

Talen Montana's response to questions provided by the Montana Energy and Telecommunications Interim Committee prior its July 14, 2016 meeting

Q1. How long do Talen and Riverstone intend to operate these plants? How does a change in ownership potentially affect the timeline for operation of Units 1 and 2?

A1. A merger agreement, through which affiliates of Riverstone Holdings LLC, a private investment firm, will acquire the outstanding shares of Talen Energy common stock not currently owned by Riverstone-affiliated entities, was announced on June 3. Statements contained herein regarding the merger agreement are qualified by reference to the full text of the merger agreement, which has been filed with the U.S. Securities and Exchange Commission and is available at www.sec.gov.

Talen Energy is aware that some Committee members are interested in discussing how the proposed acquisition of Talen Energy by affiliates of Riverstone Holdings may affect operations of the Colstrip power plant, specifically Units 1 and 2. Given pending regulatory approvals and applicable antitrust regulations, Talen Energy has not begun any substantive discussions with Riverstone related to the future structure or operation of the company after the transaction is completed.

With that background, Riverstone is currently the single largest shareholder of Talen Energy. Riverstone-affiliated entities own 35 percent of Talen Energy's common stock, and Riverstone has a presence on the company's Board of Directors. As such, Riverstone is very aware of the significant economic, environmental and regulatory factors that have resulted in financial losses for Talen Montana, which are expected to deepen with time. This condition was significant to Talen Montana's decision to resign its role as the Colstrip plant operator. Therefore, we would not expect Riverstone's acquisition of Talen Energy to result in a significant change to the company's long-term plans for Talen Montana.

Talen Montana has been a good steward of the Colstrip plant and we are proud of our record as one of the owners and as the operator. We and the other owners have invested more than \$250 million in environmental projects since 2000. We have tremendous respect for the dedicated and experienced workforce. Talen Montana and the plant staff have been generous supporters of the community. It's a simple matter that continued ownership in Colstrip is not sustainable for an independent power producer such as Talen Montana. As a competitive generator, Talen Montana relies exclusively on its ability to sell its power at market prices, either through wholesale bulk transactions or directly to commercial and industrial customers through supply contracts. Talen Montana's cost to produce power (fuel, O&M, capital expenditures, taxes, etc.) has exceeded the price at which it has been able to sell the output. Two very significant contributors to Talen Montana's poor financial performance have been pervasively low natural gas prices, as well as production tax credits for wind generation, bringing down the market price of power more broadly. Talen Montana is not a utility and is therefore not able to pass on costs to its customers as would be possible under a regulated tariff. In our view, Talen Montana does not have a clear path to return to profitability relying solely on market prices; and the future becomes even more

difficult when one considers the costs associated with looming environmental regulations specific to coal-fired generating stations.

We have explored various options for alternative ownership for Talen Montana's stake in Colstrip for over two years, including two different attempts with Puget and an attempted sale to NorthWestern concurrent with the sale of the hydroelectric facilities. We have engaged in this very public process to give the State of Montana and the other Colstrip owners a chance to develop a viable alternative that serves the State's needs.

Q2. When does Talen plan to exit Montana and when can the community of Colstrip and state of Montana expect Units 1 and 2 to be shut down? If a firm date cannot be provided due to regulatory approvals, changes in ownership, etc., then what date is Talen anticipating or proposing for closure?

A2. Talen Montana continues to participate in discussions with the various stakeholders and is evaluating options to separate its ownership interests in the plant. The company is participating in today's committee hearing as part of its ongoing efforts to support the State of Montana's creation of a constructive outcome for Colstrip. Talen Montana has been a long-standing supporter of the community and provided significant economic benefit through direct and indirect employment, tax payments and charitable contributions.

At this time, we are not prepared to provide a final plan or timeline with the exception of the recently negotiated settlement with the Sierra Club and Montana Environmental Information Center, which, upon approval by the court, would stipulate the cessation of operation on or before July 2022. But the economic challenges facing Talen Montana are real and make it highly unlikely that we will continue to operate the unprofitable Units 1 and 2 until the outside date agreed in the settlement. We are providing time to allow efforts being undertaken by the State of Montana to develop an alternative plan, but those efforts need to be urgent and understanding of the economic challenges facing those units.

Q3. If the sale of Talen to Riverstone is approved by regulators and shareholders, what are Talen's plans for Units 1 and 2? If the sale is not approved, what are Talen's plans?

A3. The Riverstone transaction does not impact the underlying economic fundamentals, environmental and litigation costs, renewable energy subsidies and market conditions that make our ownership share of the Colstrip plant unsustainable under the current structure. While we cannot speak for Riverstone, we do not see where the transaction itself would result in a different set of circumstances for Talen Montana.

Q4. Talen has announced it will cease operating the Colstrip Generating Facility within the next two years. With Riverstone Holdings' planned acquisition, does this exit plan change? If it is unknown at this time, how could this exit plan change?

A4. To be precise, Talen Montana has provided notice that it will no longer serve as plant operator. The notice, which is required two years prior to resignation, provides the owner group time to select a new operator for the Colstrip facility. At this time, we have no information to suggest the potential acquisition by Riverstone Holdings will impact the long-term business strategy or the timing of the change in plant operator.

Q5. Please provide a step-by-step outline of the process for shutting down Units 1 and 2.

A5. Documents to resolve the litigation Sierra Club and MEIC filed against the Colstrip owners in 2012 were filed with the district court on Tuesday. The proposed settlement would require that Puget Sound Energy and Talen Montana stop operating the coal-fired boilers at Units 1 and 2 by July 1, 2022. Aside from this agreement, there is no step-by-step process to shut down Units 1 and 2. We continue to develop such plans should current efforts to have us exit not be successful, recognizing the economic challenges faced by those units. Given those severe economic challenges, should there be a significant forced outage at the plant that would require significant capital investment to resolve the issue, a decision could clearly be made to not bring the unit or units back into service at that time.

In general terms, such a shutdown plan will require mutual agreement between Puget Sound Energy and Talen Montana. An initial step will include a formal request to NorthWestern Energy to complete an assessment of the impact of the reduction in generation to the regional transmission system.

There would be extensive project planning, engineering and financial assessments for multi-year, post-closure environmental monitoring and remediation. Upon completion of the shutdown planning phase of the project, Puget and Talen Montana would plan for decommissioning of the shutdown units. This would not include equipment and structures needed to continue to support the operation of Units 3 and 4.

Q6. What is the process of changing operators at Colstrip? What does the change process look like?

A6. Talen Montana is one of six members of the ownership group and this group is working on the transition to a new operator. In general, the ownership group will complete a comprehensive assessment of current operations, identify and evaluate potential operators, develop a transition plan and enter into a contract with a third party. The agreement among the owners gives them no more than two years from May 23, 2016, the date Talen Montana provided its notice to have a new operator in place.

Q7. Do the operating agreements outline shared administrative and operational costs at Units 1 through 4? If Units 1 and 2 shut down, how are those administrative and operational costs shared among the remaining owners of Units 3 and 4?

A7. Talen Montana will not address the specific terms and conditions of the operating and ownership agreement. It is, however, likely that the operating costs for Units 3 and 4 will

Talen Montana's response to questions provided by the Montana Energy and Telecommunications Interim Committee prior its July 14, 2016 meeting

increase when Units 1 and 2 are retired, as the economies of scale for shared facilities among the two sets of units will decrease. Furthermore, Units 3 and 4's fuel supply costs would also be higher, as they would be unable to share the mine's overhead and property tax costs with Units 1 and 2. Each of these cost increases, as well as the cost of the new operator (Talen Montana does not receive a fee for being the plant operator), would also serve to increase the cost burden on Units 3 and 4.

Q8. Could CO2 be sequestered at Colstrip? Has Talen explored this option?

A8. Talen Montana has participated in numerous evaluations of technologies, as well as demonstrations and testing at Colstrip. To date, none of those options has been found to be economically viable. More specific to the question of CO2 sequestration; we have not explored that technology to any great extent because it would do nothing to address the fundamentals driving the challenged financial performance of the Colstrip Station. In fact, it would have the exact opposite effect.

Q9. Could Units 1 and 2 be converted to natural gas or another fuel? What are the pros and cons of a conversion? Has Talen explored this option?

A9. Talen Montana has explored multiple options for the Colstrip plant, including the use of a different fuel source. There is no current access to an adequate natural gas supply or other viable fuel sources for the Colstrip Steam Electric Station, and getting natural gas supply to Colstrip would be prohibitively expensive. Additionally, there is no ability for Talen Montana to recover the cost of converting the Colstrip plant to an alternate fuel source as costs cannot be recovered from regulated ratepayers, as would be available to a public utility with approval from the appropriate regulatory agency. Even if a fuel conversion were possible and cost-justifiable, given the lack of a vibrant competitive market for electricity and the subsidies provided to wind generation under federal tax policies, our assessment is that natural gas-fired generation at Colstrip would still be unable to compete at prevailing market prices. It is possible the conversion of fuel sources would be economical to a regulated utility where it is not economical for Talen Montana, as a competitive generator relying exclusively on market prices.

Q10. As Talen plans its exit from Montana electricity markets, what is the current status of Talen's agreement with the DEQ to clean up the Colstrip ash ponds? What is the budget for that cleanup, what is the start date and when do you expect the cleanup to be completed?

A10. The Administrative Order on Consent Regarding Impacts Related to Wastewater Facilities Comprising the Closed-Loop System at the Colstrip Steam Electric Station (AOC), which was executed on Aug. 3, 2012, governs remediation of the coal ash ponds at Colstrip. This document can be found at <http://deq.mt.gov/Portals/112/DEQAdmin/MFS/Colstrip/COLSTRIPAOCFINALOFFICIALRECORD.pdf>. Under that agreement between the MDEQ and Talen Montana, Talen Montana is responsible for ongoing mitigation activities at the ponds. The company has secured a \$7.5M bond that assures the financial ability to continue to undertake those

Talen Montana's response to questions provided by the Montana Energy and Telecommunications Interim Committee prior its July 14, 2016 meeting

activities for the next five years. The AOC specifically provides for closure and remediation of the ash ponds, which will also be covered by these financial assurance requirements. Closure and remediation will be positively impacted by Talen Montana's plans to implement a dry disposal process at the Units 3 and 4 coal ash pond, which will reduce the amount of liquid placed in that pond.

Q11. Will Talen's commitments be honored by its reported soon-to-be new owner, Riverstone Holdings?

A11. At this time we have no information to suggest the Riverstone transaction would change any of Talen's liabilities, legal obligations and contractual commitments with respect to its operations in Montana.

Q12. What comfort can Montana citizens take that Riverstone Holdings has the equity, the liquidity and the corporate commitment to ensure that Colstrip assets are properly closed and disposed, and that the Colstrip community will be adequately and fairly treated?

A12. At this time we have no information to suggest the Riverstone transaction would change any of Talen's liabilities, legal obligations or contractual commitments with respect to its operations in Montana.

It's important to understand that Talen is currently the operator of the plant, but the operating costs are shared by all of the plant owners in proportion to their respective ownership interests. We are proud of our track record as an owner and the operator of Colstrip. We continue to operate Units 1 and 2 at a loss to give the State some time to determine an alternative for Colstrip. We are under no obligation to do so and our ability to do so is very limited. But that we are doing so is evidence of our desire for a constructive outcome for the people of Colstrip. For current non-union employees who continue to be employed by the new entity, the acquisition agreement provides an assurance of continued, comparable salary and benefits for a year after completion of the transaction. For union employees, they will continue to be governed by the terms of their applicable collective bargaining agreements.

As the largest stockholder and with representation on the current Talen Energy Board of Directors, Riverstone Holdings is aware of our participation in today's meetings and ongoing efforts to support the State of Montana in finding a solution.

Q13. What does a change in ownership and potential closure of Units 1 and 2 mean for the transmission lines? Please provide as much information as possible on discussions concerning future use of the transmission lines and the regulatory steps necessary to facilitate the continued use of the transmission lines?

A14. Talen Montana does not own and has never owned any interest in the Colstrip transmission system. If a decision was made to shut down Units 1 and 2, a technical evaluation by the transmission line owner, NorthWestern Energy, would be conducted.

Talen Montana's response to questions provided by the Montana Energy and Telecommunications Interim Committee prior its July 14, 2016 meeting

Such a request has not yet been made. The responsibility for evaluation of the transmission grid will be NorthWestern's. If either units 1 or 2 experienced a material forced outage, requiring meaningful capital investment to resolve the issue, a decision could be made to not make such investment and the unit(s) could be retired on an economic basis in advance of such a study being completed.

Q15. Is the stability of the transmission lines impacted by the shutdown of Units 1 and 2? If so, how? And how can this be addressed in advance of a shutdown?

A15. One of the steps in the ultimate, physical disconnection of Units 1 and 2 from the regional transmission system would be a formal request to NorthWestern Energy, as the transmission system owner in the region, to complete an assessment of the impact of decreased available generation. Such a request has not yet been made. The evaluation of impacts on the transmission system will be completed by NorthWestern Energy. If either Units 1 or 2 experienced a material forced outage, requiring meaningful capital investment to resolve the issue, a decision could be made to not make such an investment and the unit(s) could be retired on an economic basis in advance of such a study being completed.

Q16. What will the change in ownership mean for the industrial customers who have longer term contracts with Talen? Should industrial customers who now get power from Units 1 and 2 begin looking for another source of electricity? Will Riverstone honor existing contracts or explore new contracts?

A16. Talen intends to satisfy its contractual obligation with retail and other customers. If the transaction is successfully completed, Riverstone will own 100 percent of Talen Energy. This will include all assets, liabilities, contracts and agreements, including the current contractual provisions with industrial customers in Montana currently purchasing electricity supply from Talen Energy Marketing.

Q17. Based on the money saved in reduced severance taxes over the years, does Talen feel a responsibility to provide some type of financial support to the workers who will be laid off and to the community of Colstrip?

A17. Although Talen Montana is unclear about the reference to reduced severance taxes, we will respond to the best of our ability. At this time, we are paying the state severance tax rate without any consideration, reduction or subsidization as a pass-through cost under our coal supply agreements.

As to the impact to the workforce and community impact, Talen Montana and its corporate predecessor have a long-standing commitment to our employees and a proven track record of corporate citizenship. We have provided good-paying jobs, generous health and retirement benefits, opportunities for advancement and charitable support for the community. Any costs from a potential workforce reduction resulting from the closure of Units 1 and 2 would be shared by the entire owner group of the Colstrip plant, as very few members of our workforce are dedicated to specific operating units.

Talen Montana's response to questions provided by the Montana Energy and Telecommunications Interim Committee prior its July 14, 2016 meeting

Q18. Colstrip is an isolated, company town. Do you feel any responsibility to the folks who live there and worked at the plants? Does Talen have any plans to put together a financial package or some form of assistance to help with the transition as Units 1 and 2 shutdown? If so, what is the plan?

A18. We have provided many good-paying jobs with very strong employee benefits for many years. We have plans in place that address employee displacements.