

Kerr Project – Conveyance Price Arbitration

Status Report / December 24, 2013

1. Schedule

Prehearing Conference	January 6-10, 2014
Witness List, Exhibit List, Prehearing Brief	January 10, 2014
Telephonic Dispositive Motion Oral Argument	TBD
Evidentiary Hearing	January 22-24 & 27-31, 2014
Post-Hearing Briefs	February 14, 2014
Final Arbitration Award	March 5, 2014

2. Arbitrators

David Raskin, Layn Phillips, James Snyder

3. Witnesses

CSKT Witnesses

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| 1. Tribal Elder | Tony Incashola |
| 2. Elected Official (contemporary) | Joe Durglo |
| 3. Negotiating Representative (circa 1984-1985) | Foster DeReitzes |
| 4. Negotiating Economist (circa 1984-2015) | Ron Trospen |
| 5. Director of Financial Affairs (circa 1984-2013) | Vern Clairmont |
| 6. Fish & Wildlife Mitigation (circa 1992-2002) | Brian Lipscomb |
| 7. MPC Legal Counsel – (circa 1990-1999) | Mike Manion |
| 8. MPC Accountant | Ernie Kindt |
| 9. FERC Account Auditor | Tom King |
| 10. Utility Plant Accountant | Julie Desimone |
| 11. Depreciation | Nancy Heller-Hughes |
| 12. Montana Public Service Commission | Howard Axelrod & Bob Anderson |
| 13. Hydroelectric Engineer | William Akaishi |

PPL Montana Witnesses

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|--|-----------------|
| 1. PPL Montana General Counsel | David Kinnard |
| 2. PPL Montana Chief Accountant | Charles Baker |
| 3. PPL Montana Staff Accountant | Tonya Appelt |
| 4. PPL Montana Environmental Compliance Mgr. | Jon Jourdonnais |
| 5. Utility Plant Accountant | Bruce Warner |
| 6. FERC Account Auditor | Jim Guest |
| 7. Accountant | Alan Eberhardt |
| 8. Montana Public Service Commission | John Alke |

4. Issue in Dispute

What is the correct amount of the conveyance price that CSKT is required to pay PPL Montana on September 5 2015 in order to acquire the Kerr Hydroelectric Project as is CSKT's right pursuant to Ordering Paragraph C(2) of the FERC license for the Kerr Project?

PPL Montana asserts that the conveyance price should be \$49,413,740. CSKT asserts it should be \$13,554,887. The amount in dispute between the parties is \$35,858,853.

CSKT does not dispute the inclusion of \$13,554,887 within PPL Montana's estimate of the conveyance price. This amount represents the depreciated value of the Kerr Project Works, including physical assets like the dam, penstocks, tunnels, powerhouse, generators, turbines, transformers, control room, transmission lines, switchyard, roads, bridges, gates, fences, maintenance shop, and related housing and landscaping.

CSKT disputes a total amount of \$35,858,853 within PPL Montana's estimate. This total amount is derived from four sub-categories, including: 1) historic environmental mitigation costs allegedly incurred by the Montana Power Company that PPL Montana now claims as its own asset for reimbursement; 2) a difference in how depreciation should be calculated for the Kerr Project's capital assets; 3) the purchase price of a set of spare generator windings that are allegedly in PPL Montana's inventory but that are not yet installed in the Kerr Powerhouse; 4) attorney's fees allegedly incurred by PPL Montana to pay the costs for defending a long-pending lawsuit regarding erosion damages claimed by Flathead Lakeshore owners. The overwhelming majority of the amount in dispute is related to PPL Montana's claims for environmental mitigation costs. CSKT is disputing inclusion of \$33,680,548 from this sub-category of costs.

5. Settlement

CSKT and PPL Montana's respective attorneys are in contact with one another often regarding issues related to the arbitration. There has been significant activity on the part of both parties to file motions with the arbitration panel seeking rulings regarding disputes over what constitutes appropriate evidence, relevant law, and proper procedure. These types of evidentiary, legal, and procedural questions are routinely raised by attorneys and resolved by a panel as a function of arbitration.

The parties are researching and sharing evidence regarding a set of spare generator windings that PPL Montana acquired as spare parts for the Kerr generating plant. Presently, PPL Montana is seeking to include its purchase price for this set of spare windings within the conveyance price. CSKT is disputing PPL Montana's inclusion of this cost within the conveyance price and seeking additional testing results regarding the fitness of the spare windings. The parties may resolve their dispute over whether the purchase price of the spare windings is appropriately included within the conveyance price if testing results are produced by PPL Montana that address CSKT's questions regarding the spare winding's fitness for installation in a Kerr Project generator and for long-term production of electricity.

The parties are not engaged in active comprehensive settlement negotiations at this point in time.

6. Final Ruling

The parties have already presented their direct cases to the arbitration panel by submission of expert reports and written testimony. Each party will have an opportunity to cross-examine the opposing party's witnesses at a hearing to be held January 22-31, 2014. Once the hearing is concluded, each party's attorneys will submit a written closing argument to the arbitration panel for its consideration.

The arbitration panel is scheduled to issue its final ruling in the case no later than March 5, 2014. The final ruling will consist of a written opinion from the arbitration panel including a succinct summary of the facts and law the panel applied when developing its legal conclusions regarding each party's claims and when performing its independent calculation of the conveyance price.