Statement of Talen Energy, Jeremy McGuire, Senior Vice President, Chief Financial Officer

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Before the Montana Energy and Telecommunications Interim Committee

July 14, 2016

Good morning Mr. Chairman and members of the Committee. My name is Jeremy McGuire and I appear before you this morning in my capacity as Talen Energy's Senior Vice President and Chief Financial Officer. Talen Montana LLC, which currently operates and has a minority ownership interest in the Colstrip Steam Electric Station in Rosebud County, is an indirect subsidiary of Talen Energy Corporation. For convenience, I'll refer to Talen Energy Corporation as Talen Energy, Talen Montana, LLC as Talen Montana and the Colstrip Steam Electric Station as the Colstrip Station during my remarks.

First, it's important to note that Talen Energy is a values-driven company. One of our core values is integrity. We work and operate on a simple model; we do the right things for the right reasons. With that operating model in mind, Talen Energy is committed to a fair, honest and candid discussion of the issues before the Committee. I will present to you in a forthright manner what our goals are, what has been accomplished to date and what we are doing.

In that spirit, it is also imperative to recognize that you will have legitimate questions, to which our company may not have answers at this time. I will not address potential scenarios and I'm unable to speculate on events that may or may not occur in the future.

We are aware that some Committee members are interested in discussing the proposed acquisition of Talen Energy by Riverstone Holdings. Given pending regulatory approvals and applicable antitrust regulations, the management team of Talen Energy has not been able to have detailed discussions with Riverstone Holdings related to the direction or strategy of Talen Montana post-closing. As such, we are limited in our ability to answer any questions related to the future. At a high level though, a change in ownership of Talen Energy would have no bearing on Talen Montana's challenged financial performance.

Our goal for the last few years has been to exit our Montana operations, an objective that we've publicly stated many times. With the sale of our Montana hydro portfolio to Northwestern and the shutdown of the Corette plant, driven by a combination of environmental compliance and economic challenges, the Colstrip Station is our sole remaining operating asset in Montana.

To facilitate the disposition of our interest in the Colstrip Station, earlier this year we informed the other Colstrip Station owners and our employees of our decision to resign as operator. The timing of that announcement reflects the fact that the transition to a new, qualified operator will

require significant planning. Under the terms of the applicable ownership and operation agreements, the process could take up to two years. We informed our employees that Talen Montana's decision to resign as operator had no immediate impact on their daily work. We encouraged them to remain focused on the safe and reliable operation of the plant.

Earlier this week we announced a proposed agreement with the Sierra Club and Montana Environmental Information Center to settle pending litigation involving the Colstrip Station. The agreement, filed on Tuesday with the United States District Court for the District of Montana, and pending that court's approval, stipulates that Talen Montana and Puget Sound Energy – co-owners of Colstrip Station units 1 and 2 – will permanently cease operations of those units no later than July 1, 2022. The anticipated shut down would leave Talen Montana with roughly 230 MWs of output from the other Colstrip Station units, representing less than 1.5 percent of Talen Energy's total generation.

Our willingness to agree to an early shut down of Colstrip Station units 1 and 2 and otherwise exit Montana is driven by the economic realities facing Talen Montana. We have stated publicly that it is "not economically viable" for an independent power producer to survive under our current circumstances. As we've said multiple times, our stated objective is to conclude our business in the state as quickly as reasonably possible.

We believe there is a fundamental misunderstanding regarding Talen Montana's economic interest in the Colstrip Station compared to our co-owners. Talen Montana is the only independent power producer in the Colstrip Station ownership group. Market-based sales of energy to various customers, including regulated utilities, cooperatives, and retail customers, are the sole source of revenue for Talen Montana. As such, our business model, financial outlook and perspective are significantly different from that of our co-owners.

The other five Colstrip Station owners are regulated utilities that recover costs from customers plus an allowed rate of return on their investment in the plant through a non-bypassable tariff. In other words, the ability for the other owners to profit from the Colstrip Station is independent of the prevailing market price of energy. It is this fundamental difference in how costs and investment are recovered that the Colstrip Station can be a money loser for Talen Montana and at the same time be a valuable piece of energy infrastructure for the other owners that are under a cost-of-service model. Also, it's widely assumed that Talen Montana receives compensation for operating the plant from the other Colstrip owners. That is absolutely not the case. We are not paid a fee by the other owners for serving as plant operator, which is a common practice in similar jointly owned assets. We simply recover a portion of our overhead costs for overseeing plant operations, and each owner funds plant operations in proportion to its ownership stake.

We have used the phrase "not economically viable" and would like to elaborate on a few of the factors adversely impacting Talen Montana:

- The dramatic shifts in energy markets, driven by historically low natural gas prices, compounded by policies that subsidize and provide an artificial advantage to renewable generation have driven the market price of electricity to very low levels. The financial impacts have been most pronounced at coal-fired generating stations. This has certainly been the case for Talen Montana.
- Montana was the only state in the Northwest to open its electricity markets to competition, and the state has since returned to a fully regulated and integrated model. The industrial customers, many of whom have been served by Talen Montana for a long time, are the exception and are still able to procure electricity at market rates. This "re-regulation", or the return to a traditional integrated utility model where the utility itself has the mandate to own and develop supply resources, has, we would argue, effectively eliminated a functioning marketplace - a necessary condition for an independent power producer to survive.
- The impact of ever increasing federal environmental regulations.
- And a well-funded environmental lobby that has a stated goal of forcing all coal-fired power generation in the state to shut down.

To varying degrees, these factors led us to shut down the Corette plant, influenced our past efforts to sell our interest in the Colstrip Station, and drove our decision to agree to shut down Colstrip Station units 1 and 2 in our proposed settlement agreement. And these same significant economic challenges will very likely require the shutdown of Colstrip Station units 1 and 2 much sooner than the July 1, 2022 date specified in the settlement.

Shutting down Colstrip Station units 1 and 2 has never been our preferred option. We recognize the importance the Colstrip Station plays in the State's industry, economic development and tax base, as well as its role in supporting the energy infrastructure of other Northwestern states. We have attempted, without success, to sell our ownership interest in the Colstrip Station for several years, exploring every available option that we have identified. Well before our announcement to resign as the operator of the Colstrip Station, we had openly discussed our support for developing an alternative solution related to the operation and ownership interest in the station – most recently, in public and private meetings with Governor Bullock and some of the other CEOs of the ownership group.

We continue to support Governor Bullock's desire to explore "alternate ownership" of our interests in the Colstrip Station and are committed to participate in any process that facilitates achievement of our goals. We are fully invested in working with the co-owners, the Governor's office, you and your colleagues in the legislature, the Montana Public Service Commission and other stakeholders to develop a solution for the station. Any such effort, however, must recognize the need for Talen Montana to have a clear, defined plan to transfer its ownership interest in the Colstrip Station.

We have done business in Montana for many years and are very proud of our track record of corporate citizenship; we have provided many good paying jobs with strong benefits as well as

supported the local communities directly. We are very aware that the uncertainty surrounding the future of the Colstrip Station is of great concern to the State of Montana and particularly to the town of Colstrip itself. We are hopeful there is another alternative. That is why we have been engaged with Governor Bullock and why we are here today. We want to provide an opportunity for the development of an alternative solution that could benefit all of the stakeholders and need to see those efforts moved forward in a timely way. We welcome any actions on the Committee's part to identify and engage potential new owners or options.

In closing, you have our commitment to a continued dialogue and innovative thinking to produce a constructive outcome for current employees and the Colstrip community. If legitimate options cannot be identified, defined and implemented, Talen Montana will make decisions consistent with our values that support ongoing, sustainable business operations. That said, speed is a necessity given the economic challenges facing the plant.

Thank you for the opportunity to appear before the Committee and share Talen Energy's perspective on these important issues.

Respectfully submitted,
Jeremy McGuire, Senior Vice President and Chief Financial Officer