedings in respect of the dispute within twelve (12) months following the date the Indemnification Dispute Notice is given, the portion of the claim amount which is disputed will not be payable, and the Indemnified Party will have no further right, under this Agreement, to seek to recover such amount from the Indemnifying Party.

(h) If Buyer or Seller initiates legal proceedings within the twelve (12) month period specified in Section 8.12(g), the amount, if any, determined in a written final order of a court of competent jurisdiction or final non-appealable decision of an arbitrator (“*Final Order*”) as payable by the Indemnifying Party will be payable by the Indemnified Party as of the date of such Final Order.

**Section 8.13 Acknowledgement.** Seller and Buyer each acknowledge that (a) only representations, warranties, covenants or agreements expressly made in this Agreement or the Closing Documents will be deemed to be representations, warranties, covenants or agreements for purposes of this Agreement, and (b) neither Party has relied on any representation, warranty, covenant or agreement not expressly made in this Agreement or the Closing Documents in consummating the transactions herein.

**Section 8.14 Limitation on Certain Damages. NOTWITHSTANDING ANYTHING IN THIS AGREEMENT TO THE CONTRARY, NO PARTY SHALL BE LIABLE FOR SPECIAL, PUNITIVE, SPECULATIVE, EXEMPLARY, INCIDENTAL, CONSEQUENTIAL OR INDIRECT DAMAGES, INCLUDING LOST PROFITS IN THE NATURE OF INDIRECT DAMAGES OR LOSS OF OPPORTUNITY DAMAGES, FOR ANY REASON WITH RESPECT TO ANY MATTER ARISING OUT OF OR RELATING TO THIS AGREEMENT, WHETHER BASED ON CONTRACT, TORT, STRICT LIABILITY, STATUTE, OTHER LAW OR OTHERWISE AND WHETHER OR NOT ARISING FROM ANY OTHER PARTY’S SOLE, JOINT OR CONCURRENT NEGLIGENCE, STRICT LIABILITY OR OTHER FAULT, UNLESS SUCH DAMAGES ARE AWARDED TO A PERSON IN AN INDEMNIFIABLE THIRD PARTY CLAIM OR ARE ATTRIBUTABLE TO THE FRAUD OR WILLFUL MISCONDUCT OF A PARTY.**

**ARTICLE 9  
TERMINATION AND REMEDIES**

**Section 9.1 Methods of Termination.** This Agreement and the transactions contemplated hereby may be terminated prior to the Closing Date as follows:

- (a) at any time by mutual written agreement of Seller and Buyer; or
- (b) by either Seller or Buyer upon the material breach of this Agreement by the other, to be effective, if curable, upon the breaching Party's failure to cure within five (5) Business Days of notice given, and if incurable, upon notice given, *provided* that the Party seeking to terminate has complied with and fulfilled its obligations and undertakings under this Agreement in all material respects; or
- (c) by Seller, in the following events:
  - (i) at any time after any final, non-appealable decision is made by the applicable Governmental Authority denying any Required Regulatory Approval requested by the Seller or failing to reasonably meet the request of the Seller in all material respects; or
  - (ii) at any time after December 31, 2020 if the Closing has not yet occurred;

*provided further*, that the event triggering Seller's termination right did not result from the failure by Seller to fulfill any undertaking or commitment provided for herein on the part of Seller that is required to be fulfilled on or prior to the Closing Date or any such applicable date; or

- (d) by Buyer, in the following events:
  - (i) if a fact, matter, condition, event or circumstance first disclosed in an Update from Seller has had or would reasonably be expected to have a Material Adverse Effect; provided, that (A) Buyer has given Seller at least fifteen (15) Business Days' prior notice of the intent to terminate and (B) Seller has not cured such Material Adverse Effect during such fifteen (15) Business Day period;
  - (ii) at any time after any final, non-appealable decision is made by the applicable Governmental Authority denying any Required Regulatory Approval requested by the Buyer or failing to reasonably meet the request of the Buyer in all material respects;
  - (iii) at any time after December 31, 2020 if the Closing has not yet occurred; or
  - (iv) at any time after December 31, 2020, if any order or decree by any federal or state court or Governmental Authority exists which would delay or otherwise impair the consummation of the sale of the Colstrip 4 Interests;



(v) [Intentionally omitted;]

(vi) [Intentionally omitted;]

*provided*, that the event triggering Buyer's termination right did not result from the failure by Buyer to fulfill any undertaking or commitment provided for herein on the part of Buyer that is required to be fulfilled on or prior to the Closing Date or any such applicable date.

**Section 9.2 Effect of Termination.** In the event either Party desires to terminate this Agreement pursuant to Section 9.1, written notice thereof shall promptly be given by the terminating Party to the other Party, and this Agreement shall terminate effective as of the later of the date such notice is received (or such later effective date as may be set forth therein) or the expiration of any cure period. If this Agreement is terminated as provided in Section 9.1, all filings, applications and other submissions made to any Governmental Authority with respect to the transactions contemplated by this Agreement and the Closing Documents (other than any filings, applications and other submissions made by Seller that do not involve Buyer) shall, to the extent practicable, be withdrawn from the Governmental Authority to which they were made; and except for those obligations set forth in ARTICLE 6, pursuant to which the Parties shall continue to be bound, no Party shall have any further obligation hereunder; *provided*, that such termination shall not be construed to limit or waive any right with respect to any breach of this Agreement occurring prior to such termination.

**Section 9.3 No Liability.** There shall be no liability of any shareholder, partner, member, director, officer, employee, advisor or representative of Buyer or Seller or any Affiliate thereof, whether to Buyer or Seller, as the case may be, or any other Person (including any shareholder, partner, member, director, officer, employee, advisor or representative thereof) in connection with any liability or other obligation of Buyer or Seller or any Affiliate thereof, whether hereunder or otherwise in connection with the transactions contemplated hereby.

## **ARTICLE 10 DISPUTE RESOLUTION**

**Section 10.1 Mutual Discussions.** If any dispute or difference of any kind whatsoever shall arise between the Parties in connection with, or arising out of, this Agreement or the Closing Documents, or the interpretation, performance, breach, termination or validity hereof or thereof, including without limitation any claim based on contract, text or statute (the "*Dispute*"), the Parties shall attempt to settle such Dispute in the first instance by mutual discussions in accordance with this Section 10.1. Within seven (7) Business Days of the receipt by either Party of a notice from the other Party of the existence of a Dispute referring to this ARTICLE 10 (the "*Dispute Notice*"), the receiving Party shall reply with a written response (a "*Dispute Notice Response*"). Both the Dispute Notice and the Dispute Notice Response shall include (a) a statement of the relevant Party's position with regard to the Dispute and a summary of arguments supporting such position; and (b) the name and title of the executive who will represent that Party in attempting to resolve the Dispute pursuant to this Section 10.1. Within seven (7) Business Days of delivery of the Dispute Notice Response, the designated executives shall meet and attempt to resolve the Dispute. All negotiations pursuant to this clause shall be confidential

and shall be treated as compromise and settlement negotiations, and no oral or documentary representations or offers made by the Parties during such negotiations shall be admissible for any purpose in any subsequent proceedings.

**Section 10.2 Arbitration.** If any Dispute is not resolved within thirty (30) Days of receipt of a Dispute Notice pursuant to Section 10.1, then, upon either Party's request, the Dispute shall be finally and exclusively resolved by arbitration as follows:

(a) The arbitration shall be held accordance with the Commercial Arbitration Rules (the "*Rules*") of the American Arbitration Association (the "*AAA*"), then in effect, except as modified herein. The arbitration shall be held, and the award shall be issued in Chicago, Illinois.

(b) The Parties shall appoint an arbitrator satisfactory to both Parties. If the arbitrator is not appointed within the time limit provided herein, such arbitrator shall be appointed by the AAA by using a listing, striking and ranking procedure in accordance with the Rules. Any arbitrator appointed by the AAA shall be a retired judge, preferably from a Federal District Court or Federal Court of Appeals, or a practicing attorney with no less than twenty (20) years of experience and an experienced arbitrator and if possible shall have experience with disputes relating to electric power infrastructure.

(c) The hearing shall be held, if possible, within four (4) months after the appointment of the arbitrator, or as soon thereafter as is reasonably practicable.

(d) By agreeing to arbitration, the entities signing this Agreement do not intend to deprive any court of its jurisdiction to issue a pre-arbitral injunction, pre-arbitral attachment, or other order in aid of arbitration proceedings and the enforcement of any award. Without prejudice to such provisional remedies as may be available under the jurisdiction of a court, the arbitrator shall have full authority to grant provisional remedies and to direct the entities signing this Agreement to request that any court modify or vacate any temporary or preliminary relief issued by such court, and to award damages for the failure of any entity signing this Agreement to respect the arbitrator's orders to that effect.

(e) Any arbitration proceedings, decision or award rendered hereunder and the validity, effect and interpretation of this arbitration agreement shall be governed by the Federal Arbitration Act, 9 U.S.C. §1 et seq. In arriving at their decision, the arbitrator shall be bound by the terms and conditions of this Agreement and the Closing Documents and shall apply the governing law of this Agreement as designated in Section 11.2 hereof.

(f) Any controversy concerning whether a Dispute is an arbitrable Dispute or as to the interpretation or enforceability of this paragraph shall be determined by the arbitrator.

(g) The arbitrator is not empowered to award damages in excess of compensatory damages, and each Party hereby irrevocably waives any right to recover consequential, punitive, exemplary or similar damages with respect to any Dispute. The award, which shall be in writing and shall state the findings of fact and conclusions of Law upon which it is based, shall be final and binding on the Parties and shall be the sole and exclusive remedy among the Parties regarding any claims, counterclaims, issues or accounting presented to the arbitrator. Judgment



upon any award may be entered in any court of competent jurisdiction. In appropriate circumstances, the arbitrator shall have the authority to order a termination of this Agreement.

(h) The arbitrator's award shall allocate, in their discretion, among the Parties to the arbitration all costs of the arbitration, including the fees and expenses of the arbitrator and reasonable attorneys' fees, costs and expert witness expenses of the Parties. The award shall be final and binding on the Parties and may be enforced in any court having jurisdiction.

## **ARTICLE 11 OTHER PROVISIONS**

**Section 11.1 Counterparts.** This Agreement may be executed in one or more counterparts, all of which, taken together, shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the Parties and delivered to the other Party.

**Section 11.2 Governing Law.**

THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER AND THE TRANSACTIONS CONTEMPLATED HEREBY SHALL BE GOVERNED BY, ENFORCED, AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS.

**Section 11.3 Entire Agreement.** This Agreement and the Confidentiality Agreement and the Schedules and Exhibits hereto and thereto contain the entire agreement between the Parties with respect to the subject matter hereof and supersedes any prior agreements, understandings, representations, or warranties between the Parties.

**Section 11.4 Notices.** Any notice, request, instruction or other document to be given hereunder by a Party hereto shall be in writing and shall be deemed to have been given (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient; or (d) on the third (3rd) Business Day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid.

Notices to Buyer shall be addressed as follows:

Talen Montana, LLC  
1780 Hughes Landing Boulevard Suite 800  
The Woodlands, TX 77380  
Attn: General Counsel  
Email: [Andrew.Wright@talenergy.com](mailto:Andrew.Wright@talenergy.com) and [Damon.Obie@talenergy.com](mailto:Damon.Obie@talenergy.com)

with copies to:

K&L Gates LLP  
925 Fourth Avenue, Suite 2900  
Seattle, WA 98104  
Attention: Eric Freedman, Elizabeth Thomas, and Claire Suni  
Email: [eric.freedman@klgates.com](mailto:eric.freedman@klgates.com), [liz.thomas@klgates.com](mailto:liz.thomas@klgates.com), and  
[claire.suni@klgates.com](mailto:claire.suni@klgates.com)

or at such other address and to the attention of such other Person as Buyer may designate by written notice to Seller.

Notices to Seller shall be addressed to:

Puget Sound Energy, Inc.  
355 110th Avenue NE  
Bellevue, WA 98004  
Attention: Legal Department  
Email: [Steve.Secrist@pse.com](mailto:Steve.Secrist@pse.com) and [Samuel.Osborne@pse.com](mailto:Samuel.Osborne@pse.com)

with copies to:

Perkins Coie LLP  
1201 Third Avenue, Suite 4900  
Seattle, WA 98101  
Attention: Andrew Bor and Stephanie Hirano  
Email: [ABor@perkinscoie.com](mailto:ABor@perkinscoie.com) and [SHirano@perkinscoie.com](mailto:SHirano@perkinscoie.com)

or at such other address and to the attention of such other Person as Seller may designate by written notice to Buyer.

**Section 11.5 Successors and Assigns.** The rights and obligations of the Parties shall not be assigned or delegated by either Party, other than with the written consent of the other Party, which may be withheld in such Party's sole discretion; *provided, however*, that notwithstanding the foregoing, Buyer may freely transfer its obligations hereunder to any subsidiary or financing source of Buyer, without Seller's prior consent, *provided* that Buyer shall remain liable for all obligations of Buyer hereunder that may be assumed by such subsidiary or financing source. Subject to the preceding sentence, this Agreement shall be-binding upon and inure to the benefit of the Parties and their successors and assigns.

**Section 11.6 Amendments.** This Agreement may not be modified or amended except by an instrument or instruments in writing signed by both Parties.

**Section 11.7 Agreement for the Parties' Benefit Only.** This Agreement is not intended to confer upon any Person not a Party hereto any rights or remedies hereunder, and no Person, other than the Parties and the Indemnified Parties is entitled to rely on any representation, warranty, covenant, or agreement contained herein.

**Section 11.8 Severability.** If any term or other provision of this Agreement is invalid, illegal, or incapable of being enforced by any applicable Law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect. Upon such determination that any term or other provision is invalid, illegal, or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to give effect to the original intent of the Parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

**Section 11.9 Bulk Sales or Transfer Laws.** Buyer hereby waives compliance by Seller with the provisions of the bulk sales or transfer laws of all applicable jurisdictions. Seller agrees to pay all claims of creditors which could be asserted against Buyer because of such noncompliance. Seller indemnifies Buyer against any liability or expense, including attorneys' fees, incurred by Buyer by reason of the failure of Seller to pay such claims.

**Section 11.10 No Waiver.** No failure or delay by a Party to this Agreement in exercising any right or remedy provided by Law or under or pursuant to this Agreement shall impair such right or remedy or operate or be construed as a waiver or variation of it or preclude its exercise at any subsequent time and no single or partial exercise of any such right or remedy shall preclude any other or further exercise of it or the exercise of any other right or remedy.

**Section 11.11 Cumulative Remedies.** The rights and remedies of the Parties under or pursuant to this Agreement are cumulative, may be exercised as often as such Party considers appropriate and are in addition to its rights and remedies under general law.

**Section 11.12 Further Assurances.** The Parties agree to use Commercially Reasonable Efforts to perform (or procure the performance of) all further acts and things, and execute and deliver (or procure the execution and delivery of) such further documents, and may be required by applicable Law or as either of the Parties may reasonably require, whether on or after the Closing, to implement and/or give effect to this Agreement and the Closing Documents and the transactions contemplated herein and therein and for the purpose of vesting in the Buyer the full benefit of the Colstrip 4 Interests, rights and benefits to be transferred to the Buyer under this Agreement and the Closing Documents.

**Section 11.13 Counterparts; Effectiveness.** This Agreement may be executed in counterparts (including by PDF), each of which shall be deemed an original, but all of which together shall constitute one and the same original instrument. This Agreement shall become effective when each Party hereto shall have received a counterpart hereof signed by the other Party hereto.

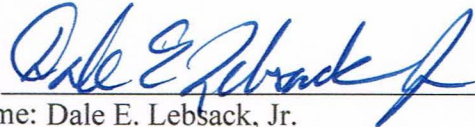
**Section 11.14 Specific Performance.** Seller hereby acknowledges and agrees that money damages would not be a sufficient remedy for any breach of this Agreement by Seller, that Buyer would suffer irreparable harm as a result of any such breach, and that, in addition to all other remedies available under this Agreement or at Law or in equity, Buyer shall be entitled to specific performance and injunctive or other equitable relief as a remedy for any such breach or threatened breach, without posting any bond, security or other undertaking. In the event of any action by Buyer to enforce this Agreement, Seller hereby waives the defense that there is an adequate remedy at Law.

*[Signature page follows]*

IN WITNESS WHEREOF, this Agreement has been signed by or on behalf of each of the Parties as of the day first above written.

Buyer:

**TALEN MONTANA, LLC**

By  \_\_\_\_\_

Name: Dale E. Lebsack, Jr.

Title: President

Seller:

**PUGET SOUND ENERGY, INC.**

By : \_\_\_\_\_

Name:

Title:

IN WITNESS WHEREOF, this Agreement has been signed by or on behalf of each of the Parties as of the day first above written.


Buyer:

**TALEN MONTANA, LLC**

By \_\_\_\_\_  
Name:  
Title:

Seller:

**PUGET SOUND ENERGY, INC.**

By :   
Name: *Steve Secrist*  
Title: *SR VP and GC*

**EXHIBIT A**  
**ASSIGNMENT AND ASSUMPTION AGREEMENT**

ASSIGNMENT AND ASSUMPTION AGREEMENT (this “*Agreement*”), dated as of [●], 2020 (the “*Effective Date*”), between PUGET SOUND ENERGY, INC., a Washington public utility corporation (“*Assignor*”), and TALEN MONTANA, LLC, a Delaware limited liability company (“*Assignee*”).

**RECITALS:**

WHEREAS, Assignor and Assignee are parties to that certain Colstrip Unit 4 Purchase and Sale Agreement, dated as of August 14, 2020 (the “*Purchase Agreement*”);

WHEREAS, Assignor is a party to, or has obligations with respect to the Material Contracts set forth on Schedule 2.1(c) to the Purchase Agreement, each of which Assignor has agreed to assign and, except as otherwise provided herein or in the Purchase Agreement, Assignee has agreed to assume, in each case with respect to all right, title and interest of Assignor in such Material Contracts relating to the Colstrip 4 Interests (collectively, the “*Assumed Contracts*”); and

WHEREAS, pursuant to the Purchase Agreement, Assignor agrees to assign the Assumed Contracts to Assignee and, except as otherwise provided herein or in the Purchase Agreement, Assignee agrees to assume the obligations of Assignor under the Assumed Contracts.

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the parties agree as follows:

**SECTION 1. Sale and Assignment.** Except as otherwise provided herein or in the Purchase Agreement, Assignor, for good and valuable consideration to it, receipt of which is hereby acknowledged, does hereby assign, transfer, sell and convey unto Assignee all of Assignor’s right, title and interest in and to the Assumed Contracts.

**SECTION 2. Assumption.**

(a) Assignee hereby (i) assumes the obligations and liabilities of Assignor under the Assumed Contracts to the extent that such obligation or liability. relates to or arises out of the time period after the Effective Date, (ii) shall, subject to clause (i), hereafter be deemed a party to the Assumed Contracts in the same role formerly held by Assignor, (iii) confirms that it has the requisite corporate power and authority to enter into and carry out the transactions contemplated by the Assumed Contracts, and (iv) agrees that after the Effective Date it shall be bound by all the terms of, and undertake all the obligations of Assignor contained in, the Assumed Contracts, with the same force and effect as if Assignee had executed on the Effective Date each of the Assumed Contracts originally as the contracting party named therein. Each of the foregoing is for the benefit of Assignor and the other parties to the Assumed Contracts.

(b) Assignee and Assignor hereby covenant and agree to execute and to deliver to the other parties to the Assumed Contracts from time to time such other documents, instruments and

agreements as they reasonably may request in order to further evidence the assignment, assumption and substitution effected hereby or otherwise to carry out the purposes and intent of this Agreement.

(c) Upon the Effective Date, Assignor shall be released and discharged from each obligation, liability or duty pursuant to the Assumed Contracts arising or accruing on or after the Effective Date and Assignee shall be substituted in lieu of Assignor as a party to each of the Assumed Contracts to which Assignor is a party.

**SECTION 3. Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of and shall be enforceable by the parties hereto and their respective successors and assigns and shall inure to the benefit of the other parties to the Assumed Contracts and their respective successors and assigns.

**SECTION 4. Governing Law.** This Agreement, including all matters of construction, validity and performance, shall in all respects be governed by, and construed in accordance with, the law of the State of Delaware applicable to contracts made in such state and to be performed entirely within such state, without giving effect to principles relating to conflicts of law.

**SECTION 5. Counterparts.** This Agreement may be executed by the parties hereto in separate counterparts (or upon separate signature pages bound together into one or more counterparts), each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

*[Signature page follows]*



**IN WITNESS WHEREOF**, the parties hereto have each caused this Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the Effective Date.

**Assignor:**

**PUGET SOUND ENERGY, INC.**

By: \_\_\_\_\_

Name:

Title:

**Assignee:**

**TALEN MONTANA, LLC**

By: \_\_\_\_\_

Name:

Title:

**EXHIBIT B**  
**EXCLUDED ASSETS**

The “Kluver Property,” described as:

Township 1 North, Range 42 East, M.P.M.

Section 9:     All

To the extent Seller has any interest in any assets that are or relate to the property commonly referred to as the “Kluver Property” that had been the subject of litigation, no such interests or rights will be transferred as part of the transactions contemplated by this Agreement and as such are Excluded Assets.

**EXHIBIT C  
POWER PURCHASE AGREEMENT**

**EXHIBIT A TO TERM SHEET  
WITH RESPECT TO THE  
COLSTRIP UNIT 4 TRANSACTION**

**CONFIRMATION FOR UNIT COMMITMENT SERVICE – COLSTRIP UNIT 4**

This Confirmation (this “Confirmation”) shall confirm the terms agreed to between Talen Montana, LLC (“Seller”) and Puget Sound Energy, Inc. (“Purchaser”) regarding the purchase of Unit Commitment Service subject to the terms and conditions of the WSPP Agreement, dated effective as of [January 25, 2020], as amended from time to time prior to the date hereof (the “WSPP Agreement”). The undersigned Parties agree to sell and purchase electric energy pursuant to the WSPP Agreement as it is supplemented and modified below:

<b>Seller</b>	Talen Montana, LLC
<b>Purchaser</b>	Puget Sound Energy, Inc.
<b>Period of Delivery</b>	[Commencing on Hour Ending (“HE”) 0100 Pacific Prevailing Time (“PPT”) on June 1, 2020, and continuing through HE 2400 PPT on May 15, 2025]
<b>Schedule (Days and Hours)</b>	7 x 24 (including NERC Holidays)
<b>Delivery Rate</b>	N/A
<b>Delivery Point</b>	The high side of the 500 kV bus for Unit 4 in the Colstrip Switchyard, or, at Seller’s option and with prior notice to Purchaser, at Mid-C.
<b>Type of Service</b>	Unit Commitment Service from Colstrip Unit 4, Service Schedule B
<b>Contract Quantity</b>	45 MW at any time that Colstrip Unit 4 is operating at or greater than minimum load; 0 MW when Colstrip Unit 4 is off-line.
<b>Contract Price</b>	For each hour of the Period of Delivery, regardless of the Delivery Point, the higher of (i) the Mid C Day-Ahead Index Price for On-Peak and Off-Peak periods, as applicable, minus O&M Costs (Base) Equivalent and (ii) the Floor Price applicable to such hour. In addition Purchaser shall pay a monthly payment of 1/12th of the annual O&M Costs (Base).

As used herein:

“Floor Price” means, for any hour during the Period of Delivery, a per MWh price calculated in accordance with Exhibit A to this Confirmation.

“O&M Costs (Base)” means, the 45 MW share of the O&M Cost (Base) fixed costs as identified and approved annually for Colstrip Units 3 and 4 Budget.

“O&M Costs (Base) Equivalent” means, O&M Cost (Base) divided by the annual net generation, as identified and approved annually for Colstrip Units 3 and 4 Budget.

“Mid C Day-Ahead Index Price” means, (i) for any day other than a Sunday or a NERC Holiday, the weighted average of the Intercontinental Exchange (“ICE”) daily Mid-Columbia On-Peak Firm Power Price Bulletin for On-Peak Hours and the ICE daily Mid-Columbia Off-Peak Firm Power Price Bulletin for Off-Peak Hours, including Sundays and NERC Holidays, and (ii) for any Sunday or NERC Holiday, the ICE daily Mid-Columbia Off-Peak Firm Power Price Bulletin for Off-Peak Hours, including Sundays and NERC Holidays. For purposes of this definition, On-Peak hours shall mean HE 0700 through HE 2200 PPT and Off-Peak hours shall mean HE 0100 through HE 0600 and HE 2300 through HE 2400 PPT, Monday through Saturday, and HE 0100 through 2400 Sundays and NERC Holidays.

**Transmission**

Seller shall be responsible for obtaining, at Seller’s expense, any transmission necessary to deliver the Contract Quantity to the Delivery Point. Purchaser shall be responsible for obtaining, at Purchaser’s expense, any transmission necessary from and after the Delivery Point.

**Date of Confirmation**

[       ]

**Special Terms and Exceptions**

Notwithstanding anything to the contrary in the WSPP Agreement, the Parties hereby agree to the following modifications thereto:

1. Section 22 of the WSPP Agreement is hereby revised as follows:
  - a. The reference to two (2) Business Days in Section 22.1(a) is amended to be a reference to ten (10) Business Days;
  - b. Section 22.1(c) is hereby revised to add the following to the end thereof:

“provided, that, in the case of the institution of any such proceeding by another person or entity, such proceeding is consented or acquiesced to by the Defaulting Party or is not withdrawn or dismissed within sixty (60) days;”

- c. The first and second sentences of Section 22.2(a) are deleted in their entirety and the following is substituted therefor:

“If an Event of Default shall have occurred and be continuing, the Non-Defaulting Party, upon written notice to the Defaulting Party, shall have the right to suspend, reinstate and resuspend performance of transactions under this Agreement. Suspension periods shall not affect in any way the thirty (30) day period for exercising a right of termination under Section 22.2(b).”

- d. The last sentence of Section 22.2(a) is deleted in its entirety and the following is substituted therefor:

“The Non-Defaulting Party shall provide at least twenty-four (24) hours written notice to the Defaulting Party before any suspension may be terminated.”

- e. The last sentence of Section 22.3(c) is hereby deleted in its entirety and the following is substituted therefor: “If the Non-Defaulting Party's aggregate Gains exceed its aggregate Losses and Costs, the Termination Payment shall be deemed to equal \$0 and in no event shall the Defaulting Party be entitled to be paid a Termination Payment”; and

- f. Section 22.3(e) shall be deleted in its entirety.

- 2. Sections B-3.8 and B-5 of Service Schedule B are hereby deleted in their entirety.
- 3. Revision of B-3.9(b) in Schedule B to read, “By the Seller when all of the output of the unit is unavailable” and deleting the remainder of that subsection.
- 4. THE PARTIES HERETO HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE, TO

THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS CONFIRMATION OR ANY OTHER DOCUMENT DELIVERED IN CONNECTION HEREWITH, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ACTIONS OF THE PARTIES HERETO.

5. Section 24 of the Agreement is hereby amended and restated in its entirety as follows: “This Agreement is made under and shall be governed by and construed in accordance with the substantive laws of the State of New York, without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of New York.”

**Miscellaneous**

This Confirmation may be executed in multiple counterparts, each of which when so executed and delivered shall constitute a duplicate original and all counterparts together shall constitute one and the same instrument. The Parties acknowledge and agree that any document or signature delivered by facsimile, PDF or other electronic transmission shall be deemed to be an original executed document for the purposes hereof and such execution and delivery shall be considered valid, binding and effective for all purposes.

IN WITNESS WHEREOF the Parties have executed this Confirmation in the manner appropriate to each on the date set forth above.

TALLEN MONTANA, LLC

By \_\_\_\_\_  
Name:  
Title:

PUGET SOUND ENERGY, INC.

By \_\_\_\_\_  
Name:  
Title:

## Methodology for calculating the minimum electric cost

### Combination of Two parts

- Fuel related variable cost in \$/MWh
- Non-Fuel variable cost in \$/MWh

### Fuel related Variable costs

- Base price is the equivalent cost of fuel expressed in \$/MWh at minimum load heat rate
  - Heat rate is approximately 13,500Btu/KWh
  - Coal consumption at that rate is 0.8 tons /MWh
- Base price on the contract starts at \$27/ton
  - \$27/ton is equivalent to \$21.60/MWh (\$27.00/ton times 0.8tons/MWh)
- Base price under the fuel contract adjusts quarterly under the fuel contract – the base price of this contract would be adjusted accordingly (the quarterly base price would be multiplied by 0.8)

### Non Fuel variable costs

- The plant produces an incremental cost worksheet every year which includes a place for non- fuel variable cost
  - For 2019, it is \$3.81/MWh at minimum load
  - A new sheet will be developed for the 2020 budget – a new number would be used annually under the contract for non-fuel variable O&M
  - If the Operator no longer produces an incremental cost worksheet, then mutually agreeable alternative will be calculated or used

Minimum charge for electricity under the PPA then is the combination of Fuel and non-Fuel variable costs as described and adjusted above.

- Minimum charge = Fuel related variable cost + non-Fuel variable cost
  - the example above would produce a minimum charge of  $\$21.60 + 3.81 = \$25.41/\text{MWh}$

**EXHIBIT E**  
**WATER RIGHTS TRANSFER CERTIFICATE**

(See attached.)





## DNRC OWNERSHIP UPDATE DIVIDED INTEREST

Complete one form for each water right that will be divided. Your water right will be divided into separate water rights based on the information provided.

**Submit all three pages of this form with the filing fee; a deed, contract for deed, or other recorded document; a water right abstract; and a map.**

Contact your local DNRC Water Resources Regional Office if you have any questions.

**Filing Fee \$50.00**

**FOR DEPARTMENT USE ONLY**

Rec'd Date \_\_\_\_\_  
 Rec'd By \_\_\_\_\_  
 Fee Rec'd \$ \_\_\_\_\_ Check No. \_\_\_\_\_  
 Payor \_\_\_\_\_  
 Refund \$ \_\_\_\_\_ Date \_\_\_\_\_  
 Deposit Receipt # \_\_\_\_\_  
 OUID # \_\_\_\_\_

*If all interested parties wish to split the water right, each must fill out and sign either part B or part C of this form. A water right can be split into several portions on one form for one \$50 filing fee. All interested parties must sign off on the split of water rights even if their portions are not split into individual rights.*

**PART A – GENERAL INFORMATION**

1. **DATE OF LAND TRANSFER (SALE)** \_\_\_\_\_

2. **WATER RIGHT BEING DIVIDED** \_\_\_\_\_

3. **SELLER (Grantor)** \_\_\_\_\_

MAILING ADDRESS \_\_\_\_\_  
 CITY \_\_\_\_\_ STATE \_\_\_\_\_ ZIP \_\_\_\_\_  
 PHONE \_\_\_\_\_ EMAIL \_\_\_\_\_

4. **BUYER (Grantee)** \_\_\_\_\_

MAILING ADDRESS \_\_\_\_\_  
 CITY \_\_\_\_\_ STATE \_\_\_\_\_ ZIP \_\_\_\_\_  
 PHONE \_\_\_\_\_ EMAIL \_\_\_\_\_

5. **HOW IS THIS WATER RIGHT BEING DIVIDED?** Please check only one.

- The water right is being divided as specifically identified in a deed, contract for deed, or other recorded document. (Attach a copy and underline the divided interest information.)
- The water right is being divided proportionately between the buyer and seller based on the place of use described in the water right. (Attach a copy of the deed, contract for deed, or other recorded document.)

6. **WATER RIGHT ABSTRACT**

- A current DNRC general abstract of the water right being divided must be submitted. To receive DNRC generated water right abstracts, query the water right at the following web address: <http://www.nris.mt.gov/dnrc/waterrights/default.aspx> or contact the regional office serving your area.

7. **MAP**

- A map must be provided. An aerial photo is preferred. You may also use a scaled map, county plat or quad map showing township and range, section corners, and a north arrow. **The following elements must be identified on the map:**
  - a. The place of use the seller is retaining;
  - b. The place of use the buyer is receiving;
  - c. Point(s) of diversion; and
  - d. The location of any irrigated acres.

**IMPORTANT NOTES**

- If you want to change or add a point of diversion, place of use, place of storage, or purpose of use of a water right you must first file a change application with the DNRC.
- The combined portions of a divided water right cannot exceed the total flow rate, volume, or period of diversion of the original right.
- The DNRC has no jurisdiction concerning easement, right-of-way, and zoning matters. The buyer and seller must make these provisions where necessary.
- There may be ongoing court action regarding this water right and terms and conditions applicable to the exercise of the divided right. The buyer should be familiar with all aspects of the right received.

**PART B – SELLER'S PORTION**

(Attach additional sheets if necessary)

1. SELLER'S NAME \_\_\_\_\_

**2. PORTION OF WATER RIGHT RETAINED**

If specifically identified in the attached recorded document, what flow rate will be retained by the Seller? \_\_\_\_\_  gpm  cfs

Unless specifically divided in the attached recorded document, both the Seller's and Buyer's water right will retain the full flow rate and the use of the flow rate must be shared and/or alternated. Attach an additional sheet explaining how this will be done such that, in combination, the flow rate of the original water right will not be exceeded.

Purpose of Use \_\_\_\_\_ Volume (acre-feet) \_\_\_\_\_

Purpose of Use \_\_\_\_\_ Volume (acre-feet) \_\_\_\_\_

**3. POINT OF DIVERSION (describe the location to the nearest 10 acres, three quarter sections)**

\_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

Lot/Tract \_\_\_\_\_ Block \_\_\_\_\_ Subdivision Name \_\_\_\_\_

COS \_\_\_\_\_ Gov't Lot \_\_\_\_\_ County \_\_\_\_\_

\_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

Lot/Tract \_\_\_\_\_ Block \_\_\_\_\_ Subdivision Name \_\_\_\_\_

COS \_\_\_\_\_ Gov't Lot \_\_\_\_\_ County \_\_\_\_\_

**4. PLACE OF USE**

Purpose of Use \_\_\_\_\_ County \_\_\_\_\_

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_\_ Total Acres

Lot/Tract \_\_\_\_\_ Block \_\_\_\_\_ Subdivision Name \_\_\_\_\_

COS \_\_\_\_\_ Gov't Lot \_\_\_\_\_

Geocodes(s) \_\_\_\_\_

Purpose of Use \_\_\_\_\_ County \_\_\_\_\_

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_\_ Total Acres

Lot/Tract \_\_\_\_\_ Block \_\_\_\_\_ Subdivision Name \_\_\_\_\_

COS \_\_\_\_\_ Gov't Lot \_\_\_\_\_

Geocodes(s) \_\_\_\_\_

**5. SIGNATURE**

I DECLARE UNDER PENALTY OF PERJURY AND UNDER THE LAWS OF THE STATE OF MONTANA THAT THE FOREGOING IS TRUE AND CORRECT.

Seller Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Seller Signature: \_\_\_\_\_ Date: \_\_\_\_\_

**PART C - BUYER'S PORTION**

(Attach additional sheets if necessary. If more than one buyer, add sheets showing each buyer's portion.)

1. BUYER'S NAME \_\_\_\_\_

2. PORTION OF WATER RIGHT ACQUIRED

Flow Rate (gpm/cfs) \_\_\_\_\_ (Only if specifically identified in the attached recorded document—see Part B, Number 2)

Purpose of Use \_\_\_\_\_ Volume (acre-feet) \_\_\_\_\_

Purpose of Use \_\_\_\_\_ Volume (acre-feet) \_\_\_\_\_

3. POINT OF DIVERSION (describe the location to the nearest 10 acres, three quarter sections)

\_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

Lot/Tract \_\_\_\_\_ Block \_\_\_\_\_ Subdivision Name \_\_\_\_\_

COS \_\_\_\_\_ Gov't Lot \_\_\_\_\_ County \_\_\_\_\_

\_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

Lot/Tract \_\_\_\_\_ Block \_\_\_\_\_ Subdivision Name \_\_\_\_\_

COS \_\_\_\_\_ Gov't Lot \_\_\_\_\_ County \_\_\_\_\_

4. PLACE OF USE

Purpose of Use \_\_\_\_\_ County \_\_\_\_\_

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ Total Acres

Lot/Tract \_\_\_\_\_ Block \_\_\_\_\_ Subdivision Name \_\_\_\_\_

COS \_\_\_\_\_ Gov't Lot \_\_\_\_\_

Geocodes(s) \_\_\_\_\_

Purpose of Use \_\_\_\_\_ County \_\_\_\_\_

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ acres \_\_\_\_ 1/4 \_\_\_\_ 1/4 \_\_\_\_ 1/4 Sec \_\_\_\_\_ TWP \_\_\_\_\_  N  S RGE \_\_\_\_\_  E  W

\_\_\_\_ Total Acres

Lot/Tract \_\_\_\_\_ Block \_\_\_\_\_ Subdivision Name \_\_\_\_\_

COS \_\_\_\_\_ Gov't Lot \_\_\_\_\_

Geocodes(s) \_\_\_\_\_

5. SIGNATURE

I DECLARE UNDER PENALTY OF PERJURY AND UNDER THE LAWS OF THE STATE OF MONTANA THAT THE FOREGOING IS TRUE AND CORRECT.

Buyer Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Buyer Signature: \_\_\_\_\_

Date: \_\_\_\_\_

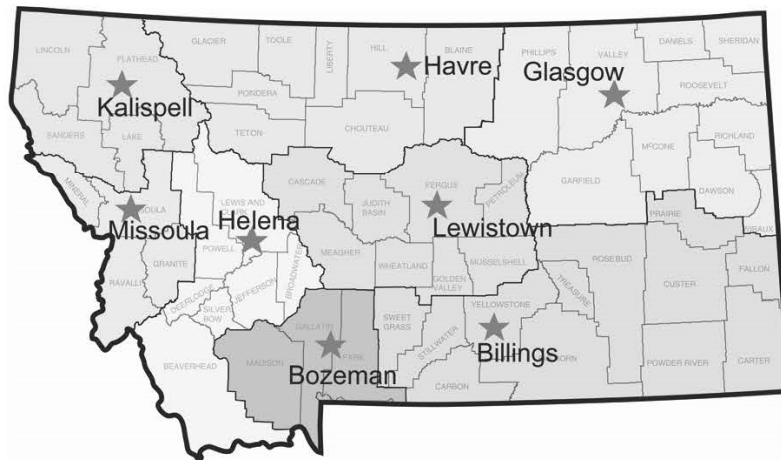
## WATER RESOURCES OFFICES

- BILLINGS:** AIRPORT INDUSTRIAL PARK, 1371 RIMTOP DR., BILLINGS MT 59105-1978  
PHONE: 406-247-4415 FAX: 406-247-4416  
SERVING: Big Horn, Carbon, Carter, Custer, Fallon, Powder River, Prairie, Rosebud, Stillwater, Sweet Grass, Treasure, and Yellowstone Counties
- BOZEMAN:** 2273 BOOT HILL COURT, SUITE 110, BOZEMAN MT 59715  
PHONE: 406-586-3136 FAX: 406-587-9726  
SERVING: Gallatin, Madison, and Park Counties
- GLASGOW:** 222 6TH STREET SOUTH, PO BOX 1269, GLASGOW MT 59230-1269  
PHONE: 406-228-2561 FAX: 406-228-8706  
SERVING: Daniels, Dawson, Garfield, McCone, Phillips, Richland, Roosevelt, Sheridan, Valley, and Wibaux Counties
- HAVRE:** 210 6TH AVENUE, PO BOX 1828, HAVRE MT 59501-1828  
PHONE: 406-265-5516 FAX: 406-265-2225  
SERVING: Blaine, Chouteau, Glacier, Hill, Liberty, Pondera, Teton, and Toole Counties
- HELENA:** 1424 9TH AVE., PO BOX 201601, HELENA MT 59620-1601  
PHONE: 406-444-6999 FAX: 406-444-9317  
SERVING: Beaverhead, Broadwater, Deer Lodge, Jefferson, Lewis and Clark, Powell, and Silver Bow Counties
- KALISPELL:** 655 TIMBERWOLF PARKWAY, SUITE 4, KALISPELL MT 59901-1215  
PHONE: 406-752-2288 FAX: 406-752-2843  
SERVING: Flathead, Lake, Lincoln, and Sanders Counties
- LEWISTOWN:** 613 NORTHEAST MAIN ST., SUITE E, LEWISTOWN MT 59457-2020  
PHONE: 406-538-7459 FAX: 406-538-7089  
SERVING: Cascade, Fergus, Golden Valley, Judith Basin, Meagher, Musselshell, Petroleum, and Wheatland Counties
- MISSOULA:** 2705 SPURGIN RD. BLDG.C, PO BOX 5004, MISSOULA MT 59806-5004  
PHONE: 406-721-4284 FAX: 406-542-5899  
SERVING: Granite, Mineral, Missoula, and Ravalli Counties

---

**MONTANA DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION**  
**Water Resources Division - Water Rights Bureau**  
**WEBSITE: <http://dnrc.mt.gov/wrd/>**

---



**EXHIBIT F**  
**VOTE SHARING AGREEMENT**

**VOTE SHARING AGREEMENT**

THIS VOTE SHARING AGREEMENT (this “*Agreement*”) is entered into as of [●], 2020 (the “*Effective Date*”) by and among NORTHWESTERN CORPORATION, a Delaware corporation (“*NorthWestern*”), PUGET SOUND ENERGY, INC., a Washington public utility corporation (“*Puget*”), and TALEN MONTANA, LLC, a Delaware limited liability company (“*Talen*”). NorthWestern, Puget, and Talen are sometimes referred to herein individually as a “*Party*” and, collectively, as the “*Parties.*” Capitalized terms used herein without definition shall have the respective meanings assigned to such terms in the Ownership and Operation Agreement.

**RECITALS**

WHEREAS, the ownership, operation and maintenance of the Project is governed by that certain Ownership and Operation Agreement, dated as of May 6, 1981, by and between The Montana Power Company, a Montana corporation, Puget Sound Energy, Inc. (formerly named “Puget Sound Power & Light Company”), a Washington corporation, Avista Corporation (formerly named “Washington Water Power Company”), a Washington corporation, Portland General Electric Company, an Oregon corporation, and PacifiCorp (successor by merger to the Maine corporation named “Pacific Power & Light Company”), an Oregon corporation, as amended on or about October 11, 1991, July 13, 1998, September 14, 2004 and August 18, 2008 (and as may be subsequently amended, modified and supplemented from time to time, the “*Ownership and Operation Agreement*”);

WHEREAS, NorthWestern and Puget are parties to that certain Colstrip Unit 4 Purchase and Sale Agreement dated as of December 9, 2019, as amended, whereby NorthWestern acquired a fifty percent (50%) undivided interest in Puget’s undivided interest in Colstrip Unit 4 (the “*NorthWestern Colstrip Unit 4 Acquisition Agreement*”);

WHEREAS, Talen and Puget are parties to that certain Colstrip Unit 4 Purchase and Sale Agreement dated as of August 14, 2020 whereby Talen acquired a fifty percent (50%) undivided interest in Puget’s undivided interest in Colstrip Unit 4 (the “*Talen Colstrip Unit 4 Acquisition Agreement*”); and

WHEREAS, the Parties desire to enter into this Agreement to govern their respective voting obligations under the Ownership and Operation Agreement with respect to Puget’s retained undivided interest in Colstrip Unit 3 and the undivided interest of each of NorthWestern and Talen in Colstrip Unit 4 acquired from Puget (the “*Shared Vote*”).

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements contained in this Agreement, and intending to be legally bound, the Parties agree as follows:

**ARTICLE 1**  
**DEFINITIONS & INTERPRETATION**

**Section 1.1 Definitions.** In this Agreement, the following capitalized terms have the meanings assigned below.

“AAA” has the meaning assigned to it in Section 4.2(a).

“*Appointee*” means any of a NorthWestern Appointee, a Puget Appointee, or a Talen Appointee.

“*Authorized Officer*” means, with respect to a Party, any officer of such Party.

“*Business Day*” means any day which is not a Saturday, Sunday or legal holiday in the state of Montana.

“*Colstrip 3 Proposal*” means a Proposal, other than a Unit 3 Decommissioning Proposal or Remediation Proposal, that relates primarily to Colstrip Unit 3, and does not involve the Common Facilities.

“*Colstrip 4 Proposal*” means a Proposal, other than a Unit 4 Decommissioning Proposal or Remediation Proposal, that relates primarily to Colstrip Unit 4, and does not involve the Common Facilities.

“*Colstrip Unit 3*” means such portion of the Project commonly known as “Colstrip Unit 3” and the corresponding interest in the Common Facilities and related facilities, real property and property rights.

“*Colstrip Unit 4*” means such portion of the Project commonly known as “Colstrip Unit 4” and the corresponding interest in the Common Facilities and related facilities, real property and property rights.

“*Common Facilities*” has the meaning assigned to it under the Ownership and Operation Agreement.

“*Dispute*” has the meaning assigned to it in Section 4.1.

“*Dispute Notice*” has the meaning assigned to it in Section 4.1.

“*Dispute Notice Response*” has the meaning assigned to it in Section 4.1.

“*Disapproval Statement*” means the written statement submitted to the other members of the Project Committee pursuant to Section 17(h) of the Ownership and Operation Agreement.

“*Governmental Authority*” means (i) the federal government of the United States of America, (ii) any state, county, municipality, or other governmental subdivision within the United States of America, and (iii) any executive, legislative or judicial court, department, commission, board, bureau, agency, or other instrumentality of the federal government of the United States of America or of any state, county, municipality, or other governmental subdivision within the United States of America.

“*Law*” means any applicable law, statute, rule, regulation, ordinance, standard, code, order, judgment, decision, writ, injunction, decree, certificate of need, award, or other governmental restrictions, including any published and publicly available policy or procedure enforceable by any Governmental Authority.

“*Mixed Proposal*” means a Proposal that is not a Colstrip 3 Proposal, Colstrip 4 Proposal, Unit 3 Decommissioning Proposal, Unit 4 Decommissioning Proposal, Unit 3 Budget Proposal, Unit 4 Budget Proposal, or Remediation Proposal. A Mixed Proposal may be either a Mixed Proposal for Replacement of Talen as Operator or a Mixed Proposal Other than for Replacement of Talen as Operator; provided, however, that if a Mixed Proposal may reasonably be classified in any category of Proposal other than as a Mixed Proposal for Replacement of Talen as Operator, such Proposal shall be classified in such other category. A Mixed Proposal Other than for Replacement of Talen as Operator shall include, but is not limited to, budget proposals for years for which there are no planned maintenance outages and budget proposals for years for which there are planned maintenance outages for both Unit 3 and Unit 4 which are of the exact same scheduled duration.

“*NorthWestern Appointee*” has the meaning assigned in Section 2.1(b).

“*NorthWestern Colstrip Unit 4 Acquisition Agreement*” has the meaning assigned to it in the Recitals.

“*NorthWestern’s Colstrip 4 Project Share*” means the 12.5% undivided interest in Colstrip Unit 4 acquired by NorthWestern from Puget, pursuant to the NorthWestern Colstrip Unit 4 Acquisition Agreement. For avoidance of doubt NorthWestern’s Colstrip 4 Project Share shall not include NorthWestern’s 30% undivided interest in Colstrip Unit 4 that was acquired by NorthWestern from The Montana Power Company and that at the time of this Agreement is subject to a separate vote sharing agreement.

“*Objection*” means an objection by a Party (or such Party’s Appointee) to the manner in which another Party’s Appointee intends to use the Shared Vote. Only Prudency Objections may be asserted under this Agreement.

“*Ownership and Operation Agreement*” has the meaning assigned to it in the Recitals.

“*Party Appointee*” means a Talen Appointee, a NorthWestern Appointee, or a Puget Appointee.

“*Person*” means any Governmental Authority or any individual, firm, partnership, corporation, limited liability company, joint venture, trust, unincorporated organization or other entity or organization.

“*Poll*” has the meaning assigned in Section 3.2(b).

“*Project*” has the meaning assigned to it under the Ownership and Operation Agreement.

“*Project Committee*” has the meaning assigned to it under the Ownership and Operation Agreement.

“*Proposal*” means any proposal being considered for action by the Project Committee.

“*Prudency Objection*” means an objection by a Party resulting from a good faith determination by an Authorized Officer of such Party that all or a portion of a Proposal would be inconsistent with Prudent Utility Practices (such determination to be made on the assumption that such Party is a long-term owner (and not merely a lessee) of such Party’s Project Share.

“*Prudent Utility Practices*” means the practices, methods and acts generally engaged in or approved by the electric utility industry in the United States for similarly situated facilities in the United States during a particular time period, in a manner consistent with Laws, reliability, safety and environmental protection, and taking into consideration the requirements of this Agreement, the contracts set forth on Schedule 2.1(c) to the NorthWestern Colstrip Unit 4 Acquisition Agreement and on Schedule 2.1(c) to the Talen Colstrip Unit 4 Acquisition Agreement, and the other contracts affecting the operation of the Project. Prudent Utility Practices are not necessarily intended to require the optimum or best practices, methods or acts to the exclusion of all others, but rather to include a spectrum of possible practices, methods or acts consistent with the immediately preceding sentence.

“*Puget Appointee*” has the meaning assigned in Section 2.1(b).

“*Puget’s Colstrip 3 Project Share*” means the 25% undivided interest in Colstrip Unit 3 owned by Puget.

“*Remediation Proposal*” means a Proposal primarily concerning the remediation of ground water or soil contamination located at Colstrip Unit 3 or Colstrip Unit 4 as required under applicable Laws.

“*Rules*” has the meaning assigned to it in Section 4.2(a).

“*Shared Vote*” has the meaning assigned to it in the Recitals.

“*Talen Appointee*” has the meaning assigned in Section 2.1(b).

“*Talen Colstrip Unit 4 Acquisition Agreement*” has the meaning assigned to it in the Recitals.

“*Talen’s Colstrip 4 Project Share*” means the 12.5% undivided interest in Colstrip Unit 4 acquired by Talen from Puget, pursuant to the Talen Colstrip Unit 4 Acquisition Agreement.

“*Unit 3 Budget Proposal*” means a Proposal regarding the Project’s budget for a year during which (i) Unit 3 is the only unit at the Project for which there is a planned maintenance outage, or (ii) both Unit 3 and Unit 4 have planned maintenance outages, but the scheduled duration of the planned maintenance outage for Unit 3 is longer than the scheduled duration of the planned maintenance outage for Unit 4.

“*Unit 3 Decommissioning Proposal*” means a Proposal regarding the decommissioning, mothballing, closure, retirement, deactivation, shut down, deconstruction, removal, or demolition of all or a portion of Colstrip Unit 3 alone.



“*Unit 4 Budget Proposal*” means a Proposal regarding the Project’s budget for a year during which (i) Unit 4 is the only unit at the Project for which there is a planned maintenance outage, or (ii) both Unit 3 and Unit 4 have planned maintenance outages, but the scheduled duration of the planned maintenance outage for Unit 4 is longer than the scheduled duration of the planned maintenance outage for Unit 3.

“*Unit 4 Decommissioning Proposal*” means a Proposal regarding the decommissioning, mothballing, closure, retirement, deactivation, shut down, deconstruction, removal, or demolition of all or a portion of Colstrip Unit 4 alone.

“*Unit 4 Owner*” means Talen and NorthWestern, individually, and “*Unit 4 Owners*” means Talen and NorthWestern, collectively.

**Section 1.2 Other Capitalization.** Unless otherwise defined in this Agreement (including the Recitals), all other capitalized terms used in this Agreement have the meanings assigned to such terms in the Ownership and Operation Agreement.

**Section 1.3 Interpretation.** Unless the context of this Agreement otherwise requires, (a) words of any gender include each other gender; (b) words using the singular or plural number also include the plural or singular number, respectively; (c) the terms “hereof,” “herein,” “hereby” and derivative or similar words refer to this entire Agreement; (d) the terms “Article” or “Section” refer to the specified Article or Section of this Agreement; and (e) any reference to the entirety or any part of any agreement or document shall refer to any amendment, supplement or replacement of the same. Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified.

## ARTICLE 2 APPOINTEES; GENERAL COVENANTS OF THE PARTIES

### **Section 2.1 Appointment Processes.**

(a) Unless otherwise agreed in writing by the Parties, each Appointee appointed pursuant to this Agreement shall (i) have sufficient financial and/or operational experience with electric energy plants similar to the Project, (ii) be an individual who is an employee of one of the Parties to this Agreement or one of their respective affiliates, and (iii) serve in accordance with the applicable terms and provisions of this Agreement and the Ownership and Operation Agreement.

(b) Puget shall appoint the individual and alternates who shall be entitled to use the Shared Vote on Puget’s behalf under this Agreement (the “*Puget Appointee*”). NorthWestern shall appoint the individual and alternates who shall be entitled to use the Shared Vote on NorthWestern’s behalf under this Agreement (the “*NorthWestern Appointee*”). Talen shall appoint the individual and alternates who shall be entitled to use the Shared Vote on Talen’s behalf under this Agreement (the “*Talen Appointee*”).

(c) Notice of any appointment made pursuant to this Section 2.1 shall be delivered in writing to the other Parties not later than one Business Day prior to the effective date of such appointment. Nothing in this Section 2.1 is intended to limit the Parties’ ability to agree in writing to alter the selection process for any Appointee. The Notice of appointment shall contain

contact information for the Appointee, including a physical mailing address, electronic mail address, and telephone number.

**Section 2.2 Appointee Obligations.** During his or her term each Appointee shall act in accordance with this Agreement. If an Appointee breaches any of its material obligations under this Agreement, such Appointee shall be removed by the appointing Party promptly after (a) receipt of written notice from the non-appointing Party, which notice shall describe the breach in reasonable detail, and (b) such appointing Party's or its Appointee's failure to cure such breach within five business days from the date such written notice is received. A replacement Appointee shall be selected in the manner of selecting the Appointee set forth in Section 2.1.

**Section 2.3 General Acknowledgments and Agreements.** The Parties hereby make the following acknowledgements and agreements:

(a) Wherever either Party's approval, consent or agreement is required under this Agreement, it is understood that such approval, consent or agreement shall not be unreasonably withheld, delayed or conditioned unless this Agreement specifically provides that a different standard should apply.

(b) The Parties shall maintain in confidence the communications, discussions and deliberations with the Appointees and between the Parties regarding the advice to, consultation with, and the establishment of strategy and casting of votes with respect to the Shared Vote; provided that (i) the obligation set forth herein shall not be construed to prohibit disclosure (A) to a Party's employees, shareholders, directors, officers, advisors, agents, representatives or lenders, (B) of information that is or becomes generally available to the public other than as a result of any improper disclosure of such information by the disclosing Party, or (C) of information required to be disclosed under applicable Laws and (ii) the Parties may mutually agree to disclose some or all of the communications, discussions or deliberations addressed hereby. Nothing in this Section 2.3(b) shall constitute a waiver of, or agreement not to assert, any attorney-client, work product, or other privilege unless otherwise available with respect to a Party, its Appointees and their separate deliberations and consultations.

(c) Nothing contained herein shall prohibit an Appointee from advancing any argument or taking any position at a Project Committee meeting inconsistent with the official vote being cast by the Shared Vote, and the Parties shall not interfere with an Appointee's efforts to communicate with the Project Committee on any matter before the Project Committee.

(d) This Agreement does not apply to rights, votes, approvals, consents, waivers or the like that are to be made or exercised directly by Owners or Project Users or the Operator (including by an individual appointed as a Party Appointee but only to the extent acting on behalf of such Owners or Project Users and not as a Party Appointee) under the Ownership and Operation Agreement (as opposed to rights, votes, approvals, consents, waivers or the like designed to be made or exercised by the members of the Project Committee or the Project Committee as a whole). The Party Appointees shall not have the power to bind the Parties beyond their ability to cast the Shared Vote hereunder; it being understood that Appointees may

waive Objections but do not, in capacities as such, have the power to waive any other rights under this Agreement.

**Section 2.4 Exclusive Remedies.** Furthermore, each Party agrees that its exclusive remedy for a breach of this Agreement shall be an action against the other Parties, and not its Appointee, in the manner permitted by this Agreement.

### **ARTICLE 3 THE VOTING PROCESS**

#### **Section 3.1 Voting Rights and Objections Generally.**

(a) With respect to any Colstrip 3 Proposal, Colstrip 4 Proposal, Mixed Proposal, Unit 3 Decommissioning Proposal, Unit 4 Decommissioning Proposal, Unit 3 Budget Proposal, Unit 4 Budget Proposal, or Remediation Proposal, the Shared Vote shall be cast strictly in accordance with this Agreement by the Party Appointee or Party Appointees as described in the table contained below in this Section 3.1(a). Objections shall be communicated as soon as possible but in any event prior to the casting of an official vote by the Project Committee as follows: (i) the Objection shall be communicated in writing delivered via email or verbally by telephone or in person to the other Parties' Appointees for any Proposal received on the day of the Project Committee meeting in which such Proposal is to be considered and (ii) the Objection shall be communicated in writing delivered via email or verbally by telephone or in person to the other Parties' Appointees for any Proposal received prior to the day of the Project Committee meeting in which such Proposal is to be considered. The Objections which may be raised and the manner in which the Shared Vote may be cast are set forth on the table below. If the Puget Appointee is designated in the table contained below in this Section 3.1(a) to cast the Shared Vote, and the Puget Appointee is absent from a Project Committee meeting and appropriate alternate arrangements consistent with the Ownership and Operation Agreement have not been made (except for such absences due to an emergency or similar circumstances beyond such Appointee's control), the Unit 4 Owners' Appointees may collectively cast the Shared Vote as determined in accordance with the provisions of this Section 3.1(a). If the Unit 4 Owners' Appointees are designated in the table contained below in this Section 3.1(a) to cast the Shared Vote, and one of such Unit 4 Owners' Appointees is absent from a Project Committee meeting and appropriate alternate arrangements consistent with the Ownership and Operation Agreement have not been made (except for such absences due to an emergency or similar circumstances beyond such Appointees' control), the other Unit 4 Owners' Appointee may cast the Shared Vote as determined in accordance with the provisions of this Section 3.1(a). If the Unit 4 Owners' Appointees are designated in the table contained below in this Section 3.1(a) to cast the Shared Vote, and both of such Appointees are absent from a Project Committee meeting and appropriate alternate arrangements consistent with the Ownership and Operation Agreement have not been made (except for such absences due to an emergency or similar circumstances beyond such Appointees' control), the Puget Appointee may cast the Shared Vote as determined in accordance with the provisions of this Section 3.1(a).

<b>Subject Matter</b>	<b>Voting Rights if no Objection is Raised</b>	<b>Permitted Objections</b>	<b>Default Resolution in Event of Objection or Disagreement between Unit 4 Owners' Appointees</b>
<b>Colstrip 3 Proposal</b>	Puget Appointee casts the Shared Vote	<i>None</i>	Not Applicable
<b>Colstrip 4 Proposal</b>	Unit 4 Owners' Appointees collectively cast the Shared Vote, if the Unit 4 Owners are in agreement regarding how to cast the Shared Vote	<i>None</i>	If the Unit 4 Owners' Appointees are not in agreement regarding how to cast the Shared Vote, the Unit 4 Owners' Appointees shall abstain from voting on the Colstrip 4 Proposal, and no Shared Vote shall be cast with respect to such Proposal under this Agreement.
<b>Mixed Proposal Other than for Replacement of Talen as Operator</b>	Unit 4 Owners' Appointees collectively cast the Shared Vote, if the Unit 4 Owners are in agreement regarding how to cast the Shared Vote	<i>Prudency Objection:</i> The Puget Appointee shall be entitled to raise a Prudency Objection.	<p>If the Puget Appointee raises a Prudency Objection, the Unit 4 Owners' Appointees shall collectively cast the Shared Vote consistent with the results of a valid Poll conducted in accordance with <u>Section 3.2</u>. So long as such a Poll may be conducted, <u>Article 4</u> does not apply to Prudency Objections.</p> <p>If the Puget Appointee does not raise a Prudency Objection, but the Unit 4 Owners' Appointees are not in agreement regarding how to cast the Shared Vote, the Unit 4 Owners' Appointees shall abstain from voting on the Mixed Proposal, and no Shared Vote shall be cast with respect to such Proposal under this Agreement.</p>

Subject Matter	Voting Rights if no Objection is Raised	Permitted Objections	Default Resolution in Event of Objection or Disagreement between Unit 4 Owners' Appointees
<b>Mixed Proposal for Replacement of Talen as Operator</b>	NorthWestern Appointee casts the Shared Vote	<i>Prudency Objection:</i> Either or both the Puget Appointee and the Talen Appointee shall be entitled to raise a Prudency Objection.	If either the Puget Appointee or the Talen Appointee raises a Prudency Objection, the NorthWestern Appointee shall cast the Shared Vote consistent with the results of a valid Poll conducted in accordance with <u>Section 3.2</u> . So long as such a Poll may be conducted, <u>Article 4</u> does not apply to Prudency Objections.
<b>Unit 3 Budget Proposal</b>	Puget Appointee casts the Shared Vote	<i>None</i>	Not Applicable
<b>Unit 4 Budget Proposal</b>	Unit 4 Owners' Appointees collectively cast the Shared Vote, if the Unit 4 Owners are in agreement regarding how to cast the Shared Vote	<i>None</i>	If the Unit 4 Owners' Appointees are not in agreement regarding how to cast the Shared Vote, the Unit 4 Owners' Appointees shall abstain from voting on the Unit 4 Budget Proposal, and no Shared Vote shall be cast with respect to such Proposal under this Agreement.
<b>Unit 4 Decommissioning Proposal</b>	Unit 4 Owners' Appointees collectively cast the Shared Vote, if the Unit 4 Owners are in agreement regarding how to cast the Shared Vote	<i>Prudency Objection:</i> The Puget Appointee shall be entitled to raise a Prudency Objection.	If the Puget Appointee raises a Prudency Objection, the Unit 4 Owners' Appointees shall collectively cast the Shared Vote consistent with the results of a valid Poll conducted in accordance with <u>Section 3.2</u> . So long as such a Poll may be conducted, <u>Article 4</u> does not apply to Prudency Objections.  If the Puget Appointee does not raise a Prudency Objection, but the Unit 4

Subject Matter	Voting Rights if no Objection is Raised	Permitted Objections	Default Resolution in Event of Objection or Disagreement between Unit 4 Owners' Appointees
			Owners' Appointees are not in agreement regarding how to cast the Shared Vote, the Unit 4 Owners' Appointees shall abstain from voting on the Unit 4 Decommissioning Proposal, and no Shared Vote shall be cast with respect to such Proposal under this Agreement.
<b>Unit 3 Decommissioning Proposal</b>	Puget Appointee casts the Shared Vote	<i>Prudency Objection:</i> Either or both the NorthWestern Appointee and the Talen Appointee shall be entitled to raise a Prudency Objection with respect to any Unit 3 Decommissioning Proposal for the deconstruction, removal, or demolition of all or a portion of Colstrip Unit 3.	If either or both the NorthWestern Appointee and the Talen Appointee raise a Prudency Objection, the Puget Appointee shall cast the Shared Vote consistent with the results of a valid Poll conducted in accordance with <u>Section 3.2</u> . So long as such a Poll may be conducted, <u>Article 4</u> does not apply to Prudency Objections.
<b>Remediation Proposal</b>	Puget Appointee casts the Shared Vote	<i>Prudency Objection:</i> Either or both the NorthWestern Appointee and the Talen Appointee shall be entitled to raise a Prudency Objection.	If either or both the NorthWestern Appointee and the Talen Appointee raise a Prudency Objection, the Puget Appointee shall cast the Shared Vote consistent with the results of a valid Poll conducted in accordance with <u>Section 3.2</u> . So long as such a Poll may be conducted, <u>Article</u>

Subject Matter	Voting Rights if no Objection is Raised	Permitted Objections	Default Resolution in Event of Objection or Disagreement between Unit 4 Owners' Appointees
			4 does not apply to Prudency Objections.

(b) In connection with any Colstrip 3 Proposal, Colstrip 4 Proposal, Mixed Proposal, Unit 3 Decommissioning Proposal, Unit 4 Decommissioning Proposal, Unit 3 Budget Proposal, Unit 4 Budget Proposal, or Remediation Proposal, the Puget Appointee, the NorthWestern Appointee, and the Talen Appointee agree to cooperate reasonably and consult with one another regarding the classification of such Proposal and the establishment of strategy and casting of the Shared Vote in accordance with and subject to the terms of this Agreement. This covenant to cooperate includes, without limitation, the obligation to provide each other Party with notice of any conflict or disagreement regarding classification of a Proposal as soon as reasonably practicable, and in any event within two (2) Business Days following the Parties' receipt of such Proposal in accordance with the provisions of the Ownership and Operation Agreement. If a Proposal may reasonably be classified in more than one category of Proposal, such Proposal shall (except as otherwise provided in the definition of "Mixed Proposal" with respect to Mixed Proposals for Replacement of Talen as Operator) be classified in the category to which the Proposal primarily relates. Without limiting any provision of Section 3.1(a), if the Puget appointee, the NorthWestern Appointee, and the Talen Appointee are unable to agree upon the appropriate classification of a Proposal within seven (7) days after the Parties' receipt of notice of such Proposal, the dispute regarding classification shall be resolved in accordance with Article 4, and the classification of such Proposal as determined in accordance with Article 4 shall be binding upon the Parties. If, despite the good faith efforts of the Parties, the Project Committee vote occurs prior to resolution of a disagreement regarding classification of a Proposal, the Shared Vote shall not be cast.

(c) In each instance in which the Shared Vote is cast, the Puget Project Committee member shall, without regard to the Party or Parties authorized to cast such Shared Vote under this Agreement, be deemed for purposes of Section 17(f) of the Ownership and Operation Agreement to have voted in a manner consistent with such Shared Vote.

**Section 3.2 The Conduct and Results of a Prudency Objection Poll.**

(a) If a Party Appointee asserts a Prudency Objection, the applicable Party or Parties that are entitled to cast the vote pursuant to Section 3.1 shall request that the Project Committee conduct a Poll regarding such Proposal as follows: (i) if the Prudency Objection is asserted on the day of or during the Project Committee meeting in which the Proposal is to be considered, such Party or Parties shall request during the Project Committee meeting that a Poll be conducted during such meeting and (ii) if the Prudency Objection is asserted prior to the day of the Project Committee meeting in which the Proposal is to be considered, such Party or Parties shall give notice both telephonically and by email to the Party asserting the Prudency Objection that such Party or Parties will request that a Poll be taken at the Project Committee meeting.

(b) A valid “Poll” is one in which the Party Appointees and the Project Committee members representing the other Project Users present their respective good faith indications of how they intend to vote on the Proposal being considered. For purposes of conducting the Poll, the Project Shares of each Party shall be tallied separately. Therefore, the results of a valid Poll shall present a pure tally of the Project Users’ positions with respect to a Proposal based on each Project User’s separate Project Share. For purposes of such Poll a Proposal shall be deemed approved if the Proposal is approved by Party Appointees and other Project User Project Committee members representing not less than the minimum percentage of the Project Shares (as determined in accordance with Section 3.2(b)) required for approval of such Proposal under the Ownership and Operation Agreement, without application of the requirement of Section 17(f) of the Ownership and Operation Agreement for approval by the Operator’s Project Committee member and two other Project Committee members. The official Shared Vote on the Proposal being considered in the Poll shall be cast consistent with the results of the Poll in light of the voting and approval requirements that are applicable to such Proposal under the Ownership and Operation Agreement (i.e., either approved or not approved). The fact that a Party Appointee or other Project User’s Project Committee member casts an official vote on the Proposal that differs from its Poll vote shall have no bearing on the validity of the official Shared Vote. The Shared Vote cast may be changed only upon the concurrence of all of the Parties, and in accordance with the terms and provisions of the Ownership and Operation Agreement.

(c) Where Puget, through its Appointee, has cast the Shared Vote to reject (or not approve) a Proposal, Puget shall have the sole right and, as among the Parties, the responsibility to submit a Disapproval Statement, and the Unit 4 Owners shall have no right to submit a Disapproval Statement representing the Shared Vote relating to such rejected (or unapproved) Proposal. Where the Unit 4 Owners, through their Appointees, have abstained from voting on a Proposal or have cast the Shared Vote to reject (or not approve) a Proposal, the Unit 4 Owners shall have the sole right and, as among the Parties, the responsibility to submit a Disapproval Statement, and Puget shall have no right to submit a Disapproval Statement representing the Shared Vote relating to such rejected (or unapproved) Proposal. If the Shared Vote was not cast for any other reason, Puget, on the one hand, and the Unit 4 Owners, on the other hand, shall attempt to submit, through the Puget Project Committee member, a joint Disapproval Statement that contains the Parties’ positions on, and alternatives with respect to, the Proposal. If two or more Parties are submitting a Disapproval Statement, such Parties shall reasonably cooperate to prepare and submit a Disapproval Statement on behalf of the Shared Vote that present positions and alternative proposals that are agreeable to such Parties; it being the express preference of this Agreement that a Disapproval Statement actually be submitted within the time periods required under the Ownership and Operation Agreement.

## **ARTICLE 4 DISPUTE RESOLUTION**

**Section 4.1 Mutual Discussions.** If any dispute or difference of any kind whatsoever shall arise between the Parties in connection with, or arising out of, this Agreement or the interpretation, performance, breach, termination or validity hereof, including without limitation any claim based on contract, text or statute (the “*Dispute*”), the Parties shall attempt to settle such Dispute in the first instance by mutual discussions in accordance with this Section 4.1. Within seven (7) Business Days of the receipt by any Party of a notice from any other Party of



the existence of a Dispute referring to this Article 4 (the “*Dispute Notice*”), the receiving Party shall reply with a written response (a “*Dispute Notice Response*”). Both the Dispute Notice and the Dispute Notice Response shall include (i) a statement of the relevant Party’s position with regard to the Dispute and a summary of arguments supporting such position; and (ii) the name and title of the executive who will represent that Party in attempting to resolve the Dispute pursuant to this Section 4.1. Within seven (7) Business Days of delivery of the Dispute Notice Response, the designated executives shall meet and attempt to resolve the Dispute. All negotiations pursuant to this clause shall be confidential and shall be treated as compromise and settlement negotiations, and no oral or documentary representations or offers made by the Parties during such negotiations shall be admissible for any purpose in any subsequent proceedings.

**Section 4.2 Arbitration.** If any Dispute is not resolved within thirty (30) days of receipt of a Dispute Notice pursuant to Section 4.1, then, upon any Party’s request, the Dispute shall be finally and exclusively resolved by arbitration as follows:

(a) The arbitration shall be held accordance with the Commercial Arbitration Rules (the “*Rules*”) of the American Arbitration Association (the “AAA”), then in effect, except as modified herein. The arbitration shall be held, and the award shall be issued in Billings, Montana.

(b) The Parties shall appoint an arbitrator satisfactory to all Parties. If the arbitrator is not appointed within the time limit provided herein, such arbitrator shall be appointed by the AAA by using a listing, striking and ranking procedure in accordance with the Rules. Any arbitrator appointed by the AAA shall be a retired judge, preferably from a Federal District Court or Federal Court of Appeals, or a practicing attorney with no less than twenty (20) years of experience and an experienced arbitrator and if possible shall have experience with disputes relating to electric power infrastructure.

(c) The hearing shall be held, if possible, within four (4) months after the appointment of the arbitrator, or as soon thereafter as is reasonably practicable.

(d) By agreeing to arbitration, the entities signing this Agreement do not intend to deprive any court of its jurisdiction to issue a pre-arbitral injunction, pre-arbitral attachment, or other order in aid of arbitration proceedings and the enforcement of any award. Without prejudice to such provisional remedies as may be available under the jurisdiction of a court, the arbitrator shall have full authority to grant provisional remedies and to direct the entities signing this Agreement to request that any court modify or vacate any temporary or preliminary relief issued by such court, and to award damages for the failure of any entity signing this Agreement to respect the arbitrator’s orders to that effect.

(e) Any arbitration proceedings, decision or award rendered hereunder and the validity, effect and interpretation of this arbitration agreement shall be governed by the Federal Arbitration Act, 9 U.S.C. §1 et seq. In arriving at their decision, the arbitrator shall be bound by the terms and conditions of this Agreement and the Closing Documents (as defined in the NorthWestern Colstrip Unit 4 Acquisition Agreement and the Talen Colstrip Unit 4 Acquisition Agreement, respectively) and shall apply the governing law of this Agreement as designated in Section 7.3 hereof.

(f) Any controversy concerning whether a Dispute is an arbitrable Dispute or as to the interpretation or enforceability of this paragraph shall be determined by the arbitrator.

(g) The arbitrator is not empowered to award damages in excess of compensatory damages, and each Party hereby irrevocably waives any right to recover consequential, punitive, exemplary or similar damages with respect to any Dispute. The award, which shall be in writing and shall state the findings of fact and conclusions of law upon which it is based, shall be final and binding on the Parties and shall be the sole and exclusive remedy among the Parties regarding any claims, counterclaims, issues or accounting presented to the arbitrator. Judgment upon any award may be entered in any court of competent jurisdiction. In appropriate circumstances, the arbitrator shall have the authority to order a termination of this Agreement.

The arbitrator's award shall allocate, in their discretion, among the Parties to the arbitration all costs of the arbitration, including the fees and expenses of the arbitrator and reasonable attorneys' fees, costs and expert witness expenses of the Parties. The award shall be final and binding on the Parties and may be enforced in any court having jurisdiction.

## **ARTICLE 5 TERM & TERMINATION**

**Section 5.1** **Term.** This Agreement shall become effective as of the date first written above and shall continue in full force and effect until the end of the term of the Ownership and Operation Agreement in accordance with Section 32 thereof.

## **ARTICLE 6 REPRESENTATIONS AND WARRANTIES**

Each Party represents and warrants to the other Parties that, as of the Effective Date:

(a) such Party is duly formed and validly existing under the laws of the jurisdiction of its organization and is duly authorized to do business in each other jurisdiction in which it is required to be so qualified with full power and authority to perform its obligations hereunder and that the execution, delivery and performance of this Agreement has been duly authorized by such Party;

(b) this Agreement has been duly executed and delivered by such Party and constitutes the legal, valid, binding and enforceable obligation of such Party enforceable in accordance with its terms against such Party subject to the effect of bankruptcy, insolvency, moratorium and other similar Laws relating to creditors' rights generally, whether existing at law or in equity, by general equitable principles and by an implied covenant of good faith and fair dealing;

(c) no consent, approval or authorization of, or filing, registration or qualification with, any court or governmental authority on the part of such Party is required for the execution and delivery of this Agreement by such Party and the performance of its obligations and duties hereunder, other than those that have been made or obtained; and

(d) such Party is in material compliance with all Laws and legal requirements applicable to its business.

## ARTICLE 7 MISCELLANEOUS

**Section 7.1 Assignment: Third Party Beneficiaries.** A transfer or assignment by any Party of any part of its interest under this Agreement to any other Person (an “*Assignee*”) shall be subject to the non-assigning Parties’ receipt of written evidence that each of the following conditions has been satisfied: (a) the assigning Party shall be simultaneously transferring or assigning a corresponding portion of its Project Share, which is subject to this Agreement, to such Assignee, (b) such Assignee shall have assumed in writing the corresponding duties and obligations of the assigning Party which arise and are attributable to the period after the effective date of the assignment and (c) if a partial (but not a full) assignment of this Agreement is being effected, arrangements regarding the casting of the Shared Vote acceptable to the non-assigning Parties shall be agreed upon in writing (including, without limitation, by amending this Agreement). Except as explicitly provided herein, nothing in this Agreement, express or implied, is intended to confer on any person or entity other than the Parties and their successors and assigns permitted hereunder any rights, remedies, obligations or liabilities under or by reason of this Agreement.

**Section 7.2 Specific Performance.** The Parties hereby declare that it is impossible to measure in money the damages that will accrue to a Party hereto by reason of a failure to perform any of the obligations under this Agreement and agree that the terms of this Agreement shall be specifically enforceable. If any Party hereto institutes any action or proceeding to specifically enforce the provisions hereof, the Party against which such action or proceeding is brought hereby waives the claim or defense therein that such Party has an adequate remedy at law, and such Party shall not offer in any such action or proceeding the claim or defense that such remedy at law exists.

**Section 7.3 Governing Law.** THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF MONTANA WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES THAT WOULD RESULT IN THE APPLICATION OF THE LAWS OF ANY OTHER JURISDICTION.

**Section 7.4 Limitation on Certain Damages.** NOTWITHSTANDING ANYTHING IN THIS AGREEMENT TO THE CONTRARY, NO PARTY SHALL BE LIABLE FOR SPECIAL, PUNITIVE, SPECULATIVE, EXEMPLARY, INCIDENTAL, CONSEQUENTIAL OR INDIRECT DAMAGES, INCLUDING LOST PROFITS IN THE NATURE OF INDIRECT DAMAGES OR LOSS OF OPPORTUNITY DAMAGES, FOR ANY REASON WITH RESPECT TO THE SUBJECT MATTER OF THIS AGREEMENT, WHETHER BASED ON CONTRACT, TORT, STRICT LIABILITY, STATUTE, OTHER LAW OR OTHERWISE AND WHETHER OR NOT ARISING FROM ANY OTHER PARTY’S SOLE, JOINT OR CONCURRENT NEGLIGENCE, STRICT LIABILITY OR OTHER FAULT, UNLESS SUCH DAMAGES ARE AWARDED TO A PERSON IN AN INDEMNIFIABLE THIRD PARTY CLAIM OR ARE ATTRIBUTABLE TO THE FRAUD OR WILLFUL MISCONDUCT OF A PARTY.

**Section 7.5 Severability.** Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

**Section 7.6 Notices and Communications.** Except as otherwise provided in this Agreement, any notice, request, instruction or other document to be given hereunder by a Party hereto shall be in writing and shall be deemed to have been given (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient; or (d) on the third (3rd) Business Day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid

Notices to NorthWestern shall be addressed to the NorthWestern Appointee at the address provided pursuant to Section 2.1(c), with a copy to:

NorthWestern Corporation  
208 North Montana Ave. Suite 205  
Helena, MT 59601  
Attention: Legal Department  
Email: Heather.Grahame@northwestern.com and [John.Tabaracci@northwestern.com](mailto:John.Tabaracci@northwestern.com)

or at such other address and to the attention of such other Person as NorthWestern may designate by written notice to the other Parties.

Notices to Puget shall be addressed to the Puget Appointee at the address provided pursuant to Section 2.1(c), with a copy to:

Puget Sound Energy, Inc.  
355 110th Avenue NE  
Bellevue, WA 98004  
Attention: Legal Department  
Email: [Steve.Secrist@pse.com](mailto:Steve.Secrist@pse.com) and Samuel.Osborne@pse.com

or at such other address and to the attention of such other Person as Puget may designate by written notice to the other Parties.

Notices to Talen shall be addressed to the Talen Appointee at the address provided pursuant to Section 2.1(c), with a copy to:

Talen Montana, LLC  
1780 Hughes Landing Boulevard Suite 800  
The Woodlands, TX 77380  
Attn: General Counsel

Email: [Andrew.Wright@talenergy.com](mailto:Andrew.Wright@talenergy.com) and Damon.Obie@talenergy.com

or at such other address and to the attention of such other Person as Talen may designate by written notice to the other Parties.

**Section 7.7 Amendments and Waivers.** This Agreement may be amended, supplemented or otherwise modified only by a writing executed and delivered by each Party. No waiver of any right under this Agreement shall be binding unless such waiver is in a writing by the Party to be bound. No failure to exercise and no delay in exercising, on the part of any Party, any right, remedy, power or privilege under this Agreement, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege under this Agreement preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

**Section 7.8 Further Assurances.** Each of the Parties agrees to perform all such acts (including executing and delivering such instruments and documents) as reasonably may be requested by any other Party to fully effect the intent and each and all of the purposes of this Agreement.

**Section 7.9 Conflicts.** In the event of a conflict between either the NorthWestern Colstrip Unit 4 Acquisition Agreement or the Talen Colstrip Unit 4 Acquisition Agreement, on the one hand, and this Agreement, on the other hand, the terms and provisions of this Agreement shall govern.

**Section 7.10 Headings.** The Article and Section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

**Section 7.11 Survival.** The representations and warranties set forth in Article 6 shall survive the Effective Date.

**Section 7.12 Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be considered an original, but all of which together shall constitute a single instrument.

**Section 7.13 Contract Only, etc.** This Agreement creates a contractual relationship among the Parties and does not give rise to any fiduciary, quasi-fiduciary, partnership or other special relationship which would result in the implication of rights, duties or standards of care or performance other than such rights, duties and standards as would attend a contract between sophisticated commercial parties each represented by separate counsel.

*[Signature Page Follows]*

IN WITNESS WHEREOF, this Agreement has been signed by or on behalf of each of the Parties as of the day first above written.

**NORTHWESTERN CORPORATION**

By: \_\_\_\_\_  
Name:  
Title:

**PUGET SOUND ENERGY, INC.**

By: \_\_\_\_\_  
Name:  
Title:

**TALEN MONTANA, LLC**

By: \_\_\_\_\_  
Name:  
Title:

**EXHIBIT G  
OFFICER'S CERTIFICATE**

**[●], 2020**

The undersigned, [●], hereby certifies that [he/she] is the duly elected [●] of TALEN MONTANA, LLC, a Delaware limited liability company (“*Buyer*”), and that [he/she] is authorized to execute this Certificate on behalf of Buyer. Pursuant to Section 3.2(b) of that certain Colstrip Unit 4 Purchase and Sale Agreement, dated as of August 14, 2020 between and PUGET SOUND ENERGY, INC., a Washington public utility corporation (“*Seller*”), and Buyer (the “*Purchase Agreement*”), the undersigned hereby certifies that:

1. the representations and warranties of Buyer set forth in Article 5 of the Purchase Agreement are true, correct and complete as of the date hereof, except in such circumstances as shall not, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect;
2. the conditions set forth in Section 3.4 of the Purchase Agreement have been fulfilled or waived on or before the date hereof; and
3. the covenants of Buyer set forth in Article 7 of the Purchase Agreement have been fulfilled or waived in writing by Seller.

*[Signature page follows]*

**IN WITNESS WHEREOF**, the undersigned has executed this Certificate as of the date first written above.

TALEN MONTANA, LLC

---

Name:

Title:



**EXHIBIT H  
OFFICER'S CERTIFICATE**

**[●], 2020**

The undersigned, [●], hereby certifies that [he/she] is the duly elected [●] of PUGET SOUND ENERGY, INC., a Washington public utility corporation (“*Seller*”), and that [he/she] is authorized to execute this Certificate on behalf of Seller. Pursuant to Section 3.3(b) of that certain Colstrip Unit 4 Purchase and Sale Agreement, dated as of August 14, 2020 between Seller and TALEN MONTANA, LLC, a Delaware limited liability company (“*Buyer*”) (the “*Purchase Agreement*”), the undersigned hereby certifies that:

1. the representations and warranties of Seller set forth in Article 4 of the Purchase Agreement are true, correct and complete as of the date hereof, except in such circumstances as shall not, individually or in the aggregate, have or reasonably be expected to have a Material Adverse Effect;
2. the conditions set forth in Section 3.5 of the Purchase Agreement have been fulfilled or waived on or before the date hereof; and
3. the covenants of Seller set forth in Article 7 of the Purchase Agreement have been fulfilled or waived in writing by Buyer.

*[Signature page follows]*

**IN WITNESS WHEREOF**, the undersigned has executed this Certificate as of the date first written above.

PUGET SOUND ENERGY, INC.

---

Name:

Title:

**EXHIBIT I  
FORM OF DEED**

After Recording Return to:  
Talen Montana, LLC  
1780 Hughes Landing Boulevard Suite 800  
The Woodlands, TX 77380  
Attn: General Counsel

**DEED**

FOR VALUABLE CONSIDERATION, the receipt of which is acknowledged, the undersigned, Puget Sound Energy, Inc., a Washington Public utility corporation with its offices at 355 110th Avenue NE Bellevue, WA 98004 (“Grantor”), hereby grants unto Talen Montana, LLC, a Delaware limited liability company with its offices at 1780 Hughes Landing Boulevard Suite 800, The Woodlands, TX 77380 (“Grantee”) all of Grantor’s right, title and interest in and to the following property situated in Rosebud County, Montana (the “County”):

- (a) The real property, interests in real property and other interests described or referenced, or described in the documents referenced, in Part I of Exhibit A (which is attached hereto and hereby made a part hereof) (“Fee Lands”);
- (b) The easements, use rights and other interests described or referenced, or described in the documents referenced, in Part II of Exhibit A (“Easements”);
- (c) The water rights described in Part III of Exhibit A and all other water rights in the County (“Water Rights”);
- (d) The oil and gas leases, severed fee minerals, severed fee oil and gas rights, royalties, agreements, assignments, gas storage agreements and rights, and other interests described or referenced, or described in the documents referenced, in Part IV of Exhibit A, and all operating agreements, farmout agreements, farming agreements, areas of mutual interest, salt water disposal agreements, water injection agreements, gas storage agreements, pooling agreements, unitization agreements, purchase agreements, production sales agreements and all other agreements, rights and interests relating to the interests described or referenced, or described in the documents referenced, in Part IV of Exhibit A (“Mineral Interests”);
- (e) All other real property or interests in real property in the County of any kind or nature, including without limitation fee, term, leasehold, easement (including without limitation all easements appurtenant to Fee Lands or Mineral Interests or granted or

reserved in any document referenced in Exhibit A), prescriptive, possessory, oil, gas, mineral, royalty, deferred and reversionary interests and rights other than the “Kliver Property,” as such property is legally described in EXHIBIT C (“Other Interests”); and

(f) All buildings, fixtures, equipment, and other improvements, and all tenements, hereditaments and appurtenances belonging, appertaining or related to the Fee Lands, Easements, Water Rights, Mineral Interests and Other Interests (the “Appurtenant Rights”).

Grantor’s right, title and interest in the Fee Lands, Easements, Water Rights, Mineral Interests, Other Interests and Appurtenant Rights, are collectively referred to herein as the “Property.”

The description (meaning herein both word descriptions and specific descriptions) of the Property shall be construed broadly and as inclusive and there shall be no implied exclusions because of the structure of the description of the Property or otherwise. It is Grantor’s intent to make a full and complete transfer to Grantee of all of Grantor’s right, title and interest in and to any and all real property and interests in real property other than the Kliver Property, located in the County owned or otherwise vested in Grantor as of the date hereof, whatever size, wherever located and whether or not described or inaccurately or inadequately described in Exhibit A, and it is Grantor’s further intent that this deed convey after-acquired rights, titles and interests.

TO HAVE AND TO HOLD unto Grantee, and Grantee’s successors and assigns, forever, SUBJECT TO THOSE MATTERS SET FORTH ON EXHIBIT B (the “Permitted Encumbrances”). Grantor agrees to defend the same to the Grantee against the lawful claims and demands of all persons claiming by, through or under Grantor, but against no other persons.

EXCEPT with reference to the items referred to in paragraphs (a) to (e) inclusive, this deed is given with the usual covenants expressed in Montana Code Annotated § 30-11-110.

Grantor also hereby conveys to Grantee, its successors and assigns, all rights of Grantor, to the extent assignable, in and to all covenants and warranties with respect to the Property made by Grantor’s predecessors in title and with full subrogation of all rights accruing under such covenants and warranties and the statutes of limitation, repose or prescription under the laws of Montana and all rights of action of warranty against all former owners of the Property.

Grantor agrees to take all such further action and execute, acknowledge and deliver all such further documents as may be reasonably necessary or useful to accomplish the purposes of this Deed and to evidence Grantee’s interests of record.

This Deed shall be binding upon and shall inure to the benefit of Grantor and Grantee and their respective successors, legal representatives and assigns.

[Signature and acknowledgment on the following page]

Grantor:

PUGET SOUND ENERGY, INC.  
a Washington public utility company

By: \_\_\_\_\_

Name:

Its:

STATE OF WASHINGTON        )  
  ) ss.  
COUNTY OF                    )

This instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 20 \_\_, by \_\_\_\_\_,  
a \_\_\_\_\_ of PUGET SOUND ENERGY, INC. a Washington public utility company.

Name \_\_\_\_\_

Notary Public for the State of \_\_\_\_\_

Residing at \_\_\_\_\_

My Commission expires \_\_\_\_\_

**EXHIBIT A  
PART I**

***An undivided twelve and one-half percent (12.5%) interest as Tenant in Common in and to the real property described in Schedule I below.***

**SCHEDULE I  
UNIT 4 GENERATION**

- Parcel 13      That portion of Sections 34 and 35 in Township 2 North, Range 41 East, PMM, described as Parcel 3 Amended of Certificate of Survey No. 85124 filed December 30, 1998 for record in the office of the Clerk and Recorder of Rosebud County, Montana as document No. 85124.
- Parcel 14      Intentionally deleted and replaced by Parcels 14A, 14B and 14C.<sup>1</sup>
- Parcel 14A     That portion of the E1/2NE1/4 of Section 34 and W1/2NW1/4 of Section 35 in Township 2 North, Range 41 East, described as Tract 1 of Colstrip Unit 3 and 4 Cooling Towers Minor Subdivision being a subdivision of Parcel 2 of Certificate of Survey No. 34153 as amended by Certificate of Survey No. 85789, which Minor Subdivision was filed in the office of the Clerk and Recorder of Rosebud County, Montana on June 5, 2000 under Document No. 88170.
- Parcel 14B     Intentionally deleted.
- Parcel 14C     That portion of the E1/2NE1/4 of Section 34 and W1/2NW1/4 of Section 35 in Township 2 North, Range 41 East, described as Tract 3 of Colstrip Unit 3 and 4 Cooling Towers Minor Subdivision being a subdivision of Parcel 2 of Certificate of Survey No. 34153 as amended by Certificate of Survey No. 85789, which Minor Subdivision was filed in the office of the Clerk and Recorder of Rosebud County, Montana on June 5, 2000 under Document No. 88170.
- Parcel 15      Intentionally deleted and replaced by Parcels 15A, 15B, and 15C.
- Parcel 15A     That portion of the S1/2NE1/4 and N1/2SE1/4 of Section 34 in Township 2 North, Range 41 East, described as Tract 1 of Colstrip Unit 3 and 4 Generation Sites Minor Subdivision being a subdivision of Parcel 4 of Certificate of Survey No. 29931 Amended, filed for record as Document No. 37265, which Minor Subdivision was filed in the office of the Clerk and Recorder of Rosebud County, Montana on June 5, 2000 under Document No. 88169.
- Parcel 15B     Intentionally deleted.
- Parcel 15C     That portion of the S1/2NE1/4 and N1/2SE1/4 of Section 34 in Township 2 North, Range 41 East, described as Tract 3 of Colstrip Unit 3 and 4 Generation

---

<sup>1</sup> Note to Draft: The replacement of Parcels 14 and 15 with 14A, 14B, 14C and 15A, 15B and 15C, respectively, is to be reviewed by Seller between signing and closing.

Sites Minor Subdivision being a subdivision of Parcel 4 of Certificate of Survey No. 29931 Amended, filed for record as Document No. 37265, which Minor Subdivision was filed in the office of the Clerk and Recorder of Rosebud County, Montana on June 5, 2000 under Document No. 88169.

Parcel 16 That portion of Section 3 in Township 1 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 58701 filed October 29, 1987 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document? No. 58701.

Parcel 17 Township 1 North, Range 41 East, P.M.M., Rosebud County, Montana

Section 2: W1/2 of Lot 2, Lots 3 and 4, and the S1/2N1/2

Descriptions are from a deed in settlement of a condemnation action given by Burlington Northern Railroad Company to the Montana Power Company, a Montana corporation, Pacific Power & Light Company, a Maine corporation, Portland General Electric Company, an Oregon corporation, The Washington Water Power Company, a Washington Corporation, and Puget Colstrip Construction Company, a Washington corporation, dated January 25, 1983, recorded in Book 79 Deeds, page 588, records of Rosebud County, Montana.

Parcel 17A Township 2 North, Range 41 East, P.M.M.

Section 35: Those portions of the S1/2 being two separate tracts herein referred to as Parcel 1 and Parcel 2 described as follows:

Parcel 1 beginning at the common corner of Sections 34 and 35, T2N, R41E Sections 2 and 3, T1N, R41E, which is the true point of beginning; thence N 02° 06' 11" W along the common line between Sections 34 and 35 a distance of 632.34 feet; thence N 41° 52' 20" E a distance of 2,126.31 feet; thence S 65° 04' 46" E a distance of 1,493.70 feet; thence S 05° 36' 54" E a distance of 1,581.65 feet to the common lines between Sections 2 and 35; thence S 89° 44' 06" W a distance of 260.76 feet along the common line between Section 2 and Section 35 to the quarter section corner common to Sections 2 and 35; thence S 89° 46' 14" W a distance of 2,644.79 feet along the common line between Section 2 and 35 to the true point of beginning.

Parcel 2 beginning at the common corner of Sections 35 and 36, T2N, R41E and Sections 1 and 2, T1N, R41E; thence S 89° 44' 06" W along the common Line of Sections 2 and 35 a distance of 723.39 feet to a point on the Southwesterly boundary of the Burlington Railroad right-of-way, which point is the true point of beginning; thence S 89° 44' 06" W along the common line of Sections 2 and 35 a distance of 599.14 feet; thence N 02° 22' 02" W a distance of 1,640.32 feet to a point on the southwesterly boundary of the Burlington Northern Railroad right-of-way; thence S 22° 10' 32" E along the southwesterly boundary of the Burlington Northern Railroad right-of-way to the point of beginning.

Descriptions are from a deed in settlement of a condemnation action given by Burlington Northern Railroad Company to The Montana Power Company, a Montana corporation, Pacific Power & Light Company, a Maine corporation, Portland General Electric Company, an Oregon corporation, The Washington Water Power Company, a Washington corporation, and Puget Colstrip Construction Company, a Washington corporation, dated January 25, 1983, recorded in Book 79 Deeds, page 588, records of Rosebud County, Montana.

Parcel 17B Township 1 North, Range 41 East, P.M.M., Rosebud County, Montana

Section 3: That portion of Lot 1 and the SE1/4NE1/4 beginning at the common corner of said Sections 34 and 35, T2N, R41E and Sections 2 and 3, T1N, R41E, which is the true point of beginning; thence S 89° 43' 02" W along the common lines between Sections 34 and 3 a distance of 776.23 feet; thence S 01° 31' 17" W a distance of 2,782.94 feet to the east-west mid-section line of Section 3; thence N 89° 57' 01" E along the mid-section line a distance of 864.60 feet to the quarter section corner common to Sections 2 and 3; thence N 00° 17' 53" W along the common line between Sections 2 and 3 a distance of 2,785.08 feet to the true point of beginning.

Descriptions are from a deed in settlement of a condemnation action given by Burlington Northern Railroad Company to The Montana Power Company, a Montana corporation, Pacific Power & Light, a Maine corporation, Portland General Electric Company, an Oregon corporation, The Washington Water Power Company, a Washington corporation, dated January 25, 1983, recorded in Book 79 Deeds, page 593, records of Rosebud County, Montana.

Parcel 18 Township 2 North, Range 42 East, P.M.M., Rosebud County, Montana

Section 31: S1/2  
Section 32: S1/2

Township 1 North, Range 42 East, P.M.M., Rosebud County, Montana

Section 5: All  
Section 6: Lots 1, 2, 3, 4, 5, and 6, SE1/4, S1/2NE1/4, E1/2SW1/4, SE1/4NW1/4  
(Recording Reference: Warranty Deed recorded September 21, 1981 in Book 78 Deeds, page 606).

Parcel 18A Township 1 North, Range 42 East, P.M.M., Rosebud County, Montana

Section 7: NE1/4NW1/4, N1/2NE1/4  
Section 8: N1/2 NW1/4

Parcel 19 Easements and rights-of-way more particularly described in documents recorded in the office of the Clerk and Recorder of Rosebud County, Montana under the



following book and page numbers, which documents are incorporated herein by this reference and made a part hereof:

Book 79 Deeds	Page 270
Book 79 Deeds	Page 3
Book 79 Deeds	Page 688
Book 81 Deeds	Page 648
Book 79 Deeds	Page 599
Book 79 Deeds	Page 582
Book 85 Deeds	Page 60

*An undivided 6.25% of the real property described in Schedule II below.*

**SCHEDULE II**  
**UNITS 3 & 4 OTHER**

- Parcel 20 That portion of Section 28 in Township 2 North, Range 41 East, PMM, described as Tract 1A-A of Certificate of Survey No. 88360 filed July 17, 2000, for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 88360.
- Parcel 21 Intentionally deleted.
- Parcel 22 That portion of Section 21 in Township 2 North, Range 41 East, PMM, described as Tract 1A-1 of Amended Tract 1A of Amended Tract 1 of Certificate of Survey No. 27879 filed October 19, 1982 for record in the Clerk and Recorder of Rosebud County, Montana as Document No. 37085.
- Parcel 23 That portion of Section 33 in Township 2 North, Range 41 East, PMM, described as Tract 1 Amended of Certificate of Survey No. 85920, filed May 4, 1999 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 85920, excepting therefrom:
- (a) Tract 2 of Certificate of Survey No. 44126
  - (b) Castle Rock Lake Subdivision First Filing Document No. 37500
  - (c) Castle Rock Lake Subdivision Second Filing Document No. 37501
  - (d) Castle Rock Lake Subdivision Third Filing Document No. 37502
  - (e) Cimarron Subdivision First Filing Document No. 37503
  - (f) Plat of Amended Lots 19 and 20, Block 5 Cimarron Subdivision First Filing Document No. 86070.

(g) Amended Plat of Cimarron Subdivision Second Filing Document No. 39051

(h) Cimarron Subdivision Third Filing Document No. 37505

- Parcel 24 That portion of Sections 21 and 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44906 filed August 4, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44906.
- Parcel 25 That portion of Section 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44909 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44909.
- Parcel 26 That portion of Section 21 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44910 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44910.
- Parcel 27 That portion of Section 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44911 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44911.
- Parcel 28 That portion of Section 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44912 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44912.
- Parcel 29 That portion of Section 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44907 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44907.
- Parcel 30 That portion of Section 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44908 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44908.
- Parcel 31 That portion of Section 27 in Township 2 North, Range 41 East, PMM, described as Tract 1A-1, Tract 1A-2, and Tract 1A-3 of Amended Tract 1A of Amended Tract 1 of Certificate of Survey No. 27874 filed December 1, 1982 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 37510, subject to Dedication of Tract 1A-3 (Pinebutte Drive) as a public roadway.

Parcel 32 Township 2 North, Range 42 East P.M.M., Rosebud County, Montana

Section 31: N1/2

Section 32: N1/2

Section 30: S1/2SE1/4, S1/2SE1/4SW1/4

Township 1 North, Range 42 East, P.M.M., Rosebud County, Montana

Section 4: SW1/4

Parcel 33 Lot 12, Block 1, and Lots 6, 7, 10, 11, 12, 17 and 19, Block 3, of The Amended Plat of BIG TIMBER SUBDIVISION, Corrected Plat of Eastside Townsite Expansion, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 29033.

Lots 1C and 1J, Block 6, Lots 3E, 3H, 3L, Block 7, Lots 2C, 2D, 5, and 6, Block 8, and Lots 2F, 3E, 3G, 4A, and 4B, Block 9, of The Plat of BIG TIMBER SUBDIVISION, Amended Plat of Eastside Townsite Expansion, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 29032.

Lots 1, 2, 3, 4, 5, 6, 7 and 8, of Block 8, Lots 1, 2, 5, 7, 9, 10, 11, 12, 13, 14, 15, 16 and 18, of Block 9, Lots 1 and 5, of Block 11, Lots 1, 2, 3, 6 and 11, Block 4, and Lots 1, 2, 4, 5 and 6, Block 5, of The Amended Plat of STILLWATER SUBDIVISION, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 29031.

Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13 and 14, Block 1, Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22 and 23, Block 2, Lots 1, 2, 3, 4 and 5, Block 3, Lots 7, 8, 12 and 13, Block 5, Lots 3, 7, 8, 9, 12, 13, 14 and 15, Block 6, Lot 20, Block 7, Lots 5 and 11, Block 8, and Lot 5, Block 11, of The Amended Plat of SWEETGRASS SUBDIVISION, First Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 40609.

Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13, Block 1, Lots 1, 2, 3, 4, 6, 7, and 8, Block 2, Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 16, 18, 19 and 20, Block 3,

Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30 and 31, Block 6, and Lots 4, 5, 7, 8, 9, 10, 11, 12, 13, 15, 16, 17, 18, 19, 20, 21, 22 and 23, Block 7, of the Amended Plat of STILLWATER SUBDIVISION, Rosebud County, Montana, according to the

official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 40611.

Lots 4 and 18, Block 3, Lot 12 Block 4, Lots 3 and 4, Block 6, of CIMARRON SUBDIVISION, Second Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37504.

Lots 6, 7, 10 and 31, Block 4, of CASTLE ROCK LAKE SUBDIVISION, Second Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37501.

Lots 32, 33 and 34, Block 4, of CASTLE ROCK LAKE SUBDIVISION, Third Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37502.

Tracts 5, 8, 11, 33, 34, 35, 36, 37, 38, 39, 40, 41, 43, 44, 45, 47, 48, 49, of SWEETGRASS ACREAGE TRACTS SUBDIVISION. This Subdivision Plat Amends a portion of Amended Plat of Sweetgrass Subdivision, First Filing, Sweetgrass Subdivision, Second Filing, and a portion of Amended Plat of Sweetgrass Subdivision, Third Filing, Rosebud County Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 44417.

Lots 12, 19, 20, 21 and 24, Block 3, and Lot 16, Block 4, of CIMARRON SUBDIVISION, Second Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37504.

Lots 32, 33, 34, 35 and 36, Block 2, Lots 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32A, 32B, 32C, 32D, 32E, 32F, 32G, 32H, 32I, 32J, 32K, 32L, 32M, 32N, 32O, 32P, 32R, 32S, 32T, 32U, 32V, W, X, Y, Block 5, and Lots 1A, B, C, D, 1E, F, G, H, 1I, J, K, L, 1M, 32Q, and, 32Z, Block 7, Block 4, of CIMARRON SUBDIVISION, First Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County.

Lot 1B, Block 8, and Lots 1B, 2, and 3, Block 9, of CIMARRON SUBDIVISION, Third Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37505.

Lots 2A, 2B and 2C, Block 11, of the Second Amended Plat of Block 11 of STILLWATER SUBDIVISION, Rosebud County, Montana, according to the

official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 73210.

Lots 1A, 1B, 1C, 1D, 1E and 1F, Block 1 and Lots 1A, 1B, 1C and 1D, Block 2 of CASTLEROCK LAKE SUBDIVISION, First Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37500.

Lot 2 in Block 43 and Lots 1 and 2 in Block 46 of the CORRECTED PLAT OF THE AMENDED PLAT OF BLOCKS 43 AND 46 OF COLSTRIP TOWNSITE, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 28708.

Parcel 34 Intentionally deleted

*An undivided 6.25% of the Colstrip Units 3 and 4 interest in the Common Facilities real property as allocated by the Common Facilities Agreement in the real property described in Schedule III below.*

**SCHEDULE III**  
**COMMON FACILITIES - ALL UNITS**

Parcel 35 That portion of Sections 34 and 35 in Township 2 North, Range 41 East, PMM, described as Parcel B Certificate of Survey No. 34152 filed January 8, 1981 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 34152.

Parcel 36 That portion of Sections 27 and 34 in Township 2 North, Range 41 East, PMM, described as Parcel C of Certificate of Survey No. 34153 filed January 8, 1981 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 34153.

Parcel 37 That portion of Section 35 in Township 2 North, Range 41 East & Section 2 in Township 1 North, Range 41 East, PMM, described as Tract H-1, Tract H-2, Tract H-3 of Certificate of Survey No. 34995 filed March 25, 1982 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 34995.

Parcel 38 That portion of Section 3 in Township 1 North, Range 41 East, PMM, described as Parcel G of Certificate of Survey No. 34996 filed March 25, 1982 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 34996.

Parcel 39 That portion of Section 34 in Township 2 North, Range 41 East, PMM, described as Parcel A-1 Amended of Certificate of Survey No. 85561, filed March 17, 1999 for record in the office of the Clerk and Recorder of Rosebud

County, Montana as Document No. 85561, excluding therefrom a tract of land described as Parcel A-1- B of Certificate of Survey 85561.

- Parcel 40 That portion of Sections 28 and 33 in Township 2 North, Range 41 East, PMM, described as Parcel F-1 Amended and Parcel F-2 Amended of Certificate of Survey No. 85920 filed May 4, 1999 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 85920.
- Parcel 41 That portion of Section 34 in Township 2 North, Range 41 East, PMM, described as Parcel D-1 and Parcel D-2 of Certificate of Survey No. 42210 filed January 10, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 42210.
- Parcel 42 That portion of Section 34 in Township 2 North, Range 41 East, PMM, described as Tract 1-A-1, Tract 1-A-2 and Tract 1-A-3 of Certificate of Survey No. 54257 amending Certificate of Survey No. 27875 (Tract 1), Certificate of Survey No. 27878, Certificate of Survey No. 34994 and Dedication of Tracts 1-A-2, 1-B- 2, 1-B and 1-D, filed July 30, 1986 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 54257, subject to dedication of Tract 1-A-2 (Willow Avenue) as a public road.
- Parcel 43 That portion of Section 24 in Township 6 North, Range 39 East, PMM, described as Tract A and Tract C of Certificate of Survey No. 6100 filed February 13, 1974 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 6100.
- Parcel 44 That parcel commencing at the section corner common Sections Thirteen (13), Fourteen (14), Twenty-three (23) and Twenty-four (24), Township Six (6) North, of Range Thirty-nine (39) East, M.P.M., Rosebud County, Montana, running thence northerly along the section line common to Sections Fourteen (14) and Thirteen (13) to the Yellowstone River; running thence southeasterly along the Yellowstone River to a point where the south boundary line of Section Thirteen meets the Yellowstone River; thence westerly along the south boundary line of the said Section Thirteen (13) to the point of beginning, containing in all approximately 17 acres as described in deed dated December 7, 1973, recorded December 12, 1973 in Book 73, Page 127 and confirmed in Judgment and Decree dated March 21, 1975 by The District Court of the Sixteenth Judicial District, in and for the County of Rosebud, recorded March 21, 1975 in Book 19 Orders and Decree, page 996, records of the County Clerk and Recorder of Rosebud County, Montana.
- Parcel 45 Easements and rights-of-way more particularly described in documents recorded in the office of the Clerk and Recorder of Rosebud County, Montana, under the following Book and Page numbers; which documents are incorporated herein by this reference and made a part hereof:

Book 77 Deeds, page 29

Book 75 Deeds, page 306  
Book 73 Deeds, page 430  
Book 73 Deeds, page 466  
Book 74 Deeds, page 245  
Book 78 Deeds, page 782  
Book 78 Deeds, page 838  
Book 74 Deeds, page 169  
Book 74 Deeds, page 110  
Book 74 Deeds, page 70  
Book 77 Deeds, page 941  
Book 78 Deeds, page 134  
Book 79 Deeds, page 238  
Book 74 Deeds, page 14  
Book 74 Deeds, page 65  
Book 74 Deeds, page 112  
Book 79 Deeds, page 240  
Book 74 Deeds, page 62  
Book 74 Deeds, page 67  
Book 74 Deeds, page 242  
Book 73 Deeds, page 891  
Book 73 Deeds, page 893  
Book 73 Deeds, page 284  
Book 78 Deeds, page 131  
Book 32 Misc., page 476

*An undivided 6.25% of the real property described in Schedule IV below.*

**SCHEDULE IV**  
**COLSTRIP COMM SERV, LLC - PROPERTY**

Township 1 North, Range 41 East, M.P.M

Section 1: Lots 1 (43.40), 2(43.40), N/2SE/4, S/2NE/4, SE/4NW/4, less and except the existing Railroad Right-of-way being the Northern Pacific Railway Company's Cow Creek Extension of its Rosebud Branch line right-of-way.

Township 1 North, Range 42 East, M.P.M

Section 6: Lot 7 (40.55), less and except 2.66 acres of the Burlington Northern Railroad Right-of-way.

Section 7: Lots 1 (40.34), 2 (40.29), SE/4NW/4, NE/4SW/4, N/2SE/4, S/2NE/4, less and except Tract 1 as described in Easement Deed No. 33671-E dated October 11, 1973, recorded in Book 73 Deeds; Page 143 on December 20, 1973,

Rosebud County, Montana, and less and except that portion of the Burlington Northern Right-of-way located in Lots 1 and 2.

Section 8: NE/4, S/2NW/4, S/2, less and except 35.93 Ao of the Burlington Northern Railroad Right-of-way, and less and except Tract 1 as described in Easement Deed No. 33671-E dated October 11, 1973, recorded in Book 73 Deeds, Page 143 on December 20, 1973, Rosebud County, Montana.

Section 17: E/2, lying north and east of the north and east boundary line of Tract 1 as described in Easement Deed No. 33671-E dated October 11, 1973, recorded in Book 73 Deeds, Page 143 on December 20, 1973, Rosebud County, Montana and lying north and west of the Cow Creek Road as now established in the E/2E/2 and as recorded in the County Road Book, Rosebud County, Montana.



**EXHIBIT A  
PART II**

[List of easements]<sup>1</sup>

---

<sup>1</sup> Note to Draft: To be provided by Seller between signing and closing.

**EXHIBIT A  
PART III**

An undivided 4.25875% interest subject to its 4.25875% proportionate share of the burden of 2.0 cubic feet per second of water assigned to Colstrip Community Service Company by instrument recorded March 24, 1989 in Book 84 Deeds, page 528:

(1) Water Right Number 42KJ W094423-00 Statement of Claim

An undivided 6.25% interest:

WRKEY	WR NUMBER
190930-2	42A 108297 00
190949-2	42A 108308 00
190961-2	42A 108317 00
231813-2	42A 146426 00
255643-1	42A 173935 00
255644-1	42A 173937 00
255645-1	42A 173938 00
255646-1	42A 173939 00
255647-1	42A 173940 00
255648-2	42A 173941 00
255648-2	42A 173941 00
255649-2	42A 173943 00
255650-2	42A 173944 00
255651-2	42A 173945 00
255652-1	42A 173946 00
255653-2	42A 173947 00
311888-1	42A 173948 00
326585-1	42A 48616 00

WRKEY	WR NUMBER
152039-1	42A 83584 00
335309-1	42KJ 108793 00
110786-1	42KJ 58886 00
166954-2	42KJ 94428 00

All water rights listed above are subject to item (a) following and water right No. 1 above is subject item (b) following:

(a) Final adjudication under Montana Code Annotated, Title 85, Chapter 2, Part 2.

(b) Grantor's water rights are subject to its proportionate share (4.25875%) of the burden of the 1/4" taps and valves for purpose of stock watering, on an "as is from source, if and when available":

- (i) Granted to Janet MacDonald for use at one location on her lands.
- (ii) Granted to Janet K. MacDonald, situate on Section 21, Township 2 North, Range 41 East, for use on one location on her lands.
- (iii) Granted to Albert Kozelka for use at one location on his lands.
- (iv) Granted to Leo DeCock for use at one location on his lands.
- (v) Granted to Vassau's Flying J for use at one location on his lands.
- (vi) Granted to J. R. Lee for use at one location on his lands.
- (vii) Granted to J.M. Nansel for use at one location on his lands.
- (viii) Granted to Friez Circle Four Ranch for use at one location on its land.

**EXHIBIT A**  
**PART IV**

All of Grantor's interest in mineral rights with respect to its ownership interest in the Fee Lands.

## EXHIBIT B

### PERMITTED ENCUMBRANCES:

- (a) Terms and conditions of an Ownership and Operation Agreement among Puget Sound Energy, Inc., Avista Corporation, Portland General Electric Company, PacifiCorp, NorthWestern Corporation, and Talen Montana, LLC dated as of May 6, 1981, as amended by Amendment No. 1 dated as of October 11, 1991, Amendment No. 2 dated as of July 13, 1998, Amendment No. 3 dated September 14, 2004, and Amendment No. 4 dated August 18, 2008 (“Ownership and Operation Agreement”).
- (b) Terms and conditions of the Common Facilities Agreement dated as of May 6, 1981, by and among Puget Sound Energy, Inc., Avista Corporation, Portland General Electric Company, PacifiCorp, NorthWestern Corporation, and Talen Montana, LLC, as amended by Amendment No. 1 dated as of January 21, 1992 (to the extent of the survival of any rights and obligations under such agreement following the termination of such agreement in January 2020), and any replacement of or successor to such agreement (“Common Facilities Agreement”).
- (c) [Any additional exceptions, including updated list from Schedule B, Section 2 – Exceptions from the PSE title commitment.]<sup>1</sup>

So long as the Project (as defined in the Ownership and Operating Agreement) or the Common Facilities (as defined in the Common Facilities Agreement) or any part thereof as originally constructed, reconstructed or added to is used or useful for the generation of electrical power and energy, or to the end of the period permitted by applicable law, whichever occurs first, Grantee, by acceptance of this deed, waives its right to partition whether by partition in kind or sale and division of the proceeds thereof, and agrees that it will not resort to any action at law or in equity to partition and further waives the benefit of all laws that may now or hereafter authorize such partition of the properties comprising Colstrip Units 3 and 4 or the Common Facilities. It is agreed that this covenant shall be deemed to run with the land.

As to Parcels 13, 14A, 14C, ISA and 15C of Schedule III Exhibit A Part I, all improvements thereon, including without limitation improvements permanently attached to the real property, have been and shall remain personal property, severed from the real property as provided in deed dated April 1, 1983, recorded May 2, 1983 in Book 79, page 648 and made a part hereof.

Grantee by acceptance of this Deed accepts the severance of the improvements from the real property and acknowledges that this Deed does not convey title to the improvements.

For purposes of this Deed the following terms are defined:

---

<sup>1</sup> Note to Draft: To be updated between signing and closing, excluding any mortgages, liens and encumbrances to be released by Seller prior to or following closing.

“Colstrip Units 1 and 2” shall mean the two 333 MW (gross capacity) coal-fired steam electric generating units located in Colstrip, Montana, and referred to herein as “Colstrip Unit 1” and “Colstrip Unit 2” respectively.

“Colstrip Units 3 and 4” shall mean the two 805 MW (gross capacity) coal-fired steam electric generating units located in Colstrip, Montana, and referred to herein as “Colstrip Unit 3” and “Colstrip Unit 4” respectively.

“Common Facilities Real Property” shall mean the easements and real property used in common by Colstrip Units 1 and 2 and Colstrip Units 3 and 4 and covered by the Common Facilities Agreement.

**EXHIBIT C**

**THE KLUVER PROPERTY**

Township 1 North, Range 42 East, MPM

Section 9: All

## DISCLOSURE SCHEDULE

This disclosure schedule (this “Disclosure Schedule”) is delivered in connection with that certain Colstrip Unit 4 Purchase and Sale Agreement, dated as of August 14, 2020 (the “Agreement”), by and between TALEN MONTANA, LLC, a Delaware limited liability company (“Buyer”), and PUGET SOUND ENERGY, INC., a Washington public utility corporation (the “Seller”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Agreement.

Any fact or condition disclosed in any section or paragraph of this Disclosure Schedule shall qualify as disclosures pursuant to any other sections or paragraphs under the Agreement where such disclosure is reasonably apparent on the face of such disclosures, whether or not repeated under any section number where such disclosure might be deemed appropriate.

Matters reflected in this Disclosure Schedule are not necessarily limited to matters required by the Agreement to be reflected herein. Such additional matters are set forth for informational purposes and do not necessarily include other matters of a similar informational nature. Any disclosure of a fact or circumstance shall not establish, or constitute an admission of, the materiality of such fact or such circumstance or such fact’s or circumstance’s consequence or relevance to materiality, to a Material Adverse Effect. The information contained herein is disclosed solely for the purposes of the Agreement, and no information contained herein shall be deemed to be an admission by any party hereto to any third party of any matter whatsoever, including any violation of applicable Law or breach of any agreement.

In accordance with Section 11.3 of the Agreement, this Disclosure Schedule is deemed to be part of the entire agreement of the parties with respect to the subject matter of the Agreement. Any item of information disclosed in this Disclosure Schedule shall be subject to the terms of the Confidentiality Agreement.

Headings and numbers (other than numerical references to sections and subsections of the Agreement) have been inserted in some of the sections of this Disclosure Schedule for convenience of reference only, and such headings or numbers (other than numerical references to sections and subsections of the Agreement) shall not have the effect of amending or changing the express description of the section of this Disclosure Schedule as set forth in the Agreement.



## Schedule 1.1

### Water Rights

A fifty percent (50%) undivided interest in Seller's interest in the water rights with respect to Colstrip Unit 4, including those subject to the following Water Right Numbers:

WRKEY	WR NUMBER
166947-2	42KJ W094423 00
190930-2	42A 108297 00
190949-2	42A 108308 00
190961-2	42A 108317 00
231813-2	42A 146426 00
255643-1	42A 173935 00
255644-1	42A 173937 00
255645-1	42A 173938 00
255646-1	42A 173939 00
255647-1	42A 173940 00
255648-2	42A 173941 00
255648-2	42A 173941 00
255649-2	42A 173943 00
255650-2	42A 173944 00
255651-2	42A 173945 00
255652-1	42A 173946 00
255653-2	42A 173947 00
311888-1	42A 173948 00
326585-1	42A 48616 00
152039-1	42A 83584 00

WRKEY	WR NUMBER
335309-1	42KJ 108793 00
110786-1	42KJ 58886 00
166954-2	42KJ 94428 00

**Schedule 2.1(a)**

**Real Property<sup>1</sup>**

*An undivided twelve and one-half percent (12.5%) interest as Tenant in Common in and to the real property described in Schedule I below.*

**SCHEDULE I**  
**UNIT 4 GENERATION**

- Parcel 13 That portion of Sections 34 and 35 in Township 2 North, Range 41 East, PMM, described as Parcel 3 Amended of Certificate of Survey No. 85124 filed December 30, 1998 for record in the office of the Clerk and Recorder of Rosebud County, Montana as document No. 85124.
- Parcel 14 Intentionally deleted and replaced by Parcels 14A, 14B and 14C.<sup>2</sup>
- Parcel 14A That portion of the E1/2NE1/4 of Section 34 and W1/2NW1/4 of Section 35 in Township 2 North, Range 41 East, described as Tract 1 of Colstrip Unit 3 and 4 Cooling Towers Minor Subdivision being a subdivision of Parcel 2 of Certificate of Survey No. 34153 as amended by Certificate of Survey No. 85789, which Minor Subdivision was filed in the office of the Clerk and Recorder of Rosebud County, Montana on June 5, 2000 under Document No. 88170.
- Parcel 14B Intentionally deleted.
- Parcel 14C That portion of the E1/2NE1/4 of Section 34 and W1/2NW1/4 of Section 35 in Township 2 North, Range 41 East, described as Tract 3 of Colstrip Unit 3 and 4 Cooling Towers Minor Subdivision being a subdivision of Parcel 2 of Certificate of Survey No. 34153 as amended by Certificate of Survey No. 85789, which Minor Subdivision was filed in the office of the Clerk and Recorder of Rosebud County, Montana on June 5, 2000 under Document No. 88170.
- Parcel 15 Intentionally deleted and replaced by Parcels 15A, 15B, and 15C.
- Parcel 15A That portion of the S1/2NE1/4 and N1/2SE1/4 of Section 34 in Township 2 North, Range 41 East, described as Tract 1 of Colstrip Unit 3 and 4 Generation Sites Minor Subdivision being a subdivision of Parcel 4 of Certificate of Survey No. 29931 Amended, filed for record as Document No. 37265, which Minor

---

<sup>1</sup> Note: The parties acknowledge that the real property is intended to include interests in all real property which is a part of Colstrip 4 Interests, and they will cooperate in good faith to update the this schedule prior to closing to ensure all those interests are included in the closing documents and the related schedules.

<sup>2</sup> Note: The replacement of Parcels 14 and 15 with 14A, 14B, 14C and 15A, 15B and 15C, respectively, is to be reviewed by Seller between signing and closing.

Subdivision was filed in the office of the Clerk and Recorder of Rosebud County, Montana on June 5, 2000 under Document No. 88169.

Parcel 15B Intentionally deleted.

Parcel 15C That portion of the S1/2NE1/4 and N1/2SE1/4 of Section 34 in Township 2 North, Range 41 East, described as Tract 3 of Colstrip Unit 3 and 4 Generation Sites Minor Subdivision being a subdivision of Parcel 4 of Certificate of Survey No. 29931 Amended, filed for record as Document No. 37265, which Minor Subdivision was filed in the office of the Clerk and Recorder of Rosebud County, Montana on June 5, 2000 under Document No. 88169.

Parcel 16 That portion of Section 3 in Township 1 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 58701 filed October 29, 1987 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 58701.

Parcel 17 Township 1 North, Range 41 East, P.M.M., Rosebud County, Montana

Section 2: W1/2 of Lot 2, Lots 3 and 4, and the S1/2N1/2

Descriptions are from a deed in settlement of a condemnation action given by Burlington Northern Railroad Company to the Montana Power Company, a Montana corporation, Pacific Power & Light Company, a Maine corporation, Portland General Electric Company, an Oregon corporation, The Washington Water Power Company, a Washington Corporation, and Puget Colstrip Construction Company, a Washington corporation, dated January 25, 1983, recorded in Book 79 Deeds, page 588, records of Rosebud County, Montana.

Parcel 17A Township 2 North, Range 41 East, P.M.M.

Section 35: Those portions of the S1/2 being two separate tracts herein referred to as Parcel 1 and Parcel 2 described as follows:

Parcel 1 beginning at the common corner of Sections 34 and 35, T2N, R41E Sections 2 and 3, T1N, R41E, which is the true point of beginning; thence N 02° 06' 11" W along the common line between Sections 34 and 35 a distance of 632.34 feet; thence N 41° 52' 20" E a distance of 2,126.31 feet; thence S 65° 04' 46" E a distance of 1,493.70 feet; thence S 05° 36' 54" E a distance of 1,581.65 feet to the common lines between Sections 2 and 35; thence S 89° 44' 06" W a distance of 260.76 feet along the common line between Section 2 and Section 35 to the quarter section corner common to Sections 2 and 35; thence S 89° 46' 14" W a distance of 2,644.79 feet along the common line between Section 2 and 35 to the true point of beginning.

Parcel 2 beginning at the common corner of Sections 35 and 36, T2N, R41E and Sections 1 and 2, T1N, R41E; thence S 89° 44' 06" W along the common Line of Sections 2 and 35 a distance of 723.39 feet to a point on the Southwesterly

boundary of the Burlington Railroad right-of-way, which point is the true point of beginning; thence S 89° 44' 06" W along the common line of Sections 2 and 35 a distance of 599.14 feet; thence N 02° 22' 02" W a distance of 1,640.32 feet to a point on the southwesterly boundary of the Burlington Northern Railroad right-of-way; thence S 22° 10' 32" E along the southwesterly boundary of the Burlington Northern Railroad right-of-way to the point of beginning.

Descriptions are from a deed in settlement of a condemnation action given by Burlington Northern Railroad Company to The Montana Power Company, a Montana corporation, Pacific Power & Light Company, a Maine corporation, Portland General Electric Company, an Oregon corporation, The Washington Water Power Company, a Washington corporation, and Puget Colstrip Construction Company, a Washington corporation, dated January 25, 1983, recorded in Book 79 Deeds, page 588, records of Rosebud County, Montana.

Parcel 17B Township 1 North, Range 41 East, P.M.M., Rosebud County, Montana

Section 3: That portion of Lot 1 and the SE1/4NE1/4 beginning at the common corner of said Sections 34 and 35, T2N, R41E and Sections 2 and 3, T1N, R41E, which is the true point of beginning; thence S 89° 43' 02" W along the common lines between Sections 34 and 3 a distance of 776.23 feet; thence S 01° 31' 17" W a distance of 2,782.94 feet to the east-west mid-section line of Section 3; thence N 89° 57' 01" E along the mid-section line a distance of 864.60 feet to the quarter section corner common to Sections 2 and 3; thence N 00° 17' 53" W along the common line between Sections 2 and 3 a distance of 2,785.08 feet to the true point of beginning.

Descriptions are from a deed in settlement of a condemnation action given by Burlington Northern Railroad Company to The Montana Power Company, a Montana corporation, Pacific Power & Light, a Maine corporation, Portland General Electric Company, an Oregon corporation, The Washington Water Power Company, a Washington corporation, dated January 25, 1983, recorded in Book 79 Deeds, page 593, records of Rosebud County, Montana.

Parcel 18 Township 2 North, Range 42 East, P.M.M., Rosebud County, Montana

Section 31: S1/2  
Section 32: S1/2

Township 1 North, Range 42 East, P.M.M., Rosebud County, Montana

Section 5: All  
Section 6: Lots 1, 2, 3, 4, 5, and 6, SE1/4, S1/2NE1/4, E1/2SW1/4, SE1/4NW1/4

(Recording Reference: Warranty Deed recorded September 21, 1981 in Book 78 Deeds, page 606).

Parcel 18A Township 1 North, Range 42 East, P.M.M., Rosebud County, Montana

Section 7: NE1/4NW1/4, N1/2NE1/4

Section 8: N1/2 NW1/4

Parcel 19 Easements and rights-of-way more particularly described in documents recorded in the office of the Clerk and Recorder of Rosebud County, Montana under the following book and page numbers, which documents are incorporated herein by this reference and made a part hereof:

Book 79 Deeds Page 270

Book 79 Deeds Page 3

Book 79 Deeds Page 688

Book 81 Deeds Page 648

Book 79 Deeds Page 599

Book 79 Deeds Page 582

Book 85 Deeds Page 60

*An undivided 6.25% of the real property described in Schedule II below.*

**SCHEDULE II**  
**UNITS 3 & 4 OTHER**

Parcel 20 That portion of Section 28 in Township 2 North, Range 41 East, PMM, described as Tract 1A-A of Certificate of Survey No. 88360 filed July 17, 2000, for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 88360.

Parcel 21 Intentionally deleted.

Parcel 22 That portion of Section 21 in Township 2 North, Range 41 East, PMM, described as Tract 1A-1 of Amended Tract 1A of Amended Tract 1 of Certificate of Survey No. 27879 filed October 19, 1982 for record in the Clerk and Recorder of Rosebud County, Montana as Document No. 37085.

Parcel 23 That portion of Section 33 in Township 2 North, Range 41 East, PMM, described as Tract 1 Amended of Certificate of Survey No. 85920, filed May 4, 1999 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 85920, excepting therefrom:

(a) Tract 2 of Certificate of Survey No. 44126

(b) Castle Rock Lake Subdivision First Filing Document No. 37500

(c) Castle Rock Lake Subdivision Second Filing Document No. 37501

- (d) Castle Rock Lake Subdivision Third Filing Document No. 37502
- (e) Cimarron Subdivision First Filing Document No. 37503
- (f) Plat of Amended Lots 19 and 20, Block 5 Cimarron Subdivision First Filing Document No. 86070.
- (g) Amended Plat of Cimarron Subdivision Second Filing Document No. 39051
- (h) Cimarron Subdivision Third Filing Document No. 37505

Parcel 24 That portion of Sections 21 and 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44906 filed August 4, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44906.

Parcel 25 That portion of Section 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44909 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44909.

Parcel 26 That portion of Section 21 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44910 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44910.

Parcel 27 That portion of Section 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44911 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44911.

Parcel 28 That portion of Section 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44912 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44912.

Parcel 29 That portion of Section 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44907 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44907.

Parcel 30 That portion of Section 22 in Township 2 North, Range 41 East, PMM, described as Tract 1 of Certificate of Survey No. 44908 filed August 14, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 44908.

Parcel 31 That portion of Section 27 in Township 2 North, Range 41 East, PMM, described as Tract 1A-1, Tract 1A-2, and Tract 1A-3 of Amended Tract 1A of

Amended Tract 1 of Certificate of Survey No. 27874 filed December 1, 1982 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 37510, subject to Dedication of Tract 1A-3 (Pinebutte Drive) as a public roadway.

Parcel 32 Township 2 North, Range 42 East P.M.M., Rosebud County, Montana

Section 31: N1/2  
Section 32: N1/2  
Section 30: S1/2SE1/4, S1/2SE1/4SW1/4

Township 1 North, Range 42 East, P.M.M., Rosebud County, Montana

Section 4: SW1/4

Parcel 33 Lot 12, Block 1, and Lots 6, 7, 10, 11, 12, 17 and 19, Block 3, of The Amended Plat of BIG TIMBER SUBDIVISION, Corrected Plat of Eastside Townsite Expansion, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 29033.

Lots 1C and 1J, Block 6, Lots 3E, 3H, 3L, Block 7, Lots 2C, 2D, 5, and 6, Block 8, and Lots 2F, 3E, 3G, 4A, and 4B, Block 9, of The Plat of BIG TIMBER SUBDIVISION, Amended Plat of Eastside Townsite Expansion, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 29032.

Lots 1, 2, 3, 4, 5, 6, 7 and 8, of Block 8, Lots 1, 2, 5, 7, 9, 10, 11, 12, 13, 14, 15, 16 and 18, of Block 9, Lots 1 and 5, of Block 11, Lots 1, 2, 3, 6 and 11, Block 4, and Lots 1, 2, 4, 5 and 6, Block 5, of The Amended Plat of STILLWATER SUBDIVISION, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 29031.

Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13 and 14, Block 1, Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22 and 23, Block 2, Lots 1, 2, 3, 4 and 5, Block 3, Lots 7, 8, 12 and 13, Block 5, Lots 3, 7, 8, 9, 12, 13, 14 and 15, Block 6, Lot 20, Block 7, Lots 5 and 11, Block 8, and Lot 5, Block 11, of The Amended Plat of SWEETGRASS SUBDIVISION, First Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 40609.

Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13, Block 1, Lots 1, 2, 3, 4, 6, 7, and 8, Block 2, Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 16, 18, 19 and 20, Block 3, Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30 and 31, Block 6, and Lots 4, 5, 7, 8, 9, 10, 11, 12,



13, 15, 16, 17, 18, 19, 20, 21, 22 and 23, Block 7, of the Amended Plat of STILLWATER SUBDIVISION, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 40611.

Lots 4 and 18, Block 3, Lot 12 Block 4, Lots 3 and 4, Block 6, of CIMARRON SUBDIVISION, Second Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37504.

Lots 6, 7, 10 and 31, Block 4, of CASTLE ROCK LAKE SUBDIVISION, Second Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37501.

Lots 32, 33 and 34, Block 4, of CASTLE ROCK LAKE SUBDIVISION, Third Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37502.

Tracts 5, 8, 11, 33, 34, 35, 36, 37, 38, 39, 40, 41, 43, 44, 45, 47, 48, 49, of SWEETGRASS ACREAGE TRACTS SUBDIVISION. This Subdivision Plat Amends a portion of Amended Plat of Sweetgrass Subdivision, First Filing, Sweetgrass Subdivision, Second Filing, and a portion of Amended Plat of Sweetgrass Subdivision, Third Filing, Rosebud County Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 44417.

Lots 12, 19, 20, 21 and 24, Block 3, and Lot 16, Block 4, of CIMARRON SUBDIVISION, Second Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37504.

Lots 32, 33, 34, 35 and 36, Block 2, Lots 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32A, 32B, 32C, 32D, 32E, 32F, 32G, 32H, 32I, 32J, 32K, 32L, 32M, 32N, 32O, 32P, 32R, 32S, 32T, 32U, 32V, W, X, Y, Block 5, and Lots 1A, B, C, D, 1E, F, G, H, 1I, J, K, L, 1M, 32Q and 32Z, Block 7, Block 4, of CIMARRON SUBDIVISION, First Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County.

Lot 1B, Block 8, and Lots 1B, 2, and 3, Block 9, of CIMARRON SUBDIVISION, Third Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37505.

Lots 2A, 2B and 2C, Block 11, of the Second Amended Plat of Block 11 of STILLWATER SUBDIVISION, Rosebud County, Montana, according to the

official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 73210.

Lots 1A, 1B, 1C, 1D, 1E and 1F, Block 1 and Lots 1A, 1B, 1C and 1D, Block 2 of CASTLEROCK LAKE SUBDIVISION, First Filing, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 37500.

Lot 2 in Block 43 and Lots 1 and 2 in Block 46 of the CORRECTED PLAT OF THE AMENDED PLAT OF BLOCKS 43 AND 46 OF COLSTRIP TOWNSITE, Rosebud County, Montana, according to the official plat thereof on file and of record in the office of the Clerk and Recorder of said County, under Document No. 28708.

Parcel 34 Intentionally deleted

*An undivided 6.25% of the Colstrip Units 3 and 4 interest in the Common Facilities real property as allocated by the Common Facilities Agreement in the real property described in Schedule III below.*

**SCHEDULE III**  
**COMMON FACILITIES - ALL UNITS**

Parcel 35 That portion of Sections 34 and 35 in Township 2 North, Range 41 East, PMM, described as Parcel B Certificate of Survey No. 34152 filed January 8, 1981 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 34152.

Parcel 36 That portion of Sections 27 and 34 in Township 2 North, Range 41 East, PMM, described as Parcel C of Certificate of Survey No. 34153 filed January 8, 1981 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 34153.

Parcel 37 That portion of Section 35 in Township 2 North, Range 41 East & Section 2 in Township 1 North, Range 41 East, PMM, described as Tract H-1, Tract H-2, Tract H-3 of Certificate of Survey No. 34995 filed March 25, 1982 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 34995.

Parcel 38 That portion of Section 3 in Township 1 North, Range 41 East, PMM, described as Parcel G of Certificate of Survey No. 34996 filed March 25, 1982 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 34996.

Parcel 39 That portion of Section 34 in Township 2 North, Range 41 East, PMM, described as Parcel A-1 Amended of Certificate of Survey No. 85561, filed March 17, 1999 for record in the office of the Clerk and Recorder of Rosebud

County, Montana as Document No. 85561, excluding therefrom a tract of land described as Parcel A-1-B of Certificate of Survey 85561.

- Parcel 40 That portion of Sections 28 and 33 in Township 2 North, Range 41 East, PMM, described as Parcel F-1 Amended and Parcel F-2 Amended of Certificate of Survey No. 85920 filed May 4, 1999 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 85920.
- Parcel 41 That portion of Section 34 in Township 2 North, Range 41 East, PMM, described as Parcel D-1 and Parcel D-2 of Certificate of Survey No. 42210 filed January 10, 1984 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 42210.
- Parcel 42 That portion of Section 34 in Township 2 North, Range 41 East, PMM, described as Tract 1-A-1, Tract 1-A-2 and Tract 1-A-3 of Certificate of Survey No. 54257 amending Certificate of Survey No. 27875 (Tract 1), Certificate of Survey No. 27878, Certificate of Survey No. 34994 and Dedication of Tracts 1-A-2, 1-B-2, 1-B and 1-D, filed July 30, 1986 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 54257, subject to dedication of Tract 1-A-2 (Willow Avenue) as a public road.
- Parcel 43 That portion of Section 24 in Township 6 North, Range 39 East, PMM, described as Tract A and Tract C of Certificate of Survey No. 6100 filed February 13, 1974 for record in the office of the Clerk and Recorder of Rosebud County, Montana as Document No. 6100.
- Parcel 44 That parcel commencing at the section corner common Sections Thirteen (13), Fourteen (14), Twenty-three (23) and Twenty-four (24), Township Six (6) North, of Range Thirty-nine (39) East, M.P.M., Rosebud County, Montana, running thence northerly along the section line common to Sections Fourteen (14) and Thirteen (13) to the Yellowstone River; running thence southeasterly along the Yellowstone River to a point where the south boundary line of Section Thirteen (13) meets the Yellowstone River; thence westerly along the south boundary line of the said Section Thirteen (13) to the point of beginning, containing in all approximately 17 acres as described in deed dated December 7, 1973, recorded December 12, 1973 in Book 73, Page 127 and confirmed in Judgment and Decree dated March 21, 1975 by The District Court of the Sixteenth Judicial District, in and for the County of Rosebud, recorded March 21, 1975 in Book 19 Orders and Decree, page 996, records of the County Clerk and Recorder of Rosebud County, Montana.
- Parcel 45 Easements and rights-of-way more particularly described in documents recorded in the office of the Clerk and Recorder of Rosebud County, Montana, under the following Book and Page numbers; which documents are incorporated herein by this reference and made a part hereof:

Book 77 Deeds, page 29

Book 75 Deeds, page 306  
Book 73 Deeds, page 430  
Book 73 Deeds, page 466  
Book 74 Deeds, page 245  
Book 78 Deeds, page 782  
Book 78 Deeds, page 838  
Book 74 Deeds, page 169  
Book 74 Deeds, page 110  
Book 74 Deeds, page 70  
Book 77 Deeds, page 941  
Book 78 Deeds, page 134  
Book 79 Deeds, page 238  
Book 74 Deeds, page 14  
Book 74 Deeds, page 65  
Book 74 Deeds, page 112  
Book 79 Deeds, page 240  
Book 74 Deeds, page 62  
Book 74 Deeds, page 67  
Book 74 Deeds, page 242  
Book 73 Deeds, page 891  
Book 73 Deeds, page 893  
Book 73 Deeds, page 284  
Book 78 Deeds, page 131  
Book 32 Misc., page 476

*An undivided 6.25% of the real property described in Schedule IV below.*

**SCHEDULE IV**  
**COLSTRIP COMM SERV, LLC - PROPERTY**

Township 1 North, Range 41 East, M.P.M

Section 1: Lots 1 (43.40), 2(43.40), N/2SE/4, S/2NE/4, SE/4NW/4, less and except the existing Railroad Right-of-way being the Northern Pacific Railway Company's Cow Creek Extension of its Rosebud Branch line right-of-way.

Township 1 North, Range 42 East, M.P.M

Section 6: Lot 7 (40.55), less and except 2.66 acres of the Burlington Northern Railroad Right-of-way.

Section 7: Lots 1 (40.34), 2 (40.29), SE/4NW/4, NE/4SW/4, N/2SE/4, S/2NE/4, less and except Tract 1 as described in Easement Deed No. 33671-E dated October 11, 1973, recorded in Book 73 Deeds; Page 143 on December 20, 1973, Rosebud County, Montana, and less and except that portion of the Burlington Northern Right-of-way located in Lots 1 and 2.

Section 8: NE/4, S/2NW/4, S/2, less and except 35.93 Ao of the Burlington Northern Railroad Right-of-way, and less and except Tract 1 as described in

Easement Deed No. 33671-E dated October 11, 1973, recorded in Book 73 Deeds, Page 143 on December 20, 1973, Rosebud County, Montana.

Section 17: E/2, lying north and east of the north and east boundary line of Tract 1 as described in Easement Deed No. 33671-E dated October 11, 1973, recorded in Book 73 Deeds, Page 143 on December 20, 1973, Rosebud County, Montana and lying north and west of the Cow Creek Road as now established in the E/2E/2 and as recorded in the County Road Book, Rosebud County, Montana.

***An undivided 6.25% of the easements described in Schedule V below.***

**SCHEDULE V**  
**EASEMENTS**

[List of easements]<sup>3</sup>

---

<sup>3</sup> Note: To be provided by Seller between signing and closing.

## **Schedule 2.1(b)**

### **Common Facilities Interest and Associated Assets**

An undivided six and one-quarter percent (6.25%) interest as Tenant in Common in those certain Common Facilities described in Exhibit A to that certain Common Facilities Agreement dated as of May 6, 1981, by and among Puget Sound Energy, Inc., Avista Corporation, Portland General Electric Company, PacifiCorp, NorthWestern Corporation, and Talen Montana, LLC, as amended by Amendment No. 1 dated as of January 21, 1992 (to the extent of the survival of any rights and obligations under such agreement following the termination of such agreement in January 2020), and any replacement of or successor to such agreement.; together with all replacements, accessions, improvements and repairs thereof.

The Common Facilities are located on the property described in Schedule III of Schedule 2.1(a) hereto as Parcels 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, and 45.

## Schedule 2.1(c)

### Material Contracts

1. Ownership and Operation Agreement.
2. Common Facilities Agreement dated as of May 6, 1981, by and among Puget Sound Energy, Inc., Avista Corporation, Portland General Electric Company, PacifiCorp, NorthWestern Corporation, and Talen Montana, LLC, as amended by Amendment No. 1 dated as of January 21, 1992 (to the extent of the survival of any rights and obligations under such agreement following the termination of such agreement in January 2020), and any replacement of or successor to such agreement.
3. Comm Serv Agreement<sup>1</sup>
4. Long Term Service Agreement between Avista Corporation, NorthWestern Energy, Talen Montana, LLC, PacifiCorp, Portland General Electric Company and Puget Sound Energy, Inc. ("Pumping Station Agreement").
5. Coal Supply Agreement dated as of December 5, 2019, by and among Avista Corporation, NorthWestern Corporation, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc., on the one hand, and Westmoreland Rosebud Mining, LLC, on the other hand ("Coal Supply Agreement").

---

<sup>1</sup> Note: Description to be provided prior to Closing.

#### Schedule 4.4

1. Fortieth Supplemental Indenture dated as of September 1, 1954, supplemental to and modifying First Mortgage dated as of June 2, 1924, defining the rights of the holders of Puget Sound Energy, Inc.'s Electric Utility First Mortgage Bonds, as amended, supplemented and modified by the supplemental indentures entered into thereafter (the "Electric Mortgage")
2. Indenture of First Mortgage dated as of April 1, 1957, defining the rights of the holders of Puget Sound Energy, Inc.'s Gas Utility First Mortgage Bonds, as amended, supplemented and modified by the supplemental indentures entered into thereafter (the "Gas Mortgage")
3. Puget Sound Energy, Inc. issued pollution control bonds in May 2013, which are secured by Senior Notes, which are in turn secured by bonds issued under the Electric Mortgage.



**Schedule 4.5**

**No Violation or Breach**

None.

## **Schedule 4.6**

### **Consents**

4. The Pumping Station Agreement requires prior written notice in connection with assignment.
5. Comm Serv Agreement<sup>1</sup>

---

<sup>1</sup> Note: To be confirmed whether consent is required.

**Schedule 4.7**

**Material Contracts**

1. Coal Supply Agreement.

**Schedule 7.1**

**Conduct of Business Pending Closing**

None.

## **Schedule 8.5**

### **Other Losses Allocated Based on Pre-Closing Date Project Shares**

Any operating costs incurred for work performed before the Closing Date, but not billed to the Owners by the Operator until after the Closing Date.

**Schedule 8.6**

**Losses Allocated Based on Post-Closing Date Project Shares**

None.