

Montana-Dakota Utilities
Adjusted Income, Rate Base and Return, 2004 and 2005

(Dollars in Thousands)

	A	B	C	D	E	F	G	H	I	J	K
	Source	Revenues	Cost of Gas	Operating Expenses	Depreciation	Taxes Other than Income	Income Taxes	Total Expenses	Operating Income	Rate Base	Return on Rate Base
2003	Stm N, p. 1	\$ 103,089	\$ 81,905	\$ 14,693	\$ 2,994	\$ 1,299	\$ 311	\$ 101,202	\$ 1,887	\$ 19,438	9.708%
2004											
Per Company	Stm N, p. 1	\$ 120,565	\$ 99,630	\$ 16,579	\$ 2,537	\$ 1,362	\$ (215)	\$ 119,893	\$ 672	\$ 20,170	3.332%
Adjustments:											
1. 1% Non-Res Conservation	Page 2	492	459								
2. Eliminate SISP	Stm N, p. 10			(260)							
3. Rate Case Expenses	Page 3			(40)							
4. Profit-Based Bonus Increase	Page 4			(245)							
5. Eliminate Institutional Advertising	Stm N, p 23			(111)							
6. Vehicles & Work Equipment	Page 5			(265)							
9. Officers' Compensation	Page 8			(290)							
10. Index CIAC to Plant Additions	Page 9				(2)					(51)	
Change in Income Tax	Page 10						421				
Adjusted		\$ 121,057	\$ 100,089	\$ 15,368	\$ 2,535	\$ 1,362	\$ 206	\$ 119,560	\$ 1,497	\$ 20,119	7.440%
2005											
Per Company	Stm N, p.1	\$ 120,496	\$ 99,473	\$ 17,546	\$ 2,615	\$ 1,421	\$ (610)	\$ 120,445	\$ 51	\$ 20,914	0.244%
Adjustments											
1. 1% Non-Res Conservation Adjmt.	Page 2	5,344	4,986								
2. Eliminate SISP	Stm N, p. 10			(243)							
3. Rate Case Expenses	Page 3			(40)							
4. Profit-Based Bonus Increase	Page 4			(258)							
5. Eliminate Institutional Advertising	Stm N, p 23			(111)							
6. Vehicles & Work Equipment	Page 5			(297)							
7. Pension & OPEB to 2004 Levels	Page 6			(267)							
8. Eliminate 2.5% Inflation over 2004	Page 7			(85)							
9. Officers' Compensation	Page 8			(290)							
10. Index CIAC to Plant Additions	Page 9				(3)					(78)	
Change in Income Tax	Page 10						716				
Adjusted		\$ 125,840	\$ 104,459	\$ 15,955	\$ 2,612	\$ 1,421	\$ 106	\$ 124,553	\$ 1,287	\$ 20,836	6.177%

Montana-Dakota Utilities Co.
Adjustment 1: Reverse 1.0% Conservation for Firm General Service Customers

	Source	Sep-04	Oct-04	Nov-04	Dec-04	Sep-Dec 2004	2005	Cumulative 2005
Firm General Rate 70								
1	Billing Units	Rev WP,p 86	11,607	11,727	10,871	11,414	45,619	137,379
2	Use Per Billing Unit	"	10.124	20.214	51.866	69.499	151.703	498.076
3	Dekatherms	Ln 1*Ln 2					6,920,539	68,425,183
4	Distribution Rate per Dk	Rev WP,p 94					\$ 0.473	\$ 0.473
5	Cost of Gas per Dk	"					6.581	6.581
6	Distribution Revenue	Ln 3 * Ln 4					3,273,415	32,365,111
7	Cost of Gas Revenue	Ln 3 * Ln 5					45,544,068	450,306,128
8	Restated Use per Billing Unit	Ln 2 * 1.01					153.220	503.057
9	Restated Dekatherms	Ln 1 * Ln 8					6,989,745	69,109,435
10	Restated Distribution Revenue	Ln 4 * Ln 9					3,306,149	32,688,763
11	Restated Cost of Gas Revenue	Ln 5 * Ln 9					45,999,509	454,809,189
12	Change in Distribution Revenue	Ln 10 - Ln 6					32,734	323,651
13	Change in Cost of Gas Revenue	Ln 11 - Ln 7					455,441	4,503,061
Firm General Rate 92								
14	Billing Units	Rev WP,p 88	74	72	73	68	287	874
15	Use Per Billing Unit	"	41.032	20.116	51.033	54.913	167.094	423.115
16	Dekatherms	Ln 14 * Ln 15					47,956	369,803
17	Distribution Rate per Dk	Rev WP,p 97					\$ 0.473	\$ 0.473
18	Cost of Gas per Dk	"					6.581	6.581
19	Distribution Revenue	Ln 16 * Ln 17					22,683	174,917
20	Cost of Gas Revenue	Ln 16 * Ln 18					315,598	2,433,670
21	Restated Use per Billing Unit	Ln 15 * 1.01					168.765	427.346
22	Restated Dekatherms	Ln 14 * Ln 21					48,436	373,501
23	Restated Distribution Revenue	Ln 17* Ln 22					22,910	176,666
24	Restated Cost of Gas Revenue	Ln 18 * Ln 22					318,754	2,458,007
25	Change in Distribution Revenue	Ln 23 - Ln 19					227	1,749
26	Change in Cost of Gas Revenue	Ln 24 - Ln 20					3,156	24,337
27	Total Change in Distribution Revenue	Ln 12+ Ln 25					\$ 32,961	\$ 325,400 \$ 358,361
28	Total Change in Cost of Gas Revenue	Ln 13 + Ln 26					458,597	4,527,398 4,985,995
29	Total Change in Revenue						\$ 491,558	\$ 4,852,798 \$ 5,344,356

**Montana-Dakota Utilities Co.
Adjustment 3: Rate Case Expenses**

	A	B	C	D
	Per Company	Eliminate SISP Testimony	4 Year Amortization	Difference
	Stm N WPs, p 151	Stm N WPs, p 151	C3/4 = C4	A7-C7
1 Docket No. PU-04-09	\$ 192,540	\$ (79,400)	\$ 113,140	
2 2002 Expense not included in amortization	<u>52,017</u>		<u>52,017</u>	
3 Total to be amortized	244,557		165,157	
4 3 year amortization	81,519		41,289	
5 Amortization from Case No. PU-399-02-183	42,000		42,000	
6 Recurring level of expense	<u>1,091</u>		<u>1,091</u>	
7 Projected Rate Case Expenses	\$ 124,610		\$ 84,380	\$ (40,230)

**Montana-Dakota Utilities Co.
Adjustment 4: Eliminate Profit-Base Bonus Increases**

		A	B	C	D
		Source			
1	Gas Utility Labor Expense, 2004	Stm N. WP 1	\$ 24,442,423		
2	2002-2004 Avg. Bonus	"	1,875,113		
3	2004 Labor Expense w/o Bonus	Ln 1 - Ln 2	22,567,310		
4	2002 Bonus	Stm N. WP 1	834,870		
5	Increase in Bonus	Ln 2-Ln 4	1,040,243		
	2003 Bonuses	DR 2.13, Att B	Amount	% of Total	Composite % % Profit-Based Profit-Based
6	EICP	"	TRADE SECRET BEGINS		
7	MICP	"			
8	Mid-Management	"			
9	BETA	"			
10	Total	Sum Lns 6-9			
				TRADE SECRET ENDS	
11	Portion of Bonus Increase Disallowed	Ln 5* Ln 10D	653,937		
12	Portion of Bonus Increase Allowed	Ln 5 - Ln 11	386,306		
13	2004 Labor w. Allowed Bonus	Lns 3+4+12	23,788,486		
14	Reduction in Labor Expense	$(1-(Ln5/Ln1))*-1$	-2.68%		
15	N.D. 2004 Labor Exp	Stm N, p. 9	\$ 9,143,000		
16	N.D. 2005 Labor Exp	Stm N, p. 9	\$ 9,631,000		
17	Reduction in 2004 Expense	Ln. 6 * Ln 7	\$ (244,613)		
18	Reduction in 2005 Expense	Ln. 6 * Ln 8	\$ (257,670)		

Montana-Dakota Utilities Company
Adjustment 6: Vehicles & Work Equipment Expense

(Dollars in Thousands)

			Per Company			Projected on Plant in Service	Reduction in Expense
			General	Common	Combined		
<u>Plant in Service</u>							
1	2003 Transportation	Stm.O, p 3	\$ 2,307	\$ 1,337	\$ 3,644		
2	2003 Work Equipment	Stm.O, p 3	1,456	15	1,471		
3	2003 Total	Ln 1 + Ln 2	3,763	1,352	5,115		
4	2004 Transportation	Stm.O, p 3	2,473	1,325	3,798		
5	2004 Work Equipment	Stm.O, p 3	1,431	15	1,446		
6	2004 Total	Ln 4+ Ln 5	3,904	1,340	5,244		
7	Increase over 2003	(Ln 6/Ln3)-1	3.75%	-0.89%	2.52%		
					0		
8	2005 Transportation	Stm.O, p 3	2,703	1,306	4,009		
9	2005 Work Equipment	Stm.O, p 3	1,481	24	1,505		
10	2005 Total	Ln 8 + Ln 9	4,184	1,330	5,514		
11	Increase over 2004	(Ln 10/Ln 7)-1	7.17%	-0.75%	5.15%		
<u>Operating and Maintenance Expense</u>							
11	2003	Stm N, p. 14			\$ 247		
12	2004	Stm N, p. 14			\$ 518	\$ 253	\$ (265)
13	2005	Stm N, p. 14			\$ 563	\$ 266	\$ (297)

Montana-Dakota Utilities Co.
Adjustment 7: Pensions & OPEBs
(Dollars in Thousands)

	Source	Per Company		Difference
		2004	2005	
Pension	Stm N, p. 10	\$ 295	\$ 546	\$ (251)
OPEB	Stm N, p. 10	619	635	(16)
Total				\$ (267)

Montana-Dakota Utilities Co.
Adjustment 8: Eliminate 2.5% 2005 Inflator
(Dollars in Thousands)

		Per Company			
		2004	2005		
<u>O&M Expenses</u>					
1	Contract Labor Stm. N, p. 12	\$ 806	\$ 827		
2	Net Materials Stm. N, p. 13	(13)	(13)		
3	Postage Stm. N, p. 15	318	326		
4	Telephone Stm. N, p. 16	228	234		
5	Office Supplies Stm. N, p. 17	178	183		
6	All Other O&M Stm. N, p. 27	1,765	1,810		
7	Total Sum Lns 1-6	\$ 3,282	\$ 3,367	\$	(85)

**Montana-Dakota Utilities Co.
Adjustment 9 - Excessive Officers' Compensation Increases**

Employee Group	2003 Full-Time Employees	2003 Direct Compensation per Employee	1999-2003 Increase per Employee
TRADE SECRET BEGINS			
Officers			
Region/Power Center			
Directors			
Managers			
Superintendents/Supervisors			
All Management			
Professionals			
Technicians			
Sales			
Office/Clerical			
Craft Work (Skilled)			
Craft Work (Semi-Skill)			
Total (Note)			TRADE SECRET ENDS

Officers	No. of Full Time Employees	Direct Compensation	Direct Compensation per Employee	Increase in Total Comp.	Increase per Employee
TRADE SECRET BEGINS					
1999					
2000					
2001					
2002					
2003					
			Average		

All Other Employees	1999				
	2000				
	2001				
	2002				
	2003				
			Average		

Officers Comp Increased at Avg of All Other Employees [REDACTED]

Disallowed Officers' Compensation, 2003	[REDACTED]	less	[REDACTED]	=	[REDACTED]
TRADE SECRET ENDS					
SISP - Total Company, 2004	Stmt N WPs, p.12				\$ 1,981,001
SISP N.D. Gas Operations	Stmt N, p. 10				\$ 260,000
N.D. Gas Allocator	SISP N.D./SISP Total Company				13.125%
N.D. Gas Disallowance					\$ 290,154

Source: Response to Staff Data Request No. 2, Question 1.

Note: Does not include Categories EEO#8 - Laborers and EEO#9 - Service

Montana-Dakota Utilities Co.
Adjustment 10: Customer Advances for Construction
(Dollars in Thousands)

			A	B	C
			Per Company	Indexed to	Difference
				Additions	
1	Plant in Service 2002	Stm.O WPs, p. 15	\$ 71,678		
2	Plant in Service 2003	Stm.O WPs, p. 15	73,239		
3	Net Additions	Ln. 2 - Ln 1	1,561		
4	Retirements	Stm.O WPs, p. 15	1,532		
5	Gross Additions, 2003	Ln. 3 + Ln 4	3,092		
6	Gross Additions, 2004	Stm O, p. 3	3,717		
7	Percent Change from 2003	(Ln 6/Ln 5)-1	20.2%		
8	Gross Additions, 2005	Stm O, p. 3	4,045		
9	Percent Change from 2004	(Ln 8/Ln 6)-1	8.82%		
 <u>Customer Advances for Construction</u>					
10	2003	Stm. O, p. 12	\$ 254	\$ 254	
11	2004	Stm. O, p. 12	\$ 254	\$ 305	\$ 51
12	2005	Stm. O, p. 12	\$ 254	\$ 332	\$ 78
 <u>Depreciation Effect</u>					
				2004	2005
13	Depreciation	Stm N, p. 30	2,537	2,615	
14	Plant in Service	Stm O, p. 1	75,096	77,873	
15	Composite Depreciation Rate	Ln 13/Ln 14	3.378%	3.358%	
16	Depreciation Reduction	Ln.11C,12C*Ln 15	\$ (2)	\$ (3)	

Montana-Dakota Utilities Co.
Income Tax Calculations, 2004 and 2005
(Dollars in Thousands)

		2004	2005
1	Operating Revenues	CWK-1, p1, Col B Adjusted \$ 121,057	\$ 125,840
2	Operating Expenses w/o Tax	CWK-1, p 1, Col C-F Adjusted 119,354	124,448
3	Pre-tax Operating Income	Ln 1- Ln2 1,702	1,393
	Deductions and Adjustments to Book Income		
4	Interest Expense	Stm N, p 35 793	775
5	Preferred Dividends Paid	Stm N, p 35 15	15
6	Other Tax Deductions	Stm N, p 35 (1,376)	(2,013)
7	SISP	Stm N, p 37 183	141
8	Total Deductions to Taxable Income	(385)	(1,082)
9	Taxable Income	Ln 3 - Ln 8 2,087	2,475
10	Federal & State Income Taxes @ 39.55%	Ln 9 * .3955 826	979
11	Deferred Income Taxes	Stm N, p 38 (620)	(873)
12	Total Income Taxes	Ln 10 + Ln 11 \$ 206	\$ 106

**Montana-Dakota Utilities Co.
Average Utility Capital Structure**

	Balance (1)	Capital Ratio	Cost (2)	Required Return
Long-Term Debt	\$ 153,350,000	39.634%	8.518%	3.376%
Short-Term Debt (3)	\$ 34,670,505	8.961%	1.180%	0.106%
Preferred Stock	\$ 16,050,000	4.148%	4.614%	0.191%
Common Equity	\$ 182,843,012	47.257%	9.000%	4.253%
Total	\$ 386,913,517	100.000%		7.926%

Note 1: MDU Statement F: Long-term debt, preferred stock and common equity

Note 2: MDU Statement F: Cost of long-term debt and preferred equity

Note 3: Short-term Debt:

	Amount	Cost Rate	Avg. Cost
2nd Qtr 2003	\$ 23,901,099	1.372%	\$ 327,923
3rd Qtr 2003	34,250,000	1.144%	391,820
4th Qtr 2003	61,108,699	1.142%	697,861
1st Qtr 2004	19,422,222	1.127%	218,888
Total	\$ 138,682,020		\$ 1,636,493
Avg. 4 Qtrs	\$ 34,670,505	1.180%	\$ 409,123

Source: MDU Response to Staff D.R. 1.12

Montana-Dakota Utilities Co.
Second Stage Projected Earnings Retention Growth Rates
For Selected Natural Gas Distribution Companies
Using Updated Data

	A	B	C	D	E	F	G
	Value Line Forecast				1/3	2/3	
	EPS	DPS	ROE	Retention Rate	Retention Growth	Zacks 5-Yr. Growth	Weighted Average
AGL Resources	\$ 2.35	\$ 1.12	12.0%	52.3%	6.28%	5.30%	5.63%
Atmos Energy Corp	\$ 2.05	\$ 1.35	9.5%	34.1%	3.24%	4.40%	4.01%
Energen Corporation	\$ 3.85	\$ 0.83	18.0%	78.4%	14.12%	7.20%	9.51%
KeySpan Corp	\$ 3.40	\$ 1.90	12.0%	44.1%	5.29%	5.00%	5.10%
New Jersey Resources Corp	\$ 2.85	\$ 1.44	11.0%	49.5%	5.44%	4.90%	5.08%
NICOR, Inc	\$ 2.70	\$ 2.00	14.5%	25.9%	3.76%	3.70%	3.72%
Northwest Natural Gas Co	\$ 2.40	\$ 1.45	10.5%	39.6%	4.16%	4.10%	4.12%
Piedmont Natural Gas Co.	\$ 3.05	\$ 1.90	11.5%	37.7%	4.34%	4.40%	4.38%
South Jersey Industries	\$ 3.40	\$ 1.77	10.5%	47.9%	5.03%	4.50%	4.68%
WGL Holdings, Inc.	\$ 2.15	\$ 1.34	9.5%	37.7%	3.58%	3.90%	3.79%
Average					5.52%		5.00%

Source: *Value Line*, March 19, 2004

Montana-Dakota Utilities Co.
Revenue Requirements, 2004 and 2005

(Dollars in Thousands)

	Per CWK-1	Increment	At Required Revenue
2004			
Operating Revenues	\$ 121,057	\$ 162	\$ 121,218
Operating Expenses			
Cost of Gas	\$ 100,089		\$ 100,089
Other O&M	15,368		15,368
Depreciation	2,535		2,535
Taxes Other than Income	1,362		1,362
Income Taxes	206	64	270
Total Operating Expenses	\$ 119,560	\$ 64	\$ 119,624
Operating Income	\$ 1,497	\$ 98	\$ 1,595
Rate Base	\$ 20,119		\$ 20,119
Rate of Return	7.440%		7.926%
2005			
Operating Revenues	\$ 125,840	\$ 603	\$ 126,443
Operating Expenses			
Cost of Gas	\$ 104,459		\$ 104,459
Other O&M	15,955		15,955
Depreciation	2,612		2,612
Taxes Other than Income	1,421		1,421
Income Taxes	106	239	344
Total Operating Expenses	\$ 124,553		\$ 124,792
Operating Income	\$ 1,287	\$ 364	\$ 1,651
Rate Base	\$ 20,836		\$ 20,836
Rate of Return	6.177%		7.926%

**MONTANA-DAKOTA UTILITIES COMPANY
PIPE COST VARIABILITY**

PLASTIC PIPE - Years Compositd 1999-2003

Diameter	Area	Investment	Length	Cost per Foot
1.25	1.227	138,260	62,419	\$ 2.22
2	3.140	1,568,236	568,588	\$ 2.76
3	7.065	45,646	12,886	\$ 3.54
4	12.560	718,964	127,653	\$ 5.63
6	28.260	253,612	35,600	\$ 7.12

Independent variable is Area. Dependent variable is Cost per Foot

CorCoef 0.961322
Intercept 2.344862
Slope 0.182717

Diameter	Area	Area*Slope @ .182717	Feet	Variable Investment	Actual Investment	Percent Variable
1.25	1.227	0.224194	62,419	\$ 13,994	\$ 138,260	
2	3.14	0.573731	568,588	\$ 326,217	\$ 1,568,236	
3	7.065	1.290896	12,886	\$ 16,634	\$ 45,646	
4	12.56	2.294926	127,653	\$ 292,954	\$ 718,964	
6	28.26	5.163582	35,600	\$ 183,824	\$ 253,612	
Total			807,146	\$ 833,623	\$ 2,724,718	30.6%

STEEL PIPE - Years Compositd 1999-2003

Diameter	Area	Investment	Length	Cost per Foot
1.25	1.227	21,377	3,164	\$ 6.76
2	3.140	56,369	5,973	\$ 9.44
3	7.065	407	200	\$ 2.03
4.5	15.896	260,461	10,989	\$ 23.70
6	28.260	215,512	11,850	\$ 18.19
8	50.240	350,086	17,664	\$ 19.82
12	113.040	42,382	49	\$ 864.93

Independent variable is Area. Dependent variable is Cost per Foot

CorCoef 0.909404
Intercept -94.2352
Slope 7.330963

Source: MDU Response to Staff DR. No. 1, Q. 56.

**MONTANA-DAKOTA UTILITIES CO.
GAS UTILITY - NORTH DAKOTA
EMBEDDED CLASS COST OF SERVICE STUDY - STAFF MODIFIED
SUMMARY REPORT
PROJECTED 2005**

Projected Operating Income and Rate of Return	Total North Dakota 1/	Residential	Firm General	Air Force	Small Interruptible	Large Interruptible
Operating Revenues	\$ 120,495,896	\$ 67,042,296	\$ 44,166,358	\$ 4,988,829	\$ 3,901,148	\$ 397,265
Operating Expenses						
O&M Cost of Purchased Gas	99,473,000	53,653,000	37,819,000	4,860,000	3,141,000	-
Other O&M Expense	17,546,702	11,560,057	5,089,430	86,844	572,847	237,524
Total Operation & Maint. Exp.	\$ 117,019,702	\$ 65,213,057	\$ 42,908,430	\$ 4,946,844	\$ 3,713,847	\$ 237,524
Depreciation	2,615,003	1,456,453	949,123	11,562	133,291	64,574
Taxes Other Than Income Taxes	1,420,999	862,836	461,343	7,466	59,979	29,375
Fed. & State Inc. Taxes - Current	262,293	69,772	122,709	27,120	16,013	26,679
Deferred Income Taxes	(872,992)	(474,870)	(321,752)	(20,392)	(38,302)	(17,676)
Total Operating Expenses	\$ 120,445,005	\$ 67,127,248	\$ 44,119,853	\$ 4,972,600	\$ 3,884,828	\$ 340,476
Operating Income	50,891	(84,952)	46,505	16,229	16,320	56,789
Rate Base	\$ 20,914,271	\$ 11,364,958	\$ 7,375,276	\$ 126,982	\$ 1,048,114	\$ 998,941
Rate of Return	0.243%	-0.747%	0.631%	12.781%	1.557%	5.685%

1/ North Dakota allocations held to the level of Statement M, even though the change in Mains allocators would have resulted in small changes in jurisdictional allocations.