

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
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	4,985,995
29	Total Change in Revenue						\$ 491,558	\$ 4,852,798 \$ 5,344,356

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

	A Per Company Stm N WPs, p 151	B Eliminate SISP Testimony Stm N WPs, p 151	C 4 Year Amortization C3/4 = C4	D Difference 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 9 - Excessive Officers' Compensation Increases

Employee Group	2003 Full-Time Employees	2003 Direct Compensation per Employee	1999-2003 Increase per Employee
Officers	10	\$ 384,310	19.5%
Region/Power Center	5	147,025	8.8%
Directors	6	110,696	8.1%
Managers	51	81,242	5.4%
Superintendents/Supervisors	54	67,042	5.1%
All Management	126	85,717	9.9%
Professionals	92	53,517	2.6%
Technicians	147	39,807	6.2%
Sales	10	55,834	5.5%
Office/Clerical	100	27,951	4.5%
Craft Work (Skilled)	362	49,263	4.1%
Craft Work (Semi-Skill)	75	43,172	6.0%
Total (Note)	912		

	No. of Full Time Employees	Direct Compensation	Direct Compensation per Employee	Increase in Total Comp.	Increase per Employee
Officers					
1999	7	\$1,346,528	\$192,361		
2000	7	\$1,841,657	\$263,094	36.8%	36.8%
2001	8	\$2,208,966	\$276,121	19.9%	5.0%
2002	9	\$2,763,107	\$307,012	25.1%	11.2%
2003	10	\$3,843,103	\$384,310	39.1%	25.2%
		Average	\$284,580	30.2%	19.5%
All Other Employees					
1999	898	\$39,132,330	\$43,577		
2000	878	\$40,432,511	\$46,051	3.3%	5.7%
2001	875	\$43,422,501	\$49,626	7.4%	7.8%
2002	892	\$43,407,346	\$48,663	0.0%	-1.9%
2003	902	\$47,322,277	\$52,464	9.0%	7.8%
		Average	\$48,076	4.9%	4.8%

Officers Comp Increased at Avg of All Other Employees \$ 1,346,528 x1.049⁴ = \$ 1,632,353

Disallowed Officers' Compensation, 2003 \$3,843,103 less \$1,632,352 = \$ 2,210,750

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 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	% Profit-Based
6	EICP	"	624,510	26.0%	50%
7	MICP	"	165,539	6.9%	50%
8	Mid-Management	"	528,317	22.0%	50%
9	BETA	"	1,084,622	45.1%	79%
10	Total	Sum Lns 6-9	2,402,988	100.0%	62.9%
					Composite % Profit-Based
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 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