

REQUEST FOR PROPOSAL

To: Potential Bidders

From: Mike Diller
Director of Accounting

Date: May 10, 2002

Re: Request for Proposal, Case No. PU-399-02-183

The North Dakota Public Service Commission is requesting written proposals from selected firms to assist commission staff in its investigation of Montana-Dakota Utilities Co.'s (MDU's) gas rate increase request, including cost of capital, cost of service and rate design. The completion date for the investigation and written testimony is August 30, 2002. The technical hearing will be held on October 7 & 8, 2002.

The specific purpose is to investigate, analyze and provide testimony regarding the fairness and reasonableness of MDU's proposed gas rates. To accomplish this, the commission is requesting proposals for investigation, analysis and testimony to include the following areas:

1. The appropriate level of investment.
2. The appropriate cost of capital.
3. The appropriate cost of service.
4. The appropriate rate design.
5. Depreciation study.

See Attachment for additional discussion and direction on each of these issues.

Consulting duties include:

1. Professional analysis and review of the filing.
2. Prepare and conduct discovery as necessary.
3. Monthly progress reports of discovery, conclusions and recommendations.
4. Prepare and file written testimony.
5. Provide oral testimony.
6. Assist staff in preparing cross-examination of the witnesses of other parties to the proceeding.
7. Assist staff in the preparation of proposed findings of fact.

The staff will select firms to be interviewed. Selection will be based on an evaluation using the following criteria:

1. Quality of written proposal (5 points).
2. Capability, including personnel qualifications, specialized experience, training, education, and performance record (20 points).
3. Understanding of the project (20 points).
4. Proposed work approach (10 points).
5. Price (45 points):
 - a. Lowest to 120% of lowest bid = 45 points
 - b. 121% to 130% of lowest bid = 44 points
 - c. 131% to 140% of lowest bid = 42 points
 - d. 141% to 150% of lowest bid = 38 points
 - e. 151% to 160% of lowest bid = 32 points
 - f. 161% to 170% of lowest bid = 24 points
 - g. 171% to 180% of lowest bid = 14 points
 - h. 181% to 190% of lowest bid = 2 points
 - i. 191% and over of lowest bid = 0 points

The written proposal should include a fixed price. The **proposal may include separate bids for each desired issue or a combined price for two or more issues.** Resumes of those professionals directly providing services should be included along with examples of any past work similar to that required in this project. In addition, those who have not previously contracted should provide at least three client references.

After the interview process, staff will make recommendations to the commission. The commission may consider hiring a consultant to perform any one of the identified tasks or portions of the identified tasks. The commission has the right to enter into competitive negotiations with qualified bidders for the purpose of selecting a consultant to perform all or a portion of the identified work. The commission retains the right to reject any and all proposals.

The successful contractor will be required to comply with all applicable Equal Employment Opportunity laws and regulations. All proposals shall include certification that they comply with applicable provisions of the Americans with Disabilities Act of 1991. A signed "Conflict of Interest Disclaimer" must accompany all proposals and will be made part of the final contract.

Written proposals from qualified consultants will be accepted until the close of business May 30, 2002.

Submit an original and five copies of proposals to:

Mike Diller, Director of Accounting
North Dakota Public Service Commission
State Capitol, 12th Floor
Bismarck, North Dakota 58505-0480
Telephone No. (701) 328-4079

Sincerely,

Mike Diller

1. The appropriate level of investment in North Dakota.

The rate base determination is not nearly as critical in terms of rate impact as is establishing the appropriate cost of service. Therefore, work in this area should be limited in scope and should primarily rely on a review of the last rate case and historical comparisons. Annual reports are filed with the commission and include all rate base components. MDU does not seek a return on cash working capital in this case. Staff calculated cash working capital in MDU's last rate decrease case and the resulting impact to rates was minimal. Therefore, rate base will not require a cash working capital calculation.

2. The appropriate cost of capital.

MDU's cost of capital includes long-term debt, preferred equity and common equity. Because MDU's cost of debt is high, the capital structure is not that critical to rates. On April 24, 2002, the commission issued a rate reduction order for MDU's electric operations and extensive testimony and information is readily available from that case. In the electric reduction case, staff argued for a lower cost of debt using an accounting approach rather than a yield-to-maturity calculation. The commission ordered in favor of MDU and staff does not anticipate making another argument in this case for a lower cost of long-term debt. As is often the case, the critical element of cost of capital is the return on equity component. MDU's witness filed testimony supporting a return on equity of 13.25% using DCF analyses.

3. The appropriate cost of service.

In 2001, 80% of MDU's revenues were spent on the cost of gas. Therefore, a critical element of cost of service is the appropriate level of weather-normalized sales. The cost of service portion will also require a strong review of other operating and maintenance expenses.

4. The appropriate rate design.

In its application to increase rates, MDU argues for increasing the residential monthly basic service charge from \$6.50 to \$11.70. In the event the commission does not accept the basic service charge increase, MDU argues for the inclusion of a weather normalization adjustment.

5. Depreciation study.

MDU's last depreciation study was conducted in the early 90's and the commission may be interested in having a depreciation study completed for this proceeding.